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

Independent Auditor's Reports and Financial Statements

December 31, 2018

BKD LLP
CPAs & Advisors

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health
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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 and for the year ended December 31, 2018, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2018, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 15 to the financial statements, in 2018 the Health Center adopted Governmental Accounting Standards Board (GASB) Statement No.75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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 and other postemployment benefits 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.

Other Information

Our audit was 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 audit 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 29, 2019, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 29, 2019

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health
Management's Discussion and Analysis
Year Ended December 31, 2018

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 year ended December 31, 2018, and for the period from December 1, 2016, through December 31, 2017. 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, marked the first financial reporting period adopting the new year-end date. **The Financial Highlights and MD&A compare results from the 2018 12-month reporting period to the 2017 13-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 12-month versus 13-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) 2018 of ($19,150,088), compared to a decrease in FY 2017 of ($5,303,919) and a decrease of ($343,415) in FY 2016. FY 2018 compared to FY 2017 evidenced a decrease in total revenue of ($4,249,154) or (11%), as well as a decrease in total operating expenses of ($1,287,595) or (2.7%) resulting in an decrease in the change in net position of FY 2018 compared to FY 2017 of ($2,961,559) and a decrease of ($4,960,504) FY 2017 over FY 2016.
- In FY 2018, the Health Center adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75):* GASB 75 replaces the requirements of GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* In adopting this new standard, the Health Center recognized a net OPEB liability of $11,903,955, deferred outflows of resources of $2,922,401 and deferred inflows of resources of $2,399,246 as of December 31, 2018. A restatement to record the effects of the new reporting guidance caused a cumulative effect of change in accounting principle (decrease in beginning net position at January 1, 2018) by ($10,884,610). Any impact of this restatement is not reflected in the 2017 or 2016 amounts included in this management's discussion and analysis.
- Highlights of FY 2018 (12-month period reporting) revenues and expenses compared to FY 2017 (13-month period reporting) are described below:

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health
Management's Discussion and Analysis
Year Ended December 31, 2018

Highlights of Revenues – FY 2018 Compared to FY 2017

- Net patient service revenue of $26,259,949 increased by $368,492 or 2% from prior year net patient revenue of $25,891,457. The increase was primarily the result of growth in both internal and 340B contracted pharmacy services and increased medical visits as a result of the Health Center's primary care site acquisition in West Louisville.
- There was a 1 percentage point increase in the Health Center's uninsured patient population in FY 2018, 22% compared to 21% in FY 2017. The Health Center realized a 2 percentage-point decrease in patients with Medicaid coverage in FY 2018 totaling 55% as compared to 57% in FY 2017.
- The Health Center provided charity care (sliding fee discounts) totaling approximately $12,837,469 over the previous three years. Charity care provided for the years ended December 31, 2018 and 2017, and November 30, 2016, approximated $4,852,025, $4,287,836 and $3,697,608, 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, 2018, 2017 and 2016, was flat with no change in authorized levels of approximately $786,000.
  - Community Health Center federal funding (including Health Care for the Homeless) for the year ended December 31, 2018, period ended December 31, 2017, and year ended November 30, 2016, approximated $6,660,000, $7,637,000 and $6,010,000, respectively.
- Total Medicaid fee-for-service (FFS) revenue, excluding supplemental WRAP for medical, behavioral health and dental service lines of $5,093,291 increased by $650,553 or 15% from prior year revenue of $4,442,738. Gross charges for 2018 decreased ($807,850) offset by a reduction in adjustments of ($1,458,403). The significant reduction in adjustments year-over-year were a result of writing down a backlog of aged dental receivables and patient accounts that were pending Medicaid eligibility, but never deemed eligible for coverage in FY 2017.
- Passport's supplemental premium revenue of $3,048,488 decreased by ($771,935) or (20%) from prior year revenue of $3,820,423. 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 and a PMPM payment for Patient Centered Medical Home (PCMH) certification. The decline in premium revenue is attributed to the 12-month reporting period in 2018 versus 13 months in FY 2017, and a (6%) decrease in attributed Passport members to the Health Center, which is consistent with the decline in Medicaid enrollment in Jefferson County.
- Total pharmacy revenue (included in net patient service revenue) of $9,954,202 increased $72,902 or 1% 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, offset by the 12-month reporting period in 2018 versus 13 months in FY 2017.

