CARACOLE, INC.

December 31, 2020

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, 2020 and 2019, 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, 2020 and 2019, 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.

810 Wright's Summit Parkway, Suite 300
Fort Wright, KY 41011
main: 859.331.3300
main fax: 859.331.4358
vlcpa.com

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 2, 2021 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 the effectiveness of Caracole's 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 2, 2021

CARACOLE, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31, 2020	December 31, 2019
Current Assets		
Cash	$ 1,039,003	$ 139,758
Accounts Receivable	1,321,312	1,171,594
United Way Allocation	58,698	66,400
Unconditional Promises to Give	23,691	28,015
Inventory	39,557	27,598
Prepaid Expenses	73,235	73,224
Total Current Assets	2,555,496	1,506,589
Investments	3,869,651	3,339,646
Property and Equipment, Net	185,185	191,404
Other Assets		
Deposits	26,500	26,500
Total Assets	$ 6,636,832	$ 5,064,139

LIABILITIES AND NET ASSETS

	2020	2019
Current Liabilities		
Accounts Payable	$ 37,855	$ 72,477
Accrued Expenses	309,622	227,489
Refundable Advance - Payroll Protection Program	164,011	-
Total Liabilities	511,488	299,966
Net Assets		
Without Donor Restrictions	5,971,492	4,619,034
With Donor Restrictions	153,852	145,139
Total Net Assets	6,125,344	4,764,173
Total Liabilities and Net Assets	$ 6,636,832	$ 5,064,139

See accompanying notes.

CARACOLE, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Contributions	$ 116,399	$ 23,691	$ 140,090
Foundation Grants	266,588	55,702	322,290
Special Events (Revenue of $111,084 Less Expenses of $33,355)	77,729	-	77,729
Pharmacy Services	6,130,715	-	6,130,715
Government Grants	4,473,710	-	4,473,710
Payroll Protection Program Revenue	494,042	-	494,042
United Way Allocation	-	58,698	58,698
In-Kind Revenue	103,772	-	103,772
Room and Board	19,980	-	19,980
Miscellaneous Income	61	-	61
Total Revenue, Support, and Gains	11,682,996	138,091	11,821,087
Net Assets Released From Restrictions	129,378	(129,378)	-
Total Revenue, Support and Reclassifications	11,812,374	8,713	11,821,087
Expenses			
Caracole House	541,140	-	541,140
Shelter Plus Care	999,854	-	999,854
Case Management	2,564,990	-	2,564,990
Permanent Supportive Housing	589,244	-	589,244
Pharmacy Services	4,902,575	-	4,902,575
Prevention	843,292	-	843,292
Total Program Expenses	10,441,095	-	10,441,095
General and Administrative	294,391	-	294,391
Fundraising and Development	248,786	-	248,786
Total Expenses	10,984,272	-	10,984,272
Excess of Revenue and Support Over Expenses from Operations	828,102	8,713	836,815
Other Changes in Net Assets			
Nonoperating Net Investment Return	524,356	-	524,356
Change in Net Assets	1,352,458	8,713	1,361,171
Net Assets, Beginning of Year	4,619,034	145,139	4,764,173
Net Assets, at End of Year	$ 5,971,492	$ 153,852	$ 6,125,344

See accompanying notes.

CARACOLE, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support, and Gains			
Contributions	$ 134,790	$ 28,015	$ 162,805
Foundation Grants	72,514	6,050	78,564
Special Events (Revenue of $223,709 Less Expenses of $86,010)	137,699	-	137,699
Pharmacy Services	5,914,453	-	5,914,453
Government Grants	4,029,308	-	4,029,308
United Way Allocation	-	66,400	66,400
In-Kind Revenue	42,394	-	42,394
Room and Board	12,147	-	12,147
Miscellaneous Income	39	-	39
Total Revenue, Support, and Gains	10,343,344	100,465	10,443,809
Net Assets Released From Restrictions	136,165	(136,165)	-
Total Revenue, Support, Gains, and Reclassifications	10,479,509	(35,700)	10,443,809
Expenses			
Caracole House	493,518	-	493,518
Shelter Plus Care	993,411	-	993,411
Case Management	2,421,857	-	2,421,857
Permanent Supportive Housing	340,942	-	340,942
Pharmacy Services	4,774,950	-	4,774,950
Prevention	654,930	-	654,930
Total Program Expenses	9,679,608	-	9,679,608
General and Administrative	313,352	-	313,352
Fundraising and Development	302,672	-	302,672
Total Expenses	10,295,632	-	10,295,632
Excess (Deficit) of Revenue, Support and Gains Over Expenses from Operations	183,877	(35,700)	148,177
Other Changes in Net Assets			
Nonoperating Net Investment Return	488,831		488,831
Change in Net Assets	672,708	(35,700)	637,008
Net Assets, Beginning of Year	3,946,326	180,839	4,127,165
Net Assets, at End of Year	$ 4,619,034	$ 145,139	$ 4,764,173

