

Caracole, Inc.

Financial Statements
and Supplementary Information
December 31, 2023
(with Independent Auditors' Report)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Caracole, Inc.
Cincinnati, Ohio

Opinion

We have audited the accompanying financial statements of Caracole, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Caracole, Inc. as of December 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the audit of the Financial Statements section of our report. We are required to be independent of Caracole, Inc. to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of a Matter

Clark Schaefer Hackett audited Caracole's financial statements for the first time for the year ended December 31, 2023. As such, comparative financial statements from previous years are not included in this report.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt Caracole, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Caracole, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Caracole, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary 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 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 schedule of expenditures of federal awards 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 August 7, 2024 on our consideration of Caracole, Inc.'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, Inc.'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 Caracole, Inc.'s internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
August 7, 2024

Caracole, Inc.
Statement of Financial Position
December 31, 2023

Assets

Current assets:

Cash and cash equivalents	\$	1,174,550
Grants receivable		797,321
Pharmacy receivables		396,185
Unconditional promises to give		63,205
Investments		2,662,037
Prepaid expenses		12,532
Inventory		<u>696</u>

5,106,526

Non-current assets:

Property and equipment, net		227,986
Right of use assets - operating leases		716,602
Deposits		<u>26,500</u>

971,088

\$ 6,077,614

Liabilities and Net Assets

Current liabilities:

Accounts payable	\$	341,127
Accrued expenses		395,646
Operating lease liabilities		<u>288,982</u>

1,025,755

Non-current liabilities:

Operating lease liabilities, net of current portion		<u>446,932</u>
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1,472,687

Net assets:

Without donor restriction		
Undesignated		1,712,514
Board designated endowment		<u>2,784,239</u>
		4,496,753

With donor restriction		<u>108,174</u>
		<u>4,604,927</u>

\$ 6,077,614

See accompanying notes to the financial statements.

Caracole, Inc.
Statement of Activities
Year Ended December 31, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and support:			
Contributions	\$ 238,167	1,000	239,167
Foundation grants	33,000	90,735	123,735
Special events	179,777	-	179,777
Pharmacy services	6,495,210	-	6,495,210
Government grants	5,612,563	-	5,612,563
United Way allocation	-	75,000	75,000
Net investment return	392,644	-	392,644
In-kind revenue	155,000	-	155,000
Other income	23,303	-	23,303
Net assets released from restrictions	<u>242,952</u>	<u>(242,952)</u>	<u>-</u>
	<u>13,372,616</u>	<u>(76,217)</u>	<u>13,296,399</u>
Operating expenses:			
Program services	13,195,417	-	13,195,417
General and administrative	590,160	-	590,160
Fundraising and development	236,198	-	236,198
Marketing	<u>183,936</u>	<u>-</u>	<u>183,936</u>
	<u>14,205,711</u>	<u>-</u>	<u>14,205,711</u>
Change in net assets	(833,095)	(76,217)	(909,312)
Net assets - beginning of year	<u>5,329,848</u>	<u>184,391</u>	<u>5,514,239</u>
Net assets - end of year	\$ <u>4,496,753</u>	<u>108,174</u>	<u>4,604,927</u>

See accompanying notes to the financial statements.

