

CARACOLE, INC.

December 31, 2016

*FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS'
REPORT INCLUDING SUPPLEMENTARY INFORMATION*



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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Caracole, Inc.
Cincinnati, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of Caracole, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 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 Caracole, Inc. as of December 31, 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.

Prior Period Financial Statements

The financial statements of Caracole, Inc. as of December 31, 2015, were audited by other auditors whose report dated May 12, 2016, expressed an unmodified opinion of those statements.

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 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*, is 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2017 on our consideration of the Organization'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 the Organization's internal control over financial reporting and compliance.

VonLehman & Company Inc.

Fort Wright, Kentucky
June 7, 2017

CARACOLE, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2016	2015
Current Assets		
Cash and Cash Equivalents	\$ 396,309	\$ 157,386
Investments	163,683	151,279
Accounts Receivable	692,116	428,827
Inventory	35,116	54,560
Prepaid Expenses	46,636	47,360
	1,333,860	839,412
Investments	1,507,807	1,396,120
Property and Equipment		
Land	-	50,000
Building and Leasehold Improvements	249,260	530,244
Furniture and Fixtures	171,818	174,201
Vehicles	71,126	-
	492,204	754,445
Less Accumulated Depreciation	347,975	594,350
	144,229	160,095
Other Assets		
Deposits	10,850	10,850
Total Assets	\$ 2,996,746	\$ 2,406,477

LIABILITIES AND NET ASSETS

Current Liabilities		
Line of Credit	\$ -	\$ 182,159
Accounts Payable	45,239	28,123
Accrued Expenses	107,232	81,823
	152,471	292,105
Net Assets		
Unrestricted		
Undesignated	1,154,638	547,415
Board Designated	1,518,145	1,380,182
	2,672,783	1,927,597
Temporary Restricted	154,330	170,837
Permanently Restricted	17,162	15,938
	2,844,275	2,114,372
Total Liabilities and Net Assets	\$ 2,996,746	\$ 2,406,477

See accompanying notes.

CARACOLE, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Contributions	\$ 141,122	\$ -	\$ -	\$ 141,122
Foundation Grants	50,001	121,900	-	171,901
Special Events (Revenue of \$208,442 Less Expenses of \$70,025)	138,397	-	-	138,397
Pharmacy Services (Revenue of \$3,762,731 Less Expenses of \$2,831,055)	931,676	-	-	931,676
Government Grants	2,570,007	-	-	2,570,007
United Way	-	85,950	-	85,950
In-Kind Revenue	36,311	-	-	36,311
Rental Income	3,205	-	-	3,205
Gain on Sale of Property and Equipment	106,195	-	-	106,195
Interest Income	46	-	-	46
Investment Income Operations, Net	11,407	-	-	11,407
Investment Income Endowments, Net	110,463	-	1,224	111,687
	4,098,830	207,850	1,224	4,307,904
Total Revenue and Support				
	4,098,830	207,850	1,224	4,307,904
Net Assets Released from Restrictions	224,357	(224,357)	-	-
Total Revenue, Support and Reclassifications	4,323,187	(16,507)	1,224	4,307,904
Expenses				
Caracole House	301,877	-	-	301,877
Shelter Plus Care	883,566	-	-	883,566
Case Management	1,653,032	-	-	1,653,032
Permanent Supportive Housing Prevention	156,990	-	-	156,990
	170,279	-	-	170,279
Total Program Expenses	3,165,744	-	-	3,165,744
General and Administrative Fundraising and Development	250,549	-	-	250,549
	161,708	-	-	161,708
Total Expenses	3,578,001	-	-	3,578,001
Change in Net Assets	745,186	(16,507)	1,224	729,903
Net Assets Beginning of Year	1,927,597	170,837	15,938	2,114,372
Net Assets at End of Year	\$ 2,672,783	\$ 154,330	\$ 17,162	\$ 2,844,275

See accompanying notes.

