

BANANAS INCORPORATED

**FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULES,
and
ADDITIONAL INFORMATION**

JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
BANANAS Incorporated

Report on the Financial Statements

We have audited the accompanying financial statements of BANANAS Incorporated (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2016, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BANANAS Incorporated as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

continued

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal and Non-federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Activities for Contracts with Alameda County is also presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Summarized Comparative Information

We have previously audited BANANAS Incorporated's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 29, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2016, on our consideration of BANANAS Incorporated's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BANANAS Incorporated's internal control over financial reporting and compliance.

Harrington Group

San Francisco, California
November 10, 2016

BANANAS INCORPORATED

STATEMENT OF FINANCIAL POSITION

June 30, 2016

With comparative totals at June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016</u>	<u>2015</u>
ASSETS				
Cash and cash equivalents (Note 2)	\$ 1,712,460	\$ 111,573	\$ 1,824,033	\$ 1,159,450
Accounts receivable	640,602		640,602	1,041,723
Prepaid expenses and deposits	146,075		146,075	132,589
Investments (Note 3)	1,015,692		1,015,692	947,869
Property and equipment (Note 4)	135,886		135,886	141,563
TOTAL ASSETS	<u>\$ 3,650,715</u>	<u>\$ 111,573</u>	<u>\$ 3,762,288</u>	<u>\$ 3,423,194</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 87,830	\$ -	\$ 87,830	\$ 23,407
Accrued liabilities (Note 5)	488,967		488,967	256,271
Accrued provider payments	754,330		754,330	677,467
Due to government (Note 6)	40,628		40,628	57,862
TOTAL LIABILITIES	<u>1,371,755</u>	<u>-</u>	<u>1,371,755</u>	<u>1,015,007</u>
NET ASSETS				
Unrestricted	1,166,387		1,166,387	1,226,438
Board designated (Note 8)	1,112,573		1,112,573	1,123,773
Temporarily restricted (Note 9)		111,573	111,573	57,976
TOTAL NET ASSETS	<u>2,278,960</u>	<u>111,573</u>	<u>2,390,533</u>	<u>2,408,187</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,650,715</u>	<u>\$ 111,573</u>	<u>\$ 3,762,288</u>	<u>\$ 3,423,194</u>

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

BANANAS INCORPORATED

STATEMENT OF ACTIVITIES

For the year ended June 30, 2016

With comparative totals for the year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016</u>	<u>2015</u>
REVENUE AND SUPPORT				
Earned revenues (Note 10)	\$ 11,822,110	\$ -	\$ 11,822,110	\$ 9,891,123
Contributions (Note 11)	142,103	205,502	347,605	145,685
Interest and dividends	23,932		23,932	38,925
Other income	13,111		13,111	18,215
(Loss) on investments	(25,725)		(25,725)	(5,263)
(Loss) on disposal of property and equipment			-	(4,076)
Release from restrictions	151,905	(151,905)	-	-
TOTAL REVENUE AND SUPPORT	<u>12,127,436</u>	<u>53,597</u>	<u>12,181,033</u>	<u>10,084,609</u>
EXPENSES				
Program services	12,037,587		12,037,587	9,914,486
Management and general	29,331		29,331	78,581
Fundraising and development	131,769		131,769	168,196
TOTAL EXPENSES	<u>12,198,687</u>	<u>-</u>	<u>12,198,687</u>	<u>10,161,263</u>
CHANGE IN NET ASSETS	(71,251)	53,597	(17,654)	(76,654)
NET ASSETS, BEGINNING OF YEAR	<u>2,350,211</u>	<u>57,976</u>	<u>2,408,187</u>	<u>2,484,841</u>
TOTAL REVENUE AND SUPPORT	<u>\$ 2,278,960</u>	<u>\$ 111,573</u>	<u>\$ 2,390,533</u>	<u>\$ 2,408,187</u>

