

FNS

Frontier Nursing Service
Volume 85 Number 2 December 2009



EIGHTY-FOURTH ANNUAL REPORT



US ISSN 0016-2116

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Cover Photo - Mary Breckinridge and her nurses - Thanksgiving Day 1931	

CORRECTION: The number of the last (September 2009) *Quarterly Bulletin* was incorrect. Should have been: Volume 85, Number 1, September 2009.

Frontier Nursing Service Quarterly Bulletin is published at the end of each quarter. Subscription Price \$5.00 a year for Donors/\$15.00 for Institutions. Periodicals postage paid at Wendover, Kentucky 41775 and at additional mailing offices. POSTMASTER: Send address changes to FNS, Inc. 132 FNS Drive, Wendover, Kentucky. Copyright FNS/Inc. All Rights Reserved. **The Frontier Nursing Service does not share its donor mailing list.**

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.

Several years after graduating from St. Luke's Hospital Training School for Nurses in 1910, 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 Wender, 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

As this issue reaches your mailboxes, many of us will recently have broken bread with friends and family over a Thanksgiving meal. For many, the past year has been one when finding something for which to be thankful has truly been a challenge.



You need only open the morning paper or turn on the evening news to see the suffering the “Great Recession” has wreaked on the entire nation . . . and indeed the world. More than a tenth of the nation’s workforce can’t find a job. Companies once thought as permanent as Gibraltar no longer even exist. Measures of optimism are down. Measures of pessimism are up. A recent Wall Street Journal Report quantified what we have known for several months; charitable giving is down, particularly to organizations who, like ours, work to serve the poor and mothers and children at risk in this nation.

All this comes at a time when people need the services we offer more than ever, and this “perfect storm” is all too visible in our audited operating results which follow in these pages. Even for a numbers person like me (or perhaps especially for a numbers person like me . . .) it’s hard to find much for which to be thankful in those figures.

It would seem easy, then, to simply skip over our opportunities to give thanks this year. Nothing could be further from what Mrs. Breckinridge would have us do. Gratitude was always central in Mrs. Breckinridge’s life. As her cousin Marvin Patterson noted in her Foreword to *Wide Neighborhoods*, “She was wont to say, ‘Gratitude is an aristocratic virtue.’” One of the most famous

photographs of the early days of the FNS is called "Thanksgiving Day" and pictures Mrs. Breckinridge and all the service's nurse-midwives on horseback, posed on the banks of the Middle Fork River. Gratitude . . . from a woman who buried not one, but both of her children; a loss, thankfully, most of us will hopefully never understand.

So allow me to give thanks. I am thankful for the challenges of "thin coffers", for they mean that we have used our resources to help those who need them. I am thankful for cramped quarters at the Frontier School of Midwifery and Family Nursing, for they mean that more students are matriculating through our programs to go and serve their own communities. I am thankful for the challenges of sinking floors at the Big House, for they mean that we are blessed with the responsibility for a national treasure. I am thankful for a staff who believes so strongly in our work that they have helped to underwrite it through a ten percent pay reduction over the past several months and I am thankful that because of their dedication and sacrifice, not a single FNS employee has had to be laid off during this most challenging time. I am thankful for the time I've spent travelling to various cities over the past year on behalf of FNS to our now eight active city committees, for it means that interest in our work is stronger than it has been in many years. I am thankful for friends and supporters who, despite what I know are their own challenging circumstances, continue to give generously to our programs so that we can continue to serve those Mrs. Breckinridge would have us serve.

I am thankful that though our path may boast signs for unexpected turns, steep inclines and even some nasty drops, one we will never encounter is a stop sign. I am thankful that our journey continues. And I am thankful that you make it with us.

Field Notes

by Barb Gibson, Assistant to CEO

Note

In the last issue (September 2009) Field Notes, we printed that Edith Collett was the first from Leslie County to graduate from the Frontier School of Midwifery & Family Nurse Practitioner Program. Note that we are speaking of the Bridge Program (RN to MSN) - not the traditional FNP Program.

The Christmas and Children's Fund Update

by Benjamin Peak, Director of Clinics

Each Christmas season, in the tradition of Mrs. Breckinridge, the Frontier Nursing Healthcare Clinics sponsor a holiday event for the children in Leslie and Clay Counties. These events are special times when FNS gives back to the community in the form of a visit from Santa, gifts for the children, cookies and hot chocolate, and holiday meals for needy families. Each of the five clinics celebrates this time with their own event whether in the clinics or visits to the home of the patients we serve.

Last year, we were fortunate to touch the lives of nearly 1,000 children and their families. This year, our plans have grown and our hope is to reach out to more. While the event is sponsored in large part by donations that we receive, our staff also contributes through personal donations, bake sales and giving of their time. Christmas is a special time in the eyes of a child and the excitement that we see each year brings joy to our hearts.

It is with our deepest sense of appreciation that we thank each of you that contribute to this Fund. Without you, these events would not be possible. We will continue this tradition and make it grow. Again, thank you for making this possible.

Kentucky State Fair

During May, staff began working on a display for the Kentucky State Fair. A scene was built to resemble the front porch of a cabin. During August, FNS employees volunteered with the Hyden-Leslie County Chamber of Commerce to represent Leslie County at the Fair "Pride for the Counties".



Leslie County State Fair Display

Annual Mary Breckinridge Festival

This year's Mary Breckinridge Festival was the best yet with thousands in attendance. The theme was "Honoring the Past, Building Toward the Future". The Hospital kicked off the Festival events with the Community-Wide Picnic and, despite the dreary weather, had a record breaking turnout. The Hospital float won first place in the Festival Parade. The float was a replica of a home visit with a nurse-midwife and a scene showing the Hospital. Covy Feltner, FNS employee for over 50 years, was chosen to be "Grand Marshall" of the Parade (see photo on next page).



Covy Feltner - Grand Marshall of Parade

Healthland Connect 09 Update

September 20th-24th, Bob Besten, Vice-President of Finance; Linda Craft, Director of Nursing; Kevin Couch, MBH Controller; Benjamin Peak, Director of Clinics; Bruce Withers, Revenue Cycle Manager; Frank Baker, IT Manager; Brenda Morgan, Admitting Manager and Mallie Noble, MBH Administrator, attended the Healthland Connect 09 Conference in Dallas, Texas. Healthland is the computer system adopted by Mary Breckinridge Hospital and Clinics.

Employee Wellness Program Update

Total employee weight loss through the Employee Weight Watchers Program is 4,411.2.

Accomplishment

Linda Craft, Director of Nursing, recently achieved a Master's of Nursing Science degree with a certificate in nursing education from Indiana Wesleyan University. Congratulations, Linda!