CARACOLE, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Contributions	\$ 104,104	\$ -	\$ -	\$ 104,104
Foundation Grants	-	132,010	-	132,010
Special Events (Revenue of \$227,417 Less Expenses of \$68,700)	158,717	-	-	158,717
Pharmacy Services (Revenue of \$2,553,271 Less Expenses of \$1,875,853)	677,418	-	-	677,418
Government Grants	2,319,394	-	-	2,319,394
United Way	-	90,000	-	90,000
In-Kind Revenue	25,994	-	-	25,994
Rental Income	16,445	-	-	16,445
Miscellaneous Income	215	-	-	215
Investment Income Operations, Net	2,195	-	-	2,195
Investment Income Endowments, Net	1,065	-	122	1,187
	3,305,547	222,010	122	3,527,679
Total Revenue and Support				
	178,973	(178,973)	-	-
Net Assets Released from Restrictions				
	3,484,520	43,037	122	3,527,679
Total Revenue, Support and Reclassifications				
Expenses				
Caracole House	384,548	-	-	384,548
Shelter Plus Care	838,466	-	-	838,466
Case Management	1,496,180	-	-	1,496,180
Permanent Supportive Housing	166,920	-	-	166,920
	2,886,114	-	-	2,886,114
Total Program Expenses				
General and Administrative	202,053	-	-	202,053
Fundraising and Development	140,806	-	-	140,806
	3,228,973	-	-	3,228,973
Total Expenses				
Change in Net Assets	255,547	43,037	122	298,706
Net Assets Beginning of Year	1,672,050	127,800	15,816	1,815,666
Net Assets at End of Year	\$ 1,927,597	\$ 170,837	\$ 15,938	\$ 2,114,372

See accompanying notes.

CARACOLE, INC.
STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2016	2015
Cash Flows from Operating Activities		
Change in Net Assets	\$ 729,903	\$ 298,706
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities		
Depreciation	35,817	31,147
Investment Income, Net - Operations	(11,407)	(2,195)
Investment Income, Net - Endowments	(111,687)	(1,187)
Donated Stock	(7,029)	(13,380)
Gain on Sale of Property and Equipment	(106,195)	-
Changes In		
Accounts Receivable	(263,289)	(11,000)
Inventory	19,444	(44,051)
Prepaid Expenses	724	(13,455)
Accounts Payable	17,116	2,962
Accrued Expenses	25,409	1,801
	328,806	249,348
Cash Flows from Investing Activities		
Purchase of Property and Equipment	(71,126)	(4,215)
Proceeds from Sale of Property and Equipment	157,370	-
Purchase of Investments	131,252	49,965
Proceeds from the Sale of Investments	(125,220)	(35,036)
Deposits	-	(1,350)
	92,276	9,364
Cash Flows from Financing Activities		
Changes in Line of Credit	(182,159)	(200,375)
	238,923	58,337
Cash and Cash Equivalents - Beginning of Year	157,386	99,049
Cash and Cash Equivalents - End of Year	\$ 396,309	\$ 157,386

See accompanying notes.

