Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health

Independent Auditor's Reports and Financial Statements

For the Period From December 1, 2016 Through December 31, 2017
and for the Year Ended November 30, 2016

BKD LLP
CPAs & Advisors

Family Health Centers, Inc.
A Component Unit of the
Louisville Metro Board of Health
December 31, 2017 and November 30, 2016

Contents

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Independent Auditor's Report

Board of Governors
Family Health Centers, Inc.
A Component Unit of the
Louisville Metro Board of Health
Louisville, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of Family Health Centers, Inc. (Health Center), a component unit of the Louisville Metro Board of Health, as of December 31, 2017, and November 30, 2016, and for the period from December 1, 2016, through December 31, 2017, and for the year ended November 30, 2016, and the related notes to the financial statements, which collectively comprise the Health Center's basic financial statements as listed in the table of contents.

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.

Auditor's 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Health Center as of December 31, 2017, and November 30, 2016, and for the period from December 1, 2016, through December 31, 2017, and for the year ended November 30, 2016, and the changes in its financial position and its cash flows for the periods then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Health Center's basic financial statements. The schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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 July 23, 2018, on our consideration of the Health Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Health Center'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 Health Center's internal control over financial reporting and compliance.

BKD, LLP

Louisville, Kentucky
July 23, 2018

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health
Management's Discussion and Analysis
Period From December 1, 2016 Through December 31, 2017 and the Year Ended November 30, 2016

Introduction

This management's discussion and analysis of the financial performance of Family Health Centers, Inc. (Health Center) provides an overview of the Health Center's financial activities for the period from December 1, 2016, through December 31, 2017, and for the year ended November 30, 2016. It should be read in conjunction with the accompanying financial statements of the Health Center. The Health Center changed its fiscal year from the 12 months ending November 30 to a calendar year (ending December 31). The period ended December 31, 2017, marks the first financial reporting period adopting the new year-end date. The Health Center opted to change from a fiscal to calendar year, aligning the Health Center's federal grant period with the Health Resources and Services Administration's (HRSA) Uniform Data System (UDS) reporting period. The Financial Highlights and MD&A compare results from the 2017 13-month reporting period to the 2016 12-month reporting period. Comparing the year-over-year ratios and percentages helps to identify operational activity; however, the significant fluctuations in account balances are to be expected, considering the 13-month versus 12-month reporting periods.

The financial statements of the Health Center are prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement of Accounting Standards No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

Financial Highlights

- The Health Center reported a decrease in total net position in fiscal year (FY) 2017 of ($5,303,919), a decrease in FY 2016 of ($343,415) and a decrease of ($10,307,691) in FY 2015. Fiscal year 2017 compared to FY 2016 evidenced an increase in total revenue of $1,905,650 (+5%), as well as an increase in total operating expenses of $8,513,449 (+22%) resulting in a decrease in the change in net position of FY 2017 compared to FY 2016 of ($4,960,504) and a decrease of ($8,766,072) FY 2016 over FY 2015.
- Highlights of FY 2017 (13-month period reporting) revenues and expenses compared to FY 2016 (12-month period reporting) are described below:

Highlights of Revenues – FY 2017 Compared to FY 2016

- Net patient service revenue of $25,891,457 increased by $3,032,591 (+13%) from prior year net patient revenue of $22,858,866. The increase was primarily the result of 13-months' reporting in 2017 versus 12 in 2016, expansion of Medicaid in Kentucky under the *Affordable Care Act* and the Health Center's Provider Services Agreement revision from a capitated payment to a 100% fee for service contract in September 1, 2015, with University Health Care, Inc. (UHC), d/b/a Passport. There was a 2 percentage point increase in the Health Center's uninsured patient population in FY 2017, which was 21% compared to 19% in FY 2016. The Health Center realized a 3 percentage point decrease in patients with Medicaid coverage in FY 2017 totaling 57% as compared to 60% in FY 2016.

- The Health Center provided charity care (sliding fee discounts) totaling approximately $11,602,442 over the previous three years. Charity care provided for the periods ended December 31, 2017, and November 30, 2016 and 2015, approximated $4,287,836, $3,697,608 and $3,616,998, respectively. Louisville Metro funding, Community Health Center federal funding and 340B Drug Discount Program help to subsidize charity care.
  - Louisville Metro funding for the three fiscal years ended June 30, 2017, and November 30, 2016 and 2015, was flat with no change in authorized levels of $786,900.
  - Community Health Center federal funding (including Health Care for the Homeless) for the period ended December 31, 2017, and years ended November 30, 2016 and 2015, approximated $7,637,000, $6,010,000 and $5,865,000, respectively.
- Total Medicaid fee-for-service (FFS) revenue excluding supplemental WRAP for medical, behavioral health and dental service lines of $4,442,738 increased by $514,959 (+13%) from prior year revenue of $3,927,779. The growth in Medicaid FFS revenue is attributed to the 13-month reporting period in 2017 versus 12 months in FY 2016, and increased in total encounter volume (11%).
- Passport's supplemental premium revenue of $3,820,423 decreased by ($2,398,972) or (-39%) from prior year revenue of $6,219,395. Passport supplemental premium revenue includes the following components: Enhanced Comprehensive Service Payment (CSP) per-member per-month (PMPM) premium for Passport members assigned to the Health Center, PMPM payment for Patient Centered Medical Home (PCMH) certification and Provider Pay for Performance incentive. The decline in premium revenue is attributable to a contract amendment with Passport made effective January 2017, whereby the CSP and PCMH payment were reduced from $28 PMPM (2016) to $14.50 PMPM (2017).
  - On September 1, 2015, the Health Center revised its Provider Services Agreement with UHC, d/b/a Passport. The agreement was restructured from a combination reimbursement of capitation PMPM, safety net funding, plus FFS for patients that qualified for Medicaid based on the ACA-Medicaid Expansion program to a 100% FFS with an Enhanced Comprehensive Service Payment, plus a PMPM for Patient Centered Medical Home (PCMH) certification.
  - The Health Center is no longer entitled to receive safety net funding effective with the 2015 Provider Services Agreement. The Passport Provider Pay for Performance incentives were temporarily discontinued in December 2015 and will be reconstituted with the implementation of Passport's Value Based Shared Savings program in 2018.
- Total pharmacy revenue (included in net patient service revenue) of $9,881,300 increased $448,510 (+5%) as a result of the Health Center's medical encounter growth and corresponding increase of prescriptions written and filled internally and with 340B contract pharmacies, Walgreens and Kroger.