	Program Services						Supporting Services				
	Caracole House	Shelter Plus Care	Case Management	Permanent Supportive Housing	Pharmacy Services	Prevention	Total	General and Administrative	Fundraising and Development	Advertising	Total
Salaries, payroll taxes and benefits	\$ 264,293	407,611	2,540,209	127,426	-	821,821	4,161,360	239,216	114,574	74,019	4,589,169
Pharmacy expenses	-	-	-	-	5,712,806	-	5,712,806	-	-	-	5,712,806
Specific assistance to individuals	208,940	624,652	38,828	455,727	-	10,761	1,338,908	-	-	-	1,338,908
Donated goods and services	25,624	12,724	36,697	44	-	44,736	119,825	-	32,437	2,738	155,000
Events	-	-	2,364	-	-	2,738	5,102	-	69,370	1,088	75,560
Occupancy	54,757	24,528	158,049	6,894	-	61,716	305,944	15,874	4,790	2,785	329,393
Supplies	2,667	1,769	11,260	630	-	112,278	128,604	11,451	885	930	141,870
Telephone	3,045	4,048	26,424	1,257	-	8,591	43,365	2,492	538	553	46,948
Professional services	7,569	14,053	129,899	7,065	-	22,565	181,151	136,892	134	1,200	319,377
Technology	4,574	8,447	109,723	3,262	-	11,961	137,967	50,581	2,950	4,346	195,844
Travel	1,766	2,733	20,673	1,045	-	14,087	40,304	1,467	413	92	42,276
Equipment rent and maintenance	513	2,180	12,571	538	-	2,434	18,236	10,820	617	201	29,874
Advertising	1,688	2,633	23,010	2,105	-	78,441	107,877	2,544	2,702	79,347	192,470
Insurance	32,341	87,671	512,279	32,772	-	172,832	837,895	66,513	6,279	16,238	926,925
Staff education and development	1,427	3,178	24,589	878	-	8,568	38,640	15,946	101	375	55,062
Miscellaneous expenses	224	192	1,326	186	-	549	2,477	120	408	24	3,029
Interest expense	691	1,358	10,623	726	-	1,558	14,956	14,955	-	-	29,911
Depreciation	-	-	-	-	-	-	-	21,289	-	-	21,289
	<u>\$ 610,119</u>	<u>1,197,777</u>	<u>3,658,524</u>	<u>640,555</u>	<u>5,712,806</u>	<u>1,375,636</u>	<u>13,195,417</u>	<u>590,160</u>	<u>236,198</u>	<u>183,936</u>	<u>14,205,711</u>

See accompanying notes to the financial statements.

Caracole, Inc.
Statement of Cash Flows
Year Ended December 31, 2023

Cash flows from operating activities:	
Change in net assets	\$ (909,312)
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Net realized and unrealized gain on investments	(269,750)
Depreciation	21,289
Amortization of right of use asset	393,585
Effects of changes in operating assets and liabilities:	
Grants receivable	468,573
Pharmacy receivable	(64,077)
Unconditional promises to give	(4,738)
Prepaid expenses	5,014
Inventory	(696)
Operating lease liabilities	(388,154)
Accounts payable	127,898
Accrued expenses	<u>(78,830)</u>
Net cash flows from operating activities	<u>(699,198)</u>
Cash flows from investing activities:	
Purchase of investments	(183,909)
Proceeds from sales of investments	<u>1,522,177</u>
Net cash flows from investing activities	<u>1,338,268</u>
Cash flows from financing activities:	
Net change in line of credit	<u>(101,039)</u>
Net change in cash and cash equivalents	538,031
Cash and cash equivalents - beginning of year	636,519
Cash and cash equivalents - end of year	\$ <u>1,174,550</u>
<u>Supplemental Disclosure of Cash Flow Information</u>	
Interest paid	\$ <u>29,911</u>
Right of use assets acquired with lease liabilities	\$ <u>11,229</u>

See accompanying notes to the financial statements.

Caracole, Inc.
Schedule of Expenditures of Federal Awards
Year ended December 31, 2023

<u>Federal Agency/Program Title</u>	<u>Assistance Listing Number</u>	<u>Grant Identification Number</u>	<u>Pass-Through Agency</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development:</u>				
Housing Opportunities for Persons with AIDS	14.241	20235001	Strategies to End Homelessness	\$ 702,432
Continuum of Care Program	14.267	20220009	Strategies to End Homelessness	446,092
	14.267	20230009	Strategies to End Homelessness	<u>432,184</u>
				<u>878,276</u>
Total U.S. Department of Housing and Urban Development				<u>1,580,708</u>
<u>U.S. Department of Health and Human Services:</u>				
HIV Care Formula Grant	93.917	03160132RW1222	Ohio Department of Health	29,910
	93.917	03160132RW1323	Ohio Department of Health	<u>1,203,867</u>
				<u>1,233,777</u>
Ending the HIV Epidemic: A Plan for America — Ryan White HIV/AIDS Program Parts A and B	93.686	03160131EH0222	Ohio Department of Health	83,479
	93.686	03160131EH0323	Ohio Department of Health	<u>188,000</u>
				<u>271,479</u>
Total U.S. Department of Health and Human Services				<u>1,505,256</u>
Total Expenditures of Federal Awards				<u>\$ 3,085,964</u>

NOTE A. BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Organization under programs of the federal government for the year ended December 31, 2023. 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 the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE B. 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 limited as to reimbursement.

