

FNS

FRONTIER NURSING SERVICE

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EIGHTY-THIRD ANNUAL REPORT



FRONTIER NURSING SERVICE

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Introduction to Frontier Nursing Service (FNS)

Mary Breckinridge spent her early years in many parts of the world - Russia, France, Switzerland and the British Isles. After the deaths of her two children, she abandoned the homebound life expected of women of her class to devote herself to the service of others, particularly mothers and children.

Mrs. Breckinridge established the FNS in Leslie County, Kentucky, in 1925, as a private charitable organization serving an area of 700 square miles. It was the first organization in America to use nurses trained as midwives under the direction of a single medical doctor/obstetrician, based at their small hospital in Hyden. Originally the staff was composed of nurse-midwives trained in England. They traveled on horseback and on foot to provide quality prenatal and childbirth care in the client's own home.

Today, Mrs. Breckinridge's legacy extends far beyond Eastern Kentucky. FNS, Inc. is the parent holding company for Mary Breckinridge Healthcare, Inc., Frontier Nursing Healthcare, Inc., which includes five rural healthcare clinics; Mary Breckinridge Home Health Agency and the Frontier School of Midwifery and Family Nursing which offers a Master of Science in Nursing degree with tracks as a Nurse-Midwife, Family Nurse Practitioner, Women's Healthcare Nurse Practitioner and a Doctor of Nursing Practice (DNP) degree.

Mary Breckinridge's home, The Big House, located at Wenderover, is a licensed Bed & Breakfast Inn. For more information or reservations, call 606-672-2317 or e-mail: information@frontiernursing.org. You can also access our website:

Frontier Nursing Service - www.frontiernursing.org

The Journey

by Nathan Lee, President & CEO



Winter is here. Finally. We were starting to think that “Old Man Winter” had forgotten us here in Leslie County. At our Fall Festival in Hurricane Pasture just a few short weeks ago, staff from across the Service enjoyed their barbecue and pecan pie in the 80 plus degree warmth of a bright sun. The perennial wishes for jackets and sweaters at this annual event were replaced by hopes for shade or a cool sip of lemonade. But yet . . . here we are . . . in December. Finally, there is frost on the window panes of the Big House and the Christmas greens have been hung. At last, a fire crackles in the fireplace below Mrs. Breckinridge’s portrait, and hot tea and cocoa warm the hands and hearts of our visitors. How silly it seems now to have even joked that winter wasn’t coming. Of course, it always does . . . as reliably as time itself.

Reliability seems a scarce commodity these days. We’ve all watched as institutions as unsinkable as the Titanic have met the same fate. While healthcare is in many ways immune to the

negative pressures of our ailing economy, the FNS has still felt the sting of recent financial turmoil. More and more patients are coming to us having forgone the benefits of preventive care they thought would be too expensive, and more and more of those patients are receiving free care from us as a result of their indigence. Increasingly, we've seen both private and government insurers slow or decrease their reimbursements to us as they have felt the pinch of their own dwindling resources. We watched this summer and fall as institutions which had formerly made loans to our students pull out of the market or collapse altogether. And, like so many other non-profits, we've watched the value of our endowment decline dramatically. It's been a "perfect storm" that's made for an incredibly challenging financial year at FNS; one that will likely continue for months to come. You'll see as much in the most recent audit report included in these pages.

But just as winter, as steady and reliable as the sunrise, has crept through the peaks and valleys of our Appalachian Mountains, so too have our supporters remembered the value and importance of our work here. At a time when most charities are seeing significant declines in giving, the Frontier Nursing Service has seen our recurring gifts increase by more than five percent. I think Mrs. Breckinridge had a keen awareness of the reliability of our supporters when she noted, ". . . we always expect the best to happen, and often it does . . ." The FNS is responding to the current economic situation in a cadre of fiscal and operational ways. But just as, or perhaps even more importantly, we are responding to the health needs that mothers, children, and families in our area and beyond are experiencing, very often in a more acute way, as a result of the nation's current economic challenges. It is, after all, for them that we exist at all.

The path is rocky, but the FNS has crossed rocky paths before. The stream is swollen, but the FNS has forded rivers wide. The climb is steep, but the FNS has crested high mountains. The Journey continues, and we are honored that you make it with us.

Field Notes

Leslie County School-Located Clinics

The Kentucky School-Based Healthcare Network News recently featured the Frontier Nursing Service and C.O.L.L.Y (County of Leslie Lifting Youth) and their partnership in establishing school-located clinics in Leslie County. The first school-located clinic opened during February 2007 at the Stinnett Elementary School. Since that time, clinics have been opened at the W.B. Muncy and Hayes Lewis Elementary Schools. The partnership has also made it possible to provide dental services in association with the UK Center for Rural Health.

Wendover Guests Update

From September 1, 2008 - December 1, 2008, Wendover hosted a total of 850 guests. This number includes overnight guests, tours and special lunches/dinners/meetings and activities.

October 24, 2008, Senator Mitch McConnell and his wife, Secretary of Labor, Elaine Chao, US Congressman Hal Rogers, Kentucky Senator David Williams, field representatives and support staff, had lunch at Wendover while campaigning in the area.

Rural Healthcare Centers Update

The School-Located Clinics, while challenging, have provided the most rewarding outcomes and excitement among our providers as we see a noticeable impact on the access to healthcare for these children, which might not have been seen before.

Maternity services continue to expand as a result of patient requests affording us the opportunity to place Certified Nurse - Midwives in three of our outlying clinics. As an offshoot of this service we anticipate re-initiating, at least in principle, home visits in the style of the nurses on horseback. Fortunately we will be utilizing automobiles instead of horses.

As our eyes remain focused on our primary mission, we shift our attentions to the coming holiday season and a special time in which we give back to the community through our Children's Christmas Program. Each year the Clinics provide gifts to the children in their communities, and we were fortunate last year in our ability to reach out to approximately 500 children. This year we continue this service and hope to reach even more homes.

While we always look towards the future, we must remember our past and the lessons that brought us to this point. The desire and more importantly the dedication that we all share in accomplishing Mrs. Breckinridge's mission would definitely make her smile. This truly is a blessed service.

Mary Breckinridge Festival Update

This year's Mary Breckinridge Festival during October, was one of the most successful ever held. The festivities began earlier in the week with FNS and the Bluegrass School of Traditional Music sponsoring a concert on Thursday night, October 2nd with Bluegrass Performer Larry Sparks and the Lonesome Ramblers. The fun continued with the Mary Breckinridge Festival Parade being held on Saturday morning - the Mary Breckinridge Hospital float won first place trophy. The Mary Breckinridge Hospital's Annual Community Picnic was held Friday, October 3rd, with over 600 people participating. FNS bused in all fourth and fifth grade students for the picnic and a day of activities.

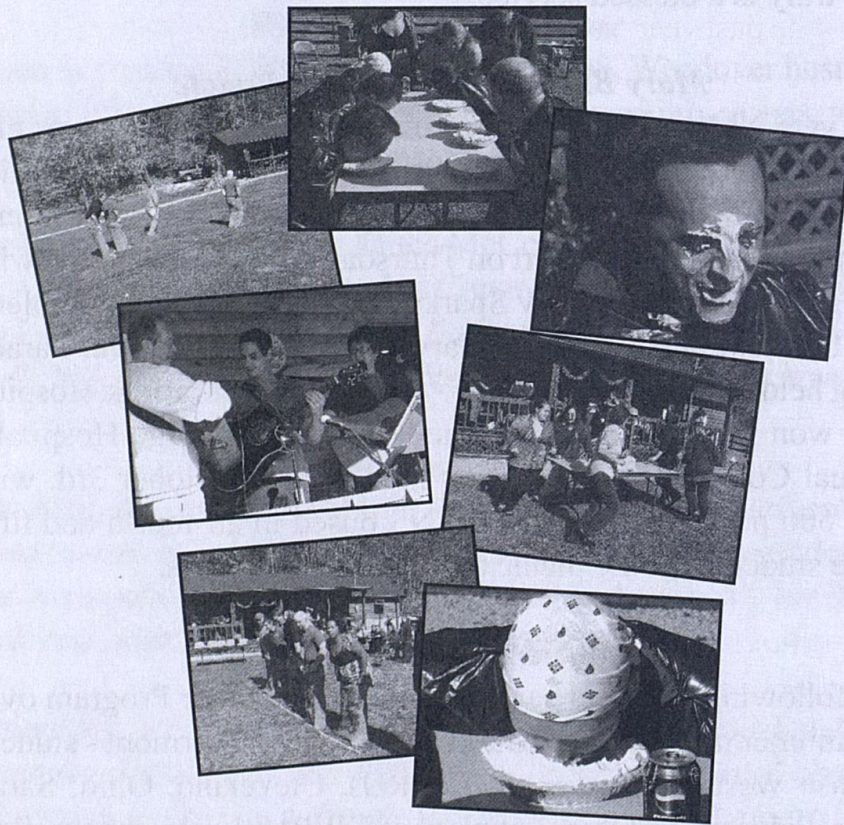
Courier Program Update

The following Couriers participated in the Courier Program over the summer months: Lily Burke, Four Corner, Vermont - student at Case Western University (CWRU), Cleveland, Ohio; Sarah Stark, Painesville, Ohio, - student at CWRU; Lucy Chapin, Post Mills, Vermont - student at Middlebury College; Joanna Benoit, Lancaster, Massachusetts, - student at Hartford University and Elizabeth Lagan, West Simsbury, Connecticut.