- Bad debt expense of $1,551,097 increased as a result of a one-time $490,725 write-off of pharmacy accounts receivable due to the transition to a new retail point of sale system (Liberty Software). Previously, the Health Center utilized the QS1 retail pharmacy system, which required a balance forward accounting protocol for managing pharmacy receivables. This balance forward accounting system was unable to match patient pharmacy claims to payments received from third-party payers, with payments received being applied to the oldest account balance. The balance forward accounting process resulted in an overstatement of accounts receivable post implementation of the *Affordable Care Act*, which led to an increase in the Health Center's insured patients' balances. With the transition to Liberty Software, the Health Center is able to more accurately reconcile all patient pharmacy claims and third-party payments received to ensure the pharmacy accounts receivable is correctly valued. The remaining increase in bad debt expense of $275,570 was due to the expansion of dental services at the Health Center's East Broadway facility which serves a significant number of uninsured patients. The East Broadway dental expansion opened in March 2017, with capital and operational expenditures subsidized by HRSA's Oral Health Expansion grant award in June 2016 in the amount $525,000, of which the Health Center will receive $350,000 annually in base funding.
- Medicaid Supplemental WRAP of $7,788,590 increased ($899,248) (13%) from prior year revenue of $6,889,342 which is attributable to the 13-month reporting period in 2017 versus 12-months in 2016, and an increase in year over year encounter volume (11%). 2016 Medicaid Supplemental WRAP of $6,889,342 decreased ($401,528) (-6%) from prior year revenue of $7,290,870. The 2016 decline in WRAP revenue is attributable to the one-time supplemental Phase I WRAP provision for charges on dates of service November 1, 2011, through June 30, 2014. In November 2015, the Health Center received the final results of the Medicaid Supplemental WRAP Phase I reconciliation of Medicaid claims conducted by the accounting firm of Myers & Stauffer, which was subsequently reviewed and approved by the Commissioner of the Department of Medicaid Services (DMS). It was determined the Health Center was entitled to a Medicaid Supplemental WRAP payment on patients covered under the Passport capitation for carve out services and specialty services paid on a FFS. This audit resulted in provisioning for recaptured charges from the period of November 1, 2011, through June 30, 2014, which increased net patient services revenue $3,880,867 in FY 2015. Excluding the impact of the one-time Medicaid Supplemental WRAP payment recognized in FY 2015, WRAP revenue increased $2,893,074 or (+72%), FY 2016 WRAP revenue of $6,889,342 versus FY 2015 revenue of $3,996,268. Again, the growth in Medicaid WRAP revenue is a result of the contract amendment with Passport to a 100% FFS contract.

- The Health Center's Medicare G-codes fees are re-evaluated annually with the most recent board approval in 2017. The Health Center is reimbursed at the lessor of the PPS rate or the G-code fee. The patient is responsible for 20% of charges, less adjustment made for preventive care. Additionally, Medicare requires federally qualified health centers (FQHC) to submit the G-code and all current procedural terminology (CPT) codes related to the visit. The transition from All-Inclusive Rate (AIR) to PPS with the posting of the G-code and the CPT code resulted in an increase in Medicare Part A net patient service revenue of $147,046 (+15%) in FY 2017 over FY 2016.
- Grant awards as evidenced by the schedule of expenditures of federal awards of $8,980,680 increased by $1,461,765 (+19%) over prior year grant awards of $7,518,915. Highlights of FY 2017 grant activity are as follows:
  - Federal Section 330 grant funds received (Community Health Center and Healthcare for the Homeless), totaling $7,636,951, increased by $1,626,799 (+27%). The increase was primarily attributable to 13-months reported in 2017 versus 12-months in 2016 ($730,021) and an unobligated balance carryforward from FY 2016 grant awards for Substance Abuse Service Expansion ($265,299), Oral Health Service Expansion ($525,000) and Delivery System Health Information Investment of ($92,437). Substance Abuse Service Expansion supplemental funding was awarded to improve and expand the delivery of substance abuse services at the Health Center's existing facilities, with a focus on medication assisted treatment (MAT) for opioid use disorders. Oral Health Service Expansion provides supplemental funding to improve and expand the delivery of oral health services at the Health Center's East Broadway facility which was fully operational in March 2017. The Delivery System Health Information Investment (DSHII) supplemental funding was made to support the Health Center's strategic investments in health information technology enhancements. The Health Center did not expend 100% of the FY 2016 new grant funds in the award year due to the timing of the awards and corresponding operational ramp-up period.
  - 2017 marked the Health Center's final year of a three year award for a Substance Abuse and Mental Health Services Administration Homeless (SAMHSA) grant. The grant award has an annualized value of approximately $400,000 with a term of three years totaling $1,200,000. This grant provides funds to support substance abuse and mental health services for homeless individuals in permanent supportive housing. The grant ended in September 2017, which will result in a reduction of $400,000 in federal SAMSHA funds to the Health Center during FY18. The Health Center applied and was awarded a new HUD Permanent Supportive Housing (PSH) grant totaling $159,877. This funding will allow the Health Center to cover the salaries of several staff previously funded under the SAMHSA award. The HUD PSH grant will provide 34 Permanent Supportive Housing vouchers for chronically homeless individuals and fund two case managers' salaries.

- Investment income increased by $1,584,494 compared to the prior year. The increase was primarily the result of the investment gains in the market during FY 2017. The Health Center's FY 2017 earnings on investments totaled $1,958,686 compared to investment earnings of $374,192 in FY 2016. Stock Yards Bank managed the Health Center's primary investment portfolio during FY 2017 and FY 2016.

Highlight of Operating Expenses – FY 2017 Compared to FY 2016

- Total FY 2017 operating expenses of $47,385,721 increased by $8,513,449 (+22%) from FY 2016 expenses of $38,872,272. Labor costs (salary, benefits and contract labor) increased by $6,339,045 (+23%). All other nonlabor costs increased by $2,174,404 (+19%). The primary driver for the year over year increase is FY 2017 includes 13-month reporting period versus 12-months in 2016 along with $5,764,023 in additional noncash pension expense associated with the Health Center's proportionate share of the County Employee Retirement System (CERS) unfunded pension liability required under GASB 68 standards.
- Salaries increased by $2,654,945 (+16%) over prior year. The salary increase is attributable to aforementioned increase in reporting periods (13) in 2017, market adjustments to staff classifications that experienced significant turnover and full-time equivalent (FTE) employee growth. Overall employee benefit costs excluding pension expense increased $450,836 or (+8%), as a result of the 13-month reporting period in conjunction with the corresponding growth in wages due to FTE expansion.
- Pension costs under the Kentucky Retirement System (KRS) increased by $3,233,264 (+63%) as a result of the increase in the actuarially required contribution (ARC) rate and growth in labor costs and actuarial assumption changes which reduced the state determined discount rate by1% causing an significant increase in the plan's unfunded liability. The employer's rate for participation (ARC) in the KRS CERS increased from 18.68% to 19.18% effective July 1, 2017.
- Supplies and other costs increased by $717,467 (+19%) primarily as a result of the increase in months in the reporting periods, increased pharmaceuticals expense for both in-house and contract 340B pharmacies and expansion of the Health Center's dental operations at the East Broadway facility.
- Purchased services and professional fees cost increased by $1,159,393 (+18%) as a result of the increase in number of months in the reporting periods, increase in outside reference lab utilization, consulting expense, computer maintenance/support fees and expansion of the Health Center's outsourced revenue cycle management contract.

