

In the opinion of Bond Counsel, assuming compliance by the Authority with certain covenants set forth in the Indenture herein referred to with respect to certain conditions imposed by the Internal Revenue Code of 1986, as amended, the interest income on the Series 2006 Bonds will be excludable from gross income of the recipients thereof for Federal income tax purposes. However, see "TAX MATTERS" herein for certain other Federal tax consequences to the holders of the Series 2006 Bonds. In the opinion of Bond Counsel, the interest income on the Series 2006 Bonds will be exempt from Alabama income taxation.

**\$30,000,000
THE DCH HEALTH CARE AUTHORITY
Health Care Facilities Revenue Bonds
Series 2006**

Dated: September 1, 2006

Due: June 1, as shown below

The Series 2006 Bonds are issuable as fully registered bonds and, when issued, will be registered in the name of Cede & Co., a nominee of The Depository Trust Company ("DTC"), New York, New York, to which principal and interest payments on the Series 2006 Bonds will be made so long as Cede & Co. is the registered owner of the Series 2006 Bonds. Individual purchases of the Series 2006 Bonds will be made in Book-Entry Only form, and individual purchasers ("Beneficial Owners") of the Series 2006 Bonds will not receive physical delivery of bond certificates.

Interest will be payable on the Series 2006 Bonds each June 1 and December 1, beginning December 1, 2006. The Series 2006 Bonds are issuable only as fully registered bonds and will be registered in the name of and held by Cede & Co., as nominee for DTC. DTC will act as securities depository for the Series 2006 Bonds. Purchases of beneficial interests in the Series 2006 Bonds will be made in book-entry form, in denominations of \$5,000 or any integral multiple thereof. Except as herein described, purchasers will not receive certificates representing their beneficial interests in the Series 2006 Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein.

The Series 2006 Bonds are subject to redemption prior to their respective maturities as described herein.

The Series 2006 Bonds are being issued under a Trust Indenture between The DCH Health Care Authority and the Trustee. The Series 2006 Bonds will be issued as parity obligations under such Trust Indenture and, together with the Series 1998 Bonds, the Series 2000 Bonds and the Series 2002 Bonds already outstanding under such Trust Indenture, will constitute limited or special obligations of the Authority payable (except to the extent paid out of bond proceeds, income from investments or, under certain circumstances, insurance proceeds or condemnation awards) solely from, and secured by a pledge of, revenues to be derived by the Authority from the Facilities (as defined herein) and from certain other of its properties and assets, but subject to the prior pledge of said revenues securing the Prior Lien Obligations (as defined herein). The Authority may under the terms of the Indenture incur other debt having a claim or charge on the revenues out of which the Series 2006 Bonds are payable on a parity with that of the Series 2006 Bonds and the other Bonds outstanding under such Trust Indenture, subject to certain conditions referred to herein and in the Indenture. The Indenture does not constitute a mortgage on the Facilities or any of the other properties or assets of the Authority, nor does it create a lien on any thereof.

The Series 2006 Bonds will not be general obligations of the Authority, and the covenants and representations contained in the Indenture and in the Series 2006 Bonds will not and shall never constitute a liability or charge against the general credit of the Authority. The Series 2006 Bonds will not be obligations or debts of the State of Alabama, Tuscaloosa County, the City of Tuscaloosa, Alabama, the City of Northport, Alabama, or any other municipality or county in the State of Alabama, nor will the faith and credit of the State of Alabama or any county or municipality therein be pledged for payment of the Series 2006 Bonds. The Authority has no taxing power.

Purchase of the Series 2006 Bonds involves a certain degree of risk. See the caption "RISK FACTORS" in this Official Statement for a discussion of such risks.

MATURITY, AMOUNT, RATE, PRICE & CUSIP

**\$30,000,000 5.125% Term Bond due June 1, 2036, Priced to Yield 4.65%,
CUSIP: 233091FJ1**

The Series 2006 Bonds are offered when, as and if issued and accepted by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, and to approval of the legality of the Series 2006 Bonds and certain other matters by Bradley Arant Rose & White LLP, Birmingham, Alabama, Bond Counsel, approval of certain matters for the Authority by its counsel, Phelps Jenkins Gibson & Fowler L.L.P., Tuscaloosa, Alabama, and approval of certain matters for the Underwriter by its counsel, Presley Burton & Collier, LLC, Birmingham, Alabama. It is expected that the Series 2006 Bonds in definitive form will be available in New York, New York on or about September 26, 2006.