CARACOLE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	<u>Program Services</u>					<u>Supporting Services</u>			
	<u>Caracole House</u>	<u>Shelter Plus Care</u>	<u>Case Management</u>	<u>Permanent Supportive Housing</u>	<u>Prevention</u>	<u>Total</u>	<u>General and Administrative</u>	<u>Fundraising and Development</u>	<u>Total</u>
Salaries and Wages	\$ 190,284	\$ 201,215	\$ 1,101,139	\$ 46,902	\$ 106,415	\$ 1,645,955	\$ 149,894	\$ 82,188	\$ 1,878,037
Payroll Taxes and Benefits	26,559	52,090	257,383	16,173	23,336	375,541	21,909	12,329	409,779
Specific Assistance to Individuals	1,539	569,605	47,820	79,649	-	698,613	-	-	698,613
Donated Goods and Services	51	253	2,829	62	-	3,195	2,176	30,940	36,311
Occupancy	44,307	20,048	94,548	5,844	9,702	174,449	9,911	6,370	190,730
Supplies	11,547	7,272	18,711	1,362	14,685	53,577	2,597	3,016	59,190
Telephone	8,554	5,774	32,229	1,579	2,570	50,706	2,647	1,503	54,856
Professional Services	3,223	8,307	17,797	1,777	652	31,756	3,651	1,476	36,883
Technology Fees	3,339	4,466	15,561	1,295	1,479	26,140	6,423	1,192	33,755
Travel Expenses	913	4,373	18,064	912	2,300	26,562	1,052	656	28,270
Equipment Rent & Maintenance	396	1,770	13,197	228	2,649	18,240	1,409	1,515	21,164
Marketing	89	185	11,569	58	36	11,937	446	6,549	18,932
Printing and Publications	761	1,266	2,705	271	2,811	7,814	3,397	5,943	17,154
Insurance	4,033	1,150	4,134	239	935	10,491	1,488	515	12,494
Miscellaneous Expenses	5,122	142	657	26	44	5,991	1,954	4,372	12,317
Postage and Delivery	476	2,718	3,644	184	317	7,339	1,034	3,075	11,448
Conferences and Meetings	316	1,872	3,286	164	2,066	7,704	2,198	-	9,902
Staff Education/Development	12	34	5,672	80	81	5,879	70	60	6,009
Interest Expense	216	622	1,180	112	122	2,252	1,501	-	3,753
Membership dues	140	404	907	73	79	1,603	975	9	2,587
Depreciation	-	-	-	-	-	-	35,817	-	35,817
Total Expenses	\$ 301,877	\$ 883,566	\$ 1,653,032	\$ 156,990	\$ 170,279	\$ 3,165,744	\$ 250,549	\$ 161,708	\$ 3,578,001

See accompanying notes.

CARACOLE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015

	Program Services				Supporting Services			
	Caracole House	Shelter Plus Care	Case Management	Permanent Supportive Housing	Total	General and Administrative	Fundraising and Development	Total
Salaries and Wages	\$ 201,290	\$ 199,905	\$ 1,038,124	\$ 40,648	\$ 1,479,967	\$ 129,992	\$ 72,696	\$ 1,682,655
Payroll Taxes and Benefits	30,917	50,700	222,353	8,680	312,650	16,071	10,465	339,186
Specific Assistance to Individuals	2,200	531,125	36,471	105,505	675,301	-	-	675,301
Donated Goods and Services	1,751	165	1,919	46	3,881	4,240	17,872	25,993
Occupancy	77,707	22,264	83,588	5,139	188,698	9,623	7,262	205,583
Supplies	26,771	2,458	10,674	525	40,428	7,405	4,747	52,580
Telephone	6,367	4,877	24,581	1,069	36,894	1,503	1,276	39,673
Professional Services	3,533	7,653	14,820	1,489	27,495	5,723	2,217	35,435
Technology Fees	2,597	2,568	10,629	520	16,314	681	2,113	19,108
Travel Expenses	391	5,342	21,050	1,172	27,955	732	584	29,271
Equipment Rent & Maintenance	1,333	2,568	12,147	445	16,493	1,569	572	18,634
Marketing	107	189	413	63	772	431	6,877	8,080
Printing and Publications	1,457	2,778	4,685	488	9,408	5,945	4,222	19,575
Insurance	4,692	1,164	3,831	240	9,927	1,212	607	11,746
Miscellaneous Expenses	128	60	151	12	351	142	2,750	3,243
Postage and Delivery	628	1,378	1,831	277	4,114	950	6,027	11,091
Conferences and Meetings	8	18	1,901	4	1,931	40	-	1,971
Staff Education/Development	150	251	767	-	1,168	-	11	1,179
Interest Expense	913	2,115	3,777	421	7,226	3,892	-	11,118
Membership dues	378	888	2,468	177	3,911	1,985	508	6,404
Depreciation	21,230	-	-	-	21,230	9,917	-	31,147
Total Expenses	\$ 384,548	\$ 838,466	\$ 1,496,180	\$ 166,920	\$ 2,886,114	\$ 202,053	\$ 140,806	\$ 3,228,973

See accompanying notes.