See accompanying notes.

CARACOLE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2020

	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	$ 236,270	$ 220,837	$ 1,713,224	$ 98,709	$ -	$ 514,195	$ 2,783,235	$ 205,905	$ 161,981	$ 3,151,121
Payroll Taxes and Benefits	47,256	30,702	391,962	36,294	-	132,843	639,057	(20,385)	28,375	647,047
Pharmacy Expenses	-	-	-	-	4,902,575	-	4,902,575	-	-	4,902,575
Specific Assistance to Individuals	205,173	704,260	69,563	424,347	-	5,960	1,409,303	-	7,144	1,416,447
Donated Goods and Services	7,422	-	61,425	-	-	33,000	101,847	-	1,925	103,772
Events	-	-	-	-	-	-	-	-	33,355	33,355
Occupancy	15,940	14,580	125,325	14,329	-	53,545	223,719	20,605	10,228	254,552
Supplies	4,362	1,219	6,879	905	-	20,782	34,147	4,980	1,584	40,711
Telephone	9,141	3,329	28,244	2,781	-	8,869	52,364	1,786	1,654	55,804
Professional Services	4,109	8,105	52,306	3,855	-	8,992	77,367	39,620	1,647	118,634
Technology Fees	5,261	3,409	77,079	2,135	-	5,820	93,704	9,368	5,454	108,526
Travel Expenses	1,240	2,263	5,050	1,658	-	3,807	14,018	221	228	14,467
Equipment Rent and Maintenance	1,472	5,242	9,225	2,189	-	4,060	22,188	3,520	1,621	27,329
Marketing	131	257	3,501	143	-	41,464	45,496	1,694	18,165	65,355
Printing and Publications	24	46	422	27	-	38	557	288	3,870	4,715
Insurance	1,980	1,434	9,094	697	-	6,700	19,905	2,140	817	22,862
Miscellaneous Expenses	99	187	1,419	129	-	1,428	3,262	105	-	3,367
Postage and Delivery	135	1,036	906	393	-	78	2,548	320	3,990	6,858
Conferences and Meetings	638	25	422	15	-	144	1,244	172	-	1,416
Staff Education/Development	250	430	2,865	379	-	872	4,796	2,768	53	7,617
Membership Dues	185	2,395	5,348	202	-	614	8,744	2,393	50	11,187
Interest Expense	52	98	731	57	-	81	1,019	679	-	1,698
Depreciation	-	-	-	-	-	-	-	18,212	-	18,212
Total Expenses by Function	541,140	999,854	2,564,990	589,244	4,902,575	843,292	10,441,095	294,391	282,141	11,017,627
Less Expenses Included with Revenues on the Statement of Activities Events	-	-	-	-	-	-	-	-	(33,355)	(33,355)
Total Expenses Included in the Expense Section on the Statement of Activities	$ 541,140	$ 999,854	$ 2,564,990	$ 589,244	$ 4,902,575	$ 843,292	$ 10,441,095	$ 294,391	$ 248,786	$ 10,984,272

See accompanying notes.