AmSouth Bank

The date of this Official Statement is September 14, 2006.

THE DCH HEALTH CARE AUTHORITY

BOARD OF DIRECTORS OF THE AUTHORITY

J. BARRY MASON, Chairman of the Board of Directors
JOSEPH A. COLQUITT, Vice Chairman of the Board of Directors
LUCIE M. KING, M.D., Secretary
W. PAUL RAY, Treasurer
JOSEPH C. KENNEDY
JOHN MIZE
HARVEY A. EDWARDS, III, M.D.
CAROLINE POWELL
RONALD R. TURNER

COUNSEL FOR THE AUTHORITY

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FINANCIAL ADVISOR TO THE AUTHORITY

PONDER & CO.
Chicago, Illinois

BOND COUNSEL

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Birmingham, Alabama

COUNSEL TO THE UNDERWRITER

PRESLEY BURTON & COLLIER, LLC
Birmingham, Alabama

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

MORRISON & SMITH, LLP
Tuscaloosa, Alabama

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2006 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or holders of any of the Series 2006 Bonds.

Certain statements contained in this Official Statement reflect forecasts and forward-looking statements, rather than historical facts. In this respect, the words “estimate,” “project,” “anticipate,” “expect,” “intend,” “believe,” and similar expressions are intended to identify forward-looking statements. All such forward-looking statements are expressly qualified by the cautionary statements set forth in this Official Statement.

All quotations from and summaries and explanations of provisions of laws and documents herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions.

The information in this Official Statement has been obtained from sources which are considered dependable and which are customarily relied upon in the preparation of similar official statements, but such information is not guaranteed as to accuracy or completeness.

All estimates and assumptions contained herein are believed to be reasonable, but no representation is made that such estimates or assumptions are correct or will be realized.

No person, including any broker, dealer or salesman, has been authorized to give any information or to make any representation other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Authority.

The Series 2006 Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities laws and will not be listed on any stock or other securities exchange, and neither the Securities and Exchange Commission nor any federal, state, municipal or other governmental agency will pass upon the accuracy, completeness or adequacy of this Official Statement.

Any information or expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create an implication that there has been no change as to the affairs of the Authority since the date hereof.

In connection with the offering of the Series 2006 Bonds, the Underwriter may over-allot or effect transactions that stabilize or maintain the market price of the Series 2006 Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The order and placement of material in this Official Statement, including its appendices, are not to be deemed a determination of relevance, materiality or importance, and all material in this Official Statement, including its appendices, must be considered in its entirety.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

This Official Statement is being provided to prospective purchasers either in bound printed format or in electronic format. This Official Statement may be relied upon only if it is in its bound printed format or as printed in its entirety in such electronic format.

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OFFICIAL STATEMENT
Regarding
\$30,000,000
The DCH Health Care Authority
Health Care Facilities Revenue Bonds
Series 2006

INTRODUCTION

This Official Statement is furnished in connection with the issuance of the Series 2006 Bonds referred to above (the "Series 2006 Bonds") by The DCH Health Care Authority (the "Authority"). The Authority is a regional healthcare provider headquartered in Tuscaloosa, Alabama. Its healthcare facilities include DCH Regional Medical Center, a 583-licensed bed, regional referral hospital located in Tuscaloosa, Alabama (the "DCH Regional Medical Center"), Northport Medical Center, a 204-licensed bed general acute-care hospital in Northport, Alabama ("Northport Medical Center"), and Fayette Medical Center and Nursing Home, a 61-licensed bed hospital ("Fayette Medical Center") and 122-licensed bed nursing home facility located in Fayette, Alabama (together with Fayette Medical Center, "Fayette Medical Center and Nursing Home"). Subject to certain exceptions hereinafter described, the entire hospital and health care facilities of the Authority, as they now or hereafter may exist, are herein together called the "Facilities."