NOTE C. INDIRECT COST RATE:

The Organization did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The following accounting principles and practices of Caracole, Inc. (the Organization) are set forth to facilitate the understanding of data presented in the financial statements:

Nature of operations

Caracole, Inc. (the Organization) 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.

Basis of accounting

The financial statements of the Organization have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

Adoption of new accounting standard

On January 1, 2023, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) 2016-13, *Financial Instruments- Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, on January 1, 2023. Topic 326 modified the measurement of expected credit losses on certain financial instruments. The Organization adopted this new guidance utilizing the modified retrospective transition method. The adoption of this standard did not have a material impact on the Organization's financial statements but did change how the allowance for credit losses is determined.

Financial statement presentation

The financial statements of the Organization have been prepared in accordance with U.S. GAAP, which requires the Organization to report information regarding its financial position and activities according to the following net asset classifications:

- Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated from net assets without donor restrictions, net assets for foundation grants for endowment purposes.
- Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will likely be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor-imposed restrictions are released when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and cash equivalents

The Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. At times, the Organization may have cash in financial institutions in excess of federally insured limits.

Grant and pharmacy receivables

Grant and pharmacy receivables are stated at their contractual outstanding balance, net of any allowance. Accounts are considered past due if any portion of an account has not been paid in full within

the contractual terms of the account. Grant and pharmacy receivables are written off when deemed uncollectible. The Organization determines the allowance for uncollectible grants and pharmacy receivables based on historical experience, an assessment of current economic conditions, and a review of subsequent collections. Management has deemed no allowance for credit losses on grants or pharmacy receivables necessary at December 31, 2023.

Conditional promises to give

The Organization receives conditional contributions in the form of cost reimbursement grants with varying contract terms and dollar amounts that extend over fiscal years. Revenues are recognized when the conditions have been satisfied. The amounts of funds available for conditions that have not been met totaled approximately \$2,127,000 as of December 31, 2023. No amounts have been recognized during 2023 related to the outstanding balances on these grants as the conditions have not yet been satisfied.

Unconditional 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 assets. In subsequent years, amortization of discounts is included in contribution revenue in the statement 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, 2023 as the Organization does not expect any material losses. All promises to give are collectible within one year.

Investments

The Organization holds investments in marketable securities with readily determinable fair values in the statement of financial position. Realized and unrealized gains and losses, interest and dividend income netted against investment expenses are reported in the statement of activities as net investment return.

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 partner, 340B-participating pharmacies and is for the benefit of Caracole clients.

Property and equipment

Property and equipment are recorded at cost or, if donated, at fair value at the date of donation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, ranging from 5 to 15 years. The Organization capitalizes property and equipment when the cost or fair market value is \$5,000 or more and its estimated useful life exceeds one year. Costs of repairs and maintenance are charged to expense as incurred.

The Organization reviews for impairment of long-lived assets in accordance with accounting standards. These standards require organizations to determine if changes in circumstances indicate that the carrying amount of its long-lived assets may not be recoverable. If a change in circumstances warrants such an evaluation, undiscounted future cash flows are the use and ultimate disposition of the asset, as well as respective market values, are estimated to determine if an impairment exists. Management believes that there has been no impairment of the carrying value of its long-lived assets at December 31, 2023.

Advertising

Advertising costs are expensed as incurred and reported on the statement of functional expenses.

Revenue and support

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 the future performance obligation has not yet occurred. Accounts receivable balances from contracts with customers totaled \$332,108 at January 1, 2023. There was no deferred revenue balance related to contracts with customers at January 1, 2023.

Revenue from sales 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 the donors, and contribution revenue for the remaining amount received.

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 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.

The Organization records contributions as either contributions without donor restrictions or contributions with donor restrictions. Contributions with donor restrictions are reported as increases in net assets without donor restriction if the restrictions expire in the year in which the contributions are received. All other donor-restricted contributions are reported as net assets with donor restrictions. Government agency grants are generally recognized as revenue in amounts equal to costs incurred or as the services have been rendered. The excess of grant revenue over cash received is recognized as a receivable, and the excess of cash received over grant revenue is recognized as deferred grant revenue.