- Interpretative services costs, required under Title VI of the *Civil Rights Act*, for Limited English Proficiency (LEP) speaking patients increased by $212,747 (+21%) in FY 2017 compared to an increase of $175,319 (+20%) in FY 2016. The 2017 LEP patients represent 24% of the total patient population of the Health Center versus 23% in 2016. Total cost of interpretative services was $1,248,409 and $1,035,662 in FY 2017 and FY 2016, respectively. The growth in interpretative services cost is a result of a 13-month reporting period in 2017, coupled with growth in LEP patients.
- Depreciation and amortization costs increased by $297,544, (+24%). The 2017 versus 2016 increase is a result of 13-months in the reporting period in 2017 in conjunction with the leasehold improvements and capitalized equipment for the expansion of the Health Center's East Broadway dental facility and conversion to electronic Dental Health Record.
- Cash and short-term investments and unrestricted noncurrent cash and investments increased in FY 2017 by $617,854 (+4%). The increase is primarily attributable to favorable performance in the Health Center's investments portfolio managed by Stock Yards Bank.
- Total capital expenditures in FY 2017 amounted to $1,406,450 funded from the Health Center's capital reserves. The increase in capital expenditures was primarily attributable to the following: 1) Health Center's East Broadway site construction costs for oral health expansion, 2) conversion costs to a Dental Health Record to include new radiology equipment 3) conversion to new pharmacy retail management system and 4) routine IS/IT computer and network-related equipment.

Using This Annual Report

The Health Center's financial statements consist of three statements – a balance sheet, statement of revenues, expenses and changes in net position and statement of cash flows. These statements provide information about the activities of the Health Center, including resources held by the Health Center but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Health Center is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any Health Center's finances is "Is the Health Center as a whole better or worse off as a result of the year's activities?" The balance sheet and statement of revenues, expenses and changes in net position report information about the Health Center's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, deferred outflows of resources, all liabilities and deferred inflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Health Center's net position and their changes. The Health Center's total net position – the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one measure of the Health Center's financial health or financial position. Over time, increases or decreases in the Health Center's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Health Center's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Health Center.

Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from four defined types of activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?" and "What was the change in cash during the reporting period?"

Net Position

The Health Center's net position is the difference between its assets, deferred outflows of resources, liabilities and deferred inflows of resources reported in the balance sheet. The Health Center's net position decreased by ($5,303,919) in FY 2017 as evidenced by Table 2, decreased by ($343,415) in FY 2016 and increased $8,422,657 in FY 2015. Table 1 below shows a breakdown of assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position for the preceding three fiscal years.

Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

	2017	2016	2015
Assets			
Cash and short-term investments	$ 16,733,361	$ 16,115,507	$ 9,303,891
Patient accounts receivable, net	1,847,343	2,460,340	6,058,353
Capital assets, net	13,181,124	13,301,368	13,057,276
Other current assets	1,082,479	823,801	773,150
Other noncurrent assets	5,000,000	5,000,000	5,000,000
Total assets	37,844,307	37,701,016	34,192,670
Deferred Outflows of Resources – Pensions	14,525,729	7,670,112	3,984,923
Total assets and deferred outflows of resources	$ 52,370,036	$ 45,371,128	$ 38,177,593
Liabilities			
Current liabilities	$ 4,272,197	$ 4,589,001	$ 3,881,377
Noncurrent liabilities	39,631,457	30,666,411	23,837,085
Total liabilities	43,903,654	35,255,412	27,718,462
Deferred Inflows of Resources – Pensions	3,654,585	-	-
Net Position			
Net investment in capital assets	13,181,124	13,301,368	13,057,276
Unrestricted deficit	(8,369,327)	(3,185,652)	(2,598,145)
Total net position	4,811,797	10,115,716	10,459,131
Total liabilities, deferred inflows of resources and net position	$ 52,370,036	$ 45,371,128	$ 38,177,593

The Health Center's 2017 balance sheet has $16,733,361 in cash and short-term investments and $5,000,000 in unrestricted noncurrent cash and investments. Cash and short-term investments increased from 2016 by $617,854 (4%). The increase was primarily the result of the growth in short-term investments managed by Stock Yards Bank offset by net cash provided by operating activities and the purchase of capital equipment.

The Health Center's current liabilities decreased by ($316,804) (-7%) over 2016 which is attributable to working capital timing differences. Noncurrent liabilities increased by $8,965,046 as a result of the increase in the net pension liability as evidenced in Note 10 (Pension Plan).

Operating Results and Changes in the Health Center's Net Position

In FY 2017, the Health Center's net position decreased by ($5,303,919) as a result of an operating (loss), partially offset by nonoperating revenues as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2017	2016	2015
Operating Revenues			
Net patient service and premium revenue	$ 29,711,880	$ 29,078,261	$ 32,269,556
Other	9,551,049	8,279,018	8,222,523
Total operating revenues	39,262,929	37,357,279	40,492,079
Operating Expenses			
Salaries and wages and employee benefits	33,841,134	27,502,089	22,884,680
Purchased services and professional fees	7,498,208	6,338,815	5,591,662
Supplies and other	4,519,685	3,802,218	3,663,606
Depreciation and amortization	1,526,694	1,229,150	1,285,213
Total operating expenses	47,385,721	38,872,272	33,425,161
Operating Income (Loss)	(8,122,792)	(1,514,993)	7,066,918
Nonoperating Revenues			
Investment income	1,958,686	374,192	11,906
Government appropriations and Pfizer Sharing the Care Program	860,187	797,386	1,277,209
Total nonoperating revenues	2,818,873	1,171,578	1,289,115
Excess (Deficiency) of Revenues Over Over Expenses Before Capital Grants	(5,303,919)	(343,415)	8,356,033
Capital Grants	-	-	66,624
Increase (decrease) in net position	$ (5,303,919)	$ (343,415)	$ 8,422,657

Operating Income/(Loss)

The first component of the overall change in the Health Center's net position is its operating income or (loss)–generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In FY 2017, the Health Center reported an operating loss of ($8,122,792), compared to operating loss of ($1,514,993) and operating income in $7,066,918 in 2016 and 2015, respectively.

It should be noted, the operating loss does not include revenue from the Pfizer Sharing the Care Program, noncapital appropriations from the Louisville Metro Government and other agencies, nor capital grants. The GASB Statement of Accounting Standard No. 34 requires the Pfizer Sharing the Care Program's revenue, the noncapital appropriations from the Louisville Metro Government and other agencies and the *Affordable Care Act* capital grants be reported as nonoperating income, even though the expenses associated with these revenues are reported as operating expenses.

- The Health Center's increase in operating loss in FY 2017 of ($6,607,799) is primarily attributable to the increase in total operating revenues of $1,905,650, offset by the growth in operating expenses of $8,513,449, of which salaries and benefits expense increased $6,339,045. The primary driver for the increase in operating revenue and expenses was the 13-month reporting period in 2017 and $5,764,023 in noncash pension expense recorded to recognize the Health Center's proportionate share of the CERS unfunded liability.
- The Health Center's decrease in operating income in FY 2016 of ($8,581,911) is primarily attributable to the decline in total operating revenues of ($3,134,800), of which FY 2015 operating revenue includes the one-time settlement payment of $3,880,867 for Medicaid Supplemental WRAP claims for the period of November 1, 2011, through June 30, 2014. Excluding the $3,880,867 one-time Medicaid settlement payment, the Health Center increased total operating revenue by $1,065,934, or (+3%). The Health Center realized year over year growth in operating expenditures of $5,447,111, of which salaries and benefits expense increased $4,617,409 primarily as a result of pension expense.