CARACOLE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	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	$ 226,300	$ 193,087	$ 1,562,929	$ 65,187	$ -	$ 381,451	$ 2,428,954	$ 183,328	$ 149,989	$ 2,762,271
Payroll Taxes and Benefits	50,383	47,573	439,134	35,475	-	117,260	689,825	27,362	31,848	749,035
Pharmacy Expenses	-	-	-	-	4,774,950	-	4,774,950	-	-	4,774,950
Specific Assistance to Individuals	165,478	710,540	30,573	221,283	-	50	1,127,924	1	-	1,127,925
Donated Goods and Services	2,880	-	2,979	-	-	1,809	7,668	7,756	26,970	42,394
Events	-	-	-	-	-	-	-	-	86,010	86,010
Occupancy	13,483	9,751	114,735	4,999	-	32,969	175,937	18,722	8,455	203,114
Supplies	4,024	2,451	16,729	3,440	-	29,291	55,935	8,062	6,339	70,336
Telephone	8,045	3,102	23,466	1,920	-	6,474	43,007	1,057	1,609	45,673
Professional Services	2,748	6,933	37,918	2,603	-	3,898	54,100	19,175	3,334	76,609
Technology Fees	3,179	4,068	120,783	879	-	2,872	131,781	2,304	3,472	137,557
Travel Expenses	2,763	3,064	20,924	1,978	-	15,278	44,007	952	767	45,726
Equipment Rent and Maintenance	5,907	2,598	11,509	1,348	-	4,275	25,637	1,643	4,808	32,088
Marketing	184	371	9,840	125	-	38,540	49,060	2,404	52,206	103,670
Printing and Publications	384	1,107	6,930	251	-	4,712	13,384	4,770	7,460	25,614
Insurance	1,582	1,169	8,088	395	-	5,128	16,362	1,937	641	18,940
Miscellaneous Expenses	3,728	278	(1,659)	93	-	162	2,602	9,883	83	12,568
Postage and Delivery	83	1,538	2,019	433	-	512	4,585	834	3,901	9,320
Conferences and Meetings	318	466	1,998	5	-	8,314	11,101	10	412	11,523
Staff Education/Development	1,871	781	10,366	407	-	1,695	15,120	2,462	30	17,612
Membership Dues	116	4,408	1,687	79	-	156	6,446	1,514	348	8,308
Interest Expense	62	126	909	42	-	84	1,223	816	-	2,039
Depreciation	-	-	-	-	-	-	-	18,360	-	18,360
Total Expenses by Function	493,518	993,411	2,421,857	340,942	4,774,950	654,930	9,679,608	313,352	388,682	10,381,642
Less Expenses Included with Revenues on the Statement of Activities Events	-	-	-	-	-	-	-	-	(86,010)	(86,010)
Total Expenses Included in the Expense Section on the Statement of Activities	$ 493,518	$ 993,411	$ 2,421,857	$ 340,942	$ 4,774,950	$ 654,930	$ 9,679,608	$ 313,352	$ 302,672	$ 10,295,632

See accompanying notes.

CARACOLE, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2020	Years Ended December 31, 2019
Cash Flows From Operating Activities		
Change in Net Assets	$ 1,361,171	$ 637,008
Reconciliation of Change in Net Assets with Cash Flows From Operations		
Depreciation	18,212	18,360
Donated Stock	(5,649)	-
Net Investment Return	(524,356)	(488,831)
Changes In Operating Assets and Liabilities		
Accounts Receivable	(149,718)	(83,713)
United Way Allocation	7,702	16,600
Unconditional Promises to Give	4,324	(28,015)
Inventory	(11,959)	4,662
Prepaid Expenses	(11)	(2,439)
Accounts Payable	(34,622)	27,713
Accrued Expenses	82,133	60,160
Refundable Advance - Paycheck Protection Program	164,011	-
Net Cash Provided by Operating Activities	911,238	161,505
Cash Flows From Investing Activities		
Purchase of Investments	-	(881,677)
Proceeds From the Sale of Investments	-	631,992
Acquisition of Property and Equipment	(11,993)	-
Change in Deposits	-	(8,500)
Net Cash Used by Investing Activities	(11,993)	(258,185)
Net Change in Cash	899,245	(96,680)
Cash, Beginning of Year	139,758	236,438
Cash, End of Year	$ 1,039,003	$ 139,758

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. Caracole's mission is to positively change lives in the fight against HIV/AIDS through prevention, housing and care. The Organization receives its revenue primarily from federal, state and local government grants. The Organization serves a wide geographical area consisting of portions of southwest Ohio, northern Kentucky, and southeast Indiana.

The Organization's viability is dependent on the success of program services, contributions and grants, and the Organization's ability to collect on its contracts with customers.

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. 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 clients, and other pertinent factors. Accounts receivables are written off as uncollectible after the Organization has used reasonable collection efforts and deemed them uncollectible. Based on these criteria, no allowance for doubtful accounts has been provided at December 31, 2020 and 2019 since management does not expect any material losses.