The Series 2006 Bonds will be issued pursuant to a Trust Indenture, dated as of June 1, 1987, as amended and supplemented in connection with the issuance of the Series 1991 Bonds, the Series 1993-A Bonds, the Series 1993-B Bonds, the Series 1998 Bonds, the Series 2000 Bonds and the Series 2002 Bonds referred to below, and as amended and supplemented in connection with the issuance of the Series 2006 Bonds (the "Indenture"), between the Authority and Regions Bank, as trustee (the "Trustee"). Pursuant to the Indenture the Authority has heretofore issued (i) its \$44,045,000 Health Care Facilities Revenue Bonds, Series 1987 (the "Series 1987 Bonds"), which have been refunded and retired and are no longer outstanding under the Indenture, (ii) its \$22,090,000 Health Care Facilities Revenue Bonds, Series 1991 (the "Series 1991 Bonds"), which have been refunded and retired and are no longer outstanding under the Indenture, (iii) its \$47,445,000 Health Care Facilities Revenue Bonds, Series 1993-A (the "Series 1993-A Bonds"), which have been refunded and retired and are no longer outstanding under the Indenture, (iv) its \$39,600,000 Health Care Facilities Revenue Bonds, Series 1993-B (the "Series 1993-B Bonds"), which have been refunded and retired and are no longer outstanding under the Indenture, (v) its \$33,620,000 Health Care Facilities Revenue Bonds, Series 1998 (the "Series 1998 Bonds"), which are now outstanding in the aggregate principal amount of \$23,085,000, (vi) its \$25,000,000 Health Care Facilities Revenue Bonds, Series 2000 (the "Series 2000 Bonds"), all of which are now outstanding and (vii) its \$75,850,000 Health Care Facilities Revenue Bonds, Series 2002 (the "Series 2002 Bonds"), which are now outstanding in the aggregate principal amount of \$63,050,000.

The Series 2006 Bonds will be issued for the purposes of (i) financing the construction and acquisition of certain improvements and additions to the health care facilities of the Authority, (ii) funding a reserve fund with respect to the Series 2006 Bonds and (iii) paying the costs of issuance of the Series 2006 Bonds. See "THE PLAN OF FINANCING".

The Series 2006 Bonds will be special or limited obligations of the Authority payable solely from revenues to be derived by the Authority from the Facilities and from its other assets and properties. The Series 2006 Bonds will be secured by a pledge of the revenues out of which the Series 2006 Bonds are payable on a parity with the Series 1998 Bonds, the Series 2000 Bonds and the Series 2002 Bonds outstanding under the Indenture and any Additional Bonds that may hereafter be issued, but subject to a prior pledge of such revenues for the benefit of the Prior Lien Obligations. See "SECURITY AND SOURCE OF PAYMENT".

The Series 2006 Bonds will not be general obligations of the Authority, and the covenants and representations contained in the Indenture and in the Series 2006 Bonds will not and shall never constitute a liability

or charge against the general credit of the Authority. The Series 2006 Bonds will not be obligations or debts of the State of Alabama, Tuscaloosa County, the City of Tuscaloosa, Alabama, the City of Northport, Alabama, or any other municipality or other county in the State of Alabama, nor will the faith and credit of the State of Alabama or any municipality or county therein be pledged for payment of the Series 2006 Bonds.

The Series 2006 Bonds are subject to optional and mandatory redemption at the times and under the circumstances set forth herein. The Series 2006 Bonds are being offered in the denomination of \$5,000 or any multiple thereof and may be transferred and exchanged subject to certain terms and conditions set forth herein. See “THE SERIES 2006 BONDS”.

The Authority has covenanted to undertake certain continuing disclosure pursuant to Rule 15c2-12 of the Securities and Exchange Commission. See “CONTINUING DISCLOSURE”.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. For further information during the initial offering period with respect to the Series 2006 Bonds, contact John W. Winfrey, DCH Regional Medical Center, 809 University Boulevard E., Tuscaloosa, Alabama 35401 [205/759-7738] or J. Thomas Barnett, Jr., AmSouth Bank, Public Finance, P.O. Box 11007, Birmingham, Alabama 35288 [205/264-4427].