- Bad debt expense of $1,354,121 decreased ($196,976) or (13%) 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) recorded in 2017. 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 year-over-year decline as a result of the one-time write down of receivables in FY 2017, was offset by an increase in bad debt expense of $293,749. The current year increase is attributable to the growth in uninsured patients and patients with commercial coverage having high deductible health plans seeking care at the Health Center and unable to afford their patient responsibility post contractual and sliding fee discount adjustments.
- Medicaid Supplemental WRAP of $7,310,701 decreased ($477,889) or (6%) from prior-year revenue of $7,788,590, which is attributable to the 12-month reporting period in 2018 versus 13-months in 2017.
- Covered FQHC services rendered to Medicare program beneficiaries are paid in accordance with provisions of Medicare's Prospective Payment System (PPS) for FQHCs. The Health Center is reimbursed at the lessor of the Medicare PPS rate or the G-code fee. Medicare Part A and B net patient service revenue of $1,645,154 increased 3% in FY 2018 over FY 2017. The increase is attributable to the year-over-year Medicare encounter growth of 3%, offset by the 12-month reporting period in 2018 versus 13-months in 2017.
- Grant awards as evidenced by the schedule of expenditures of federal awards of $8,007,058 decreased by ($973,622) or (11%) over prior-year grant awards of $8,980,680. Highlights of FY 2018 grant activity are as follows:
  - Federal Section 330 grant funds received (Community Health Center and Healthcare for the Homeless), totaling $6,659,791, decreased by ($977,160) or (13%). The decrease was primarily attributable to 12 months reported in 2018 versus 13 months in 2017 ($730,000) and an unobligated carryforward balance for previous-year grant awards for Oral Health Expansion, Substance Abuse and DSHII that were obligated in 2017 approximating ($247,000). The Health Center received two new Federal grant awards in 2018. The first award was a Substance Abuse Disorder – Mental Health Expansion grant to improve and expand the delivery of substance-abuse services at the Health Center's existing facilities, with a focus on patients who have substance abuse/mental health conditions, while expanding services for patients who are suffering opioid addiction. The second award was a Quality Improvement grant supplement of $118,445 to fund quality improvement activities, including maintaining existing patient centered medical home recognition. The Health Center did not expend 100% of the FY 2018 new grant funds in the award year due to the timing of the awards and the 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 had an annualized value of approximately $400,000, with a term of three years, totaling $1,200,000. This grant provided funds to support substance abuse and mental health services for homeless individuals in permanent supportive housing. The grant ended in September 2017, which resulted in a reduction of ($400,000) in federal SAMSHA funds to the Health Center during FY 2018. The Health Center applied and was awarded a new HUD Permanent Supportive Housing (PSH) grant totaling $159,877. The HUD funding in FY 2018 allowed the Health Center to offset the prior year SAMSHA grant loss and helped to fund the salaries of several staff previously funded under the SAMHSA award. The HUD PSH grant provides 34 Permanent Supportive Housing vouchers for chronically homeless individuals and funds two case managers' salaries.

- Investment income decreased by ($2,547,768) compared to the prior year. The decrease was primarily the result of the investment losses in the market during FY 2018. The Health Center's FY 2018 net loss on investments totaled ($589,082) compared to net investment earnings of $1,958,686 in FY 2017. Stock Yards Bank managed the Health Center's primary investment portfolio during FY 2018 and FY 2017.

- The Health Center was approached by KentuckyOne Health regarding an opportunity to acquire a primary care practice located at 2500 W. Market Street. The clinic saw mostly Medicare patients with diabetes. On April 25, 2018, CHI KENTUCKY, INC. (CHI) (parent company of KentuckyOne Health), and Family Health Centers, entered into a voluntary nonexchange transaction and executed a special warranty deed to transfer real and personal property. CHI conveyed by gift unto the Health Center, in fee simple, its successors and assigns forever, the property located in Jefferson County, Kentucky, 2500 West Market Street, Louisville KY 40212. An independent valuation was performed by CBRE, Inc.'s Advisory and Transaction Services office to determine the fair value for the real property located at 2500 West Market Street. The valuation provided a market value for real property of $150,000 ($25.97 per rentable square feet). The valuation was provided for proper recognition of the transaction in the financial statements of the Health Center. Donated personal property associated with the transaction was also reported at its estimated fair value at the date of donation based upon third-party cost to replace/purchase with McKesson Medical-Surgical, Inc. and other industry specific vendors. The total value to the personal property is $37,350 and was recorded in the fund to which they relate or in the general fixed assets account group. The total donated value of the real and personal property of the voluntary nonexchange transaction is $187,350 and is recorded in the capital gifts section of the statement of revenues, expenses and changes in net position.