United Way Allocation

The United Way allocation receivable consists of an unconditional promise to give in the form of an annual allocation made by the United Way of Cincinnati. This allocation will be collected within one year and is reported at its net realizable value. No present value discount or allowance for uncollectible amount is deemed necessary to record.

Promises to Give

The Organization records unconditional promises to give that are expected to be collected at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. The Organization determines the allowance for uncollectible promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectible. Based on these criteria, no allowance for uncollectible promises to give has been provided at December 31, 2020 and 2019 since the Organization does not expect any material losses. All promises to give will be collectable within one year and reported at their net realizable value. No present value discount or allowance for an uncollectible amount is deemed necessary to record.

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 consists of pharmaceuticals held at PharmBlue headquarters in Pennsylvania and is for the benefit of Caracole clients.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The Organization holds investment securities that are considered non-operating. The investments are not considered to be part of the Organization's core operations. Although not part of the Organization's operations the investments provide diversification and can act as a financial back up.

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.

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:

Leasehold Improvements	15 years
Furniture and Fixtures	5 to 7 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, 2020 and 2019.

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 foundation grants for operations and endowment purposes.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue and Revenue Recognition

Revenue from Contracts with Customers

Revenue is measured as the amount of consideration expected to be received in exchange for transferring goods or providing services. The Organization recognizes contract revenue for financial reporting at a point in time. Contracts with customers may include multiple performance obligations for which the consideration is allocated between performance obligations. Depending on the terms of the contract, the Organization may defer the recognition of revenue and record a contract liability when a future performance obligation has not yet occurred.

Revenue from the sale of pharmaceutical inventory is recognized when obligations under the terms of a contract with the customer are satisfied, which generally occurs with the transfer of the product to the customer. Determining when control transfers require management to make judgements that affect the timing of revenue recognized. The Organization believes that this method provides a faithful depiction of the transfer of control of its products.

The Organization records special events revenue equal to the cost of direct benefits to donors, and contribution revenue for the difference.

Revenue from Contributions

The Organization recognizes contributions when cash, securities, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been substantially met. The Organization's federal and state contracts and grants are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses.

Grants from governmental agencies are earned based on agreed allowable costs for services provided. In the case of government grants, reimbursement is based on allowable costs expended for program services. Revenue is recognized when earned. Program payments under cost reimbursement contracts received in advance are deferred to the applicable period in which the related services are performed, or expenditures are incurred, respectively. Consequently, at December 31, 2020 and 2019, conditional grants totaling approximately $1,421,294 and $912,314, respectively, for which no amounts had been received in advance, have not been recognized in the accompanying financial statements.

In April 2020, the Organization received funding in the amount of $658,053, under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), provides for loans to qualifying organizations for amounts up to 2.5 times the average monthly payroll expenses of the qualifying organization. The loans and accrued interest are forgivable within a 24-week period as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains other designated thresholds. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments until the date that the lender receives the forgiveness amount from the SBA. The Organization intends to use the proceeds for purposes consistent with the PPP. The Organization accounts for the PPP Funding in accordance with ASC 958-605 Revenue Recognition for Nonprofit Entities. Revenue is recognized as eligible expenses and other conditions are substantially met or incurred. At December 31, 2020 the Organization has recognized revenue of $494,042 as it has determined eligible expenses and other conditions have been met regarding a portion of the funding.

The residual portion of the refundable advance is not expected to be forgiven and is recorded as a current liability as of December 31, 2020 in the amount of $164,011 and expected to be paid in full during 2021.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, and depreciation 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, 2020 or 2019. 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, 2020 or 2019.

Recently Issued Significant Accounting Standard

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, 2021.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Organization has evaluated subsequent events through June 2, 2021, 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 or designations limiting their use, within one year of the statement of financial position are comprised of the following:

	December 31, 2020	December 31, 2019
Cash, Without Restrictions	$ 780,703	$ 63,643
Accounts Receivable	1,321,312	1,171,594
United Way Allocation	58,698	66,400
Unconditional Promises to Give	23,691	28,015
Total Financial Assets Available	$ 2,184,404	$ 1,329,652

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 is available for general use. Donor-restricted endowment funds are not available for general use.