CARACOLE, INC.
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Caracole, Inc. (the Organization or Caracole) was organized on May 26, 1987 as a nonprofit corporation for the purpose of providing affordable housing and supportive services for individuals and families affected by HIV/AIDS. The Organization receives its revenue primarily from federal, state and local government grants. The Organization operates in the eight counties of Southwest Ohio: Hamilton, Butler, Clermont, Brown, Clinton, Warren, Highland and Adams counties.

Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Certain estimates relate to unsettled transactions and events as of the date of the financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results may differ from estimated amounts.

Accounts Receivable

Accounts receivable are stated at their contractual outstanding balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of an account has not been paid in full within the contractual terms of the account. The Organization begins to assess its ability to collect receivables that are over 90 days past due and provides for an adequate allowance for doubtful accounts based on the Organization's collection history, the financial stability and recent payment history of the grantors, and other pertinent factors. Based on these criteria, no allowance for bad debts has been provided since management expects no material losses.

Investments

Investments in equity securities and debt securities are stated at fair market value. Investment income and dividends are included in unrestricted revenue unless restricted by donor or law. Realized and unrealized gains (losses) are shown as increases (decreases) in net assets in the period in which the gain (loss) is recognized.

Inventory

Pharmacy services inventory, valued at the lower of cost or market, is held at PharmBlue headquarters in Pennsylvania and is for the benefit of Caracole clients.

Property and Equipment

Property and equipment are stated at cost and depreciated over the estimated useful lives of the related assets. Depreciation is computed using the straight-line method for financial reporting purpose. Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized for items in excess of \$2,500.

The useful lives of property and equipment for purposes of computing depreciation are:

Building and Leasehold Improvements	10 to 27.5 years
Furniture and fixture	5 to 10 years
Vehicles	5 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Long-Lived Assets**

Long-lived assets to be held and used are tested for recoverability whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are measured based on the fair value of the asset, and long-lived assets to be disposed of by sale are reported at the lower of the carrying amount or fair value less costs to sell. Long-lived assets were measured for impairment, and no adjustments were deemed necessary during both the years ended December 31, 2016 and 2015.

Classes of Net Assets

The accompanying financial statements have been prepared in conformity with the requirements of accounting pronouncements for nonprofit organizations. Accordingly, the net assets of the Organization are reported in each of the following classes: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Net assets of the two restricted classes are restricted only by donor imposed restrictions on their use. All other net assets, including board designated amounts, are legally unrestricted, and are reported as part of the unrestricted net asset class.

Revenue and Support Recognition

The Organization records revenue from special events and miscellaneous sources when earned. Revenue from government grants which reimburse the actual costs of the programs is recognized as such costs are incurred and reimbursements are determinable. All other grants are recognized ratably over the allocation period.

Recognition of Donor Restrictions

Donor restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Public support and revenue, including unconditional promises to give, are considered available for unrestricted use unless temporarily or permanently restricted by the donor. Temporarily restricted support is reported as unrestricted support if the restriction expires in the reporting period in which the support is received.

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by a donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded net of estimated uncollectible pledges. Unconditional promises to give due in subsequent years are reported at present value net of estimated uncollectible pledges, using risk-free interest rates applicable to the years in which the promises are to be received. The Organization had no unconditional or conditional promises to give at either December 31, 2016 or 2015.

Contributed Services

Contributed services and materials are recorded at the estimated fair value on the date of donation with an offsetting charge to expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Functional Allocation of Expenses**

The costs of providing various programs and services have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and services benefited.

Retirement Plan

The Organization has an IRC Section 403(b) defined contribution plan, under which substantially all employees are eligible to make voluntary salary reduction contributions. Under the plan, eligible employees may contribute a percentage of their salaries not to exceed the limits of IRC section 403(b).

The Organization is currently not matching employee deferrals. Employees can choose their own annuity or custodial account provider. By its nature, the plan is fully funded.

Advertising Costs

The Organization expenses advertising costs when incurred.