***Frontier Nursing Healthcare Clinics Update
by Benjamin Peak, Director of Clinics***

This is an exciting time as FNS ventures forth to new endeavors. October 3rd, after much planning and hard work, an announcement was made to the public that the Anne Wasson Clinic and the Christian Family Healthcare Clinic would be consolidated into one new clinic which will provide improved quality of care and convenience in provider location. The ground breaking ceremony caused staff to reflect on the mission of FNS. Participants in the ground breaking ceremony were: Lonnie Hendrix, Mayor of Hyden; Mary Ethel Wooton and Rhonda Brashear, FNS Board of Governors; Nancy Hinsely, Nurse-Midwife; Sr. Joan Gripshover, FNP; Dr. Anita Cornett, Internist; Dr. Roy Varghese, Internist; Larry Sparks, Board of Education; Jim Robinette and Tony Wherle, overseers of building construction; Ben Peak, Director of FNS Clinics and Nathan Lee, FNS CEO & President.



Ground Breaking Ceremony

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Construction of the clinic will begin soon and the project should be completed within 9-12 months. In keeping with our roots, the new clinic will be named "Frontier Nursing Service Hyden Clinic".

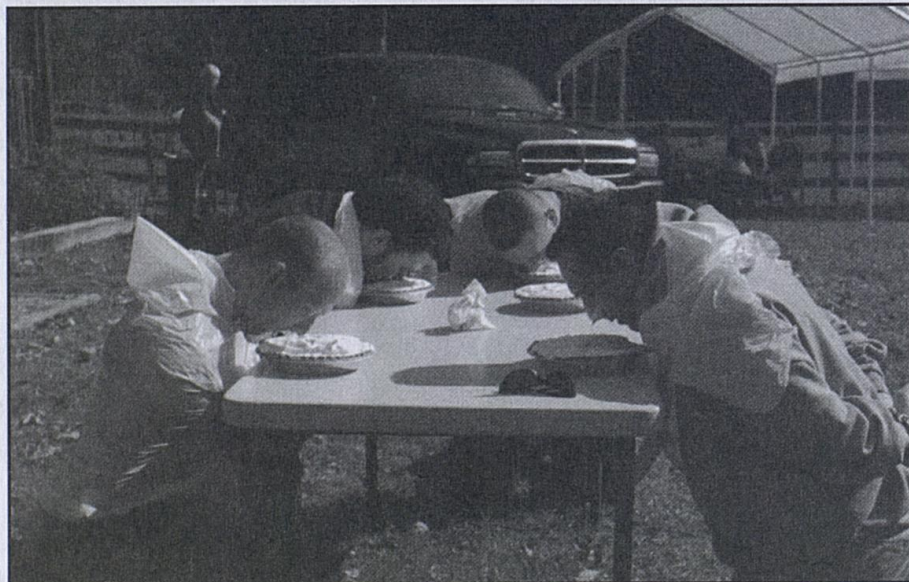
Beginning in January 2010, clinics will change their existing electronic medical records and begin utilizing the same system as Mary Breckinridge Hospital.

Wendover Guests

From September 1, 2009 - December 1, 2009, Wendover hosted a total of 1,231 guests. This number includes overnight guests, tour groups and special luncheons/events.

Wendover Employee Fall Festival

October 30th, Wendover Staff hosted the Annual Fall Festival at The Livery. Employees from across the organization enjoyed food prepared again this year by the Big Creek Fire Department. Games included a Pie Eating Contest, Sack Race and Cake Walk. Kevin Couch and Jeffery Hall won the Pie Eating Contest this year. A special thanks to Ben Peak, Director of Clinics and Rhonda Brashear, FNS Board Member, for providing entertainment.



Fall Festival Pie Eating Contest

Courier Program Update

Katherine Caddle, Bridgton, ME; Emily Hop, Holland, MI, and Roseann Bertone, Downingtown, PA, - seniors at Case Western Reserve University, Cleveland, Ohio, came to FNS for their Capstone Project during September, October and November. Marielle Bastiston, Lincoln, RI, participated in the Program during October and November. Marielle attends Dartmouth College and hopes to pursue nurse-midwifery.

In addition to shadowing providers, the Couriers worked with COLLY (County of Leslie Lifting Youth) compiling data for school-located clinics. FNS collaborates with COLLY, a non-profit organization, in developing health and education programs for children. Since its beginning in 2004, COLLY has been instrumental in Dolly Parton's Imagination Library, a dental screening and follow-up treatment program, school-located healthcare clinics, health education activities and after school programming. FNS Couriers play a large role in COLLY's health education and after school program at elementary schools.



Couriers Marielle Bastiston, Katherine Caddle, Emily Hop and Roseann Bertone

Beyond the Mountains

City Committees Update

The Annual Louisville Committee Luncheon was held September 17th at the Louisville Country Club with 41 guests. Special thanks to Betty Brown for hosting this event and to all of our faithful friends in the Louisville area.

The Annual Bluegrass Committee Luncheon was held September 29th at the Lexington Country Club with 66 guests. Special thanks to Linda Roach, Helen Rentch and Fra Vaughn for hosting this event.

Saturday, November 14th, Nathan Lee and Barb Gibson traveled to Devon, PA, for a luncheon with FNS friends - some who were formerly involved in the FNS Philadelphia Committee and some new friends. The Philadelphia Committee has been inactive for several years and we are hoping to re-ignite interest.



Philadelphia Friends of FNS

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The luncheon was hosted by Mary Hodge, former Chairperson of the Philadelphia Committee, and her husband, John Hodge, cousin to Mrs. Breckinridge. Also in attendance were: Laura Caterson, Kitty Ernst, Alexandra Wack, Camille Wack, "Bubbles" Townsend Moore, Annette von Starck, Jennifer Stevens and Mary Dressler. Everyone is enthused about next year's event and we've already started making plans!



Left to right: Nathan Lee, Bubbles Moore and Mary Hodge

During the visit to Devon, Barb had the opportunity to visit with Frontier School of Midwifery & Family Nursing graduates Marsena Howard (1980) and Sharon Lehman Trani (1985) at their homes in Lancaster, PA. Marsena has a very successful home birth practice in Lancaster County in the Mennonite community and Sharon works as an FNP at a practice in Lancaster. It was great reminiscing about our work together at the FNS.

Frontier School of Midwifery & Family Nursing

by Dr. Susan Stone, President & Dean

Strategic Plans - Past and Future

FSMFN has a well defined strategic planning process that has served the School well over the past ten years. Every five years the FSMFN Board of Directors and the faculty work to define a set of goals to guide the work of the School for the following five years. In 2005, the following goals were adopted:

Strategic Goals 2005-2009

1) Create appropriate advanced practice nursing offerings to maintain national and international leadership as the preferred Nursing College of midwifery and primary care preparation; 2) Design and execute a portfolio of activities designed to seek new insights into care delivery through critical inquiry; 3) Continuously improve the information technology abilities of the faculty, staff and students; 4) Continuously improve the infrastructure of the School; 5) Optimize revenues through development programs, services and grants.