The Organization's Board designated endowment funds of $3,844,328 and $3,319,972 at December 31, 2020 and 2019, respectively, are 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, 2020 and 2019. Although the Organization does not intend to spend from this Board designated endowment, these funds are available if deemed necessary.

The residual portion of the refundable advance is not expected to be forgiven of 164,011 is expected to be paid in full during 2021and therefore reduced the total cash available for general use.

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

For purposes of the statements of cash flows, cash includes cash held in checking accounts.

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.

Cash paid for interest was $1,698 and $2,039 in 2020 and 2019, respectively.

NOTE 4 - INVESTMENTS

Investments consisted of the follows:

	December 31, 2020	December 31, 2019
Cash Equivalents	$ 206,390	$ 256,780
Mutual Funds and Exchange Traded Funds	3,663,261	3,082,866
	$ 3,869,651	$ 3,339,646

NOTE 5 - 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 are descriptions 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, 2020.

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

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.

All investments were valued at Level 1 as of December 31, 2020 and 2019.

NOTE 5 - 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.

The Organization has evaluated events and conditions related to the valuation of its investment portfolio to determine if an impairment exists. In order to determine if an impairment is other-than-temporary, the Organization considers all available information relevant to the collectability of the security, including past events, current conditions, and reasonable and supportable forecasts. Evidence considered in this assessment includes the reasons for the decline in value, the severity of the impairment, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry in which the investee operates. Based on the above criteria, management has determined that an other-than-temporary impairment does not exist as of December 31, 2020.

NOTE 6 - PROPERTY AND EQUIPMENT

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

	December 31,	
	2020	2019
Leasehold Improvements	$ 166,204	$ 166,204
Furniture and Fixtures	47,265	35,272
Vehicles	77,914	77,914
	291,383	279,390
Less Accumulated Depreciation	106,198	87,986
Total Property and Equipment, Net	$ 185,185	$ 191,404

NOTE 7 - 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 .15% at December 31, 2020) 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, 2020 and 2019. 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 8 - ACCRUED EXPENSES

Accrued expenses consisted of the following:

	December 31, 2020	December 31, 2019
Accrued Payroll Related Taxes and Withholdings	$ 119,780	$ 86,599
Accrued Vacation	189,842	140,890
	$ 309,622	$ 227,489

NOTE 9 - 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 retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the 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 are classified as net assets with donor restrictions 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 Trustees, 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, 2020 and 2019, no funds had fallen below their original donor fair value.

NOTE 9 - ENDOWMENT (Continued)

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, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-Designated Endowment Funds	$ 3,849,977	$ -	$ 3,849,977
Donor-Restricted Endowment Funds	-	19,674	19,674
Endowment Net Assets, Composition by Type of Fund	$ 3,849,977	$ 19,674	$ 3,869,651

Changes in endowment net assets for the year ended December 31, 2020 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	$ 3,319,972	$ 19,674	$ 3,339,646
Contributions	5,649	-	5,649
Investment Return, Net	524,356	-	524,356
Endowment Net Assets, End of Year	$ 3,849,977	$ 19,674	$ 3,869,651

Endowment net asset composition by type of fund as of December 31, 2019 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-Designated Endowment Funds	$ 3,319,972	$ -	$ 3,319,972
Donor-Restricted Endowment Funds	-	19,674	19,674
Endowment Net Assets, Composition by Type of Fund	$ 3,319,972	$ 19,674	$ 3,339,646

Changes in endowment net assets for the year ended December 31, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	$ 2,581,456	$ 19,674	$ 2,601,130
Contributions	249,685	-	249,685
Investment Return, Net	488,831	-	488,831
Endowment Net Assets, End of Year	$ 3,319,972	$ 19,674	$ 3,339,646

NOTE 10 - BOARD DESIGNATED NET ASSETS

The Board designated net assets for the following purposes:

	December 31, 2020	December 31, 2019
Endowment Purposes	$ 3,849,977	$ 3,319,972
Foundation Grants for Operations	42,500	45,065
Total Board Designated Net Assets	$ 3,892,477	$ 3,365,037

NOTE 11 - DONOR RESTRICTED NET ASSETS

Net assets with donor restrictions are restricted as follows purposes:

