

**CAMPBELLTON-GRACEVILLE HOSPITAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
SEPTEMBER 30, 2007**

The Corporation's management discussion and analysis presents an overview of the Corporation's financial activities for the year ended September 30, 2007.

The Corporation has implemented Governmental Accounting Standards Board (GASB) Statement 34, Basis Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. Among those guidelines are the components of this section dealing with management's discussion and analysis.

Its intent is to provide a brief, objective, and easily readable analysis of the Corporation's financial performance for the year and its financial position at fiscal year end September 30, 2007.

Campbellton-Graceville Hospital Corporation does business as Campbellton-Graceville Hospital (the Hospital). The Hospital operates a 25-bed Critical Access Hospital that includes primary care physician's clinics. The Corporation was formed in 1961 and began operations as a general acute care hospital in 1964.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's financial statements consist of 1) balance sheets, 2) statements of revenues, expenses, and changes in net assets, 3) statement of cash flows, and 4) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Financial Condition: The Hospital's financial condition declined slightly during the fiscal year. Net assets decreased 7.7%. There were no outstanding commitments for capital expenditures at end of the year.

Balance Sheet Analysis:

(A comparison of condensed balance sheet information follows)

	9-30-2007	9-30-2006	Change	% Change
Current and other assets	1,470,725	1,628,703	<157,978>	<9.7>
Capital Assets	424,131	407,438	16,693	4.1
Total Assets	1,894,856	2,036,141	<141,285>	<6.9>
Current and Other Liabilities	960,645	1,023,858	< 63,213>	<6.2>
Long Term Liabilities	-0-	-0-	-0-	0.0
Total Liabilities	960,645	1,023,858	< 63,213>	<6.2>
Net Assets	934,211	1,012,283	< 78,072>	<7.7>

Note * All debt was classified as current since pledged tax receipts were anticipated to be sufficient to retire that debt within the next 12 months. During the year, the Board of Directors approved the prior year rates that should generate approximately \$240,246 in property tax revenues during the coming year. Tax receipts for the current fiscal year were \$232,695.68. The small increase for the coming year is the result of increasing property value assessments.

Results of Financial Operations:

	9-30-2007	9-30-2006	Change	% Change
Operating Revenues				
Net Operating Revenues	4,851,896	4,815,235	36,661	.76
Other Revenues	14,415	14,339	76	.53
Rural Fin. Assist. Program	400,937	316,586	84,351	26.64
Total Revenues	5,267,248	5,146,160	121,088	2.35
Operating Expenses				
Operating Expenses	4,974,938	4,682,154	292,784	6.25
Bad Debts	572,537	536,194	36,343	6.78
Depreciation	104,112	174,534	< 70,422>	<40.35>
Total Expenses	5,651,587	5,392,882	258,705	4.80
Operating Income (Loss)	<384,339>	< 246,722>	<137,617>	<55.78>
Non Operating Revenues	306,267	401,353	< 95,086>	<23.69>
Net Income (Loss)	< 78,072>	154,631	< 76,559>	<49.51>

Increase in facility utilization impacted net operating revenues. An average daily inpatient census of 5.35 patients per day was 12.16% above prior year levels. Increases were observed in both inpatient acute and swing bed utilization. Emergency Room visits increased by 2.15% and averaged 6.96 visits per day. There was a 13.13% increase in the State's Medicaid Disproportionate Share Payments, which is the primary cause for the increase in the Rural Financial Assistance Program revenues.

Overall expense increases of 4.8% were significantly impacted by a 34.89% increase in manpower cost to include salaries, benefits, and professional fees, which were in line with Board approved payroll and manpower increases. There was a 32.95% increase in other expenses, which included late penalties and interest for the payment of payroll taxes.

Due to continuing cash flow problems, it can be anticipated that without a further restructuring of debt and/or increased net revenues, it is anticipated that the Hospital will continue to have critical cash flow issues for the immediate future.