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Wendover Fall Festival

Wendover's Annual Fall Festival was held Thursday, November 6th at The Livery and Hurricane Pasture with approximately 75 employees attending. The smoked turkey, BBQ pulled pork and fixings were prepared by Elmer Sparks, Jr., Chief of the Big Creek Fire Department. Games included Cake Walk, Sack Race, Three-legged Race, Corn Hole and a Pie Eating Contest with Wendover Maintenance Employee, Jeffery Hall, being the first place winner and Kevin Couch, MBH Controller, second place winner. Special thanks to FNS Board Member Rhonda Brashear and FNH Clinics Director Ben Peak for providing singing and music for the event.



“To get the full value of joy you must have somebody to divide it with.”

-Mark Twain

Beyond the Mountains

Daughters of Colonial Wars

Ginny (Ledegang) Mucciaccio, State Treasurer of the Massachusetts Daughters of Colonial Wars, wrote that her mother, Ethel W. Ledegang, passed away during August at the age of 101 years. Mrs. Ledegang knit more than 1,000 baby caps for the FNS to be presented to nurse-midwifery students for the first baby they “catch” identifying them as an FNS baby when the cap is placed on their head. The caps are presented to students when they come to Wendover for dinner during their Clinical Bound Classes.

Mrs. Mucciaccio wrote that her mother stopped knitting the caps during the past year only when her skin became fragile and chafed from the yarn and needles going back and forth. Mrs. Mucciaccio wrote that she found notes written by students to her mom saying how anxious they were to “catch” their first baby. We greatly appreciate the efforts made by Mrs. Ledegang in identifying over 1,000 FNS babies in many different areas across the country.

Kitty Ernst Featured in Time Magazine

August 18, 2008, Eunice “Kitty” Ernst, Mary Breckinridge Chair at the Frontier School of Midwifery & Family Nursing, was featured in an article in Time Magazine, “Giving Birth at Home”, focusing on the fact that amid high-tech interventions, old-fashioned labor is gaining appeal.

National Philanthropy Day - Ruth Beeman Honored

November 18, 2008 was National Philanthropy Day sponsored by the Association of Fund-Raising Professionals - Bluegrass Chapter, at the Hyatt Regency Hotel in Lexington, Kentucky. The Frontier Nursing Service honored Ruth Beeman, former Dean of the Frontier School of Midwifery and Family Nursing. The purpose of National Philanthropy Day is to honor individuals and organizations that have made a great impact on communities through their philanthropic contributions.

Committee Luncheons Update

Fall committee luncheons began with the Louisville Committee held at the Louisville Country Club September 24th. Forty friends of the FNS attended the Luncheon and enjoyed hearing the latest update presented by Mr. Nathan Lee, President & CEO. Special thanks to Mrs. Betty Brown for hosting the event.

The Bluegrass Committee Luncheon was held the next day, September 25th at the Lexington Country Club with almost 100 people in attendance. We were honored to have the First Lady of Kentucky and FNS Trustee Mrs. Jane K. Beshear, as our guest speaker. Special thanks to Mrs. Linda Roach, Ms. Helen Rentch and Ms. Fra Vaughan for work as committee chairs. Through their efforts, more than 20 new people were introduced to the work of the FNS.



Nathan Lee, Mrs. Mary Clay Stites and Mrs. Betty Brown ***Mrs. Jane K. Beshear and Nathan Lee***

On Wednesday, October 21st, Nathan Lee and Kate Ireland traveled to Dedham, Massachusetts, to host the Annual Boston Committee Luncheon. A gathering of former Couriers in the area was held the evening before at the Dedham Club. Special thanks to Mrs. Caroline Standley and Mrs. Patsy Lawrence for serving as co-chairs and for their help in coordinating the Luncheon. Other

guests included Tia Andrighetti, Libby Borden, Elise R. Browne, Caroline Cabot, Lois Cheston, Brooks Lobkowitz, Celia Morris, Judy Sterry, Lees Breckinridge Yunits, Butch Wallace and Sally Willis.

Kentucky Women's Health Summit

Nathan Lee, CEO & President and other FNS staff, attended the Kentucky Women's Health Summit sponsored by the Kentucky Commission on Women and the Kentucky Cancer Program. Mr. Lee presented the first Mary Breckinridge Pioneer in Women's Health Award to Dr. Shin-je Ghim during the Mary Breckinridge Luncheon.

Dr. Ghim, in partnership with the Brown Cancer Center's Dr. A. Bennett Jenson, developed the first vaccine against human papillomavirus (HPV), the virus that can cause cervical cancer.



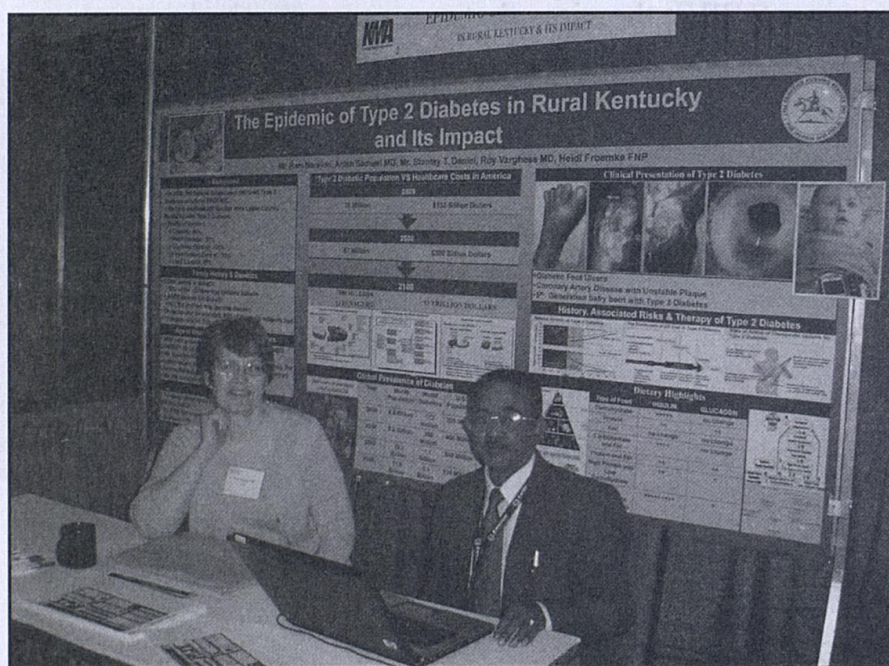
Nathan Lee, Dr. Shin-je Ghim, Dr. A Bennett Jenson and Linda Roach, Bluegrass Committee Co-Chair & FNS Trustee

American Medical Association Meeting

September 11th-17th, 2008, Dr. Roy Varghese, Internist and Chief of Staff and Heidi Froemke, FNP & Hospitalist, were presenters at the Annual American Medical Association meeting held in Louisville, Kentucky. The poster presentation was entitled “The Epidemic of Type II Diabetes in Rural Kentucky and Its Impact”. The research was a collaborative effort related to a generational relationship in the hereditary links of Diabetes.

Dr. Roy Varghese Appointed to the Kentucky Institute for Aging Committee

Dr. Varghese was appointed by Governor Steve Beshear to serve as a member of the Kentucky Institute for Aging Committee. He received an award for his efforts in treating the aging in Kentucky and was invited to have dinner with President Bush.



