

CARACOLE, INC.

December 31, 2018

*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 statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Caracole, Inc. as of December 31, 2018 and 2017, 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.

Emphasis of Matter

As discussed in the notes to the financial statements, during 2018, Caracole, Inc. adopted Accounting Standards Update (ASU) No 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

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* 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 basic 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 5, 2019 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 solely 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 5, 2019

CARACOLE, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2018	2017
Current Assets		
Cash and Cash Equivalents	\$ 236,438	\$ 241,663
Investments	193,617	536,824
Accounts Receivable	1,170,881	1,070,661
Inventory	32,260	52,471
Prepaid Expenses	70,785	57,627
Total Current Assets	1,703,981	1,959,246
Investments	2,407,513	1,750,990
Property and Equipment, Net	209,764	118,548
Other Assets		
Deposits	18,000	10,850
Total Assets	\$ 4,339,258	\$ 3,839,634

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable	\$ 44,764	\$ 35,093
Accrued Expenses	167,329	135,617
Total Liabilities	212,093	170,710
Net Assets		
Without Donor Restrictions	3,947,006	3,502,869
With Donor Restrictions	180,159	166,055
Total Net Assets	4,127,165	3,668,924
Total Liabilities and Net Assets	\$ 4,339,258	\$ 3,839,634

See accompanying notes.

CARACOLE, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue, Support, and Gains			
Contributions	\$ 106,390	\$ -	\$ 106,390
Foundation Grants	54,740	87,500	142,240
Special Events (Revenue of \$197,751 Less Expenses of \$85,064)	112,687	-	112,687
Pharmacy Services	5,671,564	-	5,671,564
Government Grants	3,344,759	-	3,344,759
United Way	-	83,000	83,000
In-Kind Revenue	46,207	-	46,207
Room and Board	9,768	-	9,768
Miscellaneous Income	41	-	41
Loss on Disposal of Property and Equipment	(36,744)	-	(36,744)
Net Investment Return - Operations	(7,391)	-	(7,391)
Net Investment Return - Endowment	(83,172)	(680)	(83,852)
	<u>9,218,849</u>	<u>169,820</u>	<u>9,388,669</u>
Net Assets Released from Restrictions	<u>155,716</u>	<u>(155,716)</u>	<u>-</u>
	<u>9,374,565</u>	<u>14,104</u>	<u>9,388,669</u>
Expenses			
Caracole House	328,834	-	328,834
Shelter Plus Care	990,395	-	990,395
Case Management	2,295,942	-	2,295,942
Permanent Supportive Housing	280,744	-	280,744
Pharmacy Services	4,295,014	-	4,295,014
Prevention	224,121	-	224,121
	<u>8,415,050</u>	<u>-</u>	<u>8,415,050</u>
General and Administrative	288,928	-	288,928
Fundraising and Development	226,450	-	226,450
	<u>8,930,428</u>	<u>-</u>	<u>8,930,428</u>
Change in Net Assets	444,137	14,104	458,241
Net Assets, Beginning of Year	<u>3,502,869</u>	<u>166,055</u>	<u>3,668,924</u>
Net Assets, at End of Year	<u>\$ 3,947,006</u>	<u>\$ 180,159</u>	<u>\$ 4,127,165</u>

See accompanying notes.