Cash Flows

Changes in the Health Center's cash flows are consistent with changes in operating and nonoperating revenues and expenses discussed above.

Capital Assets

At the end of FY 2017, the Health Center had $13,181,124 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In FY 2017, the Health Center purchased new equipment and made building improvements totaling $1,406,450 primarily for the expansion of its East Broadway facility to include oral health services, migration to Dental Electronic Health Record, conversion to a new pharmacy retail management system and routine IS/IT computer and network related equipment. The Health Center does not have any debt associated with its capital assets.

Contacting the Health Center's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Health Center's finances and to show the Health Center's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Health Center's chief financial officer by telephoning 502.772.8561.

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health
Balance Sheets
December 31, 2017 and November 30, 2016

Assets and Deferred Outflows of Resources

	2017	2016
Current Assets		
Cash	$ 7,793,767	$ 9,113,116
Short-term investments	8,939,594	7,002,391
Patient accounts receivable, net of allowance; 2017 – $516,000, 2016 – $415,000	1,847,343	2,460,340
Estimated amounts due from third-party payers	27,938	6,822
Supplies	155,584	163,087
Prepaid expenses and other	898,957	653,892
Total current assets	19,663,183	19,399,648
Noncurrent Cash and Investments		
Internally designated	5,000,000	5,000,000
Capital Assets, Net	13,181,124	13,301,368
Total assets	37,844,307	37,701,016
Deferred Outflows of Resources – Pensions	14,525,729	7,670,112
Total assets and deferred outflows of resources	$ 52,370,036	$ 45,371,128

Liabilities, Deferred Inflows of Resources and Net Position

	2017	2016
Current Liabilities		
Accounts payable	$ 628,790	$ 1,377,567
Accrued salaries and wages	345,695	428,588
Accrued vacation and sick pay	1,606,923	1,566,929
Other accrued liabilities	1,690,789	1,215,917
Total current liabilities	4,272,197	4,589,001
Net Pension Liability	39,631,457	30,666,411
Total liabilities	43,903,654	35,255,412
Deferred Inflows of Resources – Pensions	3,654,585	-
Net Position		
Net investment in capital assets	13,181,124	13,301,368
Unrestricted deficit	(8,369,327)	(3,185,652)
Total net position	4,811,797	10,115,716
Total liabilities, deferred inflows of resources and net position	$ 52,370,036	$ 45,371,128

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health
Statements of Revenues, Expenses and Changes in Net Position
For the Period From December 1, 2016 Through December 31, 2017 and the Year Ended November 30, 2016

	2017	2016
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2017 – $1,551,097; 2016 – $784,602	$ 25,891,457	$ 22,858,866
Premium revenue	3,820,423	6,219,395
Grant awards	8,883,933	7,515,043
Other	667,116	763,975
Total operating revenues	39,262,929	37,357,279
Operating Expenses		
Salaries and wages	19,735,354	17,080,409
Employee benefits	14,105,780	10,421,680
Purchased services and professional fees	7,498,208	6,338,815
Supplies and other	4,519,685	3,802,218
Depreciation and amortization	1,526,694	1,229,150
Total operating expenses	47,385,721	38,872,272
Operating Loss	(8,122,792)	(1,514,993)
Nonoperating Revenues		
Investment return	1,958,686	374,192
Noncapital gifts – Pfizer Sharing the Care Program	7,712	10,486
Noncapital appropriations – Louisville Metro and others	852,475	786,900
Total nonoperating revenues	2,818,873	1,171,578
Deficiency of Revenues Over Expenses Before Capital Grants and Decrease in Net Position	(5,303,919)	(343,415)
Net Position, Beginning of Period	10,115,716	10,459,131
Net Position, End of Period	$ 4,811,797	$ 10,115,716

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health
Statements of Cash Flows
For the Period From December 1, 2016 Through December 31, 2017 and the Year Ended November 30, 2016

	2017	2016
Operating Activities		
Receipts from and on behalf of patients	$ 27,260,333	$ 29,615,195
Payments to suppliers and contractors	(13,004,232)	(9,476,192)
Payments to employees	(27,645,147)	(24,705,658)
Receipts of operating grants and other	12,595,148	11,679,935
Net cash provided by (used in) operating activities	(793,898)	7,113,280
Noncapital Financing Activities		
Noncapital gifts received	7,712	10,486
Noncapital appropriations received – Louisville Metro and others	852,475	786,900
Net cash provided by noncapital financing activities	860,187	797,386
Capital and Related Financing Activities		
Purchase of capital assets	(1,406,450)	(1,473,242)
Net cash used in capital and related financing activities	(1,406,450)	(1,473,242)
Investing Activities		
Interest and dividends on investments	320,287	203,766
Purchase of investments	(5,932,068)	(11,339,181)
Proceeds from disposition of investments	5,632,593	7,140,730
Net cash provided by (used in) investing activities	20,812	(3,994,685)
Increase (Decrease) in Cash	(1,319,349)	2,442,739
Cash, Beginning of Period	9,113,116	6,670,377
Cash, End of Period	$ 7,793,767	$ 9,113,116
Reconciliation of Operating Loss to Net Cash Provided by (Used In) Operating Activities		
Operating loss	$ (8,122,792)	$ (1,514,993)
Depreciation and amortization	1,526,694	1,229,150
Provision for uncollectible accounts	1,551,097	784,602
Changes in operating assets and liabilities		
Patient accounts receivable, net	(937,429)	2,813,411
Estimated amounts due from third-party payers	(21,116)	19,970
Accounts payable and accrued expenses	(316,804)	707,624
Deferred outflows of resources	(6,855,617)	(3,685,189)
Deferred inflows of resources	3,654,585	-
Pension liability	8,965,046	6,829,326
Other current assets	(237,562)	(70,621)
Net cash provided by (used in) operating activities	$ (793,898)	$ 7,113,280

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Family Health Centers, Inc. (Health Center) is a community health center located in Louisville, Kentucky. The Health Center is a component unit of the Louisville Metro Board of Health (Board of Health) and the Board of Health appoints members to the board of governors of the Health Center. The Health Center primarily earns revenues by providing primary care services to patients in the Louisville area by operating six primary care centers in Louisville and Jefferson County known as Portland, East Broadway, Fairdale, Iroquois, Southwest and Americana. Additionally, the Health Center operates a special health clinic for homeless persons in Louisville known as Phoenix Health Center. The Health Center also leases the aforementioned Portland primary care center for $1 per year from the Board of Health. The Health Center's grant period was changed from a November 30 year-end to a calendar year, December 31 in the prior period. Due to this change, the Health Center changed its fiscal year-end to December 31 for the 2017 year-end, resulting in a 13-month period.

Basis of Accounting and Presentation

The financial statements of the Health Center have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally appropriations and federal and state grants) and voluntary nonexchange transactions (principally gifts) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Investment income is included in nonoperating revenues and expenses. The Health Center first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net positions are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk Management

The Health Center is exposed to various risks of loss from torts, theft of, damage to and destruction of assets, business interruption, errors and omissions, employee injuries and illnesses, natural disasters, medical malpractice and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Health Center participates in a self-insurance fund established by the Board of Health. The participants in the self-insurance fund are the Louisville and Jefferson County Department of Public Health and the Health Center. The assets of the fund are held in an independent irrevocable trust and are used to pay losses and costs associated with malpractice and general liability claims of participants.

