

**COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**



**St. Luke's Home and
St. Luke's Home Foundation**

Dickinson, North Dakota

ST. LUKE'S HOME AND ST. LUKE'S HOME FOUNDATION

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
St. Luke's Home and St. Luke's Home Foundation
Dickinson, North Dakota

We have audited the accompanying combined balance sheets of St. Luke's Home and St. Luke's Home Foundation as of December 31, 2007 and 2006, and the related combined statements of operations and changes in net assets, and cash flows for the years then ended. These combined financial statements are the responsibility of St. Luke's Home and St. Luke's Home Foundation management. Our responsibility is to express an opinion on these combined 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 combined financial statements referred to above present fairly, in all material respects, the financial position of St. Luke's Home and St. Luke's Home Foundation as of December 31, 2007 and 2006, and the results of their operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Eide Bailly LLP

Fargo, North Dakota
April 28, 2008

ST. LUKE'S HOME AND ST. LUKE'S HOME FOUNDATION
COMBINED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 233,896	\$ 198,534
Assets limited as to use	158,908	150,777
Receivables		
Resident, net of estimated uncollectibles of \$25,000 in 2007 and 2006	484,416	450,800
Current portion of annuity receivable	95,798	82,130
Other	-	16,667
Supplies	42,338	46,019
Prepaid expenses	25,543	31,655
	<u>1,040,899</u>	<u>976,582</u>
	<u>807,672</u>	<u>527,553</u>
ASSETS LIMITED AS TO USE		
PROPERTY AND EQUIPMENT		
Land and improvements	307,478	307,478
Buildings and fixed equipment	6,087,606	5,971,923
Major movable equipment	1,097,944	1,134,675
	<u>7,493,028</u>	<u>7,414,076</u>
Accumulated depreciation	<u>(4,993,575)</u>	<u>(4,790,557)</u>
	<u>2,499,453</u>	<u>2,623,519</u>
OTHER ASSETS		
Investments	59,220	35,789
Annuity receivable, less current portion	319,630	586,398
Prepaid annuity insurance premium, less current portion	-	111,434
Deferred financing costs, net of accumulated amortization of \$42,733 in 2007 and \$29,356 in 2006	96,602	109,979
Mineral rights	12,601	12,601
	<u>488,053</u>	<u>856,201</u>
Total other assets	<u>488,053</u>	<u>856,201</u>
Total assets	<u>\$ 4,836,077</u>	<u>\$ 4,983,855</u>

See Notes to Combined Financial Statements

	<u>2007</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 183,864	\$ 176,174
Current portion of charitable gift annuity payable	5,834	52,542
Accounts payable		
Trade	167,280	163,784
Trust funds and security deposits	38,760	41,148
Accrued expenses		
Salaries and wages	185,083	180,814
Vacation	161,000	151,118
Payroll taxes and other	34,854	38,318
Interest	22,827	22,299
	<u>799,502</u>	<u>826,197</u>
CHARITABLE GIFT ANNUITY PAYABLE, less current portion	-	487,435
LONG-TERM DEBT, less current maturities	<u>2,697,246</u>	<u>2,882,110</u>
Total liabilities	<u>3,496,748</u>	<u>4,195,742</u>
NET ASSETS - unrestricted	<u>1,339,329</u>	<u>788,113</u>
Total liabilities and net assets	<u>\$ 4,836,077</u>	<u>\$ 4,983,855</u>

ST. LUKE'S HOME AND ST. LUKE'S HOME FOUNDATION
COMBINED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT		
Net resident service revenue	\$ 5,932,251	\$ 5,598,884
Other revenue	52,019	62,780
Total revenues, gains, and other support	<u>5,984,270</u>	<u>5,661,664</u>
EXPENSES		
Professional care of residents	3,408,159	3,330,201
Property and household	631,375	618,548
General and administrative	612,467	555,126
Dietary	638,537	598,908
Depreciation and amortization	305,092	318,097
Interest	142,692	152,882
Provision for bad debts	(23,203)	36,172
Total expenses	<u>5,715,119</u>	<u>5,609,934</u>
OPERATING INCOME	<u>269,151</u>	<u>51,730</u>
OTHER INCOME (EXPENSE)		
Investment income	82,521	97,237
Unrestricted gifts	521,456	113,011
Charitable gift annuity expense	(64,458)	(61,842)
Gain on sale of equipment	24,950	-
Loss on annuity receivable	(282,404)	-
Loss on sale of real estate held in trust	-	(449,010)
Other income (expense), net	<u>282,065</u>	<u>(300,604)</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENSES AND CHANGE IN UNRESTRICTED NET ASSETS	<u>551,216</u>	<u>(248,874)</u>
NET ASSETS, BEGINNING OF YEAR	<u>788,113</u>	<u>1,036,987</u>
NET ASSETS, END OF YEAR	<u>\$ 1,339,329</u>	<u>\$ 788,113</u>