Dr. Roy Varghese and Heidi Froemke, FNP

Healthland Annual Conference

During August, Mallie Noble, Mary Breckinridge Hospital (MBH) Administrator, Kevin Couch, MBH Controller, Robert Besten, Vice-President of Finance, Brenda Morgan, Admitting Manager, and Kevin Cook, OR Manager attended Healthland's Annual Conference held in Orlando, Florida. Healthland provides the information system for the Hospital (billing, electronic medical record, etc.). Topics included new software updates and tips on how to use the System more effectively.



Back Row: Robert Besten, Mallie Noble, Brenda Morgan, Kevin Cook and Mike Kolb with Healthland. Front - Kevin Couch

Nurse Practitioner Week

Dr. Julie Marfell, Chair of the Department of Family Nursing at the FSMFN, accepted a proclamation on behalf of the Kentucky Coalition of Nurse Practitioner and Nurse-Midwives from Council Woman Peggy Henson from the Mayor's office and the Fayette County Urban Council in Lexington on November 12th for the celebration of Nurse Practitioner (NP) Week, November 9th-15th. A proclamation to celebrate NP Week was also received from Kentucky Governor Steve Beshear. The Lexington proclamation signing was featured on "Lexington Now" in Lexington.

Legacies

by Charity Galena (Moore) Patterson

So often, we think of the legacies that so many have left, in one way or another, to the FNS. It's a pleasure to hear from one of the countless people whose life has been shaped by the legacies left to her by the FNS. - Nathan Lee, President & CEO

On October 23, 1973, my mother, assisted by my dad and Molly Lee, delivered me into the world at the Old Hyden Hospital. Right after my birth, my mom tells me that she and Molly Lee had tea. That story warms my heart especially now that I have two children of my own, one of which was delivered by a nurse midwife here in Pittsburgh. The nature of my birth and growing up in Leslie County have shaped the course of my life, my health provider choices and my mothering style. No matter how far I am from Leslie County, FNS keeps finding me. Here's my story:

My name is Charity Galena (Moore) Patterson. I am the daughter of Darrell J. Moore and Ruby F. (Moore) Robinson. My dad was Personnel Director at Mary Breckinridge Hospital (MBH) from 1976 to 1989. My mom worked in medical records from 1976 to 1987 and was Risk Manager from 1987 to 1990. I am also the granddaughter of Earl and Frances Moore and grandniece of JG and Juanetta Morgan (MBH employees for over 30 years). I remember as a child playing on the elevators at the hospital (sorry Mom and Dad), getting change from Evelyn Gibson for the Pepsi machines, and the laughter in medical records from the jokes the women were always telling.

My family moved to Richmond, Kentucky, my senior year of high school (1990). I went to Eastern Kentucky University and received a Bachelor's Degree in Statistics and Mathematics with a minor in Biology. I then went on to get my Masters in Science of Public Health and Doctorate of Philosophy in Biostatistics at the University of South Carolina (USC). On June 26, 2004, I was

blessed to marry a wonderful Southern gentlemen who turned out to be the best father in the world. He holds a Doctorate in Health Policy from USC and his research area is in rural EMS. We met at the South Carolina Rural Health Research Center (SCRHRC) where we both worked for Michael Samuels, DrPH, the Director. He had worked in the U.S. Public Health Service (PHS) for many years. As the Director of PHS's Health Underserved Rural Areas Program, he was the Project Officer for the research and demonstration grant to the Frontier Nursing Service in Hyden in the late 1970s. Dr. Samuels developed a close working relationship with the staff. On a site visit to Hyden he met Miss Helen Browne, the Director at that time and one of the original nurse practitioners recruited from England by FNS's Founder, Mary Breckinridge who came to Leslie County to improve maternal and child health in eastern Kentucky. Dr. Samuels never forgot that meeting and always included the story of the Frontier Nursing Service in his health politics and policy courses at the University of South Carolina. Dr. Samuels is currently Endowed Chair/Distinguished Scholar in Rural Health Policy at the University of Kentucky.

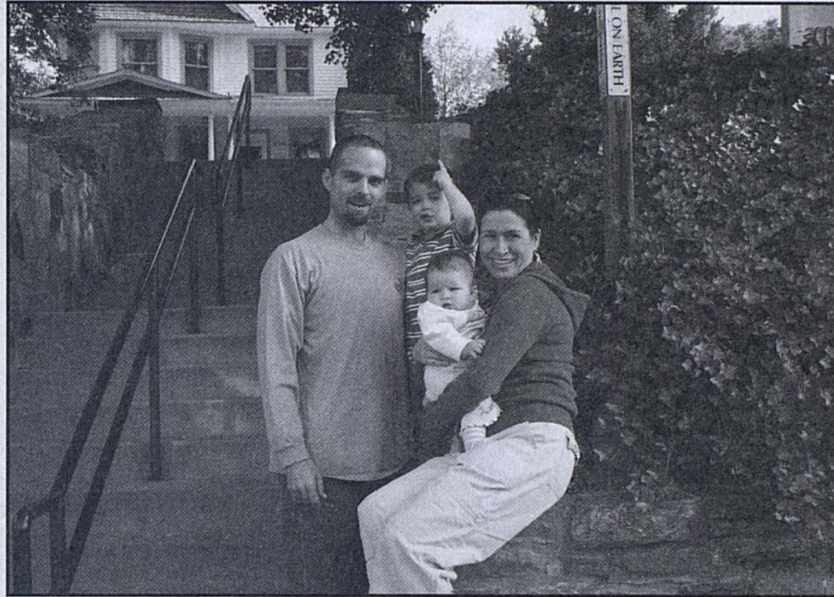
While working for the SCRHRC, I conducted research on domestic violence among US children. I found a write-up by Rhonda M. Johnson, DrPH, (CFNP, 1988) on domestic violence in rural areas (<http://ruralhealth.hrsa.gov/pub/domviol.htm>). At the next National Rural Health Association Conference, I sat down next to a woman and started chatting. It turned out to be Rhonda and after a little discussion we discovered we both had FNS ties - she was a graduate of the FNP program in 1988 (we were at a meeting in Utah, I believe). Also, through my SCRHRC work, I went to an annual meeting for the Federal Office of Rural Health Policy. I managed to find the folks from Kentucky not expecting to see someone I knew but rather just to say "Go, Wildcats!" I got the best surprise by finding Mallie Noble. She was and still is a dear friend of my mother's from their years of working together in MBH medical records.

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From the University of South Carolina (USC), we moved to the University of North Carolina (UNC) for Daniel's post-doctoral training where Daniel's mentor was none other than Timothy Carey, MD. Tim was an Internist at MBH from 1979 to 1983. He was (and still is) the Director of the Cecil G. Sheps Center for Health Services Research. His wife, Kathleen Dalton (MBH Business Office 1978 to 1983), also worked at the Sheps Center. We had them over for dinner when my dad and Ann Browning (FNS employee for over 20 years) came for Thanksgiving in 2005. It was quite a reunion! Turns out one of their sons was delivered by Molly Lee as well.

From UNC, we moved to Pittsburgh in August 2007 where I am an Associate Professor of Medicine and my husband is an Assistant Professor of Emergency Medicine. After my last baby was born in April 2008, I was at a follow-up appointment with one of the midwives (Nancy Ritenour, FNS CNM 1985) at the University of Pittsburgh. I asked her where she did her training and she said "Frontier Nursing Service in Kentucky." She was amazed to hear that I was from Hyden, KY. Oh well, I don't have to tell you that my appointment was a little longer than expected from all of our "catching up." She was at FNS in 1984 and 1985 and recognized some of the names I mentioned (Dave Hatfield, Eddie J. and Cloma Moore, and others). Turns out she even bought a car from Molly Lee before Molly went back to England and sold her own car to one of the Wootons.

On a recent trip to my dad's house in Richmond, Kentucky, I picked up an FNS *Bulletin*. I loved reading the stories and the updates. My grandmother brought two copies to me that had pictures of me, my dad and mom at an FNS picnic behind the Hyden Elementary School. Oh, the hairstyles!! It was then that I decided to write a little note for the *Bulletin* readers just to let them know what great things have come from FNS and how little parts of FNS are scattered throughout the country and that we do manage to find each other ever so often.



Daniel, Thomas Jay, Gracen Fay and Charity Patterson

“The most important single influence in the life of a person is another person . . . who is worthy of emulation.”