In-kind revenue

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 create or enhance nonfinancial assets or 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 statement of activities does not reflect the value of these services as they do not meet recognition criteria required under U.S.GAAP.

Use of estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Income tax status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. As such, no provision has been made for federal income taxes in the financial statements.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services. Management and organization expenses that cannot be allocated directly or indirectly to programs are included general and administrative services. The expenses that are allocated include occupancy, which is allocated on a square footage basis, as well as salaries, payroll taxes, benefits, specific assistance to individuals, donated goods and services, professional services, office expenses, information technology, interest, insurance, advertising, travel equipment rental, staff education development and miscellaneous expenses, which are allocated on the basis of estimates of time and effort.

Leases

The Organization considers an arrangement a lease if, at inception, the arrangement transfers the right to control the use of an identified asset for a period of time in exchange for consideration. Under leasing standards, control is defined as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

The lease term reflects the noncancellable period of the lease together with periods covered by an option to extend or terminate the lease when management is reasonably certain that it will exercise such option. The Organization uses the risk-free rate for a period of time similar to the lease term, determined at the lease commencement date, in determining the present value of lease payments. The risk-free rate is used as the information necessary to determine the rate implicit in the lease and the Organization's incremental borrowing rate is not readily available. The Organization has lease agreements with lease and non-lease components, which are generally accounted for as a single lease. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Short-term leases are less than one year without purchase or renewal options that are reasonably certain to be exercised and are recognized on a straight-line basis over the lease term. The right-of-use asset is tested for impairment in accordance with ASC 360.

Subsequent events

The Organization evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through August 7, 2024, the date the financial statements were available to be issued.

2. PROPERTY AND EQUIPMENT:

The cost of property and equipment as of December 31, 2023 are as follows:

Leasehold improvements	\$	260,869
Equipment		54,765
Vehicles		<u>77,914</u>
		393,548
Less: accumulated depreciation		<u>165,562</u>
	\$	<u>227,986</u>

3. FAIR VALUE MEASUREMENTS:

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

The following tables present information about the Organization's assets measured at fair value on a recurring basis at December 31, 2023 and the valuation techniques used by the Organization to determine those fair values.

- Level 1 inputs use quoted prices in active markets for identical assets that the Organization has the ability to access.
- Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

Equity securities, fixed income securities and mutual funds and exchange traded funds are quoted daily and traded on active markets. Fair value methods and assumptions on investments in mutual funds and exchange funds are based on the Level 1 market approach.

The following table presents the Organization's fair value hierarchy for assets measured at fair value on a recurring basis as of December 31, 2023.

Fair Value Measurements at Reporting Date Using

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equity securities	\$ 2,150,049	2,150,049	-	-
Fixed income	457,799	457,799	-	-
Mutual funds and ETFs	<u>54,189</u>	<u>54,189</u>	<u>-</u>	<u>-</u>
	\$ <u>2,662,037</u>	<u>2,662,037</u>	<u>-</u>	<u>-</u>

4. ENDOWMENT FUNDS:

The Organization implemented guidance requiring that the net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, to be classified and reported based on the existence or absence of donor-imposed restrictions. The Organization's endowment consists of both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments, which is held within Organization. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has board designated certain net assets without donor restrictions for future specified purposes. The Organization's spending policy permits a distribution from the designated assets of a specified amount based on anticipated cash flow needs, or to support specific activities. Amounts withdrawn from the designated funds are approved by the Organization's Board of Directors. There may be years in which amounts are not withdrawn from designated assets.

Interpretation of relevant law

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair 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 net assets with donor restrictions (a) the original value of gifts donated to the donor restricted endowment, (b) the original value of subsequent gifts to the donor restricted endowment, and (c) accumulations to the donor restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that are subject to purpose and/or time restrictions 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: the duration and preservation of the fund; the purposes of the Organization and the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the Organization; and the investment policies of the Organization.

Return objectives and risk parameters

The Organization has adopted investment and spending policies 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.

Spending policy and how the investment objectives relate to 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. 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 returns.