Contributions to the trust are the amounts necessary to provide for the losses based upon accepted actuarial techniques. The trust provides coverage on an occurrence basis for individual claims up to established limits. The Health Center records contributions to the trust as an expense. Liabilities and assets of the trust are not recorded in the accompanying financial statements.

Effective May 15, 1993, the U.S. Department of Health and Human Services deemed the Health Center and its practicing physicians covered under the *Federal Tort Claims Act* (FTCA) for damage for personal injury, including death, resulting from the performance of medical, surgical, dental and related functions. FTCA coverage is comparable to an occurrence policy without a monetary cap.

Investments and Investment Return

Investments in non-negotiable certificates of deposit with a remaining maturity of one year or less at the time of acquisition are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment return includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

The Health Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Health Center provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Health Center:

Buildings and improvements	30–50 years
Leasehold improvements	15–20 years
Fixed and moveable equipment	3–15 years

Certain capital assets have been purchased with grant funds received from various federal agencies. Such items may be reclaimed by the federal government if not used to further the grant's objectives.

Deferred Outflows of Resources

The Health Center reports consumption of net position that is applicable to a future reporting period as deferred outflows of resources in a separate section of its balance sheets.

Compensated Absences

Health Center policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits and are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments, such as social security and Medicare taxes computed using rates in effect at that date.

Cost-Sharing Defined Benefit Pension Plan

As a component unit of the Board of Health, the Health Center participates in County Employees Retirement System (CERS), a cost-sharing multiple-employer defined benefit pension plan as defined by Governmental Accounting Standards Board (GASB) Statement No. 68. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of CERS and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

The Health Center reports an acquisition of net position that is applicable to a future period as deferred inflows of resources in a separate section of its balance sheets.

Net Position

Net position of the Health Center is classified in two components. Net investment in capital assets consist of capital assets net of accumulated depreciation. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

For the period ended December 31, 2017, and the year ended November 30, 2016, $5,000,000 of unrestricted net position had been designated by the Health Center's board of governors for capital acquisitions. Designated net position remains under the control of the board of governors, which may, at its discretion, later use this net position for other purposes.

Net Patient Service Revenue

The Health Center has agreements with third-party payers that provide for payments to the Health Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods, as adjustments become known.

Premium Revenue

The Health Center has an agreement with University Health Care, Inc. (UHC) to provide medical services to subscribing Passport Health Maintenance Organization (HMO) participants. Under this agreement in prior years, the Health Center received a monthly per-member per-month Enhanced Comprehensive Services Payment and Patient Centered Medical Home (PCMH) certification payment. The agreement has shifted to a fee-for-service arrangement, plus an enhanced services cap payment.

Charity Care

The Health Center provides charity care to patients who are unable to pay for services. The amount of charity care is included in net patient service revenue and is not separately classified from the provision for uncollectible accounts.

Income Taxes

The Health Center has been recognized as an organization exempt from income taxes under Section 501 of the Internal Revenue Code (IRC) and a similar provision of state law. However, the Health Center is subject to federal income tax on any unrelated business taxable income.

Electronic Health Records Incentive Program

The Electronic Health Records (EHR) Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payments under both programs are contingent on the health care facility continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Health Center recognizes revenue at the point it has met all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

The Health Center recorded revenue of approximately $438,000 and $650,000 for the period from December 1, 2016, through December 31, 2017, and the year ended November 30, 2016, respectively, which is included in other operating revenues in the statements of revenues, expenses and changes in net position.

Note 2: Grant Revenue

The Health Center is the recipient of a Community Health Center (CHC) grant from the U.S. Department of Health and Human Services. The general purpose of the grant is to provide expanded health care service delivery for residents of Louisville, Kentucky. Terms of the grant generally provide for funding of the Health Center's operations based on an approved budget. Grant revenue is recognized as qualifying costs incurred over the grant period. During the period from December 1, 2016, through December 31, 2017, and the year ended November 30, 2016, the Health Center received $7,636,951 and $6,010,152, respectively, in CHC grant funds.

In addition to the CHC grant, the Health Center receives additional financial support from other federal, state and private sources. Generally, such support requires compliance with terms and conditions specified in grant agreements and must be renewed on an annual basis.

Note 3: Net Patient Service Revenue

The Health Center is approved as a federally qualified health center (FQHC) for both Medicare and Medicaid reimbursement purposes. The Health Center has agreements with third-party payers that provide for payments to the Health Center at amounts different from its established rates. These payment arrangements include:

Medicare. Covered FQHC services rendered to Medicare program beneficiaries are paid in accordance with provisions of Medicare's Prospective Payment System (PPS) for FQHCs. Medicare payments, including patient co-insurance, are paid on the lesser of the Health Center's actual charge or the applicable PPS rate. Services not covered under the FQHC benefit are paid based on established fee schedules.

Medicaid. The Commonwealth of Kentucky transferred responsibility for Medicaid patient care in the Louisville area to a health care partnership. This partnership is a coalition of medical providers in both the public and private sectors that provide a comprehensive medical service package through an integrated service delivery network to Medicaid beneficiaries residing in a 16-county region, including Jefferson County. Managed care partnerships participate in the Medicaid program as comprehensive risk-based entities and are paid on a capitated basis. Effective November 1, 1997, pursuant to a contract with the Commonwealth of Kentucky, Region 3 Provider Partnership Council, Inc. and UHC, UHC began coverage of Medicaid KenPAC beneficiaries through a managed care plan called Passport.

On September 1, 2015, the Health Center revised its Provider Services Agreement with UHC, d/b/a Passport Health Plan (Passport).

In November 2011, the CMS notified the Commonwealth of Kentucky that the Section 1115 Waiver, which allowed Passport to operate as the exclusive Kentucky Medicaid managed care contractor for the 16 counties, including the Louisville Metro area, would come to an end on December 31, 2012. The Kentucky Department of Medicaid Services signed contracts with four Medicaid managed care organizations, including Passport, to serve the 16-county region effective January 1, 2013.

Approximately 69% and 89% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the period from December 1, 2016, through December 31, 2017, and the year ended November 30, 2016, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines and penalties.

The Health Center has also entered into payment agreements with certain commercial insurance carriers, HMO and preferred provider organizations. The basis for payment to the Health Center under these agreements include prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 4: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposit may not be returned to it. The Health Center's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance, bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kentucky, bonds of any city, county, school district or special road district of the state of Kentucky, bonds of any state or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2017, and November 30, 2016, the Health Center's bank balances were not exposed to custodial credit risk; all balances were collateralized.

Investments

The Health Center may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest in certificates of deposit, money market funds, corporate bonds and equity securities.