ST. LUKE'S HOME AND ST. LUKE'S HOME FOUNDATION
COMBINED STATEMENTS CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 551,216	\$ (248,874)
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	305,092	318,097
Loss on annuity receivable	282,404	-
Charitable gift annuity expense	64,458	61,842
Charitable gift annuity contribution	(481,601)	-
Annuity receivable revenue	(34,555)	-
Gain on sale of equipment	(24,950)	-
Loss on sale of real estate	-	449,010
Changes in assets and liabilities		
Receivables	(16,949)	(55,057)
Supplies	3,681	(7,098)
Prepaid expenses	6,112	8,960
Accounts payable	1,108	21,197
Accrued expenses	11,215	4,387
Deferred revenue	-	(9,345)
NET CASH FROM OPERATING ACTIVITIES	<u>667,231</u>	<u>543,119</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(195,469)	(117,989)
Proceeds from sale of property and equipment	52,770	-
Proceeds from sale of real estate held in trust	-	850,990
Increase in investments	(23,431)	(35,789)
Proceeds received from annuity receivable	116,685	-
Payment for annuity insurance premium and annuity receivable	-	(798,534)
Increase in assets limited as to use	(288,250)	(73,843)
NET CASH USED FOR INVESTING ACTIVITIES	<u>(337,695)</u>	<u>(175,165)</u>
FINANCING ACTIVITIES		
Principal payments on long-term debt	(177,174)	(176,737)
Proceeds from issuance of long-term debt	-	3,369
Payments on charitable gift annuity	(117,000)	(123,027)
Payment of deferred financing costs	-	-
Loss on refinancing of long-term debt	-	-
NET CASH USED FOR FINANCING ACTIVITIES	<u>(294,174)</u>	<u>(296,395)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	35,362	71,559
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>198,534</u>	<u>126,975</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 233,896</u>	<u>\$ 198,534</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 142,164</u>	<u>\$ 155,863</u>

ST. LUKE'S HOME AND ST. LUKE'S HOME FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

St. Luke's Home (Home) is an 84-bed nursing facility and a 38-unit congregate housing facility located in Dickinson, North Dakota. The Home is organized as a North Dakota nonprofit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). St. Luke's Home Foundation (Foundation) is organized as a North Dakota nonprofit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Home and Foundation are managed by a Board of Directors selected by the Board of Trustees of Dickinson St. Luke's Homes, Inc.

Combined financial statements for the years ended December 31, 2007 and 2006, include the accounts of the Home and the Foundation (collectively referred to as the Organization). Significant intercompany accounts and transactions have been eliminated in the combination.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements. Estimates also affect 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 highly liquid investments with an original maturity of three months or less, excluding cash classified as assets limited as to use or investments.

Resident Receivables

Resident receivables are uncollateralized resident and third-party payor obligations. Payments of resident receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of resident receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from residents and third-party payors. Management reviews resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Supplies

Supplies are stated at cost (first-in, first-out).

NOTES TO COMBINED FINANCIAL STATEMENTS

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in revenues in excess of (less than) expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from revenues in excess of (less than) expenses unless the investments are trading securities.

Assets Limited as to Use

Assets limited as to use include assets set aside by the Board of Directors for future capital improvements and unemployment payments, over which the Board retains control and may at its discretion subsequently use for other purposes, and assets limited under indenture agreements.

Property and Equipment

Property and equipment acquisitions in excess of \$500 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The accumulated depreciation and estimated useful lives of property and equipment are as follows:

	Accumulated Depreciation		Estimated Useful Lives
	2007	2006	
Land improvements	\$ 219,583	\$ 209,144	10 years
Buildings and fixed equipment	3,800,603	3,561,851	5-50 years
Major movable equipment	973,389	1,019,562	4-20 years
	\$ 4,993,575	\$ 4,790,557	

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net assets and are excluded from revenues in excess of (less than) expenses unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net assets. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when donated or when acquired long-lived assets are placed in service.

Annuity Receivable

The annuity receivable is carried at the present value of the expected future cash flows from the annuity over the guarantee period of the annuity contract. The receivable is reduced and income is recognized on the receivable as payments are received based on the discounted cash flows from the annuity.

Deferred Financing Costs

Deferred financing costs are amortized over the period the related obligation is outstanding using the bonds outstanding method.

NOTES TO COMBINED FINANCIAL STATEMENTS

Resident Trusts Funds and Tenant Security Deposits

The Organization acts as custodian for the funds of the residents and holds tenant security deposits. Resident trust funds and tenant security deposits, which are included in cash, totaled \$38,760 and \$41,148 at December 31, 2007 and 2006.