Highlight of Operating Expenses – FY 2018 Compared to FY 2017

- Total FY 2018 operating expenses of $46,098,126 decreased by ($1,287,595) or (3%) from FY 2017 expenses of $47,385,721. Labor costs (salary, benefits and contract labor) decreased by ($1,284,129) or (4%). All other nonlabor costs decreased by ($3,466) or (0%). The primary driver for the year-over-year decrease in labor costs in the FY 2018 12-month reporting period versus 13 months in 2017 offset by the year-over-year increase in noncash pension expense of $260,394 and salary expense associated with the growth in Health Center FTE's. In FY 2018 the Health Center recognized $6,024,151 in noncash and OPEB expense as compared to $5,764,023, of pension expense in FY 2017 associated with the Health Center's proportionate share of the County Employee Retirement System (CERS) unfunded pension liability and OPEB liability required under GASB 68 and 75 standards. Please refer to Notes 10 and 11 for further guidance.
- Salaries decreased by ($810,724) or (4%) over the prior year. The salary decrease is attributable to the aforementioned decrease in reporting periods (12) in 2018 versus (13) in 2017, offset by market adjustments to staff classifications that experienced significant turnover, employee growth of 21 FTEs, 431 in FY 2018 versus 410 in FY 2017 and acquisition of the West Market site location. Overall employee benefits costs excluding pension expense decreased ($694,784) or (14%), as a result of favorable experience in the Health Center's self-insured group health plan.
- Pension and OPEB costs under the Kentucky Retirement System (KRS) increased by $234,214 or 3% as a result of the increase in the actuarially required contribution (ARC) rate, growth in labor costs and actuarial assumptions as determined by the state pension board which resulted in an increase in the plan's unfunded liability. The employer's rate for participation (ARC) in the KRS CERS plan increased from 19.18% to 21.48% effective July 1, 2018.
- Purchased services and professional fees cost decreased by ($103,887) or (1%) as a result of the decrease in number of months in the reporting periods, offset by an increase in outside reference lab utilization, computer software/support fees and expansion of the Health Center's outsourced revenue cycle management contract.
- Supplies and other costs increased by $126,667 or 3% primarily as a result of the decrease in months in the reporting periods, offset by increased pharmaceuticals expense for both in-house and contract 340B pharmacies. The growth in pharmaceuticals expense is commensurate with the growth in pharmacy revenue.
- Interpretative services costs, required under Title VI of the *Civil Rights Act*, for Limited English Proficiency (LEP) speaking patients decreased by ($83,937) or (16%) in FY 2018 compared to FY 2017. 2018 LEP patients represent 25% of the total patient population of the Health Center versus 24% in 2017. Total cost of interpretative services was $1,193,310 and $1,248,409 in FY 2018 and FY 2017, respectively. The decrease in interpretative services cost is a result of a 13-month reporting period in 2017, offset by the 100 BPS increase in LEP patients receiving care at the Health Center.

- Depreciation and amortization costs decreased by ($26,246) or (2%). The FY 2018 versus FY 2017 decrease is a result of 13-months in the 2017 reporting period offset by the purchase of routine capitalized equipment during FY 2018 and the acquisition of assets associated with West Market site.
- Cash, short-term investments and unrestricted noncurrent cash and investments decreased in FY 2018 by ($2,443,099) or (15%). The decrease is primarily attributable to decline in market performance in the Health Center's investments portfolio, FY 2018 operating losses and purchase of capitalized equipment.
- Total capital expenditures in FY 2018 amounted to $1,243,627 funded from the Health Center's capital reserves. The increase in capital expenditures was primarily attributable to the following: 1) Phoenix Healthcare for the Homeless site construction costs for exam room expansion and the addition of secured pharmacy space and equipment, and 2) 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 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 ($8,265,478) in FY 2018 pre adoption of GASB 75 as evidenced by Table 2, decreased by ($5,303,919) in FY 2017 and decreased by ($343,415) in FY 2016. 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.

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health
Management's Discussion and Analysis
Year Ended December 31, 2018

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

	2018	2017	2016
Assets			
Cash and short-term investments	$ 14,290,262	$ 16,733,361	$ 16,115,507
Patient accounts receivable, net	2,134,839	1,847,343	2,460,340
Capital assets, net	12,924,303	13,181,124	13,301,368
Other current assets	1,109,781	1,082,479	823,801
Other noncurrent assets	5,000,000	5,000,000	5,000,000
Total assets	35,459,185	37,844,307	37,701,016
Deferred Outflows of Resources – Pensions and OPEB	10,930,471	11,877,160	7,670,112
Total assets and deferred outflows of resources	$ 46,389,656	$ 49,721,467	$ 45,371,128
Liabilities			
Current liabilities	$ 4,279,822	$ 4,272,197	$ 4,589,001
Noncurrent liabilities	52,738,840	39,631,457	30,666,411
Total liabilities	57,018,662	43,903,654	35,255,412
Deferred Inflows of Resources – Pensions and OPEB	3,709,285	1,006,016	-
Net Position			
Net investment in capital assets	12,924,303	13,181,124	13,301,368
Unrestricted deficit	(27,262,594)	(8,369,327)	(3,185,652)
Total net position (deficit)	(14,338,291)	4,811,797	10,115,716
Total liabilities, deferred inflows of resources and net position	$ 46,389,656	$ 49,721,467	$ 45,371,128

The Health Center's FY 2018 balance sheet has $14,290,262 in cash and short-term investments and $5,000,000 in unrestricted noncurrent cash and investments. FY 2018 cash and short-term investments decreased from FY 2017 by ($2,443,099) or (15%). The decrease was primarily the result of losses in investments coupled with net cash used by operating activities and the purchase of capital equipment.