-Paul D. Shafer

Former Staff and Courier News



During September, former FNS Nurse-Midwife, Harriet (Jordan) Palmer, and her daughter, Kathleen, visited Wendover and other FNS facilities. Harriet first came to the FNS in 1957 to work as the Hyden District Nurse. She later went to Scotland to be trained as a Nurse-Midwife and returned to Kentucky in 1959 to fill in as the Interim Hospital Superintendent for Liz Palethorp. Harriet lives in California.

SAVE THE DATE!!!!

Former Couriers and Frontier School of Midwifery & Family Nursing Alumni are invited to the **Annual Courier Conclave and Alumni Homecoming** to be held May 9th, 10th, 2009 at Wendover, home of the Frontier Nursing Service.

More details in the March 2009 *Quarterly Bulletin*

Frontier School of Midwifery & Family Nursing

by Dr. Susan Stone, President & Dean

Faculty Defines the Quality Enhancement Plan

It has definitely been a busy and beautiful fall at the school as we admitted two more classes totaling 112 new MSN students (43 of these are in the ADN-MSN Bridge option), launched our new Doctor of Nursing Practice Program admitting the first nine students and had a wonderful graduation ceremony. It is always most fulfilling to see the happy faces of the graduates and their families on graduation day.



Tonya Nicholson, Aggie Hoeger, Allison Mattila, Renda Joy Holladay, Heidi Froemke, Susan Stapleton, Mary Jordan, Grace Ellen Urquhart and Valerie Acosta

We are deep into the preparations for our SACS reaffirmation process. As you may all remember, the Southern Association of Colleges and Schools (SACS) is the accreditation organization for FSMFN. It is hard to believe it but it has been five years since our first accreditation with SACS and we are due again to go through the peer review process which is designed to assure the educational excellence of our programs.

One requirement of the accreditation process is that we engage in the development of a Quality Enhancement Plan (QEP). The purpose of the QEP is to develop an effective quality improvement process that is specifically designed to improve learning outcomes for our students. The initial task was to bring the faculty, students, and staff together to identify a specific project that would improve learning. After many meetings between faculty, staff and student council as well as surveys of students, we have a plan. We intend to develop a Community of Inquiry (COI) at Frontier. We have long embraced the idea of a culture of caring as a way to enhance the educational experience. We came across the Community of Inquiry (COI) model in the education literature as a method of developing more than a culture of caring; a culture where caring, inquiry, and learning occurred in a carefully created online environment. The COI model was first described by Garrison, Anderson and Archer (2000).

Frontier has been very successful in educating students at a distance for the past 20 years. But things are changing again. The technology is moving ahead so quickly affording us more opportunities to interact with our students in the online environment. For example, we can talk to our students online, show videos, do power point slides, create simulated case studies, and offer lectures as podcasts. The COI model will help us to create an environment where we can systematically design our courses to improve learning while using the technology to interact effectively.

The COI model contends that effective online teaching and/or learning is the function of three types of presences embedded within the online curriculum. The presences include: (1) Social presence, the ability of learners to feel socially and emotionally connected in the online environment; (2) Teaching presence, the design, facilitation, and direction of cognitive and social processes for the realization of personally meaningful and educationally worthwhile learning outcomes and (3) Cognitive presence, the extent to which learners are able to construct and confirm learning through sustained reflection and discourse (Garrison et al., 2000).

We believe that adoption of the COI model at Frontier will take the teaching methods used by our faculty to the next level. Our mission of providing the highest quality education that prepares nurses to become competent, entrepreneurial and compassionate nurse-midwives and nurse practitioners will be further fulfilled by our being able to reach across all learning styles to provide the best education possible using distance technologies. We will be carefully designing the strategies and measuring the results. This is a five year plan, the results of which will be reported annually in the FSMFN President's report.

Finally I want to thank all of you for your ongoing support of our School and all of FNS as we constantly strive to improve our programs. I want to wish all of you a wonderful holiday season and the very best New Year as we rapidly approach 2009 marking twenty years of distance education at the Frontier School of Midwifery and Family Nursing.

Reference

Garrison, D. R., Anderson, T. and Archer W. 2000. *Critical inquiry in a text-based environment: Computer conferencing in higher education. The Internet and Higher Education 2 (2-3): 87-105.*

**EIGHTY-THIRD ANNUAL REPORT
OF THE
FRONTIER NURSING SERVICE**

**For the Fiscal Year
May 1, 2007 - April 30, 2008**



Independent Accountants' Report on Consolidated Financial Statements and Supplementary Information

Board of Governors
FNS, Inc. and Affiliates
Lexington, Kentucky

We have audited the accompanying consolidated statements of financial position of FNS, Inc. and Affiliates (Service) as of April 30, 2008 and 2007, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Service's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Service as of April 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplementary consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and changes in net assets of the individual organizations, and is not a required part of the basic consolidated financial statements. The consolidating information has been subjected to the procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

BKD, LLP

December 4, 2008

FRONTIER NURSING SERVICE

FNS, Inc. and Affiliates Consolidated Statements of Financial Position April 30, 2008 and 2007

Assets	2008	2007
Current Assets		
Cash	\$ 287,560	\$ 58,211
Accounts receivable		
Patient, less allowance for uncollectible accounts; 2008 - \$904,908, 2007 - \$1,271,493	3,991,730	3,298,155
Student tuition, less allowance for uncollectible accounts; 2008 - \$26,882, 2007 - \$55,000	285,533	715,421
Other	145,987	19,533
Investments	11,745,578	16,592,403
Supply inventories	325,292	287,346
Estimated third-party payer settlements	1,064,466	1,042,379
Prepaid expenses and other assets	157,360	146,663
Total current assets	18,003,506	22,160,111
Property and Equipment, Net	5,408,078	4,165,974
Other Assets		
Beneficial interest in outside trusts	1,956,937	2,021,731
Investments held in perpetuity	3,956,521	3,956,521
Physician loan receivable	268,346	293,794
Other noncurrent assets	242,195	288,138
Total other assets	6,423,999	6,560,184
Total assets	\$ 29,835,583	\$ 32,886,269

See Notes to Consolidated Financial Statements

QUARTERLY BULLETIN

Liabilities and Net Assets

	2008	2007
Current Liabilities		
Accounts payable	\$ 1,211,262	\$ 1,443,225
Accrued expenses	2,430,567	2,633,593
Deferred tuition, students	1,083,601	1,251,981
Lines of credit	1,000,000	500,000
Current maturities of long-term obligations	597,566	256,815
Total current liabilities	<u>6,322,996</u>	<u>6,085,614</u>
Long-term Liabilities		
Long-term obligations, net of current portion	1,577,583	1,021,252
Lines of credit	5,017,335	2,497,958
Total long-term liabilities	<u>6,594,918</u>	<u>3,519,210</u>
Total liabilities	<u>12,917,914</u>	<u>9,604,824</u>
Net Assets		
Unrestricted	2,446,931	7,256,794
Temporarily restricted	8,557,280	10,046,399
Permanently restricted	5,913,458	5,978,252
Total net assets	<u>16,917,669</u>	<u>23,281,445</u>
Total liabilities and net assets	<u>\$ 29,835,583</u>	<u>\$ 32,886,269</u>

FRONTIER NURSING SERVICE

FNS, Inc. and Affiliates
Consolidated Statements of Activities and Changes in Net Assets
Years Ended April 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Change in Unrestricted Net Assets		
Revenues and gains		
Net patient service revenue	\$ 17,082,773	\$ 18,376,794
Contributions	476,913	495,591
Education revenues		
Tuition and educational fees	4,722,571	3,738,060
Federal grants	333,326	64,850
Other revenue		
Investment return	32,532	1,101,345
Other revenue	879,568	435,328
Net assets released from restriction due to satisfaction of program requirements	<u>1,758,612</u>	<u>1,455,955</u>
Total revenues and gains	<u>25,286,295</u>	<u>25,667,923</u>
Expenses		
Salaries, wages and benefits	15,716,621	13,295,182
Medical services, supplies and other expenses	9,834,292	9,499,544
Facility costs	3,307,357	2,958,517
Provider taxes	242,467	240,878
Provision for bad debts	<u>995,421</u>	<u>1,489,802</u>
Total expenses	<u>30,096,158</u>	<u>27,483,923</u>
Change in unrestricted net assets	<u>(4,809,863)</u>	<u>(1,816,000)</u>
Change in Temporarily Restricted Net Assets		
Contributions	136,084	94,203
Investment return	132,572	1,345,905
Change in annuity payable	837	1,121
Net assets released from restriction due to satisfaction of program requirements	<u>(1,758,612)</u>	<u>(1,455,955)</u>
Change in temporarily restricted net assets	<u>(1,489,119)</u>	<u>(14,726)</u>
Change in Permanently Restricted Net Assets		
Change in beneficial interest in outside trusts	<u>(64,794)</u>	<u>107,119</u>
Change in permanently restricted net assets	<u>(64,794)</u>	<u>107,119</u>
Change in Net Assets	<u>(6,363,776)</u>	<u>(1,723,607)</u>
Net Assets, Beginning of Year	<u>23,281,445</u>	<u>25,005,052</u>
Net Assets, End of Year	<u>\$ 16,917,669</u>	<u>\$ 23,281,445</u>