Charitable Gift Annuity

The charitable deduction portion of each gift annuity is recognized as a donation in the year received. The non-charitable deduction portion is shown as a payable and is reduced by the tax-free portion of the periodic annuity payments to the annuitant until the annuity obligation is fulfilled. Expense representing the taxable portion of the charitable gift annuity is recognized as the periodic annuity payments are made until the obligation is fulfilled. Any portion of the annuity obligation that will not be paid to the annuitant, are recognized as a donation in the year when the change in the obligation is determined.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization 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 Organization in perpetuity. At December 31, 2007 and 2006, the Organization did not have any temporarily or permanently restricted net assets.

Revenues in Excess of (Less Than) Expenses

Revenues in excess of (less than) expenses excludes unrealized gains and losses on investments other than trading securities, transfers of assets to and from related parties for other than goods and services, and contributions of long-lived assets, including assets acquired using contributions which were restricted by donors.

Net Resident Service Revenue

Net resident service revenue is reported at established billing rates, which are determined on a cost-related basis subject to certain limitations as prescribed by North Dakota Department of Human Services regulations. These rates are subject to retroactive adjustment by field audit. The Home participates in the Medicare program for which payment for services is made on a prospectively determined per diem rate which varies based on a case-mix adjusted patient classification system. The differences between actual charges and payments are accounted for as contractual adjustments.

Donor-restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When donor stipulated time restrictions or purpose restrictions are met or accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the statement of operations.

Advertising Costs

Advertising costs are expensed as incurred.

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NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 2 - NET RESIDENT SERVICE REVENUE

A summary of resident service revenue and contractual adjustments is as follows:

	<u>2007</u>	<u>2006</u>
Resident service revenue		
Nursing facility	\$ 5,513,574	\$ 5,207,741
Congregate housing	<u>468,493</u>	<u>467,320</u>
Total resident service revenue	<u>5,982,067</u>	5,675,061
Medicare contractual adjustments	<u>(49,816)</u>	<u>(76,177)</u>
Net resident service revenue	<u><u>\$ 5,932,251</u></u>	<u><u>\$ 5,598,884</u></u>

NOTE 3 - INVESTMENTS AND INVESTMENT INCOME

Assets Limited as to Use

The composition of assets limited as to use at December 31, 2007 and 2006, is shown in the following table. Investments are stated at fair value.

	<u>2007</u>	<u>2006</u>
Under bond indenture agreements		
U.S. government obligations	\$ 478,556	\$ 470,362
Less amounts shown as current	<u>(158,908)</u>	<u>(150,777)</u>
	<u>319,648</u>	<u>319,585</u>
By Board for capital expenditures		
Cash and cash equivalents	<u>166,532</u>	<u>14,892</u>
By Board for unemployment		
Mutual Funds	9,122	9,649
Cash and cash equivalents	<u>-</u>	<u>2,843</u>
	<u>9,122</u>	<u>12,492</u>
By Foundation Board for capital improvements		
Mutual Funds	<u>312,370</u>	<u>180,584</u>
	<u><u>\$ 807,672</u></u>	<u><u>\$ 527,553</u></u>

NOTES TO COMBINED FINANCIAL STATEMENTS

Investments

Investments consist of the following at December 31, 2007 and 2006. Investments are stated at fair value.

	<u>2007</u>	<u>2006</u>
Cash and short-term investments	\$ 59,220	\$ 35,789
	<u>\$ 59,220</u>	<u>\$ 35,789</u>

Investment Income

Investment income and gains and losses for cash equivalents and assets limited as to use are included in other revenue and consists of the following for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Other revenue		
Interest, dividends, and gains	\$ 82,521	\$ 97,237
	<u>\$ 82,521</u>	<u>\$ 97,237</u>

NOTE 4 - ANNUITY RECEIVABLE

During 2006, the Organization invested into a single life annuity contract that will pay the Organization a monthly payment of \$9,724 for the remainder of the insured individual's life, with payments guaranteed for five years. The Organization recorded a receivable of \$668,528 in 2006, which represented the estimated present value of the future payments to be received over the insured individual's estimated life expectancy. In February 2008, the Organization received notice that the beneficiary was deceased. In connection with this event, the Organization recorded a loss of \$170,970 on the annuity receivable in 2007 due to the change in the underlying assumption. The Organization also recognized a loss on the write-off of insurance purchased with the annuity of \$111,434 in 2007.