GLOSSARY

This section of the Official Statement contains the definitions of certain capitalized terms used frequently in this Official Statement. In addition, certain capitalized terms used in this Official Statement and not defined in this section are defined in APPENDIX C.

“**Authority**” means The DCH Health Care Authority, an Alabama public corporation.

“**Bonds**” means the Series 1998 Bonds, the Series 2000 Bonds, the Series 2002 Bonds, the Series 2006 Bonds and any Additional Bonds issued under and pursuant to the terms of the Indenture.

“**DCH Regional Medical Center**” means the real property, buildings, structures and other facilities that at the time together constitute the DCH Regional Medical Center, including (without limitation) that certain hospital building or structure and appurtenant structures and facilities that are now located in the City of Tuscaloosa, Tuscaloosa County, Alabama, and that are together now known as the DCH Regional Medical Center, as said real property, buildings, structures and other facilities now exist or as they may hereafter be extended, enlarged, improved or otherwise altered.

“**Facilities**” means the entire hospital and health-care facilities owned or operated by the Authority, as they now or may hereafter exist, including (without limiting the generality of the foregoing) (a) the DCH Regional Medical Center and (b) any other health-care facilities owned or operated by the Authority, but excluding (i) any health-care facilities that are not wholly and directly owned or operated by the Authority (notwithstanding the fact that revenues derived from the ownership interest of the Authority in such facilities not wholly and directly owned or operated by the Authority constitute Gross Receipts), and (ii) Conduit Facilities.

“**Gross Receipts**” means the revenues to be derived by the Authority from the Facilities and from its other assets and properties and interests therein including (without limitation) (a) management fees and other revenues derived from the operation or management of health care and related facilities that are not wholly and directly owned or operated by the Authority, (b) revenues derived by the Authority from the leasing of any of its properties, and (c) revenues derived from its ownership interest in any health care or related facilities that are not wholly and directly owned by it (such as, e.g., cash dividends, partnership distributions, liquidation distributions and the like), but not including (i) any income, gain or profit resulting from any investment of moneys in the Bond Fund, the Reserve Fund or the Redemption Fund (except to the extent that such income, gain or profit is required by the Indenture to be paid out of any such fund to the Authority), (ii) contributions and the income, gain and profit resulting from any investment thereof, or (iii) notwithstanding the generality of any of the inclusive language above, any revenues, receipt or income of the Authority from Conduit Facilities.

“**Indenture**” means that certain Trust Indenture dated as of June 1, 1987 between the Authority and the Trustee, as amended and supplemented by the supplemental indentures entered into in connection with the issuance of the Series 1991 Bonds, the Series 1993-A Bonds, the Series 1993-B Bonds, the Series 1998 Bonds, the Series 2000 Bonds and the Series 2002 Bonds and by the Series 2006 Supplemental Indenture.

“**Prior Lien Obligations**” means those obligations which have a charge on the Gross Receipts prior to the charge on the Gross Receipts securing the bonds issued under the Indenture. See “DEBT STRUCTURE OF THE AUTHORITY” and APPENDIX C.

“**Series 1987 Bonds**” means the Authority’s Health Care Facilities Revenue Bonds, Series 1987, which were issued pursuant to the Indenture in the aggregate principal amount of \$44,045,000. The Series 1987 Bonds have been refunded and retired and are no longer outstanding under the Indenture.

“**Series 1991 Bonds**” means the Authority’s Health Care Facilities Revenue Bonds, Series 1991, which were issued pursuant to the Indenture in the aggregate principal amount of \$22,090,000. The Series 1991 Bonds have been refunded and retired and are no longer outstanding under the Indenture.

“**Series 1993 Bonds**” means the Series 1993-A Bonds and the Series 1993-B Bonds.

“**Series 1993-A Bonds**” means the Authority’s Health Care Facilities Revenue Bonds, Series 1993-A, which were issued pursuant to the Indenture in the aggregate principal amount of \$47,445,000. The Series 1993-A Bonds have been refunded and retired and are no longer outstanding under the Indenture.