QUARTERLY BULLETIN

FNS, Inc. and Affiliates
Consolidated Statements of Cash Flows
Years Ended April 30, 2008 and 2007

	2008	2007
Operating Activities		
Change in net assets	\$ (6,363,776)	\$ (1,723,607)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Change in beneficial interest in outside trusts	64,794	(107,119)
Provision for bad debts	995,421	1,489,802
Depreciation and amortization	1,142,030	1,086,903
Net realized and unrealized gains on investments	609,312	(1,615,318)
Changes in		
Patient and student tuition receivables	(1,259,108)	(2,656,023)
Other receivables	(126,454)	(9,131)
Supply inventories	(37,946)	(117,354)
Estimated third-party payer settlements	(22,087)	6,018
Prepaid expenses and other assets	(10,697)	42,202
Accounts payable	(231,963)	226,451
Accrued expenses	(203,026)	331,167
Deferred tuition, students	(168,380)	123,071
Other noncurrent assets	71,391	(45,943)
Net cash used in operating activities	(5,540,489)	(2,968,881)
Investing Activities		
Purchases of property and equipment	(1,464,659)	(937,007)
Proceeds from sale of investments	12,346,750	16,097,870
Purchase of investments	(8,109,237)	(12,301,042)
Net cash provided by investing activities	2,772,854	2,859,821
Financing Activities		
Net borrowings under line of credit agreements	3,019,377	499,950
Proceeds from issuance of long-term obligations	718,774	32,128
Principal payments on long-term obligations	(741,167)	(443,566)
Net cash provided by financing activities	2,996,984	88,512
Increase (Decrease) in Cash	229,349	(20,548)
Cash, Beginning of Year	58,211	78,759
Cash, End of Year	\$ 287,560	\$ 58,211
Supplemental Cash Flows Information		
Cash payments for interest	\$ 338,356	\$ 262,988
Noncash Investment and Financing Activities		
Equipment acquired with capital leases	\$ 919,475	\$ 798,300

FRONTIER NURSING SERVICE

FNS, Inc. and Affiliates **Notes to Consolidated Financial Statements** **April 30, 2008 and 2007**

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

Organization

Mary Breckinridge established the Kentucky Committee for Mothers and Babies in Leslie County, Kentucky, in 1925. The name later changed to the Frontier Nursing Service, Inc. and Affiliates (Service) in 1928. The Service's original purpose was to provide needed health care in the Appalachian area, introducing the first nurse-midwives in the United States. During its early years, the Service was the only provider of health services in Leslie County and a portion of surrounding counties comprising its service area. In 1939, the Service established a midwifery school. Today, FNS, Inc. (FNS) operates as a holding company for a midwifery and family nursing school, a real estate holding company, a hospital, a home health agency, a foundation and a system of rural health clinics which provide primary care services through the Dr. Anne Wasson Rural Health Center, the Kate Ireland Health Care Center, Community Health Center, Beech Fork Clinic and Christian Family Healthcare. The Service has historically been dependent on charitable contributions to fund a significant portion of the costs of services and programs.

Principles of Consolidation

The Service consists of the following nonprofit entities:

FNS – Parent holding company of the Service.

Mary Breckinridge Health Care, Inc. (MBHC) – Entity responsible for operating the hospital.

Frontier School of Midwifery and Family Nursing, Inc. (School) – Entity responsible for operating the midwifery and family nursing school.

Frontier Nursing Service Foundation, Inc. (Foundation) – Entity responsible for maintaining the investment portfolio of the Service and receiving contributions from donors.

FNS Real Estate, Inc. (FNS REI) – Entity responsible for holding and managing the real estate and fixed assets owned by the Service.

Frontier Nursing Healthcare, Inc. (FNH) – Entity responsible for operating the rural health clinics.

Mary Breckinridge Home Health, Inc. (MBHH) – Entity responsible for operating the home health agency.

The consolidated financial statements include the accounts and transactions of the above entities. Intercompany transactions and accounts have been eliminated in consolidation.

FNS, Inc. and Affiliates
Notes to Consolidated Financial Statements
April 30, 2008 and 2007

Use of Estimates

The preparation of consolidated 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 and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments having an original maturity of three months or less. Cash equivalents are held in trust accounts, which are classified as investments in the consolidated statements of financial position.

Patient Accounts Receivable

MBHC, FNH and MBHH report patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. MBHC, FNH and MBHH provide an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, MBHC, FNH and MBHH bill third-party payers directly and bill the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Student Tuition Accounts Receivable

Accounts receivable are stated at the amount billed to students. The School provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts past due more than 120 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the student.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value and realized gains and losses on other investments.

FRONTIER NURSING SERVICE

FNS, Inc. and Affiliates **Notes to Consolidated Financial Statements** **April 30, 2008 and 2007**

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted, based upon the existence and nature of any donor or legally imposed restrictions. The board of governors designates unrestricted assets for special uses.

Supply Inventories

Medical supply and pharmaceutical inventories are stated at the lower of cost, determined using first-in, first-out method, or market.

Property and Equipment

Property and equipment are stated at cost and are depreciated on a straight-line basis over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives.

Beneficial Interest in Outside Trusts

The Service is a beneficiary of trust funds held by others. The Service has recorded as permanently restricted net assets the fair value of the trusts, which represents an estimate of the net present value of the estimated income to be received from these trusts. Income received from such funds is included in unrestricted donations.

Deferred Tuition – Students

The Service provides graduate nurse-midwifery and family nurse practitioner education over a 24 to 36-month period (depending on full-time or part-time status) to eligible students. The School's policy is to recognize tuition revenue ratably over the term of the program for each student.

Estimated Malpractice Costs

An annual estimated provision is accrued for the self-insured portion of medical malpractice claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

Self-funded Health Care Plan

The Service maintains a self-insured health care plan covering substantially all full-time employees. Contributions are made to the administrator as health care claims are incurred and expenses are accrued as claims are made.

FNS, Inc. and Affiliates
Notes to Consolidated Financial Statements
April 30, 2008 and 2007

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Service has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Service in perpetuity.

Net Patient Service Revenue

The Service has agreements with third-party payers that provide for payments to MBHC, FNH and MBHH at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Charity Care

The Service provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because MBHC, FNH and MBHH do not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Service's charity care policy were \$2,151,362 and \$1,359,273 for 2008 and 2007, respectively.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Grant Revenues

Support funded by grants is recognized as the School performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

FRONTIER NURSING SERVICE

FNS, Inc. and Affiliates Notes to Consolidated Financial Statements April 30, 2008 and 2007

Income Taxes

The Service is comprised of not-for-profit corporations that are tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code (Code), except for FNS REI, which is a not-for-profit corporation recognized under Section 501(c)(2) of the Code. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

Note 2: Net Patient Service Revenue

MBHC, FNH and MBHH have agreements with third-party payers that provide for payments at amounts different from established rates. These payment arrangements include:

Medicare – MBHC has elected critical access hospital (CAH) designation, which changes the payment system for the care of Medicare beneficiaries. As a CAH, inpatient and outpatient services are paid on a cost reimbursement methodology. MBHC is reimbursed certain services at tentative rates with a final settlement determined after submission of annual cost reports by MBHC and audit thereof by the Medicare fiscal intermediaries. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a combination of fee schedules and a cost reimbursement methodology. MBHC, FNH and MBHH are reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by MBHC, FNH and MBHH and audits thereof by the Medicare fiscal intermediary.

Medicaid – With the CAH designation, both inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. MBHC is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by MBHC and audits thereof by the Department for Medicaid Services. MBHC, FNH and MBHH are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by MBHC, FNH and MBHH and audits thereof by the Medicaid fiscal intermediary.