Scheduled receipts from the annuity receivable are as follows:

<u>Year Ending December 31,</u>	<u>Annuity Principal</u>	<u>Annuity Income</u>	<u>Total</u>
2008	\$ 95,798	\$ 20,890	\$ 116,688
2009	100,234	16,454	116,688
2010	106,416	10,272	116,688
2011	112,980	3,708	116,688
	<u>\$ 415,428</u>	<u>\$ 51,324</u>	<u>\$ 466,752</u>
Total			

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 5 - MINERAL RIGHTS

	<u>2007</u>	<u>2006</u>
Oil and gas interests		
Billings County land (mineral acres)	\$ 8,900	\$ 8,900
Billings County land (undivided 10% interest in approximately 430 mineral acres)	<u>13,216</u>	<u>13,216</u>
	22,116	22,116
Less unrealized valuation allowance for decrease in value of mineral acres	<u>(9,515)</u>	<u>(9,515)</u>
	<u>\$ 12,601</u>	<u>\$ 12,601</u>

NOTE 6 - CHARITABLE GIFT ANNUITY

The Organization recognized a charitable gift annuity in connection with the receipt of a real estate gift during 2005. Under the terms of the gift agreement, the Organization has agreed to make semi-annual payments of \$58,500 to the donor for the remainder of the donor's life. In February 2008, the Organization received notice that the donor/beneficiary was deceased and that no further payments would be required after the January 2008 payment. The Organization recorded a gain from the termination of the annuity agreement of \$481,601 in 2007 that is recognized as an unrestricted gain in the statement of operations.

NOTE 7 - LONG-TERM DEBT

	<u>2007</u>	<u>2006</u>
City of Dickinson Revenue Bonds, Series 2005A, secured by mortgage of congregate facility (A) 3.5% to 4.9% serial bonds, due in varying annual installments, to May 2018	\$ 1,585,000	\$ 1,695,000
5.0% term bonds, due May 2020, with varying annual sinking fund requirements commencing May 2019	385,000	385,000
5.1% term bonds, due May 2022, with varying annual sinking fund requirements commencing May 2021	700,000	700,000
City of Dickinson Revenue Bonds, Series 1997B, secured by mortgage of nursing facility 5.75% to 6.50% serial bonds, due in varying annual installments, to May 2010	205,000	265,000
2% note payable, due in monthly installments of \$569, including interest, to June 2008, secured by mortgage	3,383	10,075
Non-interest bearing note, due in monthly installments of \$40, to August 2013	<u>2,727</u>	<u>3,209</u>
	2,881,110	3,058,284
Less current maturities	<u>(183,864)</u>	<u>(176,174)</u>
Long-term debt, less current maturities	<u>\$ 2,697,246</u>	<u>\$ 2,882,110</u>

NOTES TO COMBINED FINANCIAL STATEMENTS

Long-term debt maturities are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2008	\$ 183,864
2009	190,481
2010	195,481
2011	135,481
2012	140,481
Thereafter	2,035,322
Total	<u>\$ 2,881,110</u>

NOTE 8 - DEFINED CONTRIBUTION PENSION PLAN

The Organization has a defined contribution pension plan under which employees may elect to become participants upon reaching age 21, completion of one year of service, and completion of a minimum of 1000 hours of service in the plan year. Employer contributions to the plan are based on a matching of employee contributions up to a maximum of 2% of employee compensation. Contributions are invested with the plan trustee who invests the plan assets. The pension expense under this plan for the years ended December 31, 2007 and 2006 was \$36,006 and \$32,900.

NOTE 9 - CONCENTRATIONS OF CREDIT RISK

The Organization grants credit without collateral to its residents, many of whom are insured under third-party payor agreements. The mix of receivables from residents and third-party payors as of December 31, 2007 and 2006 was as follows:

	<u>2007</u>	<u>2006</u>
Medicaid	36%	62%
Medicare	58%	24%
Residents and other	6%	14%
	<u>100%</u>	<u>100%</u>

The Organization's cash balances are maintained in various bank deposit accounts. The balances of these accounts at times exceed FDIC limits.

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE 10 - FUNCTIONAL EXPENSES

The Organization provides nursing care services and housing facilities to residents within its geographic location. Expenses related to providing these services are as follows:

	<u>2007</u>	<u>2006</u>
Professional care of patients and residents	\$ 5,129,057	\$ 5,072,007
General and administrative	<u>586,062</u>	<u>537,927</u>
	<u>\$ 5,715,119</u>	<u>\$ 5,609,934</u>

NOTE 11 - CONTINGENCIES

Malpractice Insurance

The Organization has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

Litigation, Claims, and Disputes

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties as well as significant repayments of previously billed and collected revenues for resident services. Management believes the Organization is in substantial compliance with current laws and regulations.