Income Taxes

The Organization is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to the Internal Revenue Code.

The Organization has adopted the provisions of the accounting pronouncement related to accounting for uncertainty in income taxes. The Organization recognized no interest or penalties in the statements of activities for either of the years ended December 31, 2016 or 2015. If the situation arose in which the Organization would have interest to recognize, they would recognize this as interest expense and penalties would be recognized in other expenses. Currently, the prior three years are open under Federal and State statutes of limitations and remain subject to review and change. The Organization is not currently under audit, nor has the Organization been contacted by these jurisdictions.

Based on evaluation of the Organization's tax positions, management believes all positions taken would be upheld under an examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for either of the years ended December 31, 2016 or 2015.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Subsequent Events

The Organization has evaluated subsequent events through June 7, 2017, which is the date the financial statements were available to be issued.

NOTE 2 - CASH AND CASH FLOW INFORMATION

At various times throughout the year, the Organization may have cash in financial institutions in excess of insured limits. The Federal Deposit Insurance Corporation (FDIC) insures account balances up to \$250,000 for each depositor. As of December 31, 2016 and 2015, the Organization had \$112,179 and \$-0-, respectively, in cash in financial institutions in excess of insured limits, respectively.

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be a cash equivalent.

Cash paid for interest during the years was as follows:

	Years Ended December 31,	
	2016	2015
Interest	\$ 3,753	\$ 11,118

NOTE 3 - INVENTORY

As of December 31, 2016 and 2015, inventory consisted of the following:

	December 31,	
	2016	2015
Pharmaceuticals	\$ 35,116	\$ 54,560

NOTE 4 - INVESTMENTS

The cost and fair market values by type of investment are summarized as follows:

	December 31, 2016	
	Cost	Fair Value
Cash Equivalents	\$ 7,724	\$ 7,724
Fixed Income	192,733	193,659
Mutual Funds and Exchange Traded Funds	1,193,929	1,470,107
	<u>\$ 1,394,386</u>	<u>\$ 1,671,490</u>
	December 31, 2015	
	Cost	Fair Value
Cash Equivalents	\$ 3,500	\$ 3,500
Fixed Income	200,497	191,854
Mutual Funds and Exchange Traded Funds	1,084,534	1,352,045
	<u>\$ 1,288,531</u>	<u>\$ 1,547,399</u>

NOTE 4 - INVESTMENTS (Continued)

The following schedules summarize investment income:

	December 31,	
	2016	2015
Interest and Dividends	\$ 68,160	\$ 76,831
Realized Gains	44,210	368
Unrealized Gains (Losses)	13,093	(69,509)
Fees	(2,369)	(4,308)
	<u>\$ 123,094</u>	<u>\$ 3,382</u>

NOTE 5 - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurement and Disclosures, provided 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 or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 – Inputs for the valuation methodology include:

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

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

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2016.

Fixed Income- Valued at the closing price reported on the active market in which the individual the bonds and securities are traded.

Mutual Funds and Exchange Traded Funds - Valued at an estimated net asset value (NAV) of shares held by the Organization.

The preceding methods described may provide a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation method is 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 operating date.

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

The following assets were measured at fair value as of December 31, 2016:

	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents	\$ 7,724	\$ -	\$ -
Mutual and Exchange Traded Funds	1,470,107	-	-
Fixed Income			
Corporate Bonds	100,539	-	-
U.S. Government Obligations	93,120	-	-
Subtotal Fixed Income	193,659	-	-
Total Assets at Fair Value	<u>\$ 1,671,490</u>	<u>\$ -</u>	<u>\$ -</u>

The following assets were measured at fair value as of December 31, 2015:

	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and Cash Equivalents	\$ 3,500	\$ -	\$ -
Mutual and Exchange Traded Funds	1,352,045	-	-
Fixed Income			
Corporate Bonds	97,743	-	-
U.S. Government Obligations	94,111	-	-
Subtotal Fixed Income	191,854	-	-
Total Assets at Fair Value	<u>\$ 1,547,399</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 6 - LINE OF CREDIT

The Organization has available a \$1,000,000 line of credit. The line of credit charges interest at the LIBOR rate (the LIBOR rate was 1.68% at December 31, 2016) plus 2.75%. The line of credit is collateralized by the board designated investments held by the Organization. The outstanding balance was \$-0- and \$182,159 at December 31, 2016 and 2015, respectively. The Board of Directors established a policy stating no more than \$500,000 can be drawn on the line of credit without additional board approval.