Approximately 74% and 66% of net patient service revenues for 2008 and 2007 are from participation in the Medicare and state sponsored Medicaid programs, respectively.

MBHC, FNH and MBHH have also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to MBHC, FNH and MBHH under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

QUARTERLY BULLETIN

FNS, Inc. and Affiliates Notes to Consolidated Financial Statements April 30, 2008 and 2007

Note 3: Concentration of Credit Risk

MBHC, FNH and MBHH grant credit without collateral to patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at April 30 was:

	2008	2007
Medicare	56%	32%
Medicaid	13%	35%
Other third-party payers	22%	25%
Patients	9%	8%
	100%	100%

The Service maintains a substantial portion of its cash and investments in two local financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. At various times during the fiscal year, the cash balances may exceed the insured limits. The Service considers the risk associated with the cash balances in excess of the insured limits to be minimal. At April 30, 2008, the Service's cash accounts exceed federally insured limits by approximately \$87,000.

Note 4: Investments and Investment Return

Investments at April 30 consisted of the following:

	2008	2007
Cash and equivalents	\$ 1,113,062	\$ 1,645,929
Corporate bonds	1,254,974	1,712,840
U.S. Treasury obligations	3,356,452	3,822,564
Common stock	9,107,227	12,190,639
Common trust fund equities	870,384	1,176,952
	15,702,099	20,548,924
Less investments held in perpetuity	3,956,521	3,956,521
Investments – current	\$ 11,745,578	\$ 16,592,403

FRONTIER NURSING SERVICE

FNS, Inc. and Affiliates Notes to Consolidated Financial Statements April 30, 2008 and 2007

Total investment return is comprised of the following for the year ended April 30, 2008:

	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 269,295	\$ 505,121	\$ 774,416
Net realized gains	409,580	575,258	984,838
Net unrealized loss	(646,343)	(947,807)	(1,594,150)
Total investment return	<u>\$ 32,532</u>	<u>\$ 132,572</u>	<u>\$ 165,104</u>

Total investment return is comprised of the following for the year ended April 30, 2007:

	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 373,473	\$ 458,459	\$ 831,932
Net realized gains	779,274	931,364	1,710,638
Net unrealized gain	(51,402)	(43,918)	(95,320)
Total investment return	<u>\$ 1,101,345</u>	<u>\$ 1,345,905</u>	<u>\$ 2,447,250</u>

The Service's investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in these risks in the near term could materially affect the amounts reported in the consolidated statements of position and consolidated statements of activities and changes in net assets. While the Service does not directly invest in derivative securities, it may through investment holdings with a manager of hedge funds, indirectly hold these securities.

Note 5: Property and Equipment

Property and equipment held by the Service included the following at April 30:

	2008	2007
Land and improvements	\$ 1,176,134	\$ 963,369
Buildings	4,748,717	4,748,717
Equipment	11,812,573	10,578,021
Construction in progress	1,292,666	417,560
	<u>19,030,090</u>	<u>16,707,667</u>
Less accumulated depreciation and amortization	13,622,012	12,541,693
	<u>\$ 5,408,078</u>	<u>\$ 4,165,974</u>

QUARTERLY BULLETIN

FNS, Inc. and Affiliates
Notes to Consolidated Financial Statements
April 30, 2008 and 2007

Note 6: Beneficial Interest in Outside Trusts

The Service is a beneficiary of trust funds held by others. The Service receives income annually based on a percentage stipulated in the trust agreements. The trustee is to hold assets of the trusts in perpetuity. Should the Service ever cease to exist, the assets will be transferred to another beneficiary as named in the trust agreement. The composition of the Service's beneficial interest in outside trusts held by third parties consisted of the following as of April 30:

	2008	2007
Ballard Trust	\$ 313,274	\$ 336,513
Gage Trust	1,097,304	1,106,777
Jones Trust	60,314	61,989
Patterson Trust	244,510	261,027
Ross Trust	84,965	90,502
Schoff Trust	57,608	61,467
Stebbins Trust	98,962	103,456
	<u>\$ 1,956,937</u>	<u>\$ 2,021,731</u>

Note 7: Medical Malpractice Claims

The Service purchases medical malpractice insurance under a claims-made policy on a fixed premium basis with coverage of \$1,000,000 per occurrence, \$3,000,000 in aggregate and a \$500,000 self-insured retention. 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 Service's claim experience, no such accrual, other than as discussed in Note 14, has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Long-term Obligations

Long-term obligations consisted of the following at April 30:

	2008	2007
Note payable to Toyotal Financial Services due February 21, 2009, interest at 4.99%, due in monthly installments of \$432, including interest, collateralized by a 2004 Toyota RAV4.	\$ 3,806	\$ 8,664

FRONTIER NURSING SERVICE

FNS, Inc. and Affiliates
Notes to Consolidated Financial Statements
April 30, 2008 and 2007

	2008	2007
Note payable to Toyotal Financial Services due February 21, 2009, interest at 4.99%, due in monthly installments of \$399, including interest, collateralized by a 2004 Toyota RAV4.	\$ 3,517	\$ 8,008
Note payable to bank due July 28, 2008, including interest at 8.50%, due in quarterly installments of interest only, then one principal payment at July 28, 2008, collateralized by Toyota Avalon.	32,270	32,128
Note payable to bank due January 10, 2010, interest at prime (8.50% at April 30, 2007), plus 0.25% due in monthly installements of \$1,089 with the remaining balance at maturity, collateralized by a trust account held with another bank. This note was paid off in 2008.	-	183,626
Note payable to bank due July 4, 2008, interest at 4.60%, due in monthly installments of \$10,218, including interest, collateralized by a certificate of deposit held by the bank.	30,087	-
Note payable to GE Healthcare Financial Services due December 15, 2012, interest at 9.72%, due in monthly installements of \$2,082, including interest, collateralized by property and equipment.	93,421	-
Note payable to bank due July 13, 2017, including interest at 7.50%, due in monthly installments of \$3,730 with the remaining balance at maturity, collateralized by certain investments.	494,859	-
Capital leases for equipment, at rates ranging from 2.00% to 9.00%, collateralized by equipment.	1,517,189	1,045,641
	2,175,149	1,278,067
Less current portion	597,566	256,815
Noncurrent obligations	\$ 1,577,583	\$ 1,021,252

FNS REI QUARTERLY BULLETIN

FNS, Inc. and Affiliates
Notes to Consolidated Financial Statements
April 30, 2008 and 2007

Equipment under capital leases included the following at April 30:

	2008	2007
Equipment	\$ 2,106,182	\$ 2,455,892
Less accumulated depreciation	454,814	1,378,127
	\$ 1,651,368	\$ 1,077,765

Aggregate annual maturities of long-term obligations and capital lease obligations at April 30, 2008, were:

	Long-term Obligations (Excluding Leases)	Capital Lease Obligations
2009	\$ 94,261	\$ 580,045
2010	26,888	531,185
2011	29,416	294,255
2012	32,185	169,112
2013	26,788	79,792
Thereafter	448,422	-
	\$ 657,960	1,654,389
Less amount representing interest		137,200
Present value of future minimum lease payments		\$ 1,517,189

Note 9: Lines of Credit

Outstanding balances as of April 30:

	2008	2007
FNS REI (A)	\$ 479,167	\$ 502,700
Foundation (B)	1,982,380	1,995,258
FNS (C)	2,555,788	-

FRONTIER NURSING SERVICE

FNS, Inc. and Affiliates Notes to Consolidated Financial Statements April 30, 2008 and 2007

	2008	2007
FNS (D)	\$ 1,000,000	\$ -
FNH (E)	-	500,000
	6,017,335	2,997,958
Less current portion	1,000,000	500,000
Noncurrent portion	\$ 5,017,335	\$ 2,497,958

- (A) FNS REI has a \$500,000 revolving line of credit expiring on June 10, 2009, at which time, all principal amounts are due. The line is collateralized by real estate. Interest varies with the bank's prime rate, which was 5.00% and 8.25% on April 30, 2008 and 2007, respectively, and is payable monthly.
- (B) The Foundation has a revolving line of credit with a maximum available credit as determined by the lender from time to time based on 50% of the value of securities not otherwise pledged as collateral to other institutions. All principal amounts outstanding are payable upon the maturity of this line of credit, which is March 20, 2010. Interest varies with the bank's prime rate, which was 5.00% and 8.25% on April 30, 2008 and 2007, respectively, and is payable monthly. This line of credit is secured by investments held with the lender.
- (C) FNS has a \$2,750,000 revolving line of credit which expires on August 16, 2010. The line is collateralized by a trust account held at another bank. The line of credit has a variable interest rate equal to one-month LIBOR plus 1.65%, which was 4.35% at April 30, 2008, and is payable monthly.
- (D) FNS has a \$1,000,000 revolving line of credit which expires on May 15, 2008 that has been extended through December 15, 2008. The line is collateralized by a trust account held at another bank. The line of credit has a variable interest rate equal to one-month LIBOR plus 1.65%, which was 4.35% at April 30, 2008, and is payable monthly.
- (E) FNH had a \$500,000 revolving line of credit which expired on August 30, 2007. The line was collateralized by a trust account held at another bank. Interest varies with the bank's prime rate, which was 8.25% on April 30, 2007, less 1.25% per annum and was payable monthly.