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Directors
St. Luke's Home and St. Luke's Home Foundation
Dickinson, North Dakota

Our audits were made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The combining information is presented for purposes of additional analysis of the basic combined financial statements rather than to present financial position, results of operations, and cash flows of the individual companies. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. The combining and supplementary information has been subject to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

Eide Bailly LLP

Fargo, North Dakota
April 28, 2008

ST. LUKE'S HOME AND ST. LUKE'S HOME FOUNDATION
COMBINING BALANCE SHEET
DECEMBER 31, 2007

	<u>St. Luke's Home</u>	<u>St. Luke's Home Foundation</u>	<u>Combined</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 209,561	\$ 24,335	\$ 233,896
Assets limited as to use	158,908	-	158,908
Receivables			
Resident, net	484,416	-	484,416
Current portion of annuity receivable	-	95,798	95,798
Supplies	42,338	-	42,338
Prepaid expenses	25,543	-	25,543
	<u>920,766</u>	<u>120,133</u>	<u>1,040,899</u>
	<u>495,302</u>	<u>312,370</u>	<u>807,672</u>
ASSETS LIMITED AS TO USE			
PROPERTY AND EQUIPMENT			
Land and improvements	307,478	-	307,478
Buildings and fixed equipment	6,087,606	-	6,087,606
Major movable equipment	1,097,944	-	1,097,944
	<u>7,493,028</u>	<u>-</u>	<u>7,493,028</u>
Accumulated depreciation	(4,993,575)	-	(4,993,575)
	<u>2,499,453</u>	<u>-</u>	<u>2,499,453</u>
OTHER ASSETS			
Investments	-	59,220	59,220
Annuity receivable, less current portion	-	319,630	319,630
Deferred financing costs, net	96,602	-	96,602
Mineral rights	12,601	-	12,601
	<u>109,203</u>	<u>378,850</u>	<u>488,053</u>
	<u>\$ 4,024,724</u>	<u>\$ 811,353</u>	<u>\$ 4,836,077</u>

	<u>St. Luke's Home</u>	<u>St. Luke's Home Foundation</u>	<u>Combined</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Current maturities of long-term debt	\$ 183,864	\$ -	\$ 183,864
Current portion of charitable gift annuity	-	5,834	5,834
Accounts payable			
Trade	167,280	-	167,280
Trust funds and security deposits	38,760	-	38,760
Accrued expenses			
Salaries and wages	185,083	-	185,083
Vacation	161,000	-	161,000
Payroll taxes and other	34,854	-	34,854
Interest	22,827	-	22,827
	<u>793,668</u>	<u>5,834</u>	<u>799,502</u>
LONG-TERM DEBT, less current maturities	<u>2,697,246</u>	<u>-</u>	<u>2,697,246</u>
Total liabilities	3,490,914	5,834	3,496,748
NET ASSETS - unrestricted	<u>533,810</u>	<u>805,519</u>	<u>1,339,329</u>
Total liabilities and net assets	<u>\$ 4,024,724</u>	<u>\$ 811,353</u>	<u>\$ 4,836,077</u>

ST. LUKE'S HOME AND ST. LUKE'S HOME FOUNDATION
COMBINING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2007

	<u>St. Luke's Home</u>	<u>St. Luke's Home Foundation</u>	<u>Combined</u>
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT			
Net resident service revenue	\$ 5,932,251	\$ -	\$ 5,932,251
Other revenue	52,019	-	52,019
Total revenues, gains, and other support	<u>5,984,270</u>	<u>-</u>	<u>5,984,270</u>
EXPENSES			
Professional care of residents	3,408,159	-	3,408,159
Property and household	631,375	-	631,375
General and administrative	586,062	26,405	612,467
Dietary	638,537	-	638,537
Depreciation and amortization	305,092	-	305,092
Interest	142,692	-	142,692
Provision for bad debts	(23,203)	-	(23,203)
Total expenses	<u>5,688,714</u>	<u>26,405</u>	<u>5,715,119</u>
OPERATING INCOME (LOSS)	<u>295,556</u>	<u>(26,405)</u>	<u>269,151</u>
OTHER INCOME (EXPENSE)			
Investment income	24,830	57,691	82,521
Unrestricted gifts	540	520,916	521,456
Charitable gift annuity expense	-	(64,458)	(64,458)
Gain on sale of equipment	24,950	-	24,950
Loss on annuity receivable	-	(282,404)	(282,404)
Total other income, net	<u>50,320</u>	<u>231,745</u>	<u>282,065</u>
REVENUE IN EXCESS OF EXPENSES AND CHANGE IN UNRESTRICTED NET ASSETS	345,876	205,340	551,216
NET ASSETS, BEGINNING OF YEAR	<u>187,934</u>	<u>600,179</u>	<u>788,113</u>
NET ASSETS, END OF YEAR	<u>\$ 533,810</u>	<u>\$ 805,519</u>	<u>\$ 1,339,329</u>