	2020	2019
Subject to Expenditure for Specific Purpose		
Case Management	$ -	$ 6,050
Housing Assistance	4,000	-
Prevention	47,789	25,000
	51,789	31,050
Subject to the Passage of Time		
Unconditional Promises to Give	23,691	28,015
United Way	58,698	66,400
	82,389	94,415
Not Subject to Spending Policy or Appropriation		
Donor Established Endowment	19,674	19,674
Total Net Assets with Donor Restrictions	$ 153,852	$ 145,139

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:

	Years Ended December 31, 2020	Years Ended December 31, 2019
Expiration of Time Restrictions	$ 94,415	$ 83,000
Satisfaction of Purpose Restrictions		
Housing Assistance	1,000	-
Case Management	6,050	5,248
Prevention	27,913	47,917
Total Net Assets Released From Restrictions	$ 129,378	$ 136,165

NOTE 12 - DONATED SERVICES, EQUIPMENT, AND IN-KIND CONTRIBUTIONS

For the year ended December 31, 2020, the Organization received in-kind contributions as follows:

	Program Services	Management and General	Fundraising and Development	Total
Furniture and Equipment	$ 5,241	$ -	$ -	$ 5,241
Advertising	-	-	1,400	1,400
Supplies	90,025	-	-	90,025
Client Assistance Items	6,300	-	-	6,300
Special Events Items	-	-	525	525
Food	281	-	-	281
Total	$ 101,847	$ -	$ 1,925	$ 103,772

For the year ended December 31, 2019, the Organization received in-kind contributions as follows:

	Program Services	Management and General	Fundraising and Development	Total
Furniture and Equipment	$ -	$ 7,505	$ -	$ 7,505
Advertising	-	-	2,450	2,450
Supplies	2,312	-	-	2,312
Client Assistance Items	5,356	-	-	5,356
Special Events Items	-	-	24,040	24,040
Food	-	251	480	731
Total	$ 7,668	$ 7,756	$ 26,970	$ 42,394

NOTE 13 - OPERATING LEASES

Facilities

The Organization has a master lease with an unrelated party for their operation with rental expense of $175,175 and $149,533 for the years ended December 31, 2020 and 2019, respectively. The lease is set to expire in March 2027.

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 and the Organization incurred lease expense of $102,372 for each of the years ended December 31, 2020 and 2019. The lease is set to expire in December 2022.

The Organization entered into an additional apartment lease agreement for the second site of the Caracole House program housing. The lease was entered into in June 2019 for an apartment building located in Cincinnati, Ohio with an unrelated party. Lease expense was $102,372 and $59,719 for the years ended December 31, 2020 and 2019, respectively, and the lease is set to expire in May 2024.

NOTE 13 - OPERATING LEASES (Continued)

Equipment

The Organization has various operating lease agreements for equipment, the expense for which was $8,192 and $10,307 during the years ended December 31, 2020 and 2019, respectively. The operating lease agreements expire on various dates through March 2025.

Future minimum lease payments for leases are as follows:

Years Ending December 31,	Facilities	Equipment	Total
2021	$ 381,759	$ 9,369	$ 391,128
2022	386,252	8,622	394,874
2023	289,328	6,792	296,120
2024	235,219	4,860	240,079
2025	198,341	810	199,151
Thereafter	256,129	-	256,129
	$ 1,747,028	$ 30,453	$ 1,777,481

NOTE 14 - RETIREMENT PLAN EXPENSE

During the years ended December 31, 2020 and 2019, the Organization incurred expenses related to the Organization sponsored retirement plan in the amounts of $76,209 and $70,732, respectively.

NOTE 15 - ADVERTISING EXPENSE

The Organization incurred advertising expense of $57,675 and $44,618 for the years ended December 31, 2020 and 2019, respectively.

NOTE 16 - ECONOMIC DEPENDENCY, RISKS AND UNCERTAINTY

The Organization derived 38% and 39% for the years ended December 31, 2020 and 2019, 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.

Pharmacy services income accounted for approximately 52% and 57% of the Organization’s revenue for the years ended December 31, 2020 and 2019, respectively.

Prior to year-end, the World Health Organization announced a global health emergency later classified as a global pandemic as a result of the COVID-19 outbreak. The outbreak and response has impacted financial and economic markets across the World and within the United States. The full impact continues to evolve and as such, it is uncertain as to the full magnitude that the pandemic will have on the Organization’s financial condition, liquidity, and future results of operations. Management is actively monitoring the possible effects on every aspect of the Organization.