Note 10: Retirement Plan

The Frontier Nursing Service, Inc. 401(k) Profit-sharing Plan (Plan), a contributory defined contribution retirement plan, covers substantially all of the Service's employees. Employer contributions includes a mandatory 3% employer matching contribution and a discretionary contribution which is determined by the board of governors of the Service annually and are allocated among Plan participants on the basis of eligible employee salaries. The Service's pension expense related to the Plan was \$374,090 and \$334,024 in 2008 and 2007, respectively.

FNS, Inc. and Affiliates
Notes to Consolidated Financial Statements
April 30, 2008 and 2007

Note 11: Self-insurance Program

The Service has a self-insurance program for hospitalization and medical coverage for its employees. The Service limits its losses through the use of a stop-loss policy from re-insurers. Specific individual losses for claims are limited to \$60,000 per year. One individual is excluded from this limit. The stop-loss amount for that individual is \$100,000. Claims that exceeded the stop-loss coverage limits for which the Service will be reimbursed by the stop-loss carrier totaled \$53,314 and \$12,590 for the years ended April 30, 2008 and 2007, respectively. The amount of actual losses incurred could differ materially from the estimates reflected in these consolidated financial statements. Cumulative amounts estimated to be payable by the Service with respect to reported claims and incurred but not reported claims have been accrued in the consolidated statements of financial position.

Note 12: Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2008	2007
Alice Adams Scholarship	\$ 15,160	\$ 17,103
Caroline Butler Atwood Memorial Nursing Center Fund	23,529	249,001
Charitable Gift Annuity Fund	8,749	9,975
Education Fund	6,084,854	6,372,704
Elizabeth Canby Bradford DuPont Memorial Fund	21,897	249,781
Endowment fund	39,158	278,154
Friends Endowment	85,206	90,942
Helen Barber Scholarship Fund	101,427	107,590
Hyden Hospital in Patient Care Fund	95,819	154,684
Jacob and Gertrude Arronson Memorial Scholarship Fund	22,440	17,608
Jesse Smith Noyes Endowment	342,747	347,026
Kate Ireland Education Fund	575,282	602,564
Kate Ireland Endowment Scholarship	194,869	202,214
Kate Ireland Women's Healthcare Center Fund	204,364	319,610
Kip Kelso Crist Fund	250,000	400,658
Kitty Ernst Endowment	29,687	35,444
Mardi Perry Scholarship Fund	68,721	72,987
Margaret L. Ferguson Memorial Scholarship Fund	12,819	23,277
Nancy B. Taylor Memorial Scholarship Fund	15,228	24,481
Restricted donations	268,585	303,382

FRONTIER NURSING SERVICE

FNS, Inc. and Affiliates Notes to Consolidated Financial Statements April 30, 2008 and 2007

	2008	2007
Shockey/Bulkey Memorial Fund	\$ 17,774	\$ 28,835
Social Services Fund	68,185	125,677
Susanne Preston Wilson Grandin Memorial Scholarship Fund	10,780	12,702
	\$ 8,557,280	\$ 10,046,399

During the years ended April 30, 2008 and 2007, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes, in the amount of \$1,758,612 and \$1,455,955, respectively.

Permanently restricted net assets include gifts, which require by donor restriction that the corpus be invested in perpetuity and only the income, including unrealized gains and losses, will be made available for program operation in accordance with donor restrictions.

Permanently restricted net assets are summarized as follows:

	2008	2007
Alice Adams Scholarship	\$ 22,722	\$ 22,722
Anne P. Whistler Endowment	2,200,000	2,200,000
Beneficial interest in outside trust	1,956,937	2,021,731
Caroline Butler Atwood Memorial Nursing Center Fund	344,573	344,573
Elizabeth Canby Bradford DuPont Memorial Fund	376,217	376,217
Endowment fund	140,820	140,820
Friends Endowment	34,732	34,732
Hyden Hospital in Patient Care Fund	48,476	48,476
Jacob and Gertrude Arronson Memorial Scholarship Fund	110,369	110,369
James Waller Rodes Memorial Trust	69,957	69,957
Kitty Ernst Endowment	47,701	47,701
Mardi Perry Scholarship Fund	37,022	37,022
Margaret L. Ferguson Memorial Scholarship Fund	36,951	36,951

QUARTERLY BULLETIN

FNS, Inc. and Affiliates

Notes to Consolidated Financial Statements

April 30, 2008 and 2007

	2008	2007
Nancy B. Taylor Memorial Scholarship Fund	\$ 99,072	\$ 99,072
Nixon Billings Fund	105,155	105,155
Shockey/Bulkey Memorial Fund	165,511	165,511
Social Services Fund	41,925	41,925
Susanne Preston Wilson Grandin Memorial Scholarship Fund	25,318	25,318
Wigglesworth Chase Fund	50,000	50,000
	\$ 5,913,458	\$ 5,978,252

Note 13: Functional Expenses

The Service provides health care and educational services primarily to residents within its geographic area. Expenses related to providing these services for the years ended April 30 were as follows:

	2008	2007
Health care and education services	\$ 23,764,227	\$ 22,085,202
General and administrative	5,456,533	4,811,610
Fundraising	875,398	587,111
	\$ 30,096,158	\$ 27,483,923

Note 14: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in Notes 1 and 2.

Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in Notes 1 and 7.

FRONTIER NURSING SERVICE

FNS, Inc. and Affiliates **Notes to Consolidated Financial Statements** **April 30, 2008 and 2007**

Admitting Physicians

MBHC is served by one admitting physician whose patients comprise approximately 20% of MBHC's net patient service revenue.

Self-insurance Health Program

Estimates related to the provision for losses as a result of the Service's self-insurance program for hospitalization and medical coverage for its employees are described in Notes 1 and 11.

General Litigation

The Service is a defendant in one lawsuit, which resulted in an initial judgment against the Service on August 15, 2006. Although the matter has been appealed, as of April 30, 2008 and 2007, the Service recorded \$275,000 and \$500,000 in accrued liabilities, respectively, which is the amount that management believes is the best estimate of loss that will result from the litigation. The amount of ultimate loss could differ materially.

The Service is subject to other claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, change in net assets and cash flows of the Service. Events could occur that would change this estimate materially in the near term.

Note 15: Subsequent Event

Subsequent to year end, the fair value of the Service's investments declined by approximately 17% (\$2,723,569) through October 31, 2008.

Report of Operations

The following is a summary of services provided during the last fiscal year ending April 30, 2008.

	FYE 2008
Percent of Occupancy	42.2
(includes Med/Surg, Swing Bed and Maternity Services)	
Patient Days (total)	3,859
Medical Surgical	3,154
Swing Bed	313
Respite Care	86
Maternity	306
Newborns	219
Observation	759
Emergency Room Visits	9,808
EKG Procedures	3,106
X-Rays (includes MRI, CT Scan, Mammography, DEXA Scans, Ultrasound)	14,324
Lab Procedures	98,328
Social Services	171
Surgeries	491
Physical Therapy	767
Respiratory Therapy	42,982
Home Health Visits	13,299
Deliveries	108
Clinic Visits - all clinics	47,648
School-Based Clinics	2,282

FRONTIER NURSING SERVICE

Eighty-Three Year Totals - Selected Data

Because there continues to be interest in these figures, we have reconstructed the essential information necessary to cover FNS' eighty - three years of operation. These figures should not be understood as audit totals. They are reasonable close approximations as of the close of the fiscal year that ended April 30, 2008.