ST. LUKE'S HOME AND ST. LUKE'S HOME FOUNDATION
COMBINING BALANCE SHEET
DECEMBER 31, 2006

	<u>St. Luke's Home</u>	<u>St. Luke's Home Foundation</u>	<u>Combined</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 154,124	\$ 44,410	\$ 198,534
Assets limited as to use	150,777	-	150,777
Receivables			
Resident, net	450,800	-	450,800
Current portion of annuity receivable	-	82,130	82,130
Other	-	16,667	16,667
Supplies	46,019	-	46,019
Prepaid expenses	13,083	18,572	31,655
	<u>814,803</u>	<u>161,779</u>	<u>976,582</u>
	<u>346,969</u>	<u>180,584</u>	<u>527,553</u>
ASSETS LIMITED AS TO USE			
PROPERTY AND EQUIPMENT			
Land and improvements	307,478	-	307,478
Buildings and fixed equipment	5,971,923	-	5,971,923
Major movable equipment	1,134,675	-	1,134,675
	<u>7,414,076</u>	<u>-</u>	<u>7,414,076</u>
Accumulated depreciation	(4,790,557)	-	(4,790,557)
	<u>2,623,519</u>	<u>-</u>	<u>2,623,519</u>
OTHER ASSETS			
Investments	-	35,789	35,789
Annuity receivable, less current portion	-	586,398	586,398
Prepaid annuity premium, less current portion	-	111,434	111,434
Deferred financing costs, net	109,979	-	109,979
Mineral rights	12,601	-	12,601
	<u>122,580</u>	<u>733,621</u>	<u>856,201</u>
Total other assets	<u>122,580</u>	<u>733,621</u>	<u>856,201</u>
Total assets	<u>\$ 3,907,871</u>	<u>\$ 1,075,984</u>	<u>\$ 4,983,855</u>

	<u>St. Luke's Home</u>	<u>St. Luke's Home Foundation</u>	<u>Combined</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Current maturities of long-term debt	\$ 176,174	\$ -	\$ 176,174
Current portion of charitable gift annuity	-	52,542	52,542
Accounts payable			
Trade	163,784	-	163,784
Trust funds and security deposits	41,148	-	41,148
Related party	64,172	(64,172)	-
Accrued expenses			
Salaries and wages	180,814	-	180,814
Vacation	151,118	-	151,118
Payroll taxes and other	38,318	-	38,318
Interest	22,299	-	22,299
	<u>837,827</u>	<u>(11,630)</u>	<u>826,197</u>
CHARITABLE GIFT ANNUITY PAYABLE, less current portion	-	487,435	487,435
LONG-TERM DEBT, less current maturities	<u>2,882,110</u>	<u>-</u>	<u>2,882,110</u>
Total liabilities	3,719,937	475,805	4,195,742
NET ASSETS - unrestricted	<u>187,934</u>	<u>600,179</u>	<u>788,113</u>
Total liabilities and net assets	<u>\$ 3,907,871</u>	<u>\$ 1,075,984</u>	<u>\$ 4,983,855</u>

ST. LUKE'S HOME AND ST. LUKE'S HOME FOUNDATION
COMBINING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2006

	<u>St. Luke's Home</u>	<u>St. Luke's Home Foundation</u>	<u>Combined</u>
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT			
Net resident service revenue	\$ 5,598,884	\$ -	\$ 5,598,884
Other revenue	62,780	-	62,780
Total revenues, gains, and other support	<u>5,661,664</u>	<u>-</u>	<u>5,661,664</u>
EXPENSES			
Professional care of residents	3,330,201	-	3,330,201
Property and household	618,548	-	618,548
General and administrative	537,927	17,199	555,126
Dietary	598,908	-	598,908
Depreciation and amortization	318,097	-	318,097
Interest	152,882	-	152,882
Provision for bad debts	36,172	-	36,172
Total expenses	<u>5,592,735</u>	<u>17,199</u>	<u>5,609,934</u>
OPERATING INCOME (LOSS)	<u>68,929</u>	<u>(17,199)</u>	<u>51,730</u>
OTHER INCOME (EXPENSE)			
Investment income	22,244	74,993	97,237
Unrestricted gifts	18,744	94,267	113,011
Charitable gift annuity expense	-	(61,842)	(61,842)
Loss on sale of real estate	-	(449,010)	(449,010)
Total other income, net	<u>40,988</u>	<u>(341,592)</u>	<u>(300,604)</u>
REVENUE IN EXCESS OF (LESS THAN) EXPENSES AND CHANGE IN UNRESTRICTED NET ASSETS	109,917	(358,791)	(248,874)
NET ASSETS, BEGINNING OF YEAR	<u>78,017</u>	<u>958,970</u>	<u>1,036,987</u>
NET ASSETS, END OF YEAR	<u>\$ 187,934</u>	<u>\$ 600,179</u>	<u>\$ 788,113</u>