These goals were turned into an annual work plan for each of the years 2005-2009. This process served to help us stay focused and move successfully forward toward meeting those goals. There have been many accomplishments during these past five years. New programs have been developed including post masters certificate programs for nurse-midwives and nurse-practitioners (2005), an Associate Degree to Master of Science in Nursing Degree program (2007) and a Doctor of Nursing Practice Program (2008).

We successfully obtained over 2 million dollars in grant funding to assist in the development of these programs as well as our technology initiatives. The grants also allowed us to implement a Personal Digital Assistant program that facilitates the students' ability to seek point of contact healthcare information while at their clinical sites, as well as track their progress in completing

their clinical experience. IPODS have become an integral tool for our students allowing them to seek library information “on the go” and to download lectures and videos developed by faculty to assist in their learning.

We implemented a new Learning Management System called AN-GEL that has made course delivery over the Internet streamlined and efficient. This software allows students and faculty to communicate regularly with each other as if they were in a classroom together. In addition, the system allowed the implementation of on-line testing. Students now take their exams at home while using a secure browser and timed exams to maintain security.

We purchased and implemented a new Student Management System called Power Campus allowing students, faculty and staff to access all information about students including contact information, grades, full transcripts, financial aid and billing information from anyplace where the Internet can be accessed, while maintaining the security of that information for each person. This system allows automatic billing, saving many hours of staff time.

Last, but maybe the most difficult endeavor, was to change the school schedule from an open ended one where students could start and finish courses whenever they so desired to a system of twelve week terms. All courses now start at the same time and finish twelve weeks later allowing four quarters in each year. This has allowed us to move the agenda of collaborative learning forward through the formation of cohorts who work through courses together enhancing their learning through the interaction and the support they provide to each other.

During this very busy agenda of the last five years the School also has experienced tremendous growth. In December of 2004, the total enrollment was just over 200 students. Today, in December of 2009, total enrollment is 759 students. Increased numbers of students means increased numbers of faculty and indeed our faculty

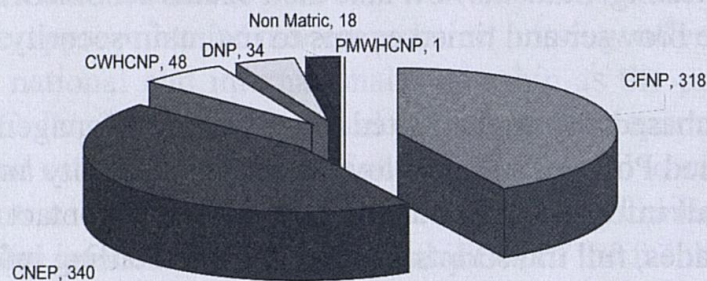
FRONTIER NURSING SERVICE

has grown from a total of 24 in 2005 to a current total of 58. Last, we developed a plan to improve our facilities through renovations of current buildings as well as the addition of a new learning facility. Needless to say, it has been a very busy five years.

FSMFN Student Body

November 2009

Total Students = 759



So where do we go from here? It is time to develop goals for the next five years. The Board of Directors appointed a sub-committee to facilitate the strategic planning process this past summer. Members included Michael Carter, Marion McCartney, Rhonda Brashear and Jane Leigh Powell. The faculty also met and made recommendations to the Board. Both the Board of Directors and the Faculty approved the goals for the next five years in October.

The resulting set of strategic goals for the next five years is as follows:

Five Year Goals 2010-2014

1) Continue to expand current programs and explore new programs that support and enhance the mission of FSMFN; 2) Develop a post-masters Doctor of Nursing Practice program designed to provide second certification as nurse practitioner and/or nurse-midwife for current nurse practitioners and/or nurse-midwives; 3) Develop diverse international clinical experience opportunities; 4) Develop a post baccalaureate Doctor of Nursing Practice program; 5) Implement the Community of Inquiry (COI) program at FSMFN - a) Redesign courses according to the COI Model; b) Enhance faculty and staff skills in the use of technology to enhance teaching and learning; c) Improve student learning outcomes.

Research and Scholarship

Use the FSMFN Statement of Scholarship to develop and implement an active agenda designed to improve healthcare outcomes for families and educational outcomes for students.

1) Engage in activities designed to develop, support and promote the FSMFN faculty and student scholarly abilities through teaching, research and practice.

Faculty and Staff

Promote excellence in faculty scholarly work and staff development.

1) Engage in a variety of activities for faculty and staff professional development; 2) Encourage faculty and staff activity in innovative uses of technology to improve learning and practice; 3) Support and encourage staff development with a focus on service and use of technology to improve service.

Faculty Practice

In collaboration with other FNS stakeholders and the Leslie County Community, develop and implement a county wide program designed to prevent and decrease substance abuse.

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1) Seek and implement innovative solutions to assist currently addicted persons to a path of wellness.

Students

Further develop a successful and diverse student body with excellent scholarly abilities.

1) Develop the scholarly ability of students; 2) Increase the number of students from underrepresented groups from 9% to 15%; 3) Decrease attrition equal to or less than 15% for each class.

Facilities

1) Current plans for facility renovations and new facilities are implemented.

Development

1) Continually seek funding to support development of programs and projects; 2) Develop and implement an effective campaign to fund the new building.

Financial Control

Develop a long-range financial plan to support the strategic planning process.

1) Enhance the generation of cash flows for the funding of future program development and other development projects; 2) Systematically review processes and practices to ensure sound internal controls and optimal efficiency of staff operations

This is an ambitious agenda for FSMFN but we are confident that with the systems we have in place and the support we receive from our loyal alumni and friends, we can accomplish these goals. Many thanks to all of you who have supported us in the accomplishments of the last five years and who we know will continue to support us in our new endeavors. Happy Holidays to all of you and best wishes as we usher in a new year.

Former Courier and Staff News

"Old Timers" Dinner

Friday, October 2nd, a group of former FNS employees and some current employees gathered at The Big House for a time of reminiscing and "catching up" on everyone's lives. Those present were: Barb Gibson, Debbie Woods, Skip Spell, JG & Juanetta Morgan, Ruby Moore, Charlotte Fannon, Glenna Couch, Jewell Sizemore, Eveline Couch, Carolyn Estep Myers, Marie Mitchell, Margaret Jones Hamblin, Janet Lewis, Barb French, Clara Jefferis, Marietta Smith Maggard, Jerry Maggard, Christine Collins, Sr. Joan Gripshover, Arlene Baker and Sue Lazar.

The above listed employees have given a total of 417 years of service to the FNS.

Plans are to make this an annual event in conjunction with the Mary Breckinridge Festival. Mark your calendars and plan to attend next year!