The Health Center's current liabilities increased by $7,625 or 0.2% over 2017 which is attributable to working capital timing differences. Noncurrent liabilities increased by $13,107,383 as a result of the change in the net pension liability as evidenced in Note 10 (Pension Plan) and the adoption of GASB 75 OPEB liability of $11,903,955.

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

In FY 2018, the Health Center's net position decreased by ($8,265,478) 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

	2018	2017*	2016
Operating Revenues			
Net patient service and premium revenue	$ 29,308,437	$ 29,711,880	$ 29,078,261
Other	8,136,087	9,551,049	8,279,018
Total operating revenues	37,444,524	39,262,929	37,357,279
Operating Expenses			
Salaries and wages and employee benefits	32,557,005	33,841,134	27,502,089
Purchased services and professional fees	7,394,321	7,498,208	6,338,815
Supplies and other	4,646,352	4,519,685	3,802,218
Depreciation and amortization	1,500,448	1,526,694	1,229,150
Total operating expenses	46,098,126	47,385,721	38,872,272
Operating Loss	(8,653,602)	(8,122,792)	(1,514,993)
Nonoperating Revenues			
Investment income	(589,082)	1,958,686	374,192
Government appropriations and Pfizer Sharing the Care Program	789,856	860,187	797,386
Total nonoperating revenues	200,774	2,818,873	1,171,578
Deficiency of Revenues Over Over Expenses Before Capital Gifts	(8,452,828)	(5,303,919)	(343,415)
Capital Gifts	187,350	-	-
Change in net position	$ (8,265,478)	$ (5,303,919)	$ (343,415)

*FY 2017 includes 13-month reporting

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 2018, the Health Center reported an operating loss of ($8,653,602), compared to operating loss of ($8,122,792) and operating loss of ($1,514,993) in FY 2017 and FY 2016, respectively.

It should be noted, the operating loss does not include revenue from noncapital appropriations from the Louisville Metro Government and other agencies, nor capital grants. The GASB Statement of Accounting Standard No. 34 requires 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 2018 of ($530,810) is primarily attributable to the decrease in total operating revenues of ($1,818,405), offset by the decline in operating expenses of ($1,287,595), of which salaries and benefits expense decreased ($1,284,129). The primary driver for the decrease in operating revenue and expenses was the 13-month reporting period in FY 2017.
- 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 were 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.

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 2018, the Health Center had $12,924,303 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In FY 2018, the Health Center purchased new equipment and made building improvements totaling $1,243,627 primarily for the expansion of its Phoenix Healthcare for the Homeless facility to include additional exam rooms, secured pharmacy space and equipment 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 Sheet
December 31, 2018

Assets and Deferred Outflows of Resources

Current Assets	
Cash	$ 5,963,782
Short-term investments	8,326,480
Patient accounts receivable, net of allowance of $760,000	2,134,839
Estimated amounts due from third-party payers	33,761
Supplies	143,775
Prepaid expenses and other	932,245
Total current assets	17,534,882
Noncurrent Cash and Investments	
Internally designated	5,000,000
Capital Assets, Net	12,924,303
Total assets	35,459,185
Deferred Outflows of Resources – Pensions and OPEB	10,930,471
Total assets and deferred outflows of resources	$ 46,389,656

Liabilities, Deferred Inflows of Resources and Net Position (Deficit)

Current Liabilities	
Accounts payable	$ 720,593
Accrued salaries and wages	420,288
Accrued vacation and sick pay	1,533,519
Other accrued liabilities	1,605,422
Total current liabilities	4,279,822
Net Pension and OPEB Liabilities	52,738,840
Total liabilities	57,018,662
Deferred Inflows of Resources – Pensions and OPEB	3,709,285
Net Position (Deficit)	
Net investment in capital assets	12,924,303
Unrestricted deficit	(27,262,594)
Total net position (deficit)	(14,338,291)
Total liabilities, deferred inflows of resources and net position	$ 46,389,656

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2018

Operating Revenues	
Net patient service revenue, net of provision for uncollectible accounts of $1,354,000	$ 26,259,949
Premium revenue	3,048,488
Grant awards	7,783,909
Other	352,178
Total operating revenues	37,444,524
Operating Expenses	
Salaries and wages	18,924,630
Employee benefits	13,632,375
Purchased services and professional fees	7,394,321
Supplies and other	4,646,352
Depreciation and amortization	1,500,448
Total operating expenses	46,098,126
Operating Loss	(8,653,602)
Nonoperating Revenues (Expenses)	
Investment return	(589,082)
Noncapital gifts – Pfizer Sharing the Care Program	3,456
Noncapital appropriations – Louisville Metro and others	786,400
Total nonoperating revenues (expenses)	200,774
Deficiency of Revenues Over Expenses Before Capital Gifts	(8,452,828)
Capital Gifts	187,350
Change in Net Position	(8,265,478)
Net Position, Beginning of Year, as Previously Reported	4,811,797
Adoption of GASB 75 (Note 15)	(10,884,610)
Net Position, Beginning of Year, as Restated	(6,072,813)
Net Position, End of Year	$ (14,338,291)