Endowment composition by type of fund as of December 31, 2023 is as follows:

	Board Designated <u>Endowment</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment assets at 1/1/2023	\$ 3,705,713	19,674	3,725,387
Interest and dividends	127,904	658	128,562
Realized and unrealized gain	266,929	2,821	269,750
Contributions	6,275	-	6,275
Board approved withdrawals	<u>(1,317,414)</u>	<u>(150)</u>	<u>(1,317,564)</u>
Endowment assets at 12/31/2023	\$ <u>2,784,239</u>	<u>23,003</u>	<u>2,812,410</u>

The composition of Endowment assets at December 31, 2023 are as follows:

Cash and cash equivalents	\$ 150,373
Investments	<u>2,662,037</u>
	\$ <u>2,812,410</u>

5. NET ASSETS:

Net assets with donor restrictions consisted of the following as of December 31, 2023:

Subject to expenditure for a specific purpose:	
Housing Assistance	\$ 50,000
Subject to the passage of time:	
Unconditional promises to give	1,000
United Way	<u>37,500</u>
	38,500
Perpetually restricted	
Donor established endowment	<u>19,674</u>
Total net assets with donor restrictions	\$ <u>108,174</u>

During 2023, \$242,952 of net assets, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

6. LEASES:

The Organization has various operating leases for office space, houses and equipment expiring through September 2028. As of December 31, 2023, the Organization has not entered into any material leases expected to commence in 2024.

For the year ended December 31, 2023, the Organization had the following recorded in operating expenses associated with lease arrangements:

Operating lease expense \$ 411,878

Other information:

Operating cash flows from operating leases	\$ 406,247
Weighted-average remaining lease term in years for operating leases	2.92 years
Weighted-average discount rate for operating leases	2.00%

The following is an analysis of maturities of lease liabilities as of December 31:

	2024		\$ 288,982
	2025		204,524
	2026		207,744
	2027		54,238
	2028		1,800
	Thereafter		-
Total undiscounted cash flows			757,288
Less: present value discount			<u>(21,374)</u>
Total lease liabilities			\$ <u>735,914</u>

7. LINE OF CREDIT:

The Organization has a \$1,000,000 line of credit available. The line of credit charges interest based on the UBS Variable Rate plus 2.75%. (the rate was 8.20% at December 31, 2023). The line of credit is collateralized by the Board designated investments. There was no outstanding balance on the line at December 31, 2023. 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.

8. RETIREMENT PLAN:

The Organization sponsors a 401(k) Plan. Employees are eligible to participate in the plan and receive the employer match on the date the employee performs their first hour of service. Employees are also eligible to participate in non-elective contributions after completing 1,000 hours of service. The Organization did not make any non-elective contributions during 2023. The Organization contributes an amount equal to 3% of compensation for eligible employees. Contributions to the Plan for the plan year 2023 totaled \$85,656.

9. LIQUIDITY AND AVAILABILITY:

The Organization is substantially supported by pharmacy services and government grants. The Organization also receives contributions with donor restrictions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

In addition to the financial assets shown below the Organization has the ability draw on its available \$1,000,000 line of credit, as described in Note 7.

The following table presents the financial assets available to meet cash needs for general expenditures within one year at December 31, 2023:

Financial assets	
Cash and cash equivalents	\$ 1,174,550
Grants receivable	797,321
Pharmacy receivables	396,185
Unconditional promises to give	63,205
Investments	<u>2,662,037</u>
Financial assets available at year-end	<u>5,093,298</u>

Less those unavailable for general expenditures within one year due to:

Board designated endowment	2,784,239
Donor restricted endowment	19,674
Other net assets with donor restrictions	<u>88,500</u>
Total limitations on available resources	<u>2,892,413</u>

Financial assets available to meet cash needs for general expenditures within one year \$ 2,220,855

10. IN-KIND CONTRIBUTIONS:

The Organization recognizes contributed nonfinancial assets within in-kind revenue, including donated program supplies, event items and professional services, at their estimated fair value at the date of receipt on the statements of activities. Contributed nonfinancial assets did not have donor-imposed restrictions at December 31, 2023.

Program supplies and event items consists of client health and safety supplies and goods used for programmatic activities and at special events, respectively, and are valued at stated prices for similar health and safety supplies and goods.