Maternity cases delivered (since the re-opening of maternity service during February 2007) 108

Number of days of occupancy in FNS hospitals (including old Hyden Hospital, which opened during June 1928, and Mary Breckinridge Hospital which opened during February 1975). Figures exclude newborns 614,162

Number of graduates from the Frontier School of Midwifery & Family Nursing since its opening in 1939 (including nurse-midwives, nurse practitioners, Womens Healthcare Nurse Practitioners) Over 2,500

Contributions from FNS Active Committees \$4,060.00

Active committees include:

- Boston Committee
- Bluegrass Committee
- Louisville Committee
- Washington, D.C. Committee
- New York City Committee

In Memoriam

If you wish to make a contribution to the Frontier Nursing Service in memory of a friend or loved one, please complete and return this section to the Development Office at FNS, 132 FNS Drive, Wendover, Kentucky 41775.

In memory of _____

Contributor's name _____

Person (s) to whom you wish acknowledgment sent

Name _____

Address _____

In Honor

If you wish to make a contribution to the Frontier Nursing Service in honor of someone's accomplishments or achievements, please complete and return this section to the Development Office at FNS, 132 FNS Drive, Wendover, Kentucky 41775.

In honor of _____

Contributor's name _____

Address _____

Person (s) to whom you wish acknowledgement sent

Name _____

Address _____

In Memoriam

These friends have departed this life in recent months. We wish to express our sympathy to their families, and our gratitude for their interest in our work.

Laura Ann Knowles, Concord, New Hampshire, died September 5, 2008 from stomach cancer. Laura graduated from the Frontier School of Midwifery & Family Nursing as a nurse-midwife and a family nurse practitioner. When Laura left the FNS she started The Elizabeth Blackwell Women's Health Center at Presbyterian Hospital in Philadelphia, Pennsylvania, delivered babies at the Booth Maternity Center in Philadelphia, the Bryn Mawr Center and provided home births for the Amish Community in Lancaster County. After moving to Concord, Laura worked at the Hitchcock Clinic in Nashua, was a founding partner of Full Circle Midwifery Service and worked at the Concord Feminist Health Center in Manchester.

The following people gave contributions to the FNS in memory of their friends or loved ones. The names in **bold** are the deceased:

In Memory Of:

Mary C. Combs

Thomas W. & Fannie S. Bilezo

Mrs. Jane Howard

Ms. Helen Koch Madsen

Ms. Carol J. Voss

Phyllis Long Howe

Mr. W. Channing Howe

Edith Jones

Dr. Hunt B. Jones

Ellen Coots Morgan

Scott & Judy Bryson

Mrs. Jefferson Patterson

Mr. Harry Lamberton

In Honor Of:

The following people gave contributions to the FNS in honor of someone. The names in **bold** are the honorees.

Ms. Fra Vaughan

Mrs. Ramona Maxwell

Jeanette Wolff

Mrs. Sarah Jewett

“Over the P’int”

*Re-print from FNS Quarterly Bulletin, Volume 22, Number 2,
Autumn, 1946*

A young mother lies on a roughly made bed, smiling between pains of agony. A white-aproned nurse busily empties her saddlebags and arranges all needed articles on a small hewed table. The lamplight is dim and smoky. The nurse finds her flashlight very convenient as she goes from the cabin living quarters into the dark kitchen which is only a lean-to, built out of boards and slats, and fastened on to the side of the cabin. In this kitchen sleeping peacefully on the floor are several small children with only an old worn quilt underneath them. Sitting outside the cabin, quiet and silent, is the man of the house. You only know he is there by the occasional flash of a match as he lights his pipe.

The mother smothers back her cry of aches and pains as she goes down into the valley and shadow. “I don’t want to disturb the children,” she whispers to the nurse. All is over. A little bit of humanity is placed in the mother’s arms and, as the nurse takes her leave, the mother gives a wan smile and says, “I never got along so well in all my life, thanks to you, brave little nurse, and I join in with thousands of other mothers of the hills as they say, ‘God bless the Frontier Nursing Service,’”

FRONTIER NURSING SERVICE

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(the parent)

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Linda Craft, *Director of Nursing*

Frontier Nursing Healthcare, Inc. (Clinics):

Benjamin Peak, *Director*

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Mary Breckinridge Home Health Agency:

Willa Morris, *Director*

Form of Bequest

For the convenience of those who wish to remember the Frontier Nursing Service in their Wills, this form of bequest is suggested:

"I hereby give, devise and bequeath the sum of . . . dollars (or property properly described) to the Frontier Nursing Service, a corporation organized under the laws of the State of Kentucky.

How Endowment Gifts May be Made

The following are some of the ways of making gifts to the Endowment Fund of the Frontier Nursing Service:

1. By specific gift under your Will - you may leave outright a sum of money, specified securities, real property, or a fraction or percentage of your estate.
2. By gift of residue under your Will - you may leave all or a portion of your residuary estate to the Service.
3. By life insurance - you may have life insurance made payable direct to the Service.

The principal of the gifts will carry the donor's name unless other instructions are given. The income will be used for the work of the Service in the manner judged best by its Trustees.

Contributions to the Frontier Nursing Service, Inc., are tax deductible under Section 501 (c) (3) of the Internal Revenue Code of 1954. Gifts of stock should be sent to:

Merrill Lynch
Attn: Travis Musgrave
801 East Main Street, Suite 1200
Lexington, KY 40507
859-231-5258

FRONTIER NURSING SERVICE

URGENT NEEDS

FNS has an urgent need for the items listed below and hopes that its friends will wish to contribute toward their purchase. We sometimes receive more gifts for a particular item than needed. In those instances, your gift will be applied toward another need.

Emergency Department:

Sure Temp Plus Thermometer	587.00
Welch Allyn 300 Vital Signs Monitor	2,769.31

Frontier School of Midwifery & Family Nursing:

Projector	599.99
Magnvox HD TV x 2	2,396.00

Home Health:

Blood Pressure Cuffs (7)	166.46
Portable O2 SAT Machine	320.70
Stethoscopes (7)	248.85

Maternity Services:

Digital Baby Scale	68.99
Boppy Pillow for Breastfeeding x 3	134.97
Body Pillow for Labor Patients x 2	142.72
Jaudice Meter	4,989.00
Changing Table	180.99
Portable Massage Table for Centering Groups (Prenatal Visits)	250.00
Incentive Gifts for Centering Groups	250.00

Medical Surgical:

Pedia Pals Diagnostic Exam Kit	110.00
Littmann Stethoscope - Infant	72.98
Exergen Infrared Artery Thermometer	394.95
Otoscope & Ophthalmoscope Desk Set	702.00

Nursing Administration:

Advanced Cardiac Life Support Manuals (10) 280.50

School-Located Clinics:

Month Supply of Children's Pain Reliever and Fever Reducer	60.00
Month Supply of Children's Breathing Kits	99.00
Handheld Wood's Lamp plus Supplies (2)	900.00
Exam Table	999.00

We extend special thanks to the following people for contributing to Urgent Needs:

Mrs. Noel Smith Fernandez, Pomona, New York, for the purchase of an audiometer for the School-Located Clinic at Stinnett.

FNS WEBSITE

www.frontiernursing.org

Note to Donors

FNS recently chose BB&T as the bank for donations. The FNS lockbox address has changed to Charlotte, North Carolina. We want our friends to know that FNS is where it always was and the change in the lockbox address only involves financial management.

FRONTIER NURSING SERVICE, Inc.

Its motto:

“He shall gather the lambs with his arm and carry them in his bosom, and shall gently lead those that are with young.”

Isaiah 40:11

Its object:

To safeguard the lives and health of mothers and children by providing and preparing trained nurse-midwives and nurse practitioners for rural areas where there is inadequate medical service; to give skilled care to women in childbirth; to give nursing care to the sick of both sexes and all ages; to establish, own, maintain and operate hospitals, clinics, nursing centers, and educational programs for nurse-midwives and nurse-practitioners; to carry out preventive public health measures; to educate the rural population in the laws of health, and parents in baby hygiene and child care; to provide expert social service; to obtain medical, dental and surgical services for those who need them, at a price they can afford to pay; to promote the general welfare of the elderly and handicapped; to ameliorate economic conditions inimical to health and growth, and to conduct research toward that end; to do any and all other things in any way incident to, or connected with, these objects, and, in pursuit of them to cooperate with individuals and with organizations, private, state or federal; and through the fulfillment of these aims to advance the cause of health, social welfare and economic independence in rural districts with the help of their own leading citizens.

From the Articles of Incorporations
of the Frontier Nursing Service.
Article III as amended April 1999