NOTE 17 - OHIO DEPARTMENT OF HEALTH FUNDS

The Organization received federal funding passed through the Ohio Department of Health for the year ended December 31, 2020 as follows:

Federal Grantor	CFDA Number	Grant Title	Project Number	Federal Expenditures (Cash Basis)
U.S. Department of Health and Human Services	93.917	HIV Care Formula Grant	03160132RW0919	$ 360,380
U.S. Department of Health and Human Services	93.917	HIV Care Formula Grant	03160132RW1020	$ 628,869

NOTE 18 - 340B Drug Pricing Program

The Organization participates in the 340B Drug Pricing Program (340B Program) in conjunction with the federal HIV Care Formula Grant program. The 340B Program offers medication assistance to clients that do not qualify for the state operated program. Program income for the program as it relates to the HIV Care Formula Grant program are not generated directly from federal funding but as a result of supportive activities conducted. The program is overseen by the Federal Agency Health Resources and Services Administration (HRSA). HRSA continues to conduct routine audits of these programs at health care and support organizations, and it is noted there has been an increase in its compliance monitoring around processes and program income. Laws and regulations governing the 340B Program are complex and subject to interpretation by the granting and sub-granting agencies. As a result, it is possible that material changes related to the 340B Program could occur.

SUPPLEMENTARY INFORMATION

CARACOLE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2020

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	20205001	$ -	$ 777,536
Housing Opportunities for Persons with AIDS - COVID-19	14.241	20205001	-	53,786
				831,322
Continuum of Care Program				
Passed Through Strategies to End Homelessness				
Continuum of Care Program	14.267	2020-009	-	348,296
Continuum of Care Program	14.267	20200453	-	45,281
Continuum of Care Program	14.267	2019-33	-	434,671
Continuum of Care Program	14.267	2019-34	-	43,155
Total Continuum of Care			-	871,403
Total U.S. Department of Housing and Urban Development			-	1,702,725
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	03160132RW0919	-	211,933
HIV Care Formula Grant	93.917	03160132RW1020	-	907,466
Total HIV Care Formula Grant			-	1,119,399
HIV Prevention Program				
Passed Through Hamilton County Public Health				
HIV Prevention Grant	93.940	2019-1	-	199,766
Total U.S. Department of Health and Human Services			-	1,319,165
Total Expenditures of Federal Awards			$ -	$ 3,021,890

See accompanying 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, 2020. 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, 2020, 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 2, 2021.

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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2020-001 that we consider to be a material weakness.

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.

810 Wright's Summit Parkway, Suite 300
Fort Wright, KY 41011
main: 859.331.3300
main fax: 859.331.4358
vlcpa.com

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

Response to Finding

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 2, 2021

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, 2020. 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, 2020.

810 Wright's Summit Parkway, Suite 300
Fort Wright, KY 41011
main: 859.331.3300
main fax: 859.331.4358
vlcpa.com

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 did however identify certain matters that we reported to management of the Caracole, Inc., in a separate letter dated June 2, 2021.

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 2, 2021

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?	Yes
• 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 People with AIDS [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

Finding 2020-001: Preparation of Schedule of Expenditures of Federal Awards

Criteria: Per CFR 200.510 "The auditee must also prepare a Schedule of Expenditures of Federal Awards (SEFA) expended as determined in accordance with CFR 200.502 basis for determining Federal awards expended."

Condition: For the fiscal year ending December 31, 2020, the Schedule of Expenditures of Federal Awards and underlying financial statements were materially misstated from the underlying expenditures of federal awards.

Cause: Due to the way in which the funding agency reports federal dollars broken out from state funding, one disbursement was inadvertently switched on the schedule between federal and state funding which caused the SEFA to be materially under stated.

Effect: The SEFA was materially misstated.

Questioned Costs: None identified.

Repeat Finding: This is not a repeat finding.

Recommendation: We recommend Caracole, Inc. designate an individual to review a completed SEFA with funding agency reports to verify amounts are properly classified on the SEFA prior to being provided to the auditor.

Corrective Action Plan: Caracole agrees with the finding and will implement a second review after the initial preparation of the schedule of federal expenditures to ensure proper preparation of the schedule of federal expenditures as a required financial statement.

Anticipated Completion Date: Fiscal year end December 31, 2021.

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, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

No matters were reported.