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue, Support, and Gains			
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
Net Investment Return - Operations	26,342	-	26,342
Net Investment Return - Endowment	240,671	2,512	243,183
	<hr/>	<hr/>	<hr/>
Total Revenue, Support, and Gains	7,942,483	155,518	8,098,001
Net Assets Released from Restrictions	<hr/>	<hr/>	<hr/>
	160,955	(160,955)	-
	<hr/>	<hr/>	<hr/>
Total Revenue, Support, Gains, and Reclassifications	8,103,438	(5,437)	8,098,001
	<hr/>	<hr/>	<hr/>
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
	<hr/>	<hr/>	<hr/>
Total Program Expenses	6,795,460	-	6,795,460
General and Administrative	280,590	-	280,590
Fundraising and Development	197,302	-	197,302
	<hr/>	<hr/>	<hr/>
Total Expenses	7,273,352	-	7,273,352
	<hr/>	<hr/>	<hr/>
Change in Net Assets	830,086	(5,437)	824,649
Net Assets, Beginning of Year	<hr/>	<hr/>	<hr/>
	2,672,783	171,492	2,844,275
	<hr/>	<hr/>	<hr/>
Net Assets, at End of Year	<u>\$ 3,502,869</u>	<u>\$ 166,055</u>	<u>\$ 3,668,924</u>

See accompanying notes.

CARACOLE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	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	\$ 145,237	\$ 200,520	\$ 1,514,365	\$ 48,357	\$ -	\$ 129,892	\$ 2,038,371	\$ 166,543	\$ 93,616	\$ 2,298,530
Payroll Taxes and Benefits	28,436	54,125	422,540	25,722	-	36,557	567,380	21,950	17,287	606,617
Pharmacy Expenses	-	-	-	-	4,295,014	-	4,295,014	-	-	4,295,014
Specific Assistance to Individuals	91,485	684,721	24,806	184,951	-	-	985,963	-	-	985,963
Donated Goods and Services	-	-	22,701	-	-	-	22,701	87	23,419	46,207
Occupancy	4,114	16,439	132,935	7,003	-	13,158	173,649	34,601	5,700	213,950
Supplies	7,056	2,610	13,826	3,409	-	6,969	33,870	6,543	3,278	43,691
Telephone	9,271	4,121	32,405	1,907	-	3,190	50,894	2,657	1,282	54,833
Professional Services	2,468	7,544	31,994	2,330	-	1,966	46,302	15,967	1,296	63,565
Technology Fees	3,841	2,312	36,939	2,186	-	1,486	46,764	3,464	4,156	54,384
Travel Expenses	707	7,475	16,574	2,521	-	8,520	35,797	571	597	36,965
Equipment Rent and Maintenance	33,646	2,239	14,820	831	-	1,799	53,335	3,234	473	57,042
Marketing	136	397	5,586	120	-	16,756	22,995	2,139	53,088	78,222
Printing and Publications	122	360	2,705	110	-	959	4,256	1,755	17,570	23,581
Insurance	361	1,072	7,218	254	-	729	9,634	561	404	10,599
Miscellaneous Expenses	361	847	1,418	214	-	201	3,041	634	30	3,705
Postage and Delivery	265	1,984	2,779	181	-	1,043	6,252	1,190	3,202	10,644
Conferences and Meetings	399	1,949	505	390	-	621	3,864	178	390	4,432
Staff Education/Development	680	526	7,039	38	-	108	8,391	668	45	9,104
Membership Dues	249	1,154	4,787	220	-	167	6,577	3,926	617	11,120
Depreciation	-	-	-	-	-	-	-	22,260	-	22,260
Total Expenses by Function	\$ 328,834	\$ 990,395	\$ 2,295,942	\$ 280,744	\$ 4,295,014	\$ 224,121	\$ 8,415,050	\$ 288,928	\$ 226,450	\$ 8,930,428

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 by Function	\$ 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.
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2018	2017
Cash Flows from Operating Activities		
Change in Net Assets	\$ 458,241	\$ 824,649
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities		
Depreciation	22,260	32,471
Investment Income Operations, Net	7,391	(26,342)
Investment Income Endowments, Net	83,852	(243,183)
Loss on Sale of Property and Equipment	36,744	-
Changes In		
Accounts Receivable	(100,220)	(378,545)
Inventory	20,211	(17,355)
Prepaid Expenses	(13,158)	(10,991)
Accounts Payable	9,671	(10,146)
Accrued Expenses	31,712	28,385
	556,704	198,943
Net Cash Provided by Operating Activities		
Cash Flows from Investing Activities		
Deposits	(7,150)	-
Purchase of Property and Equipment	(150,220)	(6,790)
Purchase of Investments	(740,375)	(402,022)
Proceeds from the Sale of Investments	335,816	55,223
	(561,929)	(353,589)
Net Cash Used by Investing Activities		
Net Change in Cash and Cash Equivalents	(5,225)	(154,646)
Cash and Cash Equivalents, Beginning of Year	241,663	396,309
Cash and Cash Equivalents, End of Year	\$ 236,438	\$ 241,663