“**Series 1993-B Bonds**” means the Authority’s Health Care Facilities Revenue Bonds, Series 1993-B, which were issued pursuant to the Indenture in the aggregate principal amount of \$39,600,000. The Series 1993-B Bonds have been refunded and retired and are no longer outstanding under the Indenture.

“**Series 1998 Bonds**” means the Authority’s Health Care Facilities Revenue Bonds, Series 1998, which were issued pursuant to the Indenture in the aggregate principal amount of \$33,620,000 and are now outstanding in the aggregate principal amount of \$23,085,000.

“**Series 2000 Bonds**” means the Authority’s Health Care Facilities Revenue Bonds, Series 2000, which were issued pursuant to the Indenture in the aggregate principal amount of \$25,000,000, and all of which are currently outstanding.

“**Series 2002 Bonds**” means the Authority’s Health Care Facilities Revenue Bonds, Series 2002, which were issued pursuant to the Indenture in the aggregate principal amount of \$75,850,000 and are now outstanding in the aggregate principal amount of \$63,050,000.

“**Series 2006 Bonds**” means the bonds offered by this Official Statement.

“**Series 2006 Supplemental Indenture**” means the Seventh Supplemental Indenture dated as of September 1, 2006, to be entered into by the Authority and the Trustee in connection with the issuance of the Series 2006 Bonds.

“**Trustee**” means Regions Bank, in its capacity as trustee under the Indenture.

“**Underwriter**” means the underwriter that will purchase the Series 2006 Bonds from the Authority.

THE SERIES 2006 BONDS

General Description of the Series 2006 Bonds

The principal amount of Series 2006 Bonds to be issued is \$30,000,000. The Series 2006 Bonds will be fully registered bonds without coupons, in the denomination of \$5,000 or any authorized integral multiple thereof, will be dated September 1, 2006, will mature on June 1, 2036 in the principal amount set forth on the cover page of this Official Statement and will be appropriately numbered. Each Series 2006 Bond so issued may have only one maturity date and may bear interest until maturity at only one rate. Interest on the Series 2006 Bonds (computed on the basis of a 360-day year of 12 consecutive 30-day months) will be payable on December 1, 2006, and semiannually thereafter on each June 1 and December 1 until and at their respective maturities, at the applicable per annum rates set forth on the cover page of this Official Statement. Overdue installments of principal of and interest on any Series 2006 Bonds will, to the extent permitted by law, bear interest at the rate borne by such Series 2006 Bond.

The Series 2006 Bonds will be issued in book-entry only form, as described below under “Book-Entry Only System”, and the method and place of payment will be as provided in the book-entry only system. In the event that the use of the Book-Entry Only System for the Series 2006 Bonds is discontinued, the principal of such Series 2006 Bonds will be payable at the principal corporate trust office of the Trustee in the City of Birmingham, Alabama, and interest on the Series 2006 Bonds will be payable by check or draft mailed or otherwise delivered by the Trustee to the persons who are on the respective due dates of such interest registered holders of the Series 2006 Bonds, at their respective addresses as they appear on the registry books of the Trustee pertaining to the Series 2006 Bonds, except the overdue or delinquent interest will be payable to the persons who are, on the date moneys become available to the Trustee for payment thereof, the registered holders of the Series 2006 Bonds.

The Series 2006 Bonds will be issued in book-entry only form, as described below under “Book-Entry Only System”, and the method for registration and exchange of the Series 2006 Bonds will be as provided in the book-entry only system. In the event that the use of the Book-Entry Only System for the Series 2006 Bonds is discontinued, the Indenture effectively provides that the Series 2006 Bonds are transferable only on the registry and transfer books of the Trustee and that no transfer of a Series 2006 Bond shall be valid unless it is duly presented for transfer at the principal corporate trust office of the Trustee in Birmingham, Alabama. Any one or more of the Series 2006 Bonds may be exchanged for a Series 2006 Bond or Bonds in an authorized denomination or denominations aggregating the same principal amount as that of the Series 2006 Bond or Bonds surrendered therefor, but only if such Series 2006 Bonds have the same maturity and bear interest at the same rate, and only to the extent and subject to the conditions provided in the Indenture.

