CARACOLE, INC.

December 31, 2017

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT INCLUDING SUPPLEMENTARY INFORMATION

CARACOLE, INC.
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VonLehman
CPA & ADVISORY FIRM

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 statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatements.

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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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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 6, 2018 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 6, 2018

CARACOLE, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31, 2017	December 31, 2016
Current Assets		
Cash and Cash Equivalents	$ 241,663	$ 396,309
Investments	536,824	163,683
Accounts Receivable	1,070,661	692,116
Inventory	52,471	35,116
Prepaid Expenses	57,627	46,636
Total Current Assets	1,959,246	1,333,860
Investments	1,750,990	1,507,807
Property and Equipment		
Building and Leasehold Improvements	249,260	249,260
Furniture and Fixtures	171,820	171,820
Vehicles	77,914	71,124
	498,994	492,204
Less Accumulated Depreciation	380,446	347,975
Total Property and Equipment	118,548	144,229
Other Assets		
Deposits	10,850	10,850
Total Assets	$ 3,839,634	$ 2,996,746

LIABILITIES AND NET ASSETS

	2017	2016
Current Liabilities		
Accounts Payable	$ 35,093	$ 45,239
Accrued Expenses	135,617	107,232
Total Liabilities	170,710	152,471
Net Assets		
Unrestricted		
Undesignated	1,754,052	1,154,638
Board Designated	1,748,817	1,518,145
Total Unrestricted	3,502,869	2,672,783
Temporary Restricted	146,381	154,330
Permanently Restricted	19,674	17,162
Total Net Assets	3,668,924	2,844,275
Total Liabilities and Net Assets	$ 3,839,634	$ 2,996,746

See accompanying notes.

CARACOLE, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Contributions	$ 115,263	$ -	$ -	$ 115,263
Foundation Grants	30,000	70,000	-	100,000
Special Events (Revenue of $188,826 Less Expenses of $71,614)	117,212	-	-	117,212
Pharmacy Services	4,606,183	-	-	4,606,183
Government Grants	2,769,192	-	-	2,769,192
United Way	-	83,006	-	83,006
In-Kind Revenue	32,612	-	-	32,612
Miscellaneous Income	5,008	-	-	5,008
Investment Income Operations, Net	26,342	-	-	26,342
Investment Income Endowments, Net	240,671	-	2,512	243,183
Total Revenue and Support	7,942,483	153,006	2,512	8,098,001
Net Assets Released from Restrictions	160,955	(160,955)	-	-
Total Revenue, Support and Reclassifications	8,103,438	(7,949)	2,512	8,098,001
Expenses				
Caracole House	31,043	-	-	31,043
Shelter Plus Care	986,336	-	-	986,336
Case Management	1,937,502	-	-	1,937,502
Permanent Supportive Housing	281,568	-	-	281,568
Pharmacy Services	3,348,536			3,348,536
Prevention	210,475	-	-	210,475
Total Program Expenses	6,795,460	-	-	6,795,460
General and Administrative	280,590	-	-	280,590
Fundraising and Development	197,302	-	-	197,302
Total Expenses	7,273,352	-	-	7,273,352
Change in Net Assets	830,086	(7,949)	2,512	824,649
Net Assets Beginning of Year	2,672,783	154,330	17,162	2,844,275
Net Assets at End of Year	$ 3,502,869	$ 146,381	$ 19,674	$ 3,668,924

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	3,762,731	-	-	3,762,731
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
Miscellaneous Income	46	-	-	46
Investment Income Operations, Net	11,407	-	-	11,407
Investment Income Endowments, Net	110,463	-	1,224	111,687
Total Revenue and Support	6,929,885	207,850	1,224	7,138,959
Net Assets Released from Restrictions	224,357	(224,357)	-	-
Total Revenue, Support and Reclassifications	7,154,242	(16,507)	1,224	7,138,959
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	156,990	-	-	156,990
Pharmacy Services	2,831,055	-	-	2,831,055
Prevention	170,279	-	-	170,279
Total Program Expenses	5,996,799	-	-	5,996,799
General and Administrative	250,549	-	-	250,549
Fundraising and Development	161,708	-	-	161,708
Total Expenses	6,409,056	-	-	6,409,056
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.
STATEMENTS OF CASH FLOWS