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

BANANAS INCORPORATED

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2016

With comparative totals for the year ended June 30, 2015

	Program Services				Total Program Services	Support Services		Total Expenses	
	Resource, Referral, and Training	Alternative Payment Program	Family Resource Network	Other Programs		Management and General	Fundraising and Development	2016	2015
Salaries	\$ 563,637	\$ 1,007,050	\$ 486,936	\$ -	\$ 2,057,623	\$ 77,464	\$ 77,834	\$ 2,212,921	\$ 1,931,003
Payroll taxes and employee benefits	212,508	406,136	171,159		789,803	22,080	21,630	833,513	774,353
Total personnel costs	776,145	1,413,186	658,095	-	2,847,426	99,544	99,464	3,046,434	2,705,356
Provider payments		8,191,345			8,191,345			8,191,345	6,685,831
Professional and contractual services	123,526	135,211	55,814	126,374	440,925	20,181	21,194	482,300	374,328
Rent	42,124	82,553	28,372		153,049	9,547	5,793	168,389	144,000
Office expenses and training materials	51,435	32,952	27,768	2,517	114,672	4,362	1,452	120,486	92,065
Utilities	11,510	20,652	4,475		36,637	2,287	1,483	40,407	33,443
Telecommunications	5,016	9,303	15,547		29,866	721	660	31,247	24,125
Travel and conferences	13,049	1,298	12,244		26,591	2,465	267	29,323	30,145
Bank charges	1,127	7,332			8,459	9,408	147	18,014	17,674
Insurance	5,379	9,920	523		15,822	796	705	17,323	16,512
Depreciation					-	15,734		15,734	16,469
Miscellaneous				1,620	1,620	13,821		15,441	10,938
Communication	3,718	6,599			10,317	373	469	11,159	1,806
Dues and subscriptions	10,950				10,950		135	11,085	8,571
Total functional expenses before administration expense allocation	1,043,979	9,910,351	802,838	130,511	11,887,679	179,239	131,769	12,198,687	10,161,263
Administration expense allocation	19,114	39,181	78,558	13,055	149,908	(149,908)		-	
TOTAL 2016 FUNCTIONAL EXPENSES	\$ 1,063,093	\$ 9,949,532	\$ 881,396	\$ 143,566	\$ 12,037,587	\$ 29,331	\$ 131,769	\$ 12,198,687	
TOTAL 2015 FUNCTIONAL EXPENSES	\$ 920,439	\$ 8,117,127	\$ 876,920	\$ -	\$ 9,914,486	\$ 78,581	\$ 168,196		\$ 10,161,263

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

BANANAS INCORPORATED

STATEMENT OF CASH FLOWS

For the year ended June 30, 2016

With comparative totals for the year ended June 30, 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (17,654)	\$ (76,654)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	15,734	16,469
Depreciation of due to government assets	8,928	12,933
Loss on investments	25,725	5,263
Loss on disposal of property and equipment	-	4,076
(Increase) decrease in operating assets:		
Accounts receivable	401,121	(331,583)
Prepaid expenses and deposits	(13,486)	(23,839)
Increase (decrease) in operating liabilities:		
Accounts payable	64,423	(26,441)
Accrued liabilities	232,696	12,804
Accrued provider payments	76,863	68,937
Due to government	<u>(17,234)</u>	<u>4,084</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>777,116</u>	<u>(333,951)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(437,745)	(754,616)
Proceeds from sale of investments	344,197	765,920
Purchase of property and equipment	<u>(18,985)</u>	<u>(10,863)</u>
NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES	<u>(112,533)</u>	<u>441</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	664,583	(333,510)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,159,450</u>	<u>1,492,960</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 1,824,033</u></u>	<u><u>\$ 1,159,450</u></u>

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

BANANAS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

1. Organization

BANANAS Incorporated (“BANANAS”) is a nonprofit public benefit corporation established under the laws of California in 1974. BANANAS provides a wider range of child care and parenting services in Northern Alameda County. A substantial portion of their funding is received from the California Department of Education (“CDE”) and other state, federal and local government agencies, most of which are on a reimbursable basis. The major programs provided by BANANAS are as follows:

Resource, Referral, and Training – Resource, Referral, and Training programs provide child care referrals and other child rearing information, support and services to parents and a wide variety of technical assistance to child care programs. Services include referrals to child care programs, publications, workshops, and classes on parenting and child care topics. Resource and Referral programs are primarily funded by CDE. Other funding sources are local government and foundations.