In every case involving any transfer or exchange of any of the Series 2006 Bonds that is requested by the holder thereof, such holder shall be responsible for paying all taxes and other governmental charges relating to such transfer or exchange. In addition, in the event a Series 2006 Bond is lost, stolen or destroyed, the Authority and the Trustee may require satisfactory indemnification for the replacement thereof and may charge the holder of such Series 2006 Bond any fees and expenses incurred by them in connection with the replacement thereof. Subject only to these exceptions, every registration, transfer or exchange of Series 2006 Bonds will be made without any expense to the holders thereof.

The Trustee shall not be required to transfer, register or exchange any Series 2006 Bond (i) during the period of fifteen (15) days next preceding an interest payment date, and (ii) in the case of any Series 2006 Bond called for redemption (in whole or in part), during the period of thirty (30) days prior to the date fixed for such redemption.

Redemption of Series 2006 Bonds Prior to Maturity

Optional Redemption. The Series 2006 Bonds will be subject to redemption prior to their respective maturities, at the option of the Authority, on June 1, 2016 and on any date thereafter (but if in part, only in installments of \$5,000 or any integral multiple thereof), at a redemption price (expressed as a percentage of the principal amount of each Series 2006 Bond to be redeemed) of par plus accrued interest thereon to the date fixed for redemption.

Sinking Fund Redemption for Series 2006 Bonds. The Series 2006 Bonds will be subject to mandatory redemption on June 1 in the years and amounts shown below, at a redemption price, with respect to each such Series 2006 Bond (or, in the case of any such Series 2006 Bond to be redeemed in part, the portion of the principal thereof) to be redeemed, equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption:

Date Fixed for Redemption (June 1)	Principal Amount Required to be Redeemed
2025	\$1,870,000
2026	1,965,000
2027	2,070,000
2028	2,175,000
2029	2,285,000
2030	2,400,000
2031	2,525,000
2032	2,655,000
2033	2,790,000
2034	2,935,000
2035	3,085,000

\$3,245,000 of the Series 2006 Bonds
will be retired at maturity.

The Series 2006 Bonds to be so redeemed are redeemable only in installments of \$5,000 or any integral multiple thereof, and those Series 2006 Bonds (or portions thereof) to be so redeemed are required to be selected by the Trustee by lot. The Authority is entitled to certain credits against mandatory redemption requirements for Series 2006 Bonds delivered to the Trustee for retirement by the Authority. See APPENDIX C - "Flow of Funds - Sinking Fund Account."

Redemption with Redemption Fund Moneys. The Series 2006 Bonds will be subject to redemption and payment on any date, as a whole or in part (but if in part only in installments of \$5,000 or any integral multiple thereof), at and for a redemption price, with respect to each such Series 2006 Bond (or portion of the principal thereof) to be redeemed, equal to the principal amount thereof to be redeemed plus accrued interest thereon to the date fixed for redemption, but only out of moneys that are required or expressly permitted by the Indenture to be paid into the Redemption Fund. Such moneys will consist primarily of excess bond proceeds and certain insurance or condemnation proceeds not used for the purpose of repairing, renewing or rebuilding property damaged, destroyed or condemned or for acquiring additional property under the conditions described in the Indenture. While the Indenture effectively permits the Authority to determine, under certain circumstances, whether and to what extent certain insurance or condemnation proceeds will be used to repair or replace the property damaged, destroyed or condemned, to acquire additional property or to redeem Bonds, it does require that there be paid into the Redemption Fund any such insurance or condemnation proceeds not used to repair or replace the property damaged, destroyed or condemned or to acquire additional property; and it further requires that whenever and as often as there is on deposit in the Redemption Fund as much as \$5,000 [i.e., the amount necessary to redeem at least one Bond (or principal installment thereof)], the Trustee must exhaust, as nearly as may be practicable, the moneys on deposit in the Redemption Fund by

- (1) effecting the redemption of one or more Bonds (or portions of the principal thereof) on the earliest practicable date thereafter on which such redemption may be effected,
- (2) purchasing Bonds for retirement (i) at a price less than the appropriate redemption price applicable thereto on the interest payment date next succeeding the date of purchase (including accrued interest), or (ii) if such Bonds are not subject to redemption on such next succeeding interest payment date, at a price not exceeding par plus accrued interest, or

- (3) both redeeming Bonds and purchasing Bonds for retirement as aforesaid.