ST. LUKE'S HOME AND ST. LUKE'S HOME FOUNDATION
SCHEDULE OF OPERATING REVENUE - HOME
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUE		
Resident service revenue		
Nursing home	\$ 5,513,574	\$ 5,207,741
Congregate housing	<u>468,493</u>	<u>467,320</u>
Total resident service revenue	<u>5,982,067</u>	5,675,061
Medicare contractual adjustments	<u>(49,816)</u>	<u>(76,177)</u>
Net resident service revenue	<u>5,932,251</u>	<u>5,598,884</u>
Other revenue		
Cafeteria	26,030	23,569
Vending machines	3,934	4,409
Miscellaneous	<u>22,055</u>	<u>34,802</u>
Total other revenue	<u>52,019</u>	<u>62,780</u>
TOTAL OPERATING REVENUE	<u>\$ 5,984,270</u>	<u>\$ 5,661,664</u>

ST. LUKE'S HOME AND ST. LUKE'S HOME FOUNDATION
SCHEDULES OF EXPENSES - HOME
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
PROFESSIONAL CARE OF RESIDENTS		
Nursing services		
Salaries	\$ 2,228,349	\$ 2,098,597
Supplies	189,235	181,974
Payroll tax	162,454	152,438
Workers' compensation	32,482	32,181
Health and disability insurance	84,430	77,986
Pension	18,770	15,396
Purchased services	64,557	145,612
Drugs	36,573	50,600
Travel and workshops	11,843	12,980
Professional services	9,603	5,400
Vaccinations	3,501	-
Mini bus	9,835	9,578
Medical director	4,885	4,800
Other	3,357	3,476
	<u>2,859,874</u>	<u>2,791,018</u>
Restorative therapy		
Salaries	124,605	114,790
Payroll tax	7,791	7,363
Health and disability insurance	566	3,461
Workers' compensation	944	1,368
Pension	1,997	955
Supplies and other	50	1,493
	<u>135,953</u>	<u>129,430</u>
Occupational activities		
Salaries	132,357	133,464
Payroll tax	10,732	9,838
Supplies	5,664	5,709
Health and disability insurance	4,560	2,123
Workers' compensation	1,296	1,434
Pension	1,873	1,739
Travel and workshops	820	970
Other	2,944	2,725
	<u>160,246</u>	<u>158,002</u>

SCHEDULES OF EXPENSES - HOME - Page 2

	<u>2007</u>	<u>2006</u>
Social services		
Salaries	104,099	113,633
Payroll tax	7,987	8,116
Workers' compensation	1,047	1,359
Travel and workshops	1,671	1,515
Health and disability insurance	6,603	4,493
Pension	1,750	1,474
Other	225	1,012
	<u>123,382</u>	<u>131,602</u>
Congregate housing		
Salaries	41,021	33,302
Payroll tax	333	75
Workers' compensation	23	116
Health insurance	22	-
Insurance	13,063	13,396
Utilities	33,253	35,355
Promotion and printing	323	624
Food	11,877	10,480
Professional services	638	-
Administrative expenses	443	417
Property taxes	4,000	8,000
Dietary expenses	1,337	1,503
Environmental services	18,212	10,782
Postage	-	151
Telephone	1,984	2,787
Other	2,175	3,161
	<u>128,704</u>	<u>120,149</u>
 Total professional care of residents	 <u>3,408,159</u>	 <u>3,330,201</u>

SCHEDULES OF EXPENSES - HOME - Page 3

	<u>2007</u>	<u>2006</u>
PROPERTY AND HOUSEHOLD		
Environmental services		
Salaries	\$ 108,868	\$ 107,675
Heat	43,401	54,792
Electricity	55,480	48,096
Water and sewer	26,590	24,330
Insurance	38,896	36,823
Building repairs	12,868	11,742
Equipment repairs	11,601	10,937
Supplies and other	16,864	13,407
Grounds upkeep	16,236	16,320
Health and disability insurance	9,112	6,032
Payroll tax	7,248	7,878
Garbage disposal	11,577	11,661
Cable television	3,591	3,527
Workers' compensation	929	1,229
Pension	1,441	2,022
Truck expense	1,453	1,875
Travel and workshops	2,177	3,318
	<u>368,332</u>	<u>361,664</u>
Laundry		
Salaries	112,001	103,854
Health and disability insurance	3,632	3,477
Supplies and other	14,457	16,875
Payroll tax	6,501	6,620
Linen	1,835	5,245
Workers' compensation	856	888
Pension	656	643
Professional services	26	39
Travel and workshops	200	165
	<u>140,164</u>	<u>137,806</u>
Housekeeping		
Salaries	82,968	77,091
Payroll tax	7,100	6,469
Workers' compensation	963	1,025
Pension	1,084	1,464
Health and disability insurance	12,589	12,396
Supplies and other	18,175	20,633
	<u>122,879</u>	<u>119,078</u>
Total property and household	<u>631,375</u>	<u>618,548</u>