		Years Ended June 30,		
		2017		**2016**
Cash Flows from Operating Activities				
Change in Net Assets	$	824,649	$	729,903
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities				
Depreciation		32,471		35,817
Investment Income Operations, Net		(26,342)		(11,407)
Investment Income Endowments, Net		(243,183)		(111,687)
Donated Stock		-		(7,029)
Gain on Sale of Property and Equipment		-		(106,195)
Changes In				
Accounts Receivable		(378,545)		(263,289)
Inventory		(17,355)		19,444
Prepaid Expenses		(10,991)		724
Accounts Payable		(10,146)		17,116
Accrued Expenses		28,385		25,409
Net Cash Flows Provided by Operating Activities		198,943		328,806
Cash Flows from Investing Activities				
Purchase of Property and Equipment		(6,790)		(71,126)
Proceeds from Sale of Property and Equipment		-		157,370
Purchase of Investments		(402,022)		(125,220)
Proceeds from the Sale of Investments		55,223		131,252
Net Cash Flows (Used) Provided by Investing Activities		(353,589)		92,276
Cash Flows from Financing Activities				
Changes in Line of Credit		-		(182,159)
Net Change in Cash and Cash Equivalents		(154,646)		238,923
Cash and Cash Equivalents - Beginning of Year		396,309		157,386
Cash and Cash Equivalents - End of Year	$	241,663	$	396,309

See accompanying notes.

CARACOLE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services							Supporting Services		
	Caracole House	**Shelter Plus Care**	**Case Management**	**Permanent Supportive Housing**	**Pharmacy Services**	**Prevention**	**Total**	**General and Administrative**	**Fundraising and Development**	**Total**
Salaries and Wages	$ -	$ 236,679	$ 1,341,530	$ 60,715	$ -	$ 137,707	$ 1,776,631	$ 163,729	$ 89,444	$ 2,029,804
Payroll Taxes and Benefits	744	68,766	336,447	26,568	-	36,096	468,621	20,930	15,737	505,288
Pharmacy Expenses	-	-	-	-	3,348,536	-	3,348,536	-	-	3,348,536
Specific Assistance to Individuals	-	615,460	24,239	174,497	-	-	814,196	79	-	814,275
Donated Goods and Services	-	6	67	4	-	48	125	3,272	29,215	32,612
Occupancy	7,300	23,500	103,967	7,501	-	13,548	155,816	15,102	6,285	177,203
Supplies	2	3,382	12,620	674	-	5,222	21,900	4,225	4,725	30,850
Telephone	-	5,047	26,739	1,808	-	2,763	36,357	1,980	1,126	39,463
Professional Services	1,229	7,954	21,042	2,025	-	1,870	34,120	7,504	4,623	46,247
Technology Fees	2	6,054	20,477	3,305	-	2,022	31,860	8,325	3,760	43,945
Travel Expenses	-	4,756	17,137	2,639	-	5,058	29,590	1,124	464	31,178
Equipment Rent and Maintenance	21,661	4,036	9,602	291	-	810	36,400	1,975	325	38,700
Marketing	-	177	5,129	1	-	2,839	8,146	8	19,827	27,981
Printing and Publications	-	2,978	3,309	453	-	729	7,469	3,666	14,516	25,651
Insurance	-	1,018	3,788	275	-	442	5,523	1,285	412	7,220
Miscellaneous Expenses	50	714	1,416	114	-	217	2,511	9,690	706	12,907
Postage and Delivery	55	999	1,340	130	-	302	2,826	641	4,835	8,302
Conferences and Meetings	-	1,984	2,211	88	-	156	4,439	711	15	5,165
Staff Education/Development	-	441	3,522	56	-	181	4,200	455	-	4,655
Membership Dues	-	2,385	2,920	424	-	465	6,194	3,418	1,287	10,899
Depreciation	-	-	-	-	-	-	-	32,471	-	32,471
Total Expenses	$ 31,043	$ 986,336	$ 1,937,502	$ 281,568	$ 3,348,536	$ 210,475	$ 6,795,460	$ 280,590	$ 197,302	$ 7,273,352

See accompanying notes.

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

	Program Services							Supporting Services		
	Caracole House	Shelter Plus Care	Case Management	Permanent Supportive Housing	Pharmacy Services	Prevention	Total	General and Administrative	Fundraising and Development	Total
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
Pharmacy Expenses	-	-	-	-	2,831,055	-	2,831,055	-	-	2,831,055
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 and 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	$ 2,831,055	$ 170,279	5,996,799	$ 250,549	$ 161,708	$ 6,409,056

See accompanying notes.