Child Care/Alternative Payment – Child Care Payment Programs subsidizes the child care costs of qualified low-income parents while they are working, looking for employment, or in school or training. Some provide respite services for parents who are in crisis situations. Child Care Payment Programs are primarily funded by CDE. Other funding sources are local government.

Family Resource Network (FRN) – FRN provides services and support to Alameda County families whose children have special needs. FRN promotes the model of parent peer support in order to reduce isolation and build on family strengths to promote success for the child and his/her inclusion in the community. FRN is funded by state, local government and foundations. BANANAS is the fiscal agent for the FRN.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of BANANAS are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

BANANAS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Unrestricted. These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Unrestricted – Board Designated. These are comprised of resources which the Board of Directors have established from organization funds (not donor restricted) to be retained and invested rather than expended. For the purposes of complying with net asset accounting, this fund is included in unrestricted net assets at June 30, 2016. Unrestricted – board designated net assets consists of BANANAS' endowment fund investments totaling \$1,112,573.

Temporarily Restricted. BANANAS reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from program or capital restrictions. BANANAS has temporarily restricted net assets of \$111,573 at June 30, 2016.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit BANANAS to expend all of the income (or other economic benefits) derived from the donated assets. BANANAS has no permanently restricted net assets at June 30, 2016.

Cash and Cash Equivalents

BANANAS has defined cash and cash equivalents as cash in banks, cash on hand, and certificates of deposits with an original maturity of three months or less.

Accounts Receivable

Accounts receivable are receivables from governmental agencies and are deemed fully collectible. Therefore, no allowance for doubtful accounts has been provided.

Investments

BANANAS values its investments at fair value. Unrealized gains or losses (including investments bought, sold, and held during the year) are reflected in the Statement of Activities as gain or loss on investments. Short-term highly liquid money market deposits that are not used for operations are treated as investments.

BANANAS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

BANANAS is required to measure certain investments and contributed services at fair value. The specific techniques used to measure fair value for financial statement elements are described in the notes below that relate to each element.

Property and Equipment

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to one thousand and five hundred dollars (\$1,500) and the useful life is greater than one year.

Acquisitions of furniture and leasehold improvements with government grant funding during the year are recognized as expenses to the grant providing resources for such acquisitions, since these items are deemed the property of the funding agency. The funding agency has a reversionary interest in such assets; and, upon their disposition, any funds derived therefrom are subject to governmental regulations. To track such assets, however, BANANAS also records in property and equipment the cost of the asset and a corresponding liability for the same amount to show the reversionary interest (see Note 6).

Concentration of Credit Risks

BANANAS places its temporary cash investments with high-credit, quality financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. BANANAS has not incurred losses related to these investments. BANANAS' Board of Directors reviews investment and cash management policies on a regular basis.

The primary receivable balance outstanding at June 30, 2016 consists of government contract receivables due from county, state, and federal granting agencies. Concentration of credit risks with respect to trade receivables are limited, as the majority of BANANAS' receivables consist of earned fees from contract programs granted by governmental agencies.

Approximately 93% of BANANAS total revenue is derived from government contracts (earned revenues).

continued

BANANAS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Income Taxes

BANANAS is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by BANANAS in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. BANANAS' returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Costs for providing BANANAS' programs and other activities have been presented in the Statement of Functional Expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. BANANAS uses time studies, square footage of space occupied by programs, specific program costs as a percentage of total program budget and salary costs to allocate indirect costs.