Selection of Bonds for Partial Redemption. If, in the case of any redemption of Series 2006 Bonds other than pursuant to the mandatory redemption of Series 2006 Bonds, less than all outstanding Series 2006 Bonds are to be redeemed, the Authority shall designate the maturities of those Series 2006 Bonds to be redeemed; provided, however, that if less than all Series 2006 Bonds of a single maturity are to be redeemed, those of that maturity to be redeemed shall be selected by the Trustee by lot.

Notice of Redemption. Notice of any redemption is required to be sent, by registered or certified mail, not more than ninety (90) nor less than thirty (30) days prior to the date fixed for redemption, to the registered holder of each Series 2006 Bond to be so redeemed (in whole or in part). Any Series 2006 Bond (or portion of the principal thereof) to be so redeemed will become due and payable on the specified redemption date and will cease to bear interest from and after such redemption date.

Miscellaneous. In the event of the redemption of a portion of a Series 2006 Bond in a denomination larger than \$5,000, the Trustee is required, upon surrender to it of such Series 2006 Bond called for redemption in part, to authenticate and deliver a new Series 2006 Bond or Bonds in an aggregate principal amount equal to the unredeemed portion of the Series 2006 Bond so surrendered, all as may be requested by the holder of such Series 2006 Bond. No charge will be made by the Trustee for any such exchange necessitated by such partial redemption.

Book-Entry Only System

The information contained in this section concerning DTC and DTC's book-entry only system has been obtained from materials furnished by DTC to the Authority. Neither the Authority, the Trustee nor the Underwriter makes any representation or warranty as to the accuracy or completeness of such information.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2006 Bonds. The Series 2006 Bonds will be issued as fully-registered securities registered in the name of Cede & Co., DTC's partnership nominee. The Series 2006 Bonds will be issued as a single fully-registered certificate and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "Banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("DTC Participants") deposit with DTC. DTC also facilitates the settlement among DTC Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in DTC Participants' accounts, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of the DTC Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and the DTC Participants are on file with the Securities and Exchange Commission.

Purchases of beneficial ownership interests in the Series 2006 Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit for the Series 2006 Bonds on DTC's records. The ownership interest of each beneficial owner of a Series 2006 Bond (a "Beneficial Owner") is in turn to be recorded on the DTC Participants' and Indirect Participants' records. Beneficial Owners will not receive written communication from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the DTC Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of beneficial ownership interests in the Series 2006 Bonds are to be accomplished by entries made on the books of DTC

Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their beneficial ownership interests in the Series 2006 Bonds, except in the event that use of the book-entry only system for the Series 2006 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2006 Bonds deposited by DTC Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 2006 Bonds with DTC and their registration in the name of Cede & Co. effects no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2006 Bonds. DTC's records reflect only the identity of the DTC Participants to whose accounts such Series 2006 Bonds are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Series 2006 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each DTC Participant to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Series 2006 Bonds. Under its usual procedures, DTC mails an "Omnibus Proxy" to the Authority as soon as possible after the record date. The "Omnibus Proxy" assigns Cede & Co.'s consenting or voting rights to those DTC Participants to whose accounts the Series 2006 Bonds are credited on the record date identified in a listing attached to the "Omnibus Proxy."

Principal, premium and interest payments on the Series 2006 Bonds will be made to DTC. DTC's practice is to credit DTC Participants' accounts on a payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payment date. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of DTC Participants and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal, premium (if any) and interest to DTC is the responsibility of the Trustee. Disbursement of such payments to DTC Participants shall be the responsibility of DTC and disbursement of such payments to the Beneficial Owners shall be the responsibility of the DTC Participants and Indirect Participants.