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health
Statement of Cash Flows
Year Ended December 31, 2018

Cash Flows from Operating Activities	
Receipts from and on behalf of patients	$ 26,678,043
Payments to suppliers and contractors	(11,970,349)
Payments to employees	(26,768,452)
Receipts of operating grants and other	10,473,162
Net cash used in operating activities	(1,587,596)
Cash Flows from Noncapital Financing Activities	
Noncapital gifts received	3,456
Noncapital appropriations received – Louisville Metro and others	786,400
Net cash provided by noncapital financing activities	789,856
Cash Flows from Capital and Related Financing Activities	
Capital gifts	187,350
Purchase of capital assets	(1,243,627)
Net cash used in capital and related financing activities	(1,056,277)
Cash Flows from Investing Activities	
Interest and dividends on investments	449,447
Purchase of investments	(3,760,670)
Proceeds from disposition of investments	3,335,255
Net cash provided by investing activities	24,032
Decrease in Cash	(1,829,985)
Cash, Beginning of Year	7,793,767
Cash, End of Year	$ 5,963,782
Reconciliation of Operating Loss to Net Cash Used in Operating Activities	
Operating loss	$ (8,653,602)
Depreciation and amortization	1,500,448
Provision for uncollectible accounts	1,354,121
Changes in assets and liabilities	
Patient accounts receivable, net	(1,641,617)
Estimated amounts due from third-party payers	(5,823)
Accounts payable and accrued expenses	7,625
Deferred outflows of resources – pension and OPEB	7,034,897
Deferred inflows of resources – pension and OPEB	(657,965)
Pension and OPEB liability	(504,201)
Other current assets	(21,479)
Net cash used in operating activities	$ (1,587,596)

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health
Notes to Financial Statements
December 31, 2018

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.

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 sheet.

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.

Cost-Sharing Defined Benefit Other Post-Employment Benefit Plan

The Health Center participates in a cost-sharing multiple-employer defined benefit other postemployment benefit plan, CERS, (the OPEB Plan). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the OPEB Plan and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the 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 sheet.

Net Position (Deficit)

Net position (deficit) 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 (deficit) is the remaining net position that does not meet the definition of net investment in capital assets.

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 health care facilities 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 $145,000 for 2018, which is included in other operating revenues in the statement 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 year ended December 31, 2018, the Health Center received $6,659,791 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 68% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the year ended December 31, 2018. 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, 2018, 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, 2018, the Health Center had the following investments and maturities:

	2018				
		Maturities in Years			
	Fair Value	Less Than One	One to Five	Six to 10	More Than 10
Money market	$ 412,356	$ 412,356	$ -	$ -	$ -
Equities	8,364,801	8,364,801	-	-	-
Fixed income	4,414,947	739,066	2,754,464	921,417	-
	$ 13,192,104	$ 9,516,223	$ 2,754,464	$ 921,417	$ -

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 sheet as follows:

Carrying value	
Deposits	$ 6,098,158
Investments	13,192,104
	$ 19,290,262

Included in the following balance sheet captions:

Cash	$ 5,963,782
Short-term investments	8,326,480
Noncurrent cash and investments	5,000,000
	$ 19,290,262

At December 31, 2018, there were $100,000 of non-negotiable certificates of deposit included in deposits.

Investment Return

Investment return consisted of:

Interest and dividend income	$ 449,447
Net realized and unrealized losses	(1,038,529)
	$ (589,082)

During 2018, the Health Center realized net losses of approximately $559,000 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, 2018, consisted of:

Medicare	$ 473,068
Medicaid	1,388,579
Other third-party payers	221,830
Patients	811,709
	2,895,186
Less allowance for uncollectible accounts	760,347
	$ 2,134,839

Note 6: Capital Assets

Capital assets activity for the year ended December 31, 2018, was:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Nondepreciable					
Land	$ 53,500	$ -	$ -	$ -	$ 53,500
Depreciable					
Land improvements	188,055	-	-	-	188,055
Buildings and leasehold improvements	19,007,088	155,460	-	721,149	19,883,697
Equipment	6,740,147	148,493	-	20,056	6,908,696
Construction in progress	102,224	939,674	-	(741,205)	300,693
	26,091,014	1,243,627	-	-	27,334,641
Less accumulated depreciation					
Land improvements	164,108	27,068	-	-	191,176
Buildings and leasehold improvements	7,777,105	922,357	-	-	8,699,462
Equipment	4,968,677	551,023	-	-	5,519,700
	12,909,890	1,500,448	-	-	14,410,338
Capital assets, net	$ 13,181,124	$ (256,821)	$ -	$ -	$ 12,924,303

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, 2018, 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 $625,732 for the year ended December 31, 2018.