Use of 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 reported amounts of assets, liabilities, revenues, and expenses as of the date and for the period presented. Actual results could differ from those estimates.

Comparative Totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with BANANAS' financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Reclassification

Certain amounts from the June 30, 2015 financial statements have been reclassified to conform to the June 30, 2016 presentation.

Subsequent Events

Management has evaluated subsequent events through November 10, 2016, the date which the financial statements were available for issue. No events or transactions have occurred during this period that would appear to require recognition or disclosure in the financial statements.

continued

BANANAS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

3. Investments

Investments at June 30, 2016 consist of the following:

Mutual funds	\$ 471,558
Equities	290,220
Fixed income	201,072
Alternative investment	<u>52,842</u>
	<u>\$1,015,692</u>

4. Property and Equipment

Property and equipment at June 30, 2016 consist of the following:

Leasehold improvements	\$ 285,470
Equipment	87,262
Furniture and fixtures	<u>9,587</u>
	382,319
Less: accumulated depreciation	<u>(246,433)</u>
	<u>\$ 135,886</u>

Depreciation expense for the year ended June 30, 2016 was \$15,734.

5. Accrued Liabilities

Accrued liabilities at June 30, 2016 consist of the following:

Unearned revenues	\$197,736
Accrued vacation	132,867
Employer 403(b) contribution payable	102,656
Other accrued liabilities	<u>55,708</u>
	<u>\$488,967</u>

6. Due to Government

Due to government represents the net book value of assets purchased by BANANAS with government funds in which BANANAS does not retain ownership. Due to government as of June 30, 2016 was \$40,628, and the corresponding asset at net book value is recorded in property and equipment at June 30, 2016. This account changes with the purchase of assets with government funds and the recorded depreciation on such assets.

BANANAS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

7. Commitments and Contingencies

Obligations Under Operating Leases

BANANAS leases real property under operating leases. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ended June 30,</u>	
2017	\$175,200
2018	144,000
2019	144,000
2020	144,000
2021	<u>108,000</u>
	<u>\$715,200</u>

Rent expense under operating leases for the year ended June 30, 2016 was \$168,389.

Contracts

BANANAS' grants and contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously-funded program costs. The ultimate liability, if any, which may result from these governmental audits cannot be reasonably estimated and, accordingly, BANANAS has no provisions for the possible disallowance of program costs on its financial statements.

8. Board Designated Endowment Funds

Unrestricted board designated net assets represents organization funds that are to be retained and invested rather than expended. At June 30, 2016, unrestricted board designated net assets were \$1,112,573.

Generally accepted accounting principles provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization and also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and Board-designated endowment funds).

BANANAS classifies as unrestricted board designated net assets (a) the initial contribution to the endowment fund from funds designated by the Board of Directors, and (b) the respective annual net changes to these investments.

BANANAS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

8. Board Designated Endowment Funds, continued

Investment Objectives, Asset Allocation, and the Disbursement Policy

BANANAS has adopted investment and spending policies approved by the Board of Directors for endowment assets to generate additional annual income to augment its operating budget primarily in the area of human resources. Under this policy as approved by the Board of Directors, the endowment assets shall be managed consistent with the need to maintain the purchasing power of the fund's annual contribution to BANANAS as well as to protect the corpus value against inflation.

The investments shall be limited to good quality or investment grade common and preferred stocks or insured, government guaranteed or fixed maturity debt rated with investment grade ratings. Lower quality equity or debt can be considered as part of an investment platform. Investment strategies which reduce BANANAS' risk of equity ownership and/or enhance the endowment fund's income, may also be employed.

The investments shall be reflective of BANANAS' overall corporate sense of social responsibility; promoting equality, justice, and environmental sensitivity.