FRONTIER NURSING SERVICE

cpas consultants business advisors

DEAN DORTON FORD

Independent Auditors' Report

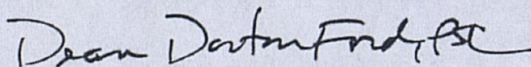
Board of Directors
FNS, Inc. and Affiliates

We have audited the accompanying consolidated statement of financial position of FNS, Inc. and Affiliates (the Service) as of April 30, 2009, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Service's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Service as of and for the year ended April 30, 2008, were audited by other auditors whose report dated December 4, 2008, expressed an unqualified opinion on those statements.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audit provides 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 FNS, Inc. and Affiliates as of April 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information included in the schedules on pages 25 - 28 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual corporations. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.



November 24, 2009
Lexington, Kentucky

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FNS, INC. AND AFFILIATES

Consolidated Statement of Financial Position

April 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 631,873	\$ 287,560
Patient accounts receivable, net of estimated uncollectibles of \$2,133,214 and \$904,908 for 2009 and 2008, respectively	2,882,169	3,991,730
Student tuition receivable, net of estimated uncollectibles of \$26,807 and \$26,882 for 2009 and 2008, respectively	208,332	285,533
Other receivables	63,704	145,987
Investments	1,506,217	3,188,297
Supply inventories	338,534	325,292
Estimated third-party payer settlements	-	1,064,466
Prepaid expenses and other current assets	<u>89,465</u>	<u>157,360</u>
Total current assets	5,720,294	9,446,225
Property and equipment, net	5,834,751	5,408,078
Other assets:		
Beneficial interest in outside trusts	1,436,371	1,956,936
Investments held in perpetuity	3,956,522	3,956,522
Other donor restricted cash and investments	4,592,637	8,557,280
Physician loan receivable	242,897	268,347
Intangibles	<u>-</u>	<u>242,195</u>
Total other assets	<u>10,228,427</u>	<u>14,981,280</u>
Total assets	<u>\$ 21,783,472</u>	<u>\$ 29,835,583</u>

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	<u>2009</u>	<u>2008</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 2,698,802	\$ 1,211,262
Accrued expenses	3,598,629	2,947,519
Estimated third-party payer settlements	422,855	-
Deferred tuition, students	1,113,744	1,083,601
Current portion of lines of credit	1,530,530	1,000,000
Current portion of long-term debt	<u>619,554</u>	<u>597,566</u>
Total current liabilities	9,984,114	6,839,948
Long-term liabilities:		
Lines of credit, net of current portion	4,215,858	5,017,335
Long-term debt, net of current portion	<u>1,468,207</u>	<u>1,577,583</u>
Total long-term liabilities	<u>5,684,065</u>	<u>6,594,918</u>
Total liabilities	15,668,179	13,434,866
Net assets:		
Unrestricted net (deficit) assets	(3,870,237)	1,929,979
Temporarily restricted net assets	4,592,637	8,557,280
Permanently restricted net assets	<u>5,392,893</u>	<u>5,913,458</u>
Total net assets	<u>6,115,293</u>	<u>16,400,717</u>
Total liabilities and net assets	<u>\$ 21,783,472</u>	<u>\$ 29,835,583</u>

See accompanying notes.

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FNS, INC. AND AFFILIATES

Consolidated Statement of Activities

Years ended April 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Unrestricted revenues, gains and other support:		
Net patient service revenue	\$ 20,084,106	\$ 17,082,773
Contributions	360,535	476,913
Education revenues:		
Tuition and educational fees	6,431,842	4,722,571
Federal grants	644,382	333,326
Other revenues:		
Investment (loss) income	(400,066)	32,532
Other revenue	564,407	879,568
Net assets released from restriction due to satisfaction of program requirements	<u>1,584,120</u>	<u>1,758,612</u>
Total unrestricted revenues, gains and other support	29,269,326	25,286,295
Expenses:		
Salaries and other wage costs	17,483,710	15,716,621
Medical services, supplies and other expenses	10,381,361	9,514,635
Facility cost	2,137,169	2,165,327
Interest expense	350,511	319,657
Depreciation	1,378,849	1,142,030
Impairment	242,195	-
Provider taxes	277,047	242,467
Provision for bad debts	<u>2,818,700</u>	<u>995,421</u>
Total expenses	35,069,542	30,096,158
Change in unrestricted net assets	(5,800,216)	(4,809,863)

FRONTIER NURSING SERVICE

FNS, INC. AND AFFILIATES

Consolidated Statement of Activities, continued

Years ended April 30, 2009 and 2008

Change in temporarily restricted net assets:		
Contributions	75,437	136,084
Investment (loss) income	(2,455,448)	132,572
Changes in annuity payable	(512)	837
Net assets released from restriction due to satisfaction of program requirements	<u>(1,584,120)</u>	<u>(1,758,612)</u>
Change in temporarily restricted net assets	(3,964,643)	(1,489,119)
Change in permanently restricted net assets:		
Change in beneficial interest in outside trusts	<u>(520,565)</u>	<u>(64,794)</u>
Change in permanently restricted net assets	<u>(520,565)</u>	<u>(64,794)</u>
Change in net assets	(10,285,424)	(6,363,776)
Net assets, beginning of year	<u>16,400,717</u>	<u>22,764,493</u>
Net assets, end of year	\$ <u>6,115,293</u>	\$ <u>16,400,717</u>

See accompanying notes.

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FNS, INC. AND AFFILIATES

Consolidated Statement of Cash Flows

Years ended April 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ (10,285,424)	\$ (6,363,776)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Change in beneficial interest in outside trusts	520,565	64,794
Provision for bad debts	2,818,700	995,421
Net realized and unrealized investment loss	3,419,777	609,312
Depreciation	1,378,849	1,142,030
Gain on sale of assets	(10,853)	-
Forgiveness of physician loans	25,450	71,391
Goodwill impairment	242,195	-
Increase (decrease) in cash due to changes in:		
Patient accounts and student tuition receivables	(1,631,938)	(1,259,108)
Other receivables	82,283	(126,454)
Supply inventories	(13,242)	(37,946)
Estimated third-party payer settlements	1,487,321	(22,087)
Prepaid expenses and other current assets	67,895	(10,697)
Accounts payable	1,487,540	(231,963)
Accrued expenses	651,110	(203,026)
Deferred tuition, students	<u>30,143</u>	<u>(168,380)</u>
Net cash provided by (used in) operating activities	270,371	(5,540,489)
Cash flows from investing activities:		
Capital expenditures	(1,486,110)	(1,464,659)
Purchases of investments	(173,735)	(8,109,237)
Proceeds from sale of investments	2,415,173	12,346,750
Proceeds from sale of assets	11,685	-
Cash designated for long-term investment	<u>(14,492)</u>	<u>-</u>
Net cash provided by investing activities	752,521	2,772,854