(continued on next page)

SCHEDULES OF EXPENSES - HOME - Page 4

	<u>2007</u>	<u>2006</u>
GENERAL AND ADMINISTRATIVE		
Administration		
Salaries	\$ 280,227	\$ 296,680
Office supplies and postage	52,125	64,643
Travel and workshops	9,398	3,876
Professional services	95,947	51,410
Payroll taxes	20,893	20,672
Health and disability insurance	22,018	26,911
Workers' compensation	2,574	3,444
Pension	4,973	5,946
Licenses and dues	11,821	11,741
Repairs	22,042	15,395
Telephone	12,916	13,467
Promotion and printing	12,384	7,867
Nursing scholarship	1,455	815
Gifts to foundation	11,965	-
Other	22,139	12,017
	<u>582,877</u>	<u>534,884</u>
Chaplaincy	<u>3,185</u>	<u>3,043</u>
Total general and administrative	<u>586,062</u>	<u>537,927</u>
DIETARY		
Salaries	315,417	303,170
Food	246,926	221,340
Supplies	19,816	20,598
Payroll tax	23,742	23,204
Workers' compensation	3,046	3,933
Health and disability insurance	15,947	15,453
Pension	3,462	3,261
Professional services	6,021	5,152
Travel and workshops	1,386	558
Other	2,774	2,239
Total dietary	<u>638,537</u>	<u>598,908</u>
DEPRECIATION AND AMORTIZATION		
Nursing Facility	148,286	157,359
Congregate Housing	156,806	160,738
	<u>305,092</u>	<u>318,097</u>
INTEREST		
Nursing Facility	17,541	23,861
Congregate Housing	125,151	129,021
	<u>142,692</u>	<u>152,882</u>
PROVISION FOR BAD DEBTS		
	<u>(23,203)</u>	<u>36,172</u>
TOTAL EXPENSES	<u><u>\$ 5,688,714</u></u>	<u><u>\$ 5,592,735</u></u>

ST. LUKE'S HOME AND ST. LUKE'S HOME FOUNDATION
OPERATIONAL, STATISTICAL, AND FINANCIAL HIGHLIGHTS - NURSING FACILITY
FIVE YEARS ENDED DECEMBER 31, 2007

	<u>2007</u>	<u>2006</u>
OPERATIONAL		
UNRESTRICTED REVENUES, GAINS, AND OTHER ASSETS		
Resident service revenue	\$ 5,513,574	\$ 5,207,741
Contractual adjustments	(49,816)	(76,177)
Net resident service revenue	<u>5,463,758</u>	<u>5,131,564</u>
Other revenue	<u>52,019</u>	<u>62,780</u>
Total revenues, gains, and other support	<u>5,515,777</u>	<u>5,194,344</u>
EXPENSES		
Salaries and benefits	3,983,081	3,823,645
Supplies and other	1,129,145	1,177,962
Depreciation and amortization	148,286	157,359
Interest	17,541	23,861
Total expenses	<u>5,278,053</u>	<u>5,182,827</u>
OPERATING INCOME (LOSS)	<u>\$ 237,724</u>	<u>\$ 11,517</u>
STATISTICAL		
Beds	84	84
Available bed days	30,660	30,660
Resident days	30,340	29,357
Percent of occupancy	99.0%	95.8%
FINANCIAL		
Number of days in resident receivables	32	32
Percent of salaries and benefits to total expenses	75.5%	73.8%
Percent of salaries and benefits to net resident revenue	72.9%	74.5%

2005	2004	2003
\$ 4,590,661	\$ 4,465,804	\$ 4,441,307
2,087	(8,534)	(8,216)
4,592,748	4,457,270	4,433,091
32,662	37,023	37,983
4,625,410	4,494,293	4,471,074
3,606,226	3,186,456	3,130,903
1,224,574	1,147,734	1,049,215
162,059	159,076	166,819
25,678	27,252	31,221
5,018,537	4,520,518	4,378,158
\$ (393,127)	\$ (26,225)	\$ 92,916
84	84	84
30,660	30,744	30,660
28,688	28,100	29,919
93.6%	91.4%	97.6%
33	44	38
71.9%	70.5%	71.5%
78.5%	71.5%	70.6%