Investments in debt or equity of any company whose primary income is derived from products or services related to the nuclear industry or arms production are specifically prohibited. In addition, BANANAS will not invest in any company which derives 15% or more of its revenues from tobacco products as specified by the Alameda County Children and Families Commission (First 5 Alameda County).

A maximum of 50% of the endowment fund's total value at time of investment may be invested in equities. No more than 35% of the equity allocations may be invested in international equities. Up to 20% of the endowment fund can be invested in alternative investment vehicles. The remainder of the endowment fund shall be allocated to fixed income, and no more than 40% of the fixed income allocation may be invested in debt issued by foreign corporations or governments.

Endowment Net Assets Composition by type of fund as of June 30, 2016:

	Board Designated Unrestricted	Temporarily Restricted	Total Endowment Assets
Board designated endowment funds	<u>\$1,112,573</u>	<u>\$ -</u>	<u>\$1,112,573</u>

Changes in Endowment Net Assets for the year ended June 30, 2016:

	Board Designated Unrestricted	Temporarily Restricted	Total Endowment Assets
Endowment net assets, beginning of year	\$1,123,773	\$ -	\$1,123,773
Investment loss, net of fees	(11,200)	-	(11,200)
Endowment net assets, end of year	<u>\$1,112,573</u>	<u>\$ -</u>	<u>\$1,112,573</u>

continued

BANANAS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

8. Board Designated Endowment Funds, continued

Board designated unrestricted net assets at June 30, 2016 consist of the following:

Mutual funds, equities, fixed income, and alternative investment	\$1,015,692
Money markets and certificates of deposits	<u>96,881</u>
Total investments	<u>\$1,112,573</u>

9. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 consist of the following:

FRN reserve	\$ 50,040
Health and safety program	35,100
Others	<u>26,433</u>
	<u>\$111,573</u>

For the year ended June 30, 2016, net assets released from program restrictions were \$151,905.

10. Earned Revenues

Earned revenues for the year ended June 30, 2016 consist of the following:

Government contracts	\$11,362,544
Family fees	408,131
Fee for service revenues	46,435
Other earned revenues	<u>5,000</u>
	<u>\$11,822,110</u>

continued

BANANAS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

10. Earned Revenues, continued

Government contracts for the year ended June 30, 2016 consist of the following:

California Department of Education – Child Development Programs	\$ 9,018,438
First 5 Alameda County – Prop 10 Support	809,500
County of Alameda – Alternative Payment Programs	560,691
City of Berkeley – Child Care Subsidies and QRIS Program	359,812
County of Alameda – Family Liaison Activities – FRN	139,405
California Department of Developmental Services – FRN	104,608
Alameda County – Licensed Resource Parent Child Care Program	93,514
Alameda County – Medi-Cal Administrative Activities Program – FRN	71,462
First 5 Alameda County – Every Child Counts	60,000
California Department of Developmental Services – Prevention Resource and Referral Services – FRN	57,290
Alameda County – Child Abuse Prevention Intervention Treatment	40,000
Berkeley City College – Child Care Services to CalWORKs Participants	22,970
First 5 Alameda County – FRN	20,716
Alameda County – Mental Health Coordination Services – FRN	4,138
	<u>\$11,362,544</u>

11. Contributions

Contributions for the year ended June 30, 2016 consist of the following:

Foundations	\$257,195
Individual	82,871
Special events (net of expenses of \$5,514)	5,156
Corporate	2,383
	<u>\$347,605</u>

12. Employee Benefit Plan

BANANAS has an Internal Revenue Code Section 403(b) qualified defined contribution retirement plan covering all of its employees, subject to certain eligibility requirements. Employees who are at least 21 years of age and have completed 2 years of service with BANANAS are eligible to participate in the Plan. Total employer contributions made for the year ended June 30, 2016 were \$94,957.