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 net realizable value, 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 Fixtures	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, 2017 and 2016.

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, 2017 or 2016.

Contributed Services

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

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2017 or 2016. 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, 2017 or 2016.

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.

Recently Issued Significant Accounting Standards

Lease Accounting Standard

In February, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842). The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases that are not excluded by this standard. Such leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, *Elements of Financial Statements,* and therefore, recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. The ASU is effective for nonpublic entities for years beginning after December 15, 2019.

Revenue Recognition Standard

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. This standard may have an impact on the timing of when an entity recognizes certain revenue. The ASU is effective for nonpublic entities for years beginning after December 15, 2018.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nonprofit Standard

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements for Not-for-Profit Entities (Topic 958). The core principles of the guidance are a reduction in the number of net asset categories from three to two, reporting investment return net of external and internal investment expenses, the placed-in-service approach for reporting expirations of restrictions on donated assets and enhanced disclosures regarding designations and donor restrictions, qualitative and quantitative liquidity information, expense allocation methods, expenses by natural classification and function and underwater endowments. The SSU is effective for years beginning after December 15, 2017.

The Organization is currently in the process of evaluating the impact of adoption of these ASUs on their financial statements.

Subsequent Events

The Organization has evaluated subsequent events through June 6, 2018, 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, 2017 and 2016, the Organization had $-0- and $112,179, 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,	
	2017	2016
Interest	$ 171	$ 3,753

NOTE 3 - INVENTORY

As of December 31, 2017 and 2016, inventory consisted of the following:

	December 31,	
	2017	2016
Pharmaceuticals	$ 52,471	$ 35,116

NOTE 4 - INVESTMENTS

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

	December 31, 2017	
	Cost	Fair Value
Cash Equivalents	$ 117,578	$ 117,578
Certificates of Deposit	240,000	240,064
Fixed Income	192,771	194,562
Mutual Funds and Exchange Traded Funds	1,285,427	1,735,610
	$ 1,835,776	$ 2,287,814

	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
	$ 1,394,386	$ 1,671,490

The following schedules summarize investment income:

	December 31,	
	2017	2016
Interest and Dividends	$ 96,863	$ 68,160
Realized Gains	6,533	44,210
Unrealized Gains	168,476	13,093
Fees	(2,347)	(2,369)
	$ 269,525	$ 123,094

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.

NOTE 5 - FAIR VALUE MEASUREMENTS (Continued)

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, 2017.

Certificates of Deposit- Valued at the cost at purchase which approximates fair value.

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.

The following assets were measured at fair value as of December 31, 2017:

	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and Cash Equivalents	$ 117,578	$ -	$ -	$ 117,578
Mutual and Exchange Traded Funds	1,735,610	-	-	1,735,610
Fixed Income				
Certificates of Deposit	240,064	-	-	240,064
Corporate Bonds	107,789	-	-	107,789
U.S. Government Obligations	86,773	-	-	86,773
Subtotal Fixed Income	434,626	-	-	434,626
Total Assets at Fair Value	$ 2,287,814	$ -	$ -	$ 2,287,814

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)	Total
Cash and Cash Equivalents	$ 7,724	$ -	$ -	$ 7,724
Mutual and Exchange Traded Funds	1,470,107	-	-	1,470,107
Fixed Income				
Corporate Bonds	100,539	-	-	100,539
U.S. Government Obligations	93,120	-	-	93,120
Subtotal Fixed Income	193,659	-	-	193,659
Total Assets at Fair Value	$ 1,671,490	$ -	$ -	$ 1,671,490

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 1.56% at December 31, 2017) plus 2.75%. The line of credit is collateralized by the board designated investments held by the Organization. The outstanding balance was $-0- at both December 31, 2017 and 2016. 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, 2017	December 31, 2016
Accrued Payroll Related Taxes and Withholdings	$ 46,047	$ 46,199
Accrued Vacation	89,570	61,033
	$ 135,617	$ 107,232

NOTE 8 - BOARD DESIGNATED NET ASSETS

Board designated net assets were for the following purposes:

Endowment	$ 1,731,317	$ 1,490,645
Grants	17,500	27,500
	$ 1,748,817	$ 1,518,145

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted as follows:

	December 31, 2017	December 31, 2016
United Way	$ 83,006	$ 85,950
Various Grants	63,375	68,380
	$ 146,381	$ 154,330

NOTE 10 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted as follows:

Endowment	$ 19,674	$ 17,162

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.