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 seven counties of Southwest Ohio: Hamilton, Butler, Clermont, Brown, Clinton, Warren and Highland counties.

Use of Estimates

The process of preparing financial statements in conformity with 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 or the anticipated due date. 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 doubtful accounts has been provided at December 31, 2018 and 2017 since management does not expect any material losses.

Investments

Investments if purchased are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less any external and direct internal investment expenses. Cash equivalents, and other securities and investments held in brokerage accounts are protected by the Securities Investor Protection Corporation (SIPC) in the event of broker-dealer failure, up to \$500,000 of protection for each brokerage account with a limit of \$250,000 for claims of uninvested cash balances. The SIPC insurance does not protect against market losses on investments.

Inventory

The Organization's inventory is comprised of pharmacy services inventory. The inventory is stated at the lower of cost, determined by the first-in, first-out (FIFO) method, or net realizable value. All inventory is held at PharmBlue headquarters in Pennsylvania and is for the benefit of Caracole clients.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Property and Equipment**

Property and equipment are stated at cost, or if donated, at fair value at the date of donation, 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 Improvements	10 to 27.5 years
Furniture and Fixtures	5 to 10 years
Vehicles	5 years

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, 2018 and 2017.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for unspent foundation grants for operations from the donor until spent and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Revenue and Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Donated Services, Equipment, and In-Kind Contributions**

Donations of equipment and in-kind contributions are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Donated services are recognized as contributions if the services a) create or enhance nonfinancial assets or b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization has significant time contributed to its mission through volunteers. However, the statements of activities does not reflect the value of these services as they do not meet recognition criteria required under U.S. GAAP.

Advertising Costs

The Organization expenses advertising costs as they are incurred.

Retirement Plan

The Organization had an IRC Section 403(b) defined contribution plan, under which substantially all employees were eligible to make voluntary salary reduction contributions. Under the plan, eligible employees could contribute a percentage of their salaries not to exceed the limits of IRC Section 403(b). The Organization did not match employee deferrals. Employees could choose their own annuity or custodial account provider. During 2018 the 403(b) plan was terminated.

During 2018, the Organization adopted a defined contribution retirement plan (the Plan) under Internal Revenue Code Section 401(k) for all eligible employees. The Plan provides for both employee and employer contributions. The Organization contributes a discretionary amount determined by the Board of Directors. By its nature, the Plan is fully funded.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include occupancy, depreciation, and amortization, which are allocated on a square footage basis, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

Income Taxes

The Organization is an Ohio nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state 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, 2018 or 2017. If the situation arose in which the Organization would have interest to recognize, it 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, 2018 or 2017.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Reclassifications**

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. The reclassifications had no impact on previously reported net assets.

Recently Issued Significant Accounting Standards*Revenue Recognition Standard*

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). The core principle of Topic 606 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.

In June, 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The core principle of Topic 958 is to clarify and improve current guidance about whether a transfer of assets is a contribution or an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. The ASU is effective for nonpublic entities for years beginning after December 15, 2018.

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.

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

Change in Accounting Principle

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 Organization implemented ASU 2016-14 and adjusted presentation in these statements accordingly. The ASU has been applied retrospectively to all periods presented with no change in net assets.

Subsequent Events

The Organization has evaluated subsequent events through June 5, 2019, which is the date the financial statements were available to be issued.