continued

BANANAS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

13. Fair Value Measurements

The table below presents the balances of assets measured at fair value at June 30, 2016 on a recurring basis:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds				
Equity funds				
Stock	\$ 74,145	\$ -	\$ -	\$ 74,145
Large blend	66,643			66,643
Managed futures	42,072			42,072
Large growth	41,667			41,667
Multi-alternatives	35,706			35,706
Tactical allocation	27,968			27,968
Diversified emerging markets	15,645			15,645
Large value	12,778			12,778
Foreign large blend	6,538			6,538
	<u>323,162</u>	<u>-</u>	<u>-</u>	<u>323,162</u>
Bond funds				
Non-traditional bond	34,297			34,297
Corporate bond	31,175			31,175
Conservative allocation	30,317			30,317
Short-term bond	24,295			24,295
Bank loan	20,085			20,085
Ultra-short bond	8,227			8,227
	<u>148,396</u>	<u>-</u>	<u>-</u>	<u>148,396</u>
Total mutual funds	<u>471,558</u>	<u>-</u>	<u>-</u>	<u>471,558</u>
Fixed income				
Government securities	110,089			110,089
Corporate bonds	90,983			90,983
Total fixed income	<u>201,072</u>	<u>-</u>	<u>-</u>	<u>201,072</u>
Equities				
Large value	119,442			119,442
Large growth	78,951			78,951
Large core	57,081			57,081
Mid core	12,390			12,390
Mid value	10,533			10,533
Mid growth	6,691			6,691
Small core	1,589			1,589
Small value	1,583			1,583
Common stock	991			991
Small growth	969			969
Total equities	<u>290,220</u>	<u>-</u>	<u>-</u>	<u>290,220</u>

continued

BANANAS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

13. Fair Value Measurements, continued

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Alternate investment				
Stock	<u>52,842</u>	<u> </u>	<u> </u>	<u>52,842</u>
Total alternate investment	<u>52,842</u>	<u> </u>	<u> </u>	<u>52,842</u>
 Fair value at June 30, 2016	 <u>\$1,015,692</u>	 <u>\$ </u>	 <u>\$ </u>	 <u>\$1,015,692</u>

The fair value of equity and bond funds, fixed income, equities, and alternate investment have been measured on a recurring basis using quoted prices for identical assets in active markets (Level 1 inputs).

SUPPLEMENTAL SCHEDULES

BANANAS INCORPORATED

SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS

For the year ended June 30, 2016

Program Name	Contract Number	Federal CFDA Number	Contract Term	Program Award	Governmental Revenue Federal	Governmental Revenue Non-federal	Program Expenditures From Governmental Revenue
Federal Awards							
U.S. Department of Health and Human Services ("DHHS"):							
Pass-through, State of California Department of Education ("CDE"), Child Care							
Development Fund ("CCDF") Cluster:							
Child Care and Development Block Grant:							
Alternative Payment - Stage 2	C2AP-5000	—	7/1/15 - 6/30/16	\$ 2,304,117	\$ -	\$ 2,055,374	\$ 2,055,374
Alternative Payment - Stage 3 (a)	C3AP-5000	93.575	7/1/15 - 6/30/16	3,677,312	2,005,750	1,464,568	3,470,318
Resource & Referral (a)	CRRP-5000	93.575	7/1/15 - 6/30/16	355,682	44,163	311,519	355,682
Child Care Initiative Project (a)	CCIP-5000	93.575	7/1/15 - 6/30/16	41,110	34,000	7,110	41,110
CCDF Health & Safety (a)	CHST-5000	93.575	7/1/15 - 6/30/16	7,740	7,740		7,740
Child Care Mandatory and Matching Funds of the Child Care and Development Fund:							
Alternative Payment (a)	CAPP-5001	93.596	7/1/15 - 6/30/16	2,994,920	2,010,582	952,283	2,962,865
Alternative Payment - Stage 3 (a)	C3AP-5000	93.596	7/1/15 - 6/30/16	132,826	125,349		125,349
Sub-total pass-through, CDE - CCDF Cluster				9,513,707	4,227,584	4,790,854	9,018,438
Pass-through, County of Alameda, Social Services Agency ("SSA")							
CCDF Cluster, Child Care Mandatory and Matching Funds of the Child Care and							
Development Fund: Alternative Payment (a)	CAPP-5000	93.596	7/1/15 - 6/30/16	564,517	280,345	280,346	560,691
Foster Care-Title IV-E: Licensed Resource Parent Child Care Program	900624-4405	93.658	7/1/15 - 6/30/16	253,581	46,757	46,757	93,514
Sub-total pass-through, County of Alameda SSA				818,098	327,102	327,103	654,205
Pass-through, County of Alameda, Health Care Services Agency ("HCSA")							
Medical Assistance Program: Medi-Cal Administrative Activities	MOU	93.778	7/1/15 - 6/30/16	N/A	35,731	35,731	71,462
Pass-through, Berkeley City College							
Temporary Assistance for Needy Families:							
Child Care Services to CalWORKs Participants	MOU	93.558	7/1/15 - 6/30/16	50,519	22,970		22,970
Total DHHS				10,382,324	4,613,387	5,153,688	9,767,075