FRONTIER NURSING SERVICE

FNS, INC. AND AFFILIATES

Consolidated Statement of Cash Flows, continued

Years ended April 30, 2009 and 2008

Cash flows from financing activities:		
Net (payment) borrowing under line of credit agreements	(270,947)	3,019,377
Proceeds from issuance of long-term obligations	261,358	718,774
Principal payments on long-term obligations	<u>(668,990)</u>	<u>(741,167)</u>
Net cash (used in) provided by financing activities	<u>(678,579)</u>	<u>2,996,984</u>
Increase in cash	344,313	229,349
Cash, beginning of year	<u>287,560</u>	<u>58,211</u>
Cash, end of year	<u>\$ 631,873</u>	<u>\$ 287,560</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 339,172	\$ 338,356
Noncash investing and financing transactions:		
Capital lease obligations for acquisitions of equipment	\$ 320,244	\$ 919,475

See accompanying notes.

FNS, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements

1. Description of the Service

Mary Breckinridge established the Kentucky Committee for Mothers and Babies in Leslie County, Kentucky, in 1925. The name later changed to Frontier Nursing Service, Inc. in 1928. Frontier Nursing Service, Inc.'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, Frontier Nursing Service, Inc. was the only provider of health services in Leslie County and a portion of surrounding counties comprising its service area. In 1939, Frontier Nursing Service, Inc. established a midwifery school. Today, FNS, Inc. and Affiliates (the Service) 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 cost of services and programs.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The Service consists of the following nonprofit entities:

FNS - Parent holding company of the Service,

Mary Breckinridge Healthcare, Inc. (MBHC) - Entity responsible for operating the hospital,

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

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, and

Frontier Nursing Service, Incorporated (the Foundation) - Entity responsible for holding the invested assets owned by the Service.

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

FRONTIER NURSING SERVICE

FNS, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of 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.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. Cash and cash equivalents which are held in trust accounts are included as investments in the consolidated statements of financial position.

Designated Assets

Temporarily restricted cash in the amount of \$14,492 has been reserved for a new building fund and will be used as needed when construction begins.

Patient Accounts Receivable

MBHC, FNH and MBHH report patient accounts receivable for services rendered at a net realizable amount 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 Receivable

Student tuition receivable is stated at the amount billed to the student. The School provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Tuition receivable is ordinarily due 30 days after the issuance of the invoice. Tuition past due more than 90 days is considered delinquent. Delinquent tuition receivable is written off based on individual credit evaluation and specific circumstances of the student.

QUARTERLY BULLETIN

FNS, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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 dividends, 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.

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 consolidated statements of activities and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions. The Board of Directors designates unrestricted assets for special uses.

Supply Inventories

Medical supply and pharmaceutical inventories are valued at the lower of cost (first-in, first-out) or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost. All subsidiaries of the Service capitalize assets over \$1,000 except MBHC, which capitalizes assets over \$2,000. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment.

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 trust funds, which represents an estimate of the net present value of estimated income to be received from these trust funds. Income received from such funds is included in unrestricted donations.

Intangibles

Goodwill in the amount of \$242,195 resulted from a 2005 acquisition of the Christian Family Healthcare Center clinic located in Hyden, Kentucky. The acquisition was recorded using the purchase method of accounting.

Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*, requires intangible assets to be valued at cost. Per SFAS No. 142, intangible assets that have indefinite useful lives, including goodwill, are not to be amortized but rather are to

FRONTIER NURSING SERVICE

FNS, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Intangibles, continued

be tested at least annually for impairment. Any decrease in value of the asset would be recognized as an impairment loss in the current year. If no legal, regulatory, contractual, competitive, economic, or other factors limit the useful life of an intangible asset to the reporting entity, the useful life of the asset shall be considered to be indefinite. Intangible assets that have finite useful lives should be amortized over their useful lives.

The Service periodically reviews the carrying value of its goodwill to determine whether an impairment exists. The Service considers relevant cash flow and profitability information for the related assets acquired under the aforementioned purchase acquisition. As of April 30, 2009, the Service determined the clinic to be impaired and wrote the asset down to zero.

Deferred Tuition, Students

The Service provides graduate nurse-midwifery and 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-funded 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.

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. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restriction due to satisfaction of program requirements. Donor-restricted contributions whose restrictions are met in the same reporting period in which they are received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Permanently restricted net assets have been restricted by donors to be maintained by the Service in perpetuity.

FNS, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

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 its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per-diem payments. Net patient service 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 \$2,472,404 and \$2,151,362 for 2009 and 2008, respectively.

Contributions

Gifts of cash and other assets received without donor stipulation 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 consolidated statement of activities and changes in net assets as net assets released from restriction due to satisfaction of program requirements. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Grant Revenue

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 that would change the amounts reported in the consolidated statements of activities and changes in net assets.

Income Taxes

The Service is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue 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.

FRONTIER NURSING SERVICE

FNS, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Functional Expenses

The Service provides health care and educational services to residents within its geographical region. Expenses related to providing these services were as follows:

	<u>2009</u>	<u>2008</u>
Health care services	\$ 17,650,950	\$ 17,469,978
Education	7,802,479	6,294,249
General and administrative	9,238,484	5,456,533
Fundraising	<u>377,629</u>	<u>875,398</u>
	<u>\$ 35,069,542</u>	<u>\$ 30,096,158</u>

Recent Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (SFAS 168), effective for financial statements issued for interim and fiscal years ending after September 15, 2009. SFAS 168 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS 168 will not impact the financial position, results of activities, changes in net assets or cash flows of the Service, but will impact the way accounting standards are issued in the future and referenced in the consolidated financial statements.

On August 6, 2008, the FASB issued FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. This FSP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). UPMIFA is a model act that serves as a guideline for states to use in enacting legislation. This FSP also improves disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds), whether or not the organization is subject to UPMIFA. The provisions of this FSP are effective for fiscal years ending after December 15, 2008. Due to the difficulty of obtaining information regarding the endowment fund, the Service will implement the provisions of the FSP in fiscal 2010.

QUARTERLY BULLETIN

FNS, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Restatement and Reclassifications

During 2009, the Service became aware that accrued expenses had not been properly eliminated in a prior year. The correction of this error was to restate and reduce net book value of the accrued liabilities and the unrestricted net assets of FNS by a cumulative \$516,952 effective April 30, 2007.

Certain amounts in the accompanying financial statements presented for the prior year have been reclassified to conform with the 2009 presentation with no effect on total assets, total liabilities and net assets, or change in net assets.