Future minimum lease payments under noncancellable operating leases at December 31, 2018, were:

2019	$ 646,637
2020	647,936
2021	651,448
2022	657,750
2023	661,405
Thereafter	4,895,939
	$ 8,161,115

Note 10: Pension Plan

County Employees Retirement System (CERS)

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.
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 (16.22%) and insurance (5.26%) for the year ended December 31, 2018, was 21.48% of annual payroll. 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 year ended December 31, 2018, contributions to the pension plan from the Health Center was $2,577,600.

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

At December 31, 2018, the Health Center reported a liability of $40,834,885 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2018, the Health Center's proportion was 0.67049000%, which was a decrease of .007% from its proportion measured as of June 30, 2017, of 0.67707800%.

For the year ended December 31, 2018, the Health Center recognized pension expense of $7,951,439. At December 31, 2018, the Health Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,331,920	$ 597,737
Changes of assumptions	3,990,756	-
Net difference between projected and actual earnings on pension plan investments	-	489,634
Changes in proportion	1,300,875	222,668
Health Center's contributions subsequent to the measurement date	1,384,519	-
	$ 8,008,070	$ 1,310,039

At December 31, 2018, the Health Center reported $1,384,519 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2018, related to pensions will be recognized in pension expense as follows:

2019	$ 4,170,434
2020	1,877,932
2021	(515,685)
2022	(219,169)
	$ 5,313,512

Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Salary increases	3.05%, average, including inflation;
Investment rate of return	6.25%, net of pension plan investment expense, including inflation

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.

However, during the 2018 legislative session, House Bill 185 was enacted, which updated the benefit provisions for active members who die in the line of duty. Benefits paid to the spouses of deceased members have been increased from 25% of the member's final rate of pay to 75% of the member's average pay. If the member does not have a surviving spouse, benefits paid to surviving dependent children have been increased from 10% of the member's final pay rate to 50% of average pay for one child, 65% of average pay for two children or 75% of average pay for three children.

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:

	Target Allocation	Long-Term Expected Real Rate of Return
Asset Class		
U.S. equity	18%	5.75
Non-U.S. equity	18%	7.38
Global bonds	10%	2.63
Global credit	17%	3.63
High yield	0%	5.75
Emerging market debt	0%	5.50
Private credit	0%	8.75
Real return	10%	5.13
Real estate	5%	6.63
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%. 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	$ 51,407,000	$ 40,835,000	$ 31,977,000

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, 2018, the Health Center reported a payable of $257,758 for the outstanding amount of contributions to the pension plan required for the year ended December 31, 2018.

Note 11: Other Postemployment Benefit Plan

Plan Description

The Health Center contributes to the KRS Insurance Fund, a cost-sharing multiple-employer defined benefit other postemployment benefit plan (OPEB Plan), which was established to provide hospital and medical insurance for eligible members receiving benefits from CERS. Under the provisions of Kentucky Revised Statute Sections 61.645 and 61.701, the Board of Trustees (the Board) of Kentucky Retirement Systems (KRS) administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS) and State Police Retirement System (SPRS). Although the assets of the systems are invested as a whole, each system's assets are used only for the payment of benefits to the members of that plan, and the administrative costs incurred by those receiving an insurance benefit, in accordance with the provisions of Kentucky Revised Statute Sections 16.510, 61.515, 61.702, 78.520, and 78.630. The Health Center contributes to the nonhazardous CERS fund of KRS. The OPEB plan pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. The OPEB plan is administered by the Board of Trustees of the KRS. Benefit

provisions are contained in the plan document and were established and can be amended by action of the Commonwealth of Kentucky Legislature. KERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601-6124 or by calling 502.696.8800.

Benefits Provided

The OPEB Plan provides the following benefits to eligible retirees and their dependents:

Nonhazardous	Tier 1 Participation Prior to July 1, 2003	Tier 2 Participation July 1, 2003 Through August 31, 2008	Tier 3 Participation on or After September 1, 2008
Eligibility	Recipient of a retirement allowance	Recipient of a retirement allowance, with at least 120 months of service at retirement	Recipient of a retirement allowance, with at least 180 months of service at retirement
Benefit	Allowance for medical insurance coverage based on years and type of service. Less than 4 years = 0%. At least 4 years, but less than 10 = 25%. At least 10 years, but less than 15 = 50%. At least 15 years, but less than 20 = 75%. 20 or more years = 100%.	Monthly contribution of $10 for each year of earned service.	
Cost of Living Adjustment (COLA)	N/A	Monthly contribution is increased by 1.5% each July 1. As of July 1, 2016, the nonhazardous monthly contribution was $12.99/year of service.	

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.30%
Payroll growth rate	2.00%
Salary increases	3.05%, average
Investment rate of return	6.25%
Healthcare Cost Trend Rates:	
Pre-65	Initial trend starting at 7.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years.
Post-65	Initial trend starting at 5.00% at January 1, 2020, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

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 for 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.