NOTE 2 - LIQUIDITY

Financial assets available for general use and without donor or other restrictions limiting their use, within one year of the statement of financial position are comprised of the following:

	December 31, 2018
Cash and Cash Equivalents, Without Restrictions	\$ 75,273
Operating Investments	193,617
Board Designated Endowment	2,388,519
Accounts Receivable	<u>1,170,881</u>
Total Financial Assets Available	<u>\$ 3,828,290</u>

The Organization's endowment funds consist of donor-restricted endowments and funds designated by the Board as endowments. Donor-restricted endowments are restricted in perpetuity, with the exception of the income which are available for general use. Donor-restricted endowment funds are not available for general use.

The Organization's Board designated endowment of \$2,388,519 is subject to an annual spending rate of 4%. The Organization did not distribute any funds from the endowment for either of the years ended December 31, 2018 and 2017. Although the Organization does not intend to spend from this Board designated endowment above the approved annual budget approved by the Board of Directors, these funds are available if deemed necessary.

As part of the Organization's liquidity management, the Organization invests cash in excess as determined by the Board of Directors in short-term investments and money market funds.

NOTE 3 - CASH AND CASH FLOWS INFORMATION

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.

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.

NOTE 4 - INVENTORY

Inventory consisted of the following:

	December 31,	
	<u>2018</u>	<u>2017</u>
Pharmaceuticals	\$ <u>32,260</u>	\$ <u>52,471</u>

NOTE 5 - INVESTMENTS

Investments consisted of the follows:

	December 31,	
	2018	2017
Cash Equivalents	\$ 407,639	\$ 117,578
Certificates of Deposit	-	240,064
Fixed Income	194,543	194,562
Mutual Funds and Exchange Traded Funds	1,998,948	1,735,610
	<u>\$ 2,601,130</u>	<u>\$ 2,287,814</u>

NOTE 6 - FAIR VALUE MEASUREMENTS

The framework for measuring fair value 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 to 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.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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, 2018.

Cash and Cash Equivalents - Fair value approximates carrying value due to the initial maturities of the instruments being three months or less.

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.

NOTE 6 - FAIR VALUE MEASUREMENTS (Continued)

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, 2018:

	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	\$ 407,639	\$ -	\$ -	\$ 407,639
Mutual and Exchange Traded Funds	1,998,948	-	-	1,998,948
Fixed Income				
Corporate Bonds	-	107,638	-	107,638
U.S. Government Obligations	-	86,905	-	86,905
Subtotal Fixed Income	-	194,543	-	194,543
Total Assets at Fair Value	\$ 2,406,587	\$ 194,543	\$ -	\$ 2,601,130

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				
Certificate 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	\$ 1,853,188	\$ 434,626	\$ -	\$ 2,287,814

NOTE 6 - FAIR VALUE MEASUREMENTS (Continued)**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 7 - PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation consist of the following:

	December 31,	
	2018	2017
Buildings and Improvements	\$ 166,204	\$ 249,260
Furniture and Fixtures	35,272	171,820
Vehicles	77,914	77,914
	<u>279,390</u>	<u>498,994</u>
Less Accumulated Depreciation	69,626	380,446
Total Property and Equipment, Net	<u>\$ 209,764</u>	<u>\$ 118,548</u>

NOTE 8 - 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 2.5% at December 31, 2018) 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, 2018 and 2017. 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 9 - ACCRUED EXPENSES

Accrued expenses consisted of the following:

Accrued Payroll Related Taxes and Withholdings	\$ 65,342	\$ 46,047
Accrued Vacation	101,987	89,570
	<u>\$ 167,329</u>	<u>\$ 135,617</u>

NOTE 10 - 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 US GAAP, 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.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). UPMIFA permits spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018, no funds had fallen below their original donor fair value.