3. Net Patient Service Revenue

MBHC, FNH and MBHH have agreements with federal, state and third-party payers that provide for payments at amounts different from their established rates. Contractual adjustments under third-party reimbursement programs represent the difference between billings at established rates and amounts reimbursed by third-party payers. MBHC, FNH and MBHH participate in the Medicare and Medicaid programs. Approximately 80% and 74%, respectively, of net patient service revenue for 2009 and 2008 are from participation in these programs. Changes in Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on MBHC, FNH and MBHH. A summary of the payment arrangements with major third-party payers follows:

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 for certain services at tentative rates with a final settlement determined after submission of annual cost reports by MBHC and audit thereof by 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 Medicare fiscal intermediaries.

Medicaid

Under 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 Medicaid fiscal intermediaries.

FRONTIER NURSING SERVICE

FNS, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements, continued

3. Net Patient Service Revenue, continued

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

4. Concentrations of Risks

GAAP requires disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Cash and Cash Equivalents

The Service maintains a substantial portion of its cash and investments in two local financial institutions. The balances are insured by the FDIC up to \$250,000. 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, 2009 and 2008, the Service's cash accounts exceeded insured limits by approximately \$312,000 and \$87,000, respectively.

Patient Accounts Receivable

MBHC, FNH and MBHH grant credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers as of April 30, 2009 and 2008 was as follows:

	<u>2009</u>	<u>2008</u>
Medicare	27 %	56 %
Medicaid	21	13
Blue Cross	5	5
Other third-party payers	25	17
Self-pay	<u>22</u>	<u>9</u>
	<u>100 %</u>	<u>100 %</u>

Admitting Physicians

MBHC is served by one admitting physician whose patients comprise approximately 23% of MBHC's net patient service revenue.

QUARTERLY BULLETIN

FNS, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements, continued

5. Property and Equipment

Property and equipment consists of the following as of April 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Land and improvements	\$ 2,274,856	\$ 1,176,134
Buildings	4,798,717	4,748,717
Equipment	13,273,041	11,812,573
Construction in progress	<u>467,129</u>	<u>1,292,666</u>
	20,813,743	19,030,090
Less accumulated depreciation	<u>14,978,992</u>	<u>13,622,012</u>
Property and equipment, net	<u>\$ 5,834,751</u>	<u>\$ 5,408,078</u>

Depreciation expense for the years ended April 30, 2009 and 2008 amounted to \$1,378,849 and \$1,142,030, respectively.

6. Investments and Investment Return

Investments at April 30, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 567,018	\$ 1,113,061
Corporate bonds	705,417	1,254,974
U.S. Treasury obligations	2,987,762	3,356,452
Common stock	5,241,889	9,107,228
Common trust fund equities	<u>553,290</u>	<u>870,384</u>
	10,055,376	15,702,099
Less investments held in perpetuity	<u>3,956,522</u>	<u>3,956,522</u>
Investments	<u>\$ 6,098,854</u>	<u>\$ 11,745,577</u>

FRONTIER NURSING SERVICE

FNS, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements, continued

6. Investments and Investment Return, continued

Total investment return is comprised of the following for the year ended April 30, 2009:

	Unrestricted	Temporary Restricted	Total
Interest and dividends	\$ 50,363	\$ 513,900	\$ 564,263
Net realized losses	(147,515)	(1,106,102)	(1,253,617)
Net unrealized losses	(302,914)	(1,863,246)	(2,166,160)
Total investment return	\$ (400,066)	\$ (2,455,448)	\$ (2,855,514)

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

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

The Service's investments are exposed to various risks, such as interest rate, market and credit risk. 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 financial position and activities and changes in net assets. While the Service does not directly invest in derivative securities, it may indirectly hold these securities through investment holdings with a manager of hedge funds.

QUARTERLY BULLETIN

FNS, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements, continued

6. Investments and Investment Return, continued

Fair Value Measurements

The fair values of assets and liabilities at April 30, 2009 are summarized as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Corporate bonds	\$ 705,417	\$ 705,417	\$ -	\$ -
U.S. Treasury obligations	2,987,762	2,987,762	-	-
Common stock	5,241,889	5,241,889	-	-
Common trust fund equities	<u>553,290</u>	<u>553,290</u>	<u>-</u>	<u>-</u>
Total assets at fair value	<u>\$ 9,488,358</u>	<u>\$ 9,488,358</u>	<u>\$ -</u>	<u>\$ -</u>

Included in investments on the consolidated statement of financial position are \$567,018 of cash and cash equivalents as of April 30, 2009. Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets valued using Level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the assets. There have been no changes in valuation methodologies used as of April 30, 2009.

The valuation methodology used by the Service may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Service believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

FRONTIER NURSING SERVICE

FNS, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements, continued

7. 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 agreements. The composition of the Service's beneficial interest in outside trusts held by third parties was the following as of April 30, 2009:

	<u>2009</u>	<u>2008</u>
Ballard Trust	\$ 231,083	\$ 313,274
Gage Trust	811,589	1,097,304
Jones Trust	49,611	60,314
Patterson Trust	172,334	244,510
Ross Trust	59,112	84,965
Schoff Trust	40,690	57,608
Stebbins Trust	<u>71,952</u>	<u>98,961</u>
	<u>\$ 1,436,371</u>	<u>\$ 1,956,936</u>

8. 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. GAAP requires 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 current claims and settlements, the Service has a medical malpractice accrual of \$386,025 as of April 30, 2009. It is reasonably possible that this estimate could change materially in the near term.

QUARTERLY BULLETIN

FNS, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements, continued

9. Lines of Credit

Balances outstanding under lines of credit as of April 30, 2009 and 2008 were:

	<u>2009</u>	<u>2008</u>
FNS REI	\$ 340,000	\$ 479,167
Foundation	1,986,388	1,982,380
FNS	2,750,000	2,555,788
FNS	<u>670,000</u>	<u>1,000,000</u>
	5,746,388	6,017,335
Less current portion	<u>1,530,530</u>	<u>1,000,000</u>
Lines of credit, net of current portion	<u>\$ 4,215,858</u>	<u>\$ 5,017,335</u>

FNS REI had a \$500,000 revolving line of credit which expired and was repaid on June 10, 2009, at which time all principal amounts were due. Interest varied with the bank's prime rate, which was 3.25% and 5% on April 30, 2009 and 2008, respectively, and was payable monthly. The line was collateralized by real estate.

The Foundation has a revolving line of credit with a maximum available amount 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 (\$1,994,872 as of April 30, 2009). All principal amounts outstanding are payable upon the maturity of this line of credit, which is indefinite subject to adequate collateral as per the collateral agreement. Interest varies with the bank's prime rate, which was 3.25% and 5% on April 30, 2009 and 2008, respectively, and is payable monthly. This line of credit is secured by investments held with the lender.

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 2.15% and 4.35% at April 30, 2009 and 2008, respectively, and is payable monthly.