Long-Term Expected Rate of Return

The long-term expected rate of return on OPEB Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Nominal Rate of Return
U.S. Equity	**18%**	
U.S. Large Cap	5%	4.50%
U.S. Mid Cap	6%	4.50%
U.S. Small Cap	7%	5.50%
Non-U.S. Equity	**17%**	
International Developed	12%	6.50%
Emerging Markets	5%	7.25%
Global bonds	**4%**	3.00%
Credit Fixed	**24%**	
Global IG Credit	2%	3.75%
High Yield	7%	5.50%
EMD	5%	6.00%
Illiquid Private	10%	8.50%
Private Equity	**10%**	6.50%
Real Estate	**5%**	9.00%
Absolute Return	**10%**	5.00%
Real Return	**10%**	7.00%
Cash equivalent	**2%**	1.50%
Total	100%	

Discount Rate

The discount rate used to measure the total OPEB liability was 5.85% and 5.84% at June 30, 2018, and June 30, 2017, respectively. The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 25 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25%, and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018. However, the cost associated with the implicit employer subsidy was not included in the calculation of the Health Center's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the CERS's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

Contributions

Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565, contribution requirements of the participating organizations are established and may be amended by the KRS Board. Employees with a participation date after September 1, 2008 are required to contribute 1% of their covered salary for retiree healthcare benefits. For the year ended December 31, 2018, the Health Center was contractually required to contribute 5.26% of covered payroll to the nonhazardous CERS OPEB plan. For the year ended December 31, 2018, contributions to the insurance fund from the Health Center were $836,158 and contributions (benefit payments) for its implicit rate subsidy were $179,197.

Payable to the OPEB Plan

At December 31, 2018, the Health Center reported a payable of $83,589 for the outstanding amount of contributions to the OPEB Plan required for the year ended December 31, 2018.

OPEB Liabilities

At December 31, 2018, the Health Center reported a liability of $11,903,955, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017, rolled forward to the measurement date.

The Health Center's proportion of the net OPEB liability was based on the Health Center's actual contributions to the OPEB plan relative to the contributions of all participating employers for the measurement period. At June 30, 2018, the Health Center's proportion was .00670464%. For the prior year, the Health Center's proportion was .00677078%.

Sensitivity of the Health Center's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The Health Center's proportionate share of the net OPEB liability has been calculated using a discount rate of 5.85%. The following presents the Health Center's proportionate share of the net OPEB liability calculated using a discount rate 1% higher and 1% lower than the current discount rate.

	1% Decrease (4.85%)	Current Discount Rate (5.85%)	1% Increase (6.85%)
Health Center's proportionate share of the net OPEB liability	$ 15,461,329	$ 11,903,955	$ 8,873,722

The Health Center's proportionate share of the net OPEB liability has been calculated using an initial pre-65 healthcare cost trend rates of 7.00%, gradually decreasing to an ultimate trend rate of 4.05% over a period of 12 years. The post-65 health care trend rate starts at 5.00%, gradually decreasing to an ultimate trend rate of 4.05% over a period of 10 years.

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Health Center's proportionate share of the net OPEB liability	$ 8,862,612	$ 11,903,955	$ 15,488,822

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the Health Center recognized OPEB expense of $1,486,470. At December 31, 2018, the Health Center reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 1,387,248
Changes of assumptions	2,377,396	27,503
Net difference between projected and actual earnings on OPEB plan investments	-	819,949
Changes in proportion	-	164,546
Health Center's contributions subsequent to the measurement date, including benefit payments for implicit rate subsidy	545,005	-
	$ 2,922,401	$ 2,399,246

At December 31, 2018, the Health Center reported $545,005, as deferred outflows of resources related to OPEB resulting from Health Center contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB at December 31, 2018, will be recognized in OPEB expense as follows:

2019	$ 10,170
2020	10,170
2021	10,170
2022	169,418
2023	(135,554)
Thereafter	(86,224)
	$ (21,850)

OPEB Plan Fiduciary Net Position

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

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, 2018, were approximately $5,592,000.

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, 2018:

		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)
Investments by fair value level				
Money market funds	$ 412,356	$ 412,356	$ -	$ -
Equities	8,364,801	8,364,801	-	-
Fixed income	4,414,947	-	4,414,947	-
Total investments by fair value level	$ 13,192,104	$ 8,777,157	$ 4,414,947	$ -

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, 2018, the Health Center has accrued approximately $193,000 for claims incurred but not yet paid. During the year ended December 31, 2018, approximately $2,594,000 of claims and expenses have been paid.

Note 15: Change in Accounting Principle

During fiscal year 2018, the Health Center adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75): GASB 75 replaces the requirements of GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Employers that participate in a cost-sharing OPEB plan that is administered through a trust that meets specified criteria will report a liability equal to the employer's proportionate share for the collective OPEB liability for all employers participating in the plan.

GASB 75 requires extensive note disclosures and required supplementary information (RSI) about OPEB items. See Note 11 for required note disclosures.

The adoption of GASB 75 resulted in a decrease in net position at January 1, 2018 of $10,884,610. This change is in accordance with generally accepted accounting principles.