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 10 - ENDOWMENT (Continued)

Endowment net assets composition by type of fund as of December 31, 2018 is as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-Designated Endowment Funds	\$ 2,388,519	\$ -	\$ 2,388,519
Donor-Restricted Endowment Funds	<u>-</u>	<u>18,994</u>	<u>18,994</u>
Endowment Net Assets, Composition by Type of Fund	<u>\$ 2,388,519</u>	<u>\$ 18,994</u>	<u>\$ 2,407,513</u>

Changes in endowment net assets for the year ended December 31, 2018 are as follows:

Endowment Net Assets, Beginning of Year	\$ 1,731,316	\$ 19,674	\$ 1,750,990
Contributions	740,375	-	740,375
Investment Return, Net	<u>(83,172)</u>	<u>(680)</u>	<u>(83,852)</u>
Endowment Net Assets, End of Year	<u>\$ 2,388,519</u>	<u>\$ 18,994</u>	<u>\$ 2,407,513</u>

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

	<u>Without Donor Restriction</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board-Designated Endowment Funds	\$ 1,731,316	\$ -	\$ 1,731,316
Donor-Restricted Endowment Funds	<u>-</u>	<u>19,674</u>	<u>19,674</u>
Endowment Net Assets, Composition by Type of Fund	<u>\$ 1,731,316</u>	<u>\$ 19,674</u>	<u>\$ 1,750,990</u>

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

Endowment Net Assets, Beginning of Year	\$ 1,490,645	\$ 17,162	\$ 1,507,807
Investment Return, Net	<u>240,671</u>	<u>2,512</u>	<u>243,183</u>
Endowment Net Assets, End of Year	<u>\$ 1,731,316</u>	<u>\$ 19,674</u>	<u>\$ 1,750,990</u>

NOTE 11 - BOARD DESIGNATED NET ASSETS

The Board designated net assets for the following purposes:

	December 31,	
	2018	2017
Endowment Purposes	\$ 2,388,519	\$ 1,731,316
Foundation Grants	9,875	17,500
Total Board Designated Net Assets	<u>\$ 2,398,394</u>	<u>\$ 1,748,816</u>

NOTE 12 - DONOR RESTRICTED NET ASSETS

Net assets with donor restrictions are restricted as follows purposes:

Subject to Expenditure for Specific Purpose:		
Caracole House	\$ -	\$ 16,000
Case Management	5,248	29,875
Prevention	72,917	17,500
	<u>78,165</u>	<u>63,375</u>
Subject to the Passage of Time:		
United Way	83,000	83,006
Not Subject to Spending Policy or Appropriation:		
Endowment	18,994	19,674
Total Net Assets with Donor Restrictions	<u>\$ 180,159</u>	<u>\$ 166,055</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors as follows:

Expiration of Time Restrictions	\$ 83,006	\$ 85,950
Satisfaction of Purpose Restrictions		
Caracole House	16,000	4,000
Case Management	37,127	56,182
Prevention	19,583	14,823
Total Net Assets Released From Restrictions	<u>\$ 155,716</u>	<u>\$ 160,955</u>

NOTE 13 - DONATED SERVICES, EQUIPMENT, AND IN-KIND CONTRIBUTIONS

For the year ended December 31, 2018, the Organization received in-kind contributions as follows:

	Program Services	Management and General	Fundraising and Development	Total
Office Equipment	\$ 21,000	\$ 30	\$ -	\$ 21,030
Advertising	-	-	650	650
Supplies	-	-	1,200	1,200
Client Assistance Items	1,701	-	1,500	3,201
Auction Items	-	-	15,250	15,250
Food	-	57	4,819	4,876
Total	\$ 22,701	\$ 87	\$ 23,419	\$ 46,207

For the year ended December 31, 2017, the Organization received in-kind contributions as follows:

	Program Services	Management and General	Fundraising and Development	Total
Office Equipment	\$ -	\$ 750	\$ -	\$ 750
Advertising	-	712	650	1,362
Supplies	-	-	1,200	1,200
Client Assistance Items	125	-	-	125
Auction Items	-	-	18,675	18,675
Food	-	1,810	8,690	10,500
Total	\$ 125	\$ 3,272	\$ 29,215	\$ 32,612

NOTE 14 - 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, 2018 and 2017. The lease is set to expire in March, 2027.