FNS has a \$1,000,000 revolving line of credit which expires on December 15, 2009. 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 2.15% and 4.35% at April 30, 2009 and 2008, respectively, and is payable monthly.

FRONTIER NURSING SERVICE

FNS, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements, continued

10. Long-Term Debt

A summary of long-term debt inclusive of capital lease obligations as of April 30, 2009 and 2008 follows:

	<u>2009</u>	<u>2008</u>
Note payable to a financial institution, due July 2017, including interest at 7.5% due in monthly installments of \$3,730, with the remaining balance at maturity, collateralized by certain investments.	\$ 487,474	\$ 494,859
Note payable to a financial institution, lump sum amount due January 2014, including interest at 6.5%, collateralized by equipment.	233,394	-
Note payable to a financial institution, due December 2012, interest at 9.72%, due in monthly installments of \$2,082, including interest, collateralized by property and equipment.	76,793	93,421
Note payable to a financial institution, paid in full in May 2009, interest at 6.5%, collateralized by certain investments.	10,959	-
Note payable to a financial institution paid in full in 2009, collateralized by equipment.	-	32,270
Note payable to a financial institution paid in full in 2009, collateralized by certain investments.	-	30,087
Note payable to a financial institution paid in full in 2009, collateralized by equipment.	-	3,806
Note payable to a financial institution paid in full in 2009, collateralized by equipment.	-	3,517
Capital lease obligations at varying rates of interest from 2% to 9%, maturing from 2010 to 2014, collateralized by leased equipment.	<u>1,279,141</u>	<u>1,517,189</u>
Total debt	2,087,761	2,175,149
Less current portion of long-term debt	<u>619,554</u>	<u>597,566</u>
Long-term debt, net of current portion	<u>\$ 1,468,207</u>	<u>\$ 1,577,583</u>

FRONTIER QUARTERLY BULLETIN

FNS, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements, continued

10. Long-Term Debt, continued

Scheduled principal repayments on long-term debt and capital lease obligations are as follows:

Year ending April 30,	Long-Term Debt	Obligations Under Capital Leases
2010	\$ 81,038	\$ 607,020
2011	75,540	370,091
2012	81,423	244,948
2013	79,389	156,591
2014	53,312	6,560
Thereafter	437,918	-
	\$ 808,620	1,385,210
Less amount representing interest under capital lease obligations		106,069
		\$ 1,279,141

11. Retirement Plan

The Frontier Nursing Service, Inc. 401(k) Profit-Sharing Plan (the Plan), a defined contribution retirement plan, covers substantially all of the Service's employees. Employer contributions include a mandatory 3% employer matching contribution and a discretionary contribution which is determined by the Board of Directors of the Service annually and is allocated among Plan participants on the basis of eligible employee salaries. The Service's expense related to the Plan was \$473,963 and \$374,090 for the years ended April 30, 2009 and 2008, respectively.

12. 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. Claims in excess of the stop-loss coverage limits for which the Service will be reimbursed by the stop-loss carrier totaled \$7,089 and \$53,314 for the years ended April 30, 2009 and 2008, 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.

FRONTIER NURSING SERVICE

FNS, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements, continued

13. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are composed of the following as of April 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Alice Adams Scholarship	\$ 6,431	\$ 15,160
Caroline Butler Atwood Memorial Nursing Center Fund	(71,402)	23,529
Charitable Gift Annuity Fund	5,750	8,749
Education Fund	3,956,472	6,084,854
Elizabeth Canby Bradford DuPont Memorial Fund	(76,856)	21,897
Endowment fund	(25,903)	39,158
Friends Endowment	1,415	85,206
Helen Barber Scholarship Fund	78,057	101,427
Hyden Hospital in Patient Care Fund	181	95,819
Jacob and Gertrude Arronson Memorial Scholarship Fund	26,654	22,440
Jesse Smith Noyes Endowment	-	342,747
Jesse Smith Noyes Fund	258,292	-
Kate Ireland Education Fund	-	575,282
Kate Ireland Endowment Scholarship	144,488	194,869
Kate Ireland Women's Healthcare Center Fund	1,563	204,364
Kip Kelso Crist Fund	3,707	250,000
Kitty Ernst Endowment	7,288	29,687
Mardi Perry Scholarship Fund	38,875	68,721
Margaret L. Ferguson Memorial Scholarship Fund	(725)	12,819
Nancy B. Taylor Memorial Scholarship Fund	(15,676)	15,228
Restricted donations	275,447	268,585
Shockey/Bulkey Memorial Fund	(30,799)	17,774
Social Services Fund	9,655	68,185
Susanne Preston Wilson Grandin Memorial Scholarship Fund	(277)	10,780
	<u>\$ 4,592,637</u>	<u>\$ 8,557,280</u>

During the years ended April 30, 2009 and 2008, net assets were released from donor restrictions by incurring expenses that satisfied the restricted purposes in the amount of \$1,584,120 and \$1,758,612, 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, be made available for program operation in accordance with donor restrictions.

QUARTERLY BULLETIN

FNS, INC. AND AFFILIATES

Notes to the Consolidated Financial Statements, continued

13. Temporarily and Permanently Restricted Net Assets, continued

Permanently restricted net assets are composed of the following at April 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Alice Adams Scholarship	\$ 22,722	\$ 22,722
Anne P. Whistler Endowment	2,200,000	2,200,000
Beneficial interest in outside trust	1,436,371	1,956,936
Caroline Butler Atwood Memorial Nursing Center Fund	344,574	344,574
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
Nancy B. Taylor Memorial Scholarship Fund	99,072	99,072
Nixon Billings Fund	105,155	105,155
Shockey/Buldey 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	<u>50,000</u>	<u>50,000</u>
	<u>\$ 5,392,893</u>	<u>\$ 5,913,458</u>

14. Litigation

The Service is a party to lawsuits involving employment, personal injury and medical malpractice matters. Sufficient uncertainties exist in some of these cases to prevent the Service from determining the amount of its potential liability, if any. This potential liability is, therefore, not recorded in the accompanying balance sheet. In the event of an unanticipated adverse final determination with respect to these lawsuits, the Service's change in unrestricted net assets for the period in which such determination occurs could be materially affected.

15. Subsequent Events

The Service evaluates events and transactions that occur after the consolidated statement of financial position date as potential subsequent events. This evaluation was performed through November 24, 2009, the date on which the financial statements were issued.

FRONTIER NURSING SERVICE

Report of Operations

The following is a summary of services provided during the last fiscal year ending April 30, 2009.