NOTE 7 - ACCRUED EXPENSES

Accrued expenses consisted of the following:

	December 31,	
	<u>2016</u>	<u>2015</u>
Accrued Payroll Related Taxes and Withholdings	\$ 46,199	\$ 25,774
Accrued Vacation	<u>61,033</u>	<u>56,049</u>
	<u>\$ 107,232</u>	<u>\$ 81,823</u>

NOTE 8 - BOARD DESIGNATED NET ASSETS

Board designated net assets were for the following purposes:

Endowment	\$ 1,490,645	\$ 1,380,182
Grants	<u>27,500</u>	<u>-</u>
	<u>\$ 1,518,145</u>	<u>\$ 1,380,182</u>

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted as follows:

United Way	\$ 85,950	\$ 90,000
Various Grants	<u>68,380</u>	<u>80,837</u>
	<u>\$ 154,330</u>	<u>\$ 170,837</u>

NOTE 10 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted as follows:

Endowment	<u>\$ 17,162</u>	<u>\$ 15,938</u>
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NOTE 11 - ENDOWMENT

The Organization's endowment consists of several individual funds established for a variety of purposes. Its endowment includes donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the contributed value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instruction at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which is rebalanced annually to achieve an allocation of 60% equities and 40% fixed income. Investments in a single issue should not exceed 5% of the total market value of the portfolio. Therefore, the Organization expects its endowment assets, over time, to produce an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Organization has a policy of appropriating for distribution each year 4% of its endowment fund's average fair value of the endowment using the previous three year moving average of the market value. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, one of which must be maintained in perpetuity because of donor restrictions, and the possible effects of inflation. The Organization expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 7% annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

NOTE 11 - ENDOWMENT (Continued)

Endowment net assets composition by type of fund as of December 31, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets	\$ <u>1,490,645</u>	\$ <u>-</u>	\$ <u>17,162</u>	\$ <u>1,507,807</u>

Changes in endowment net assets for the year ended December 31, 2016 are as follows:

Endowment Net Assets, Beginning of Year	\$ 1,380,182	\$ -	\$ 15,938	\$ 1,396,120
Investment Return Investment Income	62,189	-	714	62,903
Net Appreciation Including Fees (Realized and Unrealized)	<u>48,274</u>	<u>-</u>	<u>510</u>	<u>48,784</u>
Endowment Net Assets, End of Year	\$ <u>1,490,645</u>	\$ <u>-</u>	\$ <u>17,162</u>	\$ <u>1,507,807</u>

Endowment net asset composition by type of fund as of December 31, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets	\$ <u>1,380,182</u>	\$ <u>-</u>	\$ <u>15,938</u>	\$ <u>1,396,120</u>

Changes in endowment net assets for the year ended December 31, 2015 are as follows:

Endowment Net Assets, Beginning of Year	\$ 1,381,304	\$ -	\$ 15,816	\$ 1,397,120
Investment Return Investment Income	69,532	-	122	69,654
Net Depreciation Including Fees (Realized and Unrealized)	<u>(70,654)</u>	<u>-</u>	<u>-</u>	<u>(70,654)</u>
Endowment Net Assets, End of Year	\$ <u>1,380,182</u>	\$ <u>-</u>	\$ <u>15,938</u>	\$ <u>1,396,120</u>

NOTE 12 - OPERATING LEASES**Office Space**

The Organization has a lease on a building located on Hamilton Avenue with an unrelated party that commenced on April 1, 2012, with lease expense of \$110,000 for each of the years ended December 31, 2016 and 2015. The lease is set to expire in April, 2022.