NOTE 11 - ENDOWMENT (Continued)

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.

Endowment net assets composition by type of fund as of December 31, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets	$ 1,731,316	$ -	$ 19,674	$ 1,750,990

Changes in endowment net assets for the year ended December 31, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of Year	$ 1,490,645	$ -	$ 17,162	$ 1,507,807
Investment Return Investment Income	87,498	-	1,027	88,525
Net Appreciation Including Fees (Realized and Unrealized)	153,173	-	1,485	154,658
Endowment Net Assets, End of Year	$ 1,731,316	$ -	$ 19,674	$ 1,750,990

NOTE 11 - ENDOWMENT (Continued)

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

		Unrestricted		Temporarily Restricted		Permanently Restricted		Total
Endowment Net Assets	$	1,490,645	$	-	$	17,162	$	1,507,807

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

		Unrestricted		Temporarily Restricted		Permanently Restricted		Total
Endowment Net Assets, Beginning of Year	$	1,380,182	$	-	$	15,938	$	1,396,120
Contribution		-		-		-		-
Investment Return Investment Income		62,189		-		714		62,903
Net Depreciation Including Fees (Realized and Unrealized)		48,274		-		510		48,784
Endowment Net Assets, End of Year	$	1,490,645	$	-	$	17,162	$	1,507,807

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, 2017 and 2016. The lease is set to expire in March, 2027.

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, plus common area lease expense of $1,500, for the both years ended December 31, 2017 and 2016. The lease became a month to month lease when it expired in October, 2016.

The Organization leases additional space in the building located on Hamilton Avenue with an unrelated party that commenced on November 1, 2017, with lease expense of $6,082 for the year ended December 31, 2017. The lease is set to expire in October, 2022.

The Organization entered into a lease a lease agreement on a building located on East Mitchell Avenue with an unrelated party on January, 2018. The lease is set to expire in December, 2022.

Equipment

The Organization has various operating lease agreements for equipment, the expense for which was $6,646 and $6,496 during December 31, 2017 and 2016, respectively. The operating lease agreements expire on various dates through June, 2021.

NOTE 12 - OPERATING LEASES (Continued)

Future minimum lease payments for leases are as follows:

Years Ending December 31,	Buildings	Equipment	Total
2018	$ 249,047	$ 6,864	$ 255,911
2019	250,147	6,378	256,525
2020	251,280	4,263	255,543
2021	252,447	1,647	254,094
2022	249,074	-	249,074
Thereafter	516,550	-	516,550
	$ 1,768,545	$ 19,152	$ 1,787,697

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 UNCERTAINTY

The Organization derived 34% and 36% for the years ended December 31, 2017 and 2016, 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, 2017

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				
Passed Through Strategies to End Homelessness				
Housing Opportunities for Persons with AIDS	14.241	2017-08	$ -	$ 349,370
Continuum of Care Program				
Passed Through Strategies to End Homelessness				
Continuum of Care Program	14.267	2016-22	-	341,782
Continuum of Care Program	14.267	2017-30	-	376,011
Total Continuum of Care			-	717,793
Total U.S. Department of Housing and Urban Development			-	1,067,163
U.S. Department of Health and Human Services				
HIV Care Formula Grant				
Passed through the Ohio Department of Health				
HIV Care Formula Grant	93.917	03160132RW0717	-	426,583
HIV Prevention Program				
Passed Through Hamilton County Public Health				
HIV Prevention Grant	93.940	13-471-8100	-	103,532
Passed Through Montgomery County Public Health				
HIV Prevention Grant	93.940	17-432	-	7,000
Total U.S. Department of Health and Human Services			-	537,115
Total Expenditures of Federal Awards			$ -	$ 1,604,278

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, 2017. 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

VonLehman
CPA & ADVISORY FIRM

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, 2017, 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 6, 2018.

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 separately issued management recommendation letter.

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The Board of Directors

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 6, 2018

**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, 2017. 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, 2017.

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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.

We also noted certain matters that we reported to management of the Caracole, Inc., in a separate letter dated June 6, 2018.

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 6, 2018

CARACOLE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2017

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of auditors' 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 auditors' 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 Housing and Urban Development • Housing Opportunities for Persons with AIDS (HOPWA) [CFDA 14.241]
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, 2016

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters were reported.