	FYE 2008	FYE 2009
Percent of Occupancy	42.2	45.9
(includes Med/Surg, Swing Bed and Maternity Services)		
Patient Days (total)	3,859	4,153
Medical Surgical	3,154	3,212
Swing Bed	313	432
Respite Care	86	92
Maternity	306	417
Newborns	219	297
Observation	759	963
Emergency Room Visits	9,808	10,315
EKG Procedures	3,106	2,993
X-Rays (includes MRI, CT Scan, Mammography, DEXA Scans, Ultrasound)	14,324	14,561
Lab Procedures	98,328	104,553
Social Services	171	111
Surgeries & Procedures	491	833
Physical Therapy	767	1,662
Respiratory Therapy	42,982	39,221
Home Health Visits	13,299	16,065
Deliveries	108	151
Clinic Visits - all clinics	47,648	47,438
School-Located Clinics	2,282	5,809

Eighty-Four Year Totals - Selected Data

Because there continues to be interest in these figures, we have reconstructed the essential information necessary to cover FNS' eighty - four 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, 2009.

Maternity cases delivered (since the re-opening of maternity service during February 2007) 259

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 618,021

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) 2,500

Contributions from FNS Active Committees
(for May 1, 2008 - April 30, 2009) **\$77,382.41**

Active committees include:

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

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.

Larry C. Stone, age 56, Berea, Kentucky, former FNS Employee and husband of Dr. Susan Stone, President & Dean of the Frontier School of Midwifery & Family Nursing, lost his battle with lung cancer Tuesday, October 27, 2009. Larry will be remembered for his loving smile, generous spirit and the joy he took in helping others.

IN MEMORY OF:

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

Nancy Crawford

Mrs. Regina L. Crawford

Anna Henkel Dickieson, RN

Samuel C. & Dorothy
Dickieson

Dr. Hugh Cartlidge Williams

The Community Foundation
of Louisville

Elva Krete Meer

Mr. J.R. Todd

Bunch Griffin

Mrs. Peachy Kohler

Mrs. Elizabeth Reutlinger

Nancy B. Dean

Robert A. & Elizabeth Butler

IN HONOR OF:

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

Kate Ireland

Ms. M. Elizabeth Culbreth

Katherine Aldrich

Mrs. Evelyn R. Chaner

QUARTERLY BULLETIN

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 _____

FRONTIER NURSING SERVICE

FNS, Inc.

(the parent)

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QUARTERLY BULLETIN

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QUARTERLY BULLETIN

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FRONTIER NURSING SERVICE

FNS and Subsidiary Corporations

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Robert Besten, *Vice-President of Finance*

Sue Wells, *Director of Reporting & Treasury*

Barb Gibson, *Assistant to CEO*

Beulah Couch, *Human Resources*

Starla Selby, *Controller*

Frontier School of Midwifery & Family Nursing (FSMFN):

Dr. Susan Stone, *President and Dean*

Dr. Julie Marfell, *Chair of Family Nursing*

Dr. Suzan Ulrich, *Chair of Midwifery & Women's Health*

Aggie Hoeger, *Clinical Director*

Dr. Joyce Krestrick, *DNP Program Director*

Dr. Trish Voss, *Director of ADN to MSN Bridge*

Mary Breckinridge Hospital:

Mallie Noble, *Administrator*

Linda Craft, *Director of Nursing*

Frontier Nursing Healthcare, Inc. (Clinics):

Benjamin Peak, *Director*

Providers at Hospital and Clinics:

Linda Ahrens, *FNP*

Ric Ascani, *OB/GYN*

Karon Champlin, *FNP*

Latha Chanrashekar,
Family Practice

Anita Cornett, *Internist*

Julie Daniels, *CNM & Director
of Maternity Services*

Heidi Froemke, *FNP*

Sr. Joan Gripshover, *FNP*

Nancy Hinesly, *CNM*

Clara Jefferies, *FNP*

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Larissa Miller, *PA*

Dorrita Mullins, *FNP*

Srinivas Naval, *Internist*

Sarah Noggle, *FNP*

Deena Parson, *CNM*

Roy Varghese, *Internist*

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.

Admitting Department:

Admission Document Scanner	1,300.00
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Beech Fork Clinic:

Exam Tables (2)	1,500.00
Suction Machine	200.00

Community Health Center:

Suction Machine	200.00
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Frontier School of Midwifery & Family Nursing:

Magnavox HD TV x 2	2,396.00
Cabinet for FNP Clinical Supplies	655.00

Maternity Services:

Body Pillow for Labor Patients x 2	142.72
3M Littman Pediatric Stethoscopes (4)	414.00
Tempenol Tem Scanners (2)	358.70
Corometrics Fetal Ascoustic Stimulator	995.00
Adult Glider Rocker Chair	179.99
Dopplers (2)	960.00

Medical Surgical:

Otoscope & Ophthalmoscope Desk Set	702.00
Pediatric Patient Gowns - Small & Medium	305.00
Welch Allyn Rechargeable Pocketscope Set	619.00
Drop Arm Commode	138.00
Carescape V100 Vital Signs Monitor	1,984.00

Operating Room:

Foot Hugger Bootpads	549.00
Easy Lock Sockets for Allen Stirrups	798.00
Stainless Steel Sponge Bucket	194.00

School-Located Clinics:

Handheld Wood's Lamp Plus Supplies (1)	450.00
Exam Table	999.00

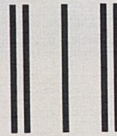
FNS WEBSITE

www.frontiernursing.org

Note to Donors

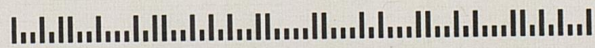
FNS chose BB&T as the bank for donations. The FNS lockbox address has changed to Charlotte, North Carolina. We want our friends to know that FNS is where it always was and the change in the lockbox address only involves financial management.

*WE THANK YOU
FOR YOUR SUPPORT*



Postage
Required.
Post Office will
not deliver
without proper
postage.

FRONTIER NURSING SERVICE INC
PO BOX 890653
CHARLOTTE NC 28289-0653



Loose Item

Please send me more information about the Frontier Nursing Service and its subsidiaries

Name _____

P. O. Box or Street _____

City & State _____

Zip Code _____

Phone and/or e-mail _____

Enclosed is my gift of \$ _____ restricted to:

- | | |
|--|--|
| <input type="checkbox"/> Mary Breckinridge Hospital | <input type="checkbox"/> Wendover |
| <input type="checkbox"/> FNS Rural Healthcare Clinics | <input type="checkbox"/> Children's Christmas Fund |
| <input type="checkbox"/> Frontier School of Midwifery & Family Nursing | |
| <input type="checkbox"/> Frontier School of Midwifery & Family Nursing
new multi-purpose facility and renovation
project | |
| <input type="checkbox"/> Unrestricted (your gift will be applied to other needs) | |

Your gift is tax deductible

Visit us at our websites:

www.frontiernursing.org www.midwives.org www.frontierschool.edu

Loose Item

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