At December 31, 2017, and November 30, 2016, the Health Center had the following investments and maturities:

	2017				
		Maturities in Years			
	Fair Value	Less Than One	One to Five	Six to 10	More Than 10
Money market funds	$ 378,268	$ 378,268	$ -	$ -	$ -
Equities	9,381,256	9,381,256	-	-	-
Fixed income	4,053,019	606,737	2,602,065	844,217	-
	$ 13,812,543	$10,366,261	$ 2,602,065	$ 844,217	$ -

	2016				
		Maturities in Years			
	Fair Value	Less Than One	One to Five	Six to 10	More Than 10
Money market funds	$ 13,192	$ 13,192	$ -	$ -	$ -
Equities	7,609,317	7,609,317	-	-	-
Fixed income	4,257,347	989,243	1,986,288	1,281,816	-
	$ 11,879,856	$ 8,611,752	$ 1,986,288	$1,281,816	$ -

Interest rate risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Health Center's investment policy limits its investments in fixed income securities to bond mutual funds, which are redeemable in full immediately or within five to nine years. The money market and equity mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Health Center will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. As a means of mitigating custodial credit risk, the Health Center targets its investments in equity securities to 50% (+ or – 10%) of its portfolio.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2017	2016
Carrying value		
Deposits	$ 7,920,818	$ 9,235,651
Investments	13,812,543	11,879,856
	$ 21,733,361	$ 21,115,507

Included in the following balance sheet captions:

	2017	2016
Cash	$ 7,793,767	$ 9,113,116
Short-term investments	8,939,594	7,002,391
Noncurrent cash and investments	5,000,000	5,000,000
	$ 21,733,361	$ 21,115,507

At December 31, 2017, and November 30, 2016, there were $100,000 of non-negotiable certificates of deposit included in deposits.

Investment Return

Investment return consisted of:

	2017	2016
Interest and dividend income	$ 320,287	$ 203,766
Net realized and unrealized gains	1,638,399	170,426
	$ 1,958,686	$ 374,192

During 2017 and 2016, the Health Center realized net gains (losses) of approximately $208,000 and ($61,000), respectively, from the sale of investments.

Note 5: Patient Accounts Receivable

The Health Center grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2017, and November 30, 2016, consisted of:

	2017	2016
Medicare	$ 393,214	$ 598,217
Medicaid	1,007,748	1,378,779
Other third-party payers	218,201	302,632
Patients	789,550	595,958
	2,408,713	2,875,586
Less allowance for uncollectible accounts	561,370	415,246
	$ 1,847,343	$ 2,460,340

Note 6: Capital Assets

Capital assets activity for the period from December 1, 2016, through December 31, 2017, and the year ended November 30, 2016, was:

	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Nondepreciable					
Land	$ 53,500	$ -	$ -	$ -	$ 53,500
Depreciable					
Land improvements	188,055	-	-	-	188,055
Buildings and leasehold improvements	18,281,145	48,306	-	677,637	19,007,088
Equipment	5,594,839	446,407	-	698,901	6,740,147
Construction in progress	567,025	911,737	-	(1,376,538)	102,224
	24,684,564	1,406,450	-	-	26,091,014

	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Less accumulated depreciation					
Land improvements	$ 134,993	$ 29,115	$ -	$ -	$ 164,108
Buildings and leasehold improvements	6,802,891	974,214	-	-	7,777,105
Equipment	4,445,312	523,365	-	-	4,968,677
	11,383,196	1,526,694	-	-	12,909,890
Capital assets, net	$ 13,301,368	$ (120,244)	$ -	$ -	$ 13,181,124

	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Nondepreciable					
Land	$ 53,500	$ -	$ -	$ -	$ 53,500
Depreciable					
Land improvements	188,055	-	-	-	188,055
Buildings and leasehold improvements	18,280,476	669	-	-	18,281,145
Equipment	4,594,926	458,245	-	541,668	5,594,839
Construction in progress	94,365	1,014,328	-	(541,668)	567,025
	23,211,322	1,473,242	-	-	24,684,564
Less accumulated depreciation					
Land improvements	124,921	10,072	-	-	134,993
Buildings and leasehold improvements	5,922,071	880,820	-	-	6,802,891
Equipment	4,107,054	338,258	-	-	4,445,312
	10,154,046	1,229,150	-	-	11,383,196
Capital assets, net	$ 13,057,276	$ 244,092	$ -	$ -	$ 13,301,368

Note 7: Medical Malpractice Claims

The Health Center is covered under the FTCA and from a self-insurance fund established from the Board of Health for medical malpractice, which is comparable to an occurrence-based policy. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Health Center's claims experience, no such accrual has been made. It is reasonably possible this estimate could change materially in the near term.

Note 8: Investment in Health Maintenance Organization Partnership

The Health Center has a 2.6% investment in Passport (HMO Partnership), a managed care alliance that provides for the health care needs of Medicaid clients in the Jefferson County, Kentucky area. As of December 2008, the board of the HMO Partnership approved a return of capital for HMO members. During 2009, the Health Center received a complete return of its original capital investment, as well as other income related to uncompensated assistance of the Health Center's personnel for services related to this HMO Partnership. As of December 31, 2017, and November 30, 2016, the Health Center's ownership interest in the HMO Partnership remained at 2.6%.

Note 9: Operating Leases

Noncancellable operating leases for clinic space and facilities expire in various years through 2036. These leases generally contain renewal options for periods ranging from 1 to 10 years and require the Health Center to pay all executory costs (property taxes, maintenance and insurance). Lease expense was $634,249 and $583,608 for the period ended December 31, 2017, and year ended November 30, 2016.

Future minimum lease payments under noncancellable operating leases at December 31, 2017, were:

2018	$ 487,239
2019	485,350
2020	485,611
2021	488,596
2022	488,868
Thereafter	5,403,229
	$ 7,838,893

Note 10: Pension Plan

County Employees Retirement System

Plan Description

The Health Center contributes to the nonhazardous, CERS, a cost-sharing multiple-employer defined benefit pension plan administered by an agency of the Commonwealth of Kentucky. State law assigns the authority to establish and amend benefit provisions to the plan's board of trustees, which is appointed by the Governor with the approval of the State Legislature. The defined benefit plan provides for retirement, disability, death benefits and health insurance and is mandatory for all employees who average working at least 100 hours per month. Participants have a fully vested interest after the completion of 60 months of service, 12 of which are current service. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, or by calling 502.564.4646 or visiting kyret.ky.gov.

Benefits Provided

Nonhazardous	Tier 1 Participation Prior to September 1, 2008	Tier 2 Participation September 1, 2008 Through December 31, 2013	Tier 3 Participation on or After January 1, 2014
Benefit Formula	Final Compensation X Benefit Factor X Years of Service		Cash balance plan
Final Compensation	Average of the highest five fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	Five complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No final compensation
Benefit Factor	2.2% if the participation date was before August 1, 2004, or 2.0% if participation date was after August 1, 2004.	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but not more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.