See independent auditors' report.

BANANAS INCORPORATED

SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS

For the year ended June 30, 2016
continued

Program Name	Contract Number	Federal CFDA Number	Contract Term	Program Award	Governmental Revenue Federal	Non-federal	Program Expenditures From Governmental Revenue
Federal Awards							
U.S. Department of Education:							
Pass-through, California Department of Developmental Services							
Special Education - Grants to Infants and Families:							
Family Resource Network	HD159013	84.181	7/1/15 - 6/30/16	104,608	104,608		104,608
Prevention Resource and Referral Services	HD159048-11	84.181	7/1/15 - 6/30/16	57,290	57,290		57,290
Total U.S. Department of Education				161,898	161,898	-	161,898
Total Federal Awards				10,544,222	4,775,285	5,153,688	9,928,973
Non-federal Awards							
Alameda County Children and Families Commission (First 5 Alameda County)							
Prop 10 Support	COC2015-2017-03		7/1/15 - 6/30/16	462,000		462,000	462,000
Professional Development for Early Care and Education Workforce in Alameda County	CB2015-2016-002		7/1/15 - 6/30/16	347,500		347,500	347,500
Every Child Counts	CB/CG12015-17-08		7/1/15 - 6/30/17	120,000		60,000	60,000
Family Resource Network	COC2014-2015-008		7/1/15 - 6/30/16	42,000		20,716	20,716
Sub-total pass-through, First 5 Alameda County				971,500	-	890,216	890,216
City of Berkeley,							
Child Care Subsidies	9984		7/1/15 - 6/30/16	250,135		250,135	250,135
Quality Rating and Improvement System	9984		7/1/15 - 6/30/16	115,000		109,677	109,677
Sub-total pass-through, City of Berkeley				365,135	-	359,812	359,812
County of Alameda, Social Services Agency							
Child Abuse Prevention Intervention and Treatment Services	900153-13231		7/1/15 - 6/30/16	40,000		40,000	40,000
County of Alameda, Department of Public Health ("DPH")							
Family Liaison Activities	900153-12289		7/1/15 - 6/30/16	139,405		139,405	139,405
Mental Health Coordination Services			7/1/15 - 6/30/16	7,000		4,138	4,138
Sub-total pass-through, County of Alameda DPH				146,405	-	143,543	143,543
Total Non-federal Awards				1,523,040	-	1,433,571	1,433,571
Total Federal and Non-federal Awards				\$ 12,067,262	\$ 4,775,285	\$ 6,587,259	\$ 11,362,544

(a) Audited as a major program

Summary of Significant Accounting Policies:

1. Basis of Accounting - The Schedule of Expenditures of Federal and Non-federal Awards has been reported on the accrual basis of accounting.
2. BANANAS is exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.

See independent auditors' report.