The Organization leased another office space on Hamilton Avenue with an unrelated party that commenced on November 1, 2015, with lease expense of \$7,350 and \$13,200, plus common area lease expense of \$1,500, for the years ended December 31, 2018 and 2017, respectively. The Organization terminated the lease in June, 2018.

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 \$36,674 and \$6,082 for the years ended December 31, 2018 and 2017, respectively. The lease is set to expire in October, 2022.

The Organization entered into a lease agreement for an apartment building located in Cincinnati, Ohio with an unrelated party in January, 2018. This is the first site of the Caracole House program housing with a lease expense of \$90,185 for the year ended December 31, 2018. The lease is set to expire in December, 2022.

NOTE 14 - OPERATING LEASES (Continued)

The Organization entered into an additional apartment lease agreement on an additional building located in Cincinnati, Ohio with an unrelated party that is expected to start in June, 2019. This lease will be the second site of the Caracole Housing Program. The lease is set to expire in May, 2024.

Equipment

The Organization has various operating lease agreements for equipment, the expense for which was \$7,249 and \$6,646 during December 31, 2018 and 2017, respectively. The operating lease agreements expire on various dates through September, 2023.

Future minimum lease payments for leases are as follows:

<u>Years Ending December 31,</u>	<u>Office Space</u>	<u>Equipment</u>	<u>Total</u>
2019	\$ 309,864	\$ 9,690	\$ 319,554
2020	353,652	7,575	361,227
2021	354,819	6,309	361,128
2022	351,446	4,662	356,108
2023	218,221	2,208	220,429
Thereafter	443,356	-	443,356
	<u>\$ 2,031,358</u>	<u>\$ 30,444</u>	<u>\$ 2,061,802</u>

NOTE 15 - RETIREMENT PLAN EXPENSE

During the years ended December 31, 2018 and 2017, the Organization incurred expenses related to the Organization sponsored retirement plan in the amounts of \$42,921 and \$-0-, respectively.

NOTE 16 - ECONOMIC DEPENDENCY AND UNCERTAINTY

The Organization derived 36% and 34% for the years ended December 31, 2018 and 2017, 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, 2018

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. Department of Housing and Urban Development				
Housing Opportunities for Persons with AIDS				
<u>Passed Through Strategies to End Homelessness</u>				
Housing Opportunities for Persons with AIDS	14.241	2018-19	\$ -	\$ 388,725
Continuum of Care Program				
<u>Passed Through Strategies to End Homelessness</u>				
Continuum of Care Program	14.267	2017-69	-	92,364
Continuum of Care Program	14.267	2017-30	-	380,275
Continuum of Care Program	14.267	2018-27	-	397,991
Total Continuum of Care			-	870,630
Total U.S. Department of Housing and Urban Development			-	1,259,355
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	03160132RW0818	-	427,915
HIV Care Formula Grant	93.917	03160132RW0717	-	329,575
Total HIV Care Formula Grant			-	757,490
HIV Prevention Program				
<u>Passed Through Hamilton County Public Health</u>				
HIV Prevention Grant	93.940	13-471-8100	-	103,532
<u>Passed Through Montgomery County Public Health</u>				
HIV Prevention Grant	93.940	18-058	-	19,500
Total U.S. Department of Health and Human Services			-	880,522
Total Expenditures of Federal Awards			\$ -	\$ 2,139,877

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, 2018. 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, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 5, 2019.

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.

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 5, 2019

**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 Caracole, Inc.'s 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, 2018. 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, 2018.

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 did however identify certain matters that we reported to management of the Caracole, Inc., in a separate letter dated June 5, 2019.

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 5, 2019

CARACOLE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2018

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 • Continuum of Care Program (CoC) [CFDA 14.267]
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, 2017

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters were reported.