Nonhazardous	Tier 1 Participation Prior to September 1, 2008	Tier 2 Participation September 1, 2008 Through December 31, 2013	Tier 3 Participation on or After January 1, 2014
Cost of Living Adjustment (COLA)	No COLA unless authorized by the Legislature. If authorized, COLA is limited to 1.5%. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit	Any age with 27 years of service. Age 65 with 48 months of service. Money purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No money purchase calculations.	
Reduced Retirement Benefit	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit

Contributions

Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute (KRS) 61.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the KRS board. Employees are required to contribute 5% of their annual pay. Employees with a participation date after September 1, 2008, are required to contribute an additional 1% of their annual pay for retiree health care benefits. The Health Center’s contractually required contribution rate applied to pension was 14.48% and 13.95% and insurance 4.70% and 4.73% for the period from December 1, 2016, through December 31, 2017, and the year ended November 30, 2016, was 19.18% and 18.68% of annual payroll, respectively. The Health Center’s contractually required contribution rate was actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the period from December 1, 2016, through December 31, 2017, and the year ended November 30, 2016, contributions to the pension plan from the Health Center were $2,580,522 and $2,065,525, respectively.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017, and November 30, 2016, the Health Center reported a liability of $39,631,457 and $30,666,411, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of those dates. The Health Center’s proportion of the net pension liability was based on the Health Center’s actual contributions to the pension plan relative to the actual contributions of all participating employers. At June 30, 2017, the Health Center’s proportion was 0.67707800%, which was an increase of .05% from its proportion measured as of June 30, 2016, of 0.622843%.

For the period from December 1, 2016, through December 31, 2017, and the year ended November 30, 2016, the Health Center recognized pension expense of $8,344,545 and $5,111,281, respectively. At December 31, 2017, and November 30, 2016, the Health Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017 Deferred Outflows of Resources	2017 Deferred Inflows of Resources
Differences between expected and actual experience	$ 49,156	$ 1,006,016
Changes of assumptions	7,313,077	-
Net difference between projected and actual earnings on pension plan investments	3,138,764	2,648,569
Changes in proportion	2,808,829	-
Health Center's contributions subsequent to the measurement date	1,215,903	-
	$ 14,525,729	$ 3,654,585

	2016 Deferred Outflows of Resources	2016 Deferred Inflows of Resources
Differences between expected and actual experience	$ 133,882	$ -
Changes of assumptions	1,624,542	-
Net difference between projected and actual earnings on pension plan investments	2,882,955	-
Changes in proportion	2,093,668	-
Health Center's contributions subsequent to the measurement date	935,065	-
	$ 7,670,112	$ -

At December 31, 2017, the Health Center reported $1,215,903 as deferred outflows of resources related to pensions resulting from Health Center contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2017, related to pensions will be recognized in pension expense as follows:

2018	$ 4,537,163
2019	3,967,846
2020	1,659,121
2021	(508,889)
	$ 9,655,241

Actuarial Assumptions

The total pension liability in the June 30, 2017 and 2016, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30% (2017); 3.25% (2016)
Salary increases	4.00%, average, including inflation;
Investment rate of return	6.25% (2017), net of pension plan investment expense, including inflation; 7.5% (2016)

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy, retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table Projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2017 and 2016, valuations were based on the results of an actuarial experience study for the period from July 1, 2008, through June 30, 2013.

The long-term expected rate of return was determined by using a building-block method in which best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the table below:

	2017	
	Target Allocation	Long-Term Expected Real Rate of Return
Asset Class		
U.S. equity	18%	5.97
Non-U.S. equity	17%	7.85
Global bonds	4%	2.63
Global credit	2%	3.63
High yield	7%	5.75
Emerging market debt	5%	5.50
Private credit	10%	8.75
Real return	10%	6.13
Real estate	5%	7.63
Absolute return (Diversified Hedge Funds)	10%	5.63
Private equity	10%	8.25
Cash equivalent	2%	1.88
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 6.25% for the period from December 1, 2016, through December 31, 2017, and 7.5% for the year ended November 30, 2016. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Health Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The Health Center's proportionate share of the net pension liability has been calculated using a discount rate of 6.25%. The following presents the Health Center's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Health Center's proportionate share of the net pension liability	$ 49,984,000	$ 39,631,000	$ 30,972,000

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KRS financial report.

Payable to the Pension Plan

At December 31, 2017, and November 30, 2016, the Health Center reported payables of $104,691 and $168,690, respectively, for the outstanding amount of contributions to the pension plan required for the period from December 1, 2016, through December 31, 2017, and November 30, 2016.

Note 11: Postemployment Health Care Plan

Plan Description

The Health Center contributes to the nonhazardous, CERS, a cost-sharing multiple-employer defined benefit postretirement health care plan (insurance fund) administered by an agency of the Commonwealth of Kentucky. The plan provides medical insurance benefits to eligible retirees and their spouses. State law assigns the authority to establish and amend benefit provisions to the plan's board of trustees, which is appointed by the Governor with the approval of the State Legislature. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601, or by calling 502.564.4646.

Funding Policy

Benefit and contribution rates are established by state stature. Per KRS 61.565, contribution requirements of the active employees and the participating organizations are established and may be amended by the KRS board. Employees are required to contribute 5% of their annual pay. Employees with a participation date after September 1, 2008, are required to contribute an additional 1% of their annual pay for retiree health care benefits. The Health Center's contractually required contribution rate applied to pension was 14.48% and 13.95% and insurance was 4.70% and 4.73% for the period ended December 31, 2017, and the year ended November 30, 2016, for a total of 19.18% and 18.68%, respectively, of annual payroll. Employer contributions are actuarially determined as an amount that, when combined with employee contributions, are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. For the period from December 1, 2016, through December 31, 2017, and the year ended November 30, 2016, contributions to the insurance fund from the Health Center were $858,710 and $728,766, respectively.

Note 12: Deferred Compensation Plan

The Board of Health and the Health Center offer Health Center employees participation in a deferred compensation plan (Plan) created in accordance with IRC Section 457. The Plan, available to all Health Center employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The assets held by the Health Center's deferred compensation plan at December 31, 2017, and November 30, 2016, were approximately $5,855,000 and $4,834,000, respectively. On January 4, 2017, the sponsorship of the Plan was transferred from the Board of Health to the Health Center.

Note 13: Disclosures About Fair Value of Assets and Liabilities

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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017, and November 30, 2016:

		Fair Value Measurements Using		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
Investments by fair value level				
Money market funds	$ 378,267	$ 378,267	$ -	$ -
Equities	9,381,256	9,381,256	-	-
Fixed income	4,053,019	-	4,053,019	-
Total investments by fair value level	$ 13,812,542	$ 9,759,523	$ 4,053,019	$ -
November 30, 2016				
Investments by fair value level				
Money market funds	$ 13,192	$ 13,192	$ -	$ -
Equities	7,609,317	7,609,317	-	-
Fixed income	4,257,347	-	4,257,347	-
Total investments by fair value level	$ 11,879,856	$ 7,622,509	$ 4,257,347	$ -

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Health Center had no Level 3 securities.

Note 14: Employee Health Claims

Substantially all of the Health Center's employees and their dependents are eligible to participate in the Health Center's employee health insurance plan. The Health Center is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of $100,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experienced, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible the Health Center's estimate will change by a material amount in the near term. At December 31, 2017, and November 30, 2016, the Health Center has accrued approximately $270,000 and $273,000, respectively, for claims incurred but not yet paid. During the period from December 1, 2016, through December 31, 2017, and the year ended November 30, 2016, approximately $3,258,000 and $2,555,000, respectively, of claims and expenses have been paid.

Note 15: Future Accounting Principles

Leases

In fiscal year 2020, the Health Center will implement GASB Statement No. 87, *Leases*. The statement provides a new framework for accounting for leases under the principal that leases are financings and lessees should recognize an intangible asset and a corresponding liability while the lessor will recognize a lease receivable and related deferred inflow of resources. The Health Center has not determined the impact of this new standard on its financial statements; however, it could have a material future impact.