BANANAS INCORPORATED

SCHEDULE OF ACTIVITIES FOR CONTRACTS WITH ALAMEDA COUNTY

For the year ended June 30, 2016

Contract Number:	900624-4405	CAPP-5000	900153-12289	MOU	900153-13231	
Contract Period:	7/1/15 - 6/30/16	7/1/15 - 6/30/16	7/1/15 - 6/30/16	7/1/15 - 6/30/16	7/1/15 - 6/30/16	7/1/15 - 6/30/16
Contract Amount:	\$ 253,581	\$ 564,517	\$ 139,405		\$ 40,000	\$ 7,000

Contract/Program Description	Licensed Resource Parent Child Care Program	Alternate Payment	Family Liaison Activities	Medi-Cal Administrative Activities	Child Abuse Prevention Intervention Treatment	Mental Health Coordination Services	Total
Revenue and support							
Earned revenues	\$ 93,514	\$ 560,691	\$ 139,405	\$ 71,462	\$ 40,000	\$ 4,138	\$ 909,210
Total revenue and support	93,514	560,691	139,405	71,462	40,000	4,138	909,210
Expenses							
Salaries	10,526	61,547	82,313	46,016	21,482		221,884
Payroll taxes and employee benefits	5,064	22,466	27,908	17,531	6,162		79,131
Total personnel costs	15,590	84,013	110,221	63,547	27,644	-	301,015
Provider payments	74,810	462,570					537,380
Professional and contractual services	894	4,894	4,334	2,865	6,105	3,762	22,854
Miscellaneous			12,674	5,050		376	18,100
Office expenses and training materials	364	1,287	3,865		4,429		9,945
Rent	1,157	4,949	2,684		880		9,670
Telephone	121	546	2,468		179		3,314
Travel and conferences			2,358				2,358
Utilities	282	1,171	278		404		2,135
Insurance	128	578	523		192		1,421
Communication	85	384			127		596
Bank charges	83	299			40		422
Total expenses	93,514	560,691	139,405	71,462	40,000	4,138	909,210
Change in net assets	-	-	-	-	-	-	-
Net assets, beginning of year	-	-	-	-	-	-	-
Net assets, end of year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

See independent auditors' report.

ADDITIONAL INFORMATION

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

To the Board of Directors
BANANAS Incorporated

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of BANANAS Incorporated ("BANANAS"), which comprise the Statement of Financial Position as of June 30, 2016, and the related Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 10, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered BANANAS' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of BANANAS' internal control. Accordingly, we do not express an opinion on the effectiveness of BANANAS' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BANANAS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

continued

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Group

San Francisco, California
November 10, 2016

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Directors
BANANAS Incorporated

Report on Compliance for Each Major Federal Program

We have audited BANANAS Incorporated's ("BANANAS") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of BANANAS' major federal programs for the year ended June 30, 2016. BANANAS' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of BANANAS' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the type of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about BANANAS' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of BANANAS compliance.

Opinion on Each Major Federal Program

In our opinion, BANANAS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**
continued

Report on Internal Control Over Compliance

Management of BANANAS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered BANANAS' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of BANANAS' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Harrington Group

San Francisco, California
November 10, 2016

BANANAS INCORPORATED
Schedule of Findings and Questioned Costs
For the year ended June 30, 2016

Section I – Summary of Auditors’ Results

Financial Statements:

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiencies identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiencies identified? None reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 200.516 Audit Findings of the Uniform Guidance? No

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes

Identification of Major Programs:

U.S. Department of Health and Human Services:

Child Care and Development Block Grant 93.575

Child Care Mandatory and Matching Funds of the Child Care and Development Fund 93.596

Section II – Financial Statements Findings

There are no findings required to be reported in accordance with *Generally Accepted Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

There are neither findings nor questioned costs for Federal Awards as defined in the Uniform Guidance.

Section IV – Summary Schedule of Prior Year Findings

None.