Contributed professional services are valued and reported at the estimated fair value in the financial statements based on current rates for similar advertising and training services.

For the year ending December 31, 2023, contributed nonfinancial assets consist of the following:

	Program <u>Services</u>	General and <u>Administrative</u>	Fundraising and <u>Development</u>	<u>Total</u>
Program supplies	\$ 118,913	-	-	118,913
Professional services	-	3,650	1,350	5,000
Event items	<u>-</u>	<u>-</u>	<u>31,087</u>	<u>31,087</u>
	<u>\$ 118,913</u>	<u>3,650</u>	<u>32,437</u>	<u>155,000</u>

11. CONCENTRATIONS:

A concentration exists when one entity's balance represents more than 10% of the total balance. At December 31, 2023, three entities accounted for approximately 76% of grants receivable and, two entities accounted for 100% of pharmacy receivables, respectively.

For the year ended December 31, 2023, two entities accounted for approximately 89% of government grants revenue, and one entity accounted for 90% of pharmacy services revenue, respectively.

12. 340B DRUG PRICING PROGRAM:

The Organization participates in the 340B Drug Pricing Program (340B Program) in conjunction with the deferral HIC Care Formula Grant program. The 340B Program is for HIV+ clients enrolled in Ryan White case management services who select CCN, Caracole's contract pharmacy, to fill their prescriptions. 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 Organization 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.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Caracole, Inc.
Cincinnati, Ohio

We have audited, 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, the financial statements of Caracole, Inc. (the "Organization"), which comprise the statement of financial position as of December 31, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements (the "financial statements"), and have issued our report thereon dated August 7, 2024.

Report on 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) as a basis for designing 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 Caracole, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Caracole, Inc.'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 Organization'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Caracole, Inc.'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 financial statements. 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*.

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.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
August 7, 2024

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

To the Board of Directors of
Caracole, Inc.
Cincinnati, Ohio

Report on Compliance for Each Major Federal Program***Opinion on Each Major Federal Program***

We have audited Caracole, Inc.'s (the "Organization") compliance with the types of compliance requirements identified as subject to audit 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, 2023. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Caracole, Inc. 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, 2023.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting

material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Caracole, Inc.'s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Caracole, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Caracole, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Caracole, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
August 7, 2024

Caracole, Inc.
Schedule of Expenditures of Federal Awards
Year ended December 31, 2023

Federal Agency/Program Title	Assistance Listing Number	Grant Identification Number	Pass-Through Agency	Federal Expenditures
<u>U.S. Department of Housing and Urban Development:</u>				
Housing Opportunities for Persons with AIDS	14.241	20235001	Strategies to End Homelessness	\$ 702,432
Continuum of Care Program	14.267	20220009	Strategies to End Homelessness	446,092
	14.267	20230009	Strategies to End Homelessness	<u>432,184</u>
				<u>878,276</u>
Total U.S. Department of Housing and Urban Development				<u>1,580,708</u>
<u>U.S. Department of Health and Human Services:</u>				
HIV Care Formula Grant	93.917	03160132RW1222	Ohio Department of Health	29,910
	93.917	03160132RW1323	Ohio Department of Health	<u>1,203,867</u>
				<u>1,233,777</u>
Ending the HIV Epidemic: A Plan for America — Ryan White HIV/AIDS Program Parts A and B	93.686	03160131EH0222	Ohio Department of Health	83,479
	93.686	03160131EH0323	Ohio Department of Health	<u>188,000</u>
				<u>271,479</u>
Total U.S. Department of Health and Human Services				<u>1,505,256</u>
Total Expenditures of Federal Awards				\$ <u>3,085,964</u>

NOTE A. BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Organization under programs of the federal government for the year ended December 31, 2023. 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 the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

NOTE B. 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 limited as to reimbursement.

NOTE C. INDIRECT COST RATE:

The Organization did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified not considered to be material weaknesses?	None reported
Noncompliance material to the financial statements noted?	None

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	None
• Significant deficiency(ies) identified not considered to be material weaknesses?	None reported
Type of auditors’ report issued on compliance for major programs:	Unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)?	None
Identification of major programs:	
• Assistance Listing Number 14.267 – Continuum of Care Program	
Dollar threshold to distinguish between Type A and Type B Programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