Note 16: Future Adoption of 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 principle 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.

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
Year Ended December 31, 2018

	2018	2017	2016
Health Center's proportion of the net pension liability	0.670490%	0.677078%	0.622843%
Health Center's proportionate share of the collective net pension liability	$ 40,834,885	$ 39,631,457	$ 30,666,411
Health Center's covered-employee payroll	$ 16,460,040	$ 16,089,337	$ 14,654,012
Health Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	248.08%	246.32%	209.27%
Pension plan fiduciary net position as a percentage of the total pension liability	53.54%	53.32%	55.50%

The amounts presented for the fiscal years were determined as of the June 30, 2018, 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 Pension Contributions
County Employees' Retirement System
Year Ended December 31, 2018

	2018	2017	2016
Statutorily determined contribution	$ 2,576,225	$ 2,525,171	$ 1,962,428
Health Center's contributions in relation to the statutorily determined contribution	2,577,600	2,599,456	2,065,525
Contribution deficiency (excess)	$ (1,375)	$ (74,285)	$ (103,097)
Covered-employee payroll	$ 15,891,490	$ 17,952,044	$ 14,806,631
Contributions as a percentage of covered-employee payroll	16.22%	14.48%	13.95%

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 Proportionate Share of the Net Other Postemployment Benefits (OPEB) Liability
County Employees' Retirement System
Year Ended December 31, 2018

	2018
Health Center's proportion of the net OPEB liability	0.670464%
Health Center's proportionate share of the net OPEB liability	$ 11,903,955
Health Center's covered-employee payroll	$ 17,236,494
Health Center's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	69.08%
OPEB plan fiduciary net position as a percentage of the total OPEB liability	57.62%

The amounts presented for the fiscal year were determined as of the June 30, 2018, 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.

The discount rate was increased to 5.85% at June 30, 2018, from 5.84% at June 30, 2017.

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 Other Postemployment Benefits (OPEB) Contributions
County Employees' Retirement System
Year Ended December 31, 2018

	2018
Statutorily determined contribution	$ 839,511
Health Center's contributions in relation to the statutorily determined contribution	836,158
Contribution deficiency (excess)	$ 3,353
Covered-employee payroll	$ 15,891,490
Contributions as a percentage of covered-employee payroll	5.26%

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.

Assumptions

Based on the June 30, 2016, actuarial valuation report, the actuarial methods and assumptions used to calculate these contribution rates are below:

Actuarial Cost Method: Entry Age Normal

Asset Valuation Method: 20% of the difference between the market value of assets and the expected actuarial value of assets is recognized

Amortization Method: Level Percent of Pay

Amortization Period: 27 Years, Closed

Payroll Growth Rate: 4.00%

Investment Return: 7.50%

Inflation: 3.25%

Salary Increases: 4.00%, average

Mortality: RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (setback 1 year for females)

Healthcare Trend Rates (Pre-65): Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years

Healthcare Trend Rates (Post-65): Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years

Supplementary Information

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2018

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		$ -	$ 1,442,508
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		-	5,217,283
Subtotal Community Health Center Program Cluster			-	6,659,791
U.S. Department of Housing and Urban Development/ Supportive Housing Program/St. Vincent dePaul	14.235	KY36B70-1001	-	122,929
U.S. Department of Housing and Urban Development/ Supportive Housing Program/Louisville Alliance for Supportive Housing/Kentucky Housing Corp	14.235	KY0124B41011100	-	79,545
Subtotal			-	202,474
U.S. Department of Health and Human Services/The Commonwealth of Kentucky Louisville Metro Health Department/Family Planning Services	93.217	5FPHPA040612-38	-	460,453
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	-	110,785
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	-	83,766
U.S. Department of Health and Human Services/Substance Abuse and Mental Health Services Project	93.243	1 H79TI025667-01	-	50,579
U.S. Department of Housing and Urban Development/ Common Assessment Grant	14.267	KY0129L41011200	-	299,656
U.S. Department of Housing and Urban Development/ Coalition for the Homeless, Inc.	14.267	FR-6000-N-25	-	139,554
			$ -	$ 8,007,058

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health
Schedule of Expenditures of Federal Awards (Continued)
Year Ended December 31, 2018

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 year ended December 31, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of 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.

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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 sheet as of December 31, 2018, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated July 29, 2019, which contained an "Emphasis of Matter" paragraph for a change in accounting principle.

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 29, 2019

BKD
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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 *OMB Compliance Supplement* that could have a direct and material effect on the Health Center's major federal program for the year ended December 31, 2018. 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 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 year ended December 31, 2018.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the 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 29, 2019

Family Health Centers, Inc.
A Component Unit of the Louisville Metro Board of Health
Schedule of Findings and Questioned Costs
Year Ended December 31, 2018

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 Program 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 (Continued)
Year Ended December 31, 2018

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
Year Ended December 31, 2017

Reference Number	Summary of Finding	Status
	No matters are reportable.	