The Organization leases another office space on Hamilton Avenue with an unrelated party that commenced on November 1, 2015, with lease expense of \$13,200 and \$2,200, plus common area lease expense of \$1,500 and \$250, for the years ended December 31, 2016 and 2015, respectively. The lease became a month to month lease when it expired in October, 2016.

Equipment

The Organization has operating lease agreements for equipment, the expense for which was \$6,496 and \$4,616 during December 31, 2016 and 2015, respectively. The operating lease agreements expire on various dates through June, 2021.

Future minimum lease payments for leases are as follows:

<u>Years Ending December 31,</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Total</u>
2017	\$ 110,000	\$ 6,960	\$ 116,960
2018	110,000	6,864	116,864
2019	110,000	6,378	116,378
2020	110,000	4,263	114,263
2021	110,000	1,647	111,647
Thereafter	<u>27,500</u>	<u>-</u>	<u>27,500</u>
	<u>\$ 577,500</u>	<u>\$ 26,112</u>	<u>\$ 603,612</u>

NOTE 13 - RISKS AND UNCERTAINTIES

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credits risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect account balances and amounts reported in the statements of financial position.

NOTE 14 - ECONOMIC DEPENDENCY AND UNCERTAINTLY

The Organization derived 60% and 66% for the years ended December 31, 2016 and 2015, respectively, of its revenues from individual government contracts. Future revenue granted under these contracts is dependent upon continued government support and is subject to the risk of changes or cancellations in program funding.

SUPPLEMENTARY INFORMATION

CARACOLE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2016

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Housing and Urban Development				
Housing Opportunities for Persons with AIDS				
<u>Passed Through Strategies to End Homelessness</u>				
<i>Housing Opportunities for Persons with AIDS</i>	14.241	2016-01	\$ -	\$ 482,129
Continuum of Care Program				
<u>Passed Through Strategies to End Homelessness</u>				
Continuum of Care Program	14.267	2015-27	-	199,910
Continuum of Care Program	14.267	2016-22	-	419,710
<i>Total Continuum of Care</i>			-	619,620
Total U.S. Department of Housing and Urban Development			-	1,101,749
U.S. Department of Health and Human Services				
HIV Care Formula Grant				
<u>Passed through the Ohio Department of Health</u>				
HIV Care Formula Grant	93.917	03160132RW0616	-	317,634
HIV Prevention Program				
<u>Passed Through Hamilton County Public Health</u>				
HIV Prevention Grant	93.940	-	-	107,715
Total U.S. Department of Health and Human Services			-	425,349
Total Expenditures of Federal Awards			\$ -	\$ 1,527,098

See accompanying notes to the schedule of expenditures of federal awards.

CARACOLE, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Caracole, Inc. under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the 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)*. Because the Schedule presents only a selected portion of the operations of Caracole, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Caracole, Inc.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Caracole, Inc. has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance

**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**

The Board of Directors
Caracole, Inc.
Cincinnati, Ohio

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 Caracole, Inc., which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 7, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's 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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's 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 the Organization's financial statements are free from 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*. However, we did identify other matters which are described in our management recommendation letter.

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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

VonLehman & Company Inc.

Fort Wright, Kentucky
June 7, 2017

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

The Board of Directors
Caracole, Inc.
Cincinnati, Ohio

Report on Compliance for Each Major Federal Program

We have audited the Caracole, Inc. compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2016. The Organization's 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 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 the Organization's 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 types 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 the Organization's 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 the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization 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 December 31, 2016.

Report on Internal Control Over Compliance

Management of the Organization 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 the Organization's 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 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 the Organization's 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.

VonLehman & Company Inc.

Fort Wright, Kentucky
June 7, 2017

CARACOLE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Noncompliance material to the financial statements noted?	No
FEDERAL AWARDS	
Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs:	U.S. Department of Health and Human Services <ul style="list-style-type: none"> • HIV Care Formula Grant [CFDA 93.917]
Dollar Threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters were reported.

CARACOLE, INC.
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters were reported.