Postemployment Benefits

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* (GASB 75), as they relate to governments that provide postemployment benefits other than pensions administered as trusts or similar arrangements that meet certain criteria. GASB 75 requires governments providing postemployment benefits to recognize their long-term obligation for postemployment benefits as a liability for the first time and to more comprehensively and comparably measure the annual costs of postemployment benefits. GASB 75 also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions in GASB 75 are effective for fiscal years beginning after June 15, 2017; therefore, the Health Center's fiscal year 2018. The impact of applying this statement will have a material impact to the financial statements. Per the Kentucky Retirement System's Schedules of Employer Allocations and Other Postemployment Benefits Amounts by Employer Report for fiscal year ended June 30, 2017, the Health Center's approximate liability will be $10,676,000.

Required Supplementary Information

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health

Schedules of Required Supplementary Information

Schedule of the Health Center's Proportionate Share of the Net Pension Liability

County Employees' Retirement System

For the Period From December 1, 2016 Through December 31, 2017 and the Year Ended November 30, 2016

	2017	2016	2015
Health Center's proportionate share of the net pension liability	0.677078%	0.622843%	0.554412%
Health Center's proportionate share of the collective net pension liability	$ 39,631,457	$ 30,666,411	$ 23,837,085
Health Center's covered-employee payroll	$ 16,089,337	$ 14,654,012	$ 12,733,269
Health Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	246.32%	209.27%	187.20%
Pension plan fiduciary net position as a percentage of the total pension liability	53.32%	55.50%	59.97%

* The amounts presented for the fiscal year were determined as of the June 30, 2017, measurement date.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health
Schedules of Required Supplementary Information
Schedule of the Health Center's Contributions
County Employees' Retirement System
For the Period From December 1, 2016 Through December 31, 2017 and the Year Ended November 30, 2016

	2017	2016	2015
Statutorily determined contribution	$ 2,525,171	$ 1,962,428	$ 1,700,283
Health Center's contributions in relation to the statutorily determined contribution	2,599,456	2,065,525	1,726,102
Contribution deficiency (excess)	$ (74,285)	$ (103,097)	$ (25,819)
Covered-employee payroll	$ 17,952,044	$ 14,806,631	$ 13,744,867
Contributions as a percentage of covered-employee payroll	14.48%	13.95%	13.00%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

Supplementary Information

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health
Schedule of Expenditures of Federal Awards
Period From December 1, 2016 Through December 31, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Community Health Center Program Cluster				
U.S. Department of Health and Human Services/ Community Health Center Cluster	93.224		$ -	$ 1,656,701
U.S. Department of Health and Human Services/ *Affordable Care Act* (ACA) Grants for New and Expanded Services under the Health Center Program Cluster	93.527		$ -	5,980,250
Subtotal Community Health Center Program Cluster				7,636,951
U.S. Department of Housing and Urban Development/ Supportive Housing Program	14.235	KY0072B4I010802	$ -	48,779
U.S. Department of Housing and Urban Development/ Supportive Housing Program/St. Vincent dePaul	14.235	KY36B70-1001	$ -	157,264
U.S. Department of Housing and Urban Development/ Supportive Housing Program/Louisville Alliance for Supportive Housing/Kentucky Housing Corp	14.235	KY0124B4I011100	$ -	96,843
Subtotal				302,886
U.S. Department of Health and Human Services/The Commonwealth of Kentucky Louisville Metro Health Department/Family Planning Services	93.217	5FPHPA040612-38	$ -	381,045
U.S. Department of Housing and Urban Development/ Louisville Metro Housing and Community Development/Block Grant – Entitlement Grant Cluster	14.218	B-10-MC-21-0008	$ -	118,532
U.S. Department of Housing and Urban Development/ Louisville Metro Housing and Community Development Department/Emergency Shelter Grant	14.231	B-10-MC-21-0008	$ -	39,580
U.S. Department of Health and Human Services/Substance Abuse and Mental Health Services Project	93.243	1 H79TI020498-01	$ -	293,799
U.S. Department of Housing and Urban Development/ Common Assessment Grant	14.267	KY0129L41011200	$ -	207,887
				$ 8,980,680

The accompanying notes are an integral part of this Schedule.

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health
Schedule of Expenditures of Federal Awards
Period From December 1, 2016 Through December 31, 2017

Notes to the Schedule of Expenditures of Federal Awards

1. The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the Health Center under programs of the federal government for the period from December 1, 2016, through December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Health Center, it is not intended to, and does not, present the financial position, changes in net position or cash flows of the Health Center.

2. 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, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Health Center has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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*

Independent Auditor's Report

Board of Governors
Family Health Centers, Inc.
A Component Unit of the
Louisville Metro Board of Health
Louisville, Kentucky

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 Family Health Centers, Inc. (Health Center), which comprise the balance sheets as of December 31, 2017, and November 30, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the period from December 1, 2016, through December 31, 2017, and for the year ended November 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated July 23, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Health Center'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 Health Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

BKD, LLP

Louisville, Kentucky
July 23, 2018

BKD LLP
CPAs & Advisors

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Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Board of Governors
Family Health Centers, Inc.
A Component Unit of the
Louisville Metro Board of Health
Louisville, Kentucky

Report on Compliance for Each Major Federal Program

We have audited Family Health Center's (Health Center) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on the Health Center's major federal program for the period from December 1, 2016, through December 31, 2017. The Health Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, contracts and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Health Center's major federal program 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 Health Center'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 the major federal program. However, our audit does not provide a legal determination on the Health Center's compliance.

Opinion on Each Major Federal Program

In our opinion, The Health Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the period from December 1, 2016 through December 31, 2017.

Report on Internal Control Over Compliance

Management of the Health Center 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 Health Center'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 our opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Louisville, Kentucky
July 23, 2018

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health
Schedule of Findings and Questioned Costs
Period From December 1, 2016 Through December 31, 2017

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

   Significant deficiency(ies)? ☐ Yes ☒ None Reported

   Material weakness(es)? ☐ Yes ☒ No

3. Noncompliance considered material to the financial statements was disclosed by the audit? ☐ Yes ☒ No

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

   Significant deficiency(ies)? ☐ Yes ☒ None Reported

   Material weakness(es)? ☐ Yes ☒ No

5. The opinion expressed in the independent auditor's report on compliance for major federal award programs was:

   ☒ Unmodified ☐ Qualified ☐ Adverse ☐ Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)? ☐ Yes ☒ No

7. The Health Center's major program was:

Cluster/Program	CFDA Number
Community Health Center Grant Cluster	93.224, 93.527

8. The threshold used to distinguish between Type A and Type B programs was $750,000.

9. The Health Center qualified as a low-risk auditee? ☒ Yes ☐ No

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health
Schedule of Findings and Questioned Costs
Period From December 1, 2016 Through December 31, 2017

Findings Required to be Reported by Government Auditing Standards

Reference Number	Finding
	No matters are reportable.

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
	No matters are reportable.

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health
Summary Schedule of Prior Audit Findings
Period From December 1, 2016 Through December 31, 2017

Reference Number	Summary of Finding	Status
	No matters are reportable.	