The Authority and the Trustee cannot and do not give any assurances that DTC, the DTC Participants or the Indirect Participants will distribute to the Beneficial Owners of the Series 2006 Bonds (i) payments of principal or interest and premium, if any, on the Series 2006 Bonds, (ii) certificates representing an ownership interest or other confirmation of beneficial ownership interests in Series 2006 Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2006 Bonds, or that they will do so on a timely basis or that DTC, DTC Participants or Indirect Participants will serve and act in the manner described in this Official Statement. The current "rules" applicable to DTC are on file with the Securities and Exchange Commission, and the current "procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

Neither the Authority nor the Trustee will have any responsibility or obligation to any DTC Participant, Indirect Participant or any Beneficial Owner or any other person with respect to: (1) the Series 2006 Bonds; (2) the accuracy of any records maintained by DTC or any DTC Participant or Indirect Participant; (3) the payment by DTC or any DTC Participant or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal or redemption price of or interest on the Series 2006 Bonds; (4) the delivery by DTC or any DTC Participant or Indirect Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Indenture to be given to bondholders; (5) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2006 Bonds; or (6) any consent given or other action taken by DTC as bondholder.

DTC may determine to discontinue providing its service with respect to the Series 2006 Bonds at any time by giving notice to the Authority and the Trustee and discharging its responsibilities with respect thereto under applicable law. Upon the giving of such notice, the book-entry only system for the Series 2006 Bonds will be discontinued unless a successor securities depository is appointed by the Authority. In addition, the Authority may discontinue the book-entry only system for the Series 2006 Bonds at any time by giving reasonable notice to DTC.

Authority for Issuance

The Series 2006 Bonds are being issued pursuant to applicable provisions of (1) Article 11 of Chapter 21 of Title 22 (Sections 22-21-310 et seq.) of the Code of Alabama 1975, as amended (Act No. 82-418 enacted at the 1982 Regular Session of the Legislature of Alabama), (2) a resolution adopted by the Board of Directors of the Authority, and (3) the Indenture. The Authority is authorized to enter into the Indenture pursuant to the aforesaid statute and the aforesaid resolution.

Legal Investment Status

Section 22-21-326 of the Code of Alabama 1975, as amended, provides in substance that unless otherwise directed by the court having jurisdiction or by the document that is the source of authority, a fiduciary may, with the exercise of reasonable business prudence, invest funds in any securities of the Authority.

SECURITY AND SOURCE OF PAYMENT

Source of Payment

The Series 2006 Bonds are special or limited obligations of the Authority and are payable, as to principal, premium (if any) and interest, except to the extent paid out of bond proceeds, income from investments or, under certain circumstances, insurance proceeds or condemnation awards, subject to the prior pledge securing the Prior Lien Obligations, solely from the Gross Receipts.

The Series 2006 Bonds will not be general obligations of the Authority, and the covenants and representations contained in the Indenture and in the Series 2006 Bonds will not and shall never constitute a liability or charge against the general credit of the Authority. The Series 2006 Bonds will not be obligations or debts of the State of Alabama, Tuscaloosa County, the City of Tuscaloosa, Alabama, the City of Northport, Alabama, or any other municipality or other county in the State of Alabama, nor will the faith and credit of the State of Alabama or any municipality or county therein be pledged for payment of the Series 2006 Bonds.

Pledge of Revenues

As security for payment of the Series 2006 Bonds and for the performance and observance by the Authority of the covenants and conditions contained in the Series 2006 Bonds and the Indenture, the Authority will in the Indenture pledge to the Trustee so much as may be necessary therefor of the aforesaid revenues out of which the Series 2006 Bonds are payable. The pledge of such revenues for the benefit of the Series 2006 Bonds will be on a parity with the pledge of such revenues for the benefit of the Series 1998 Bonds, the Series 2000 Bonds, the Series 2002 Bonds and any Additional Bonds that may hereafter be issued, but will be subject to the prior pledge of such revenues securing the Prior Lien Obligations. The Indenture does not, however, constitute a mortgage on any of the Facilities or on any of the Authority's other assets or properties.

The Authority is authorized under the Indenture to issue Additional Bonds and otherwise to incur indebtedness in addition to the Series 1998 Bonds, the Series 2000 Bonds, the Series 2002 Bonds and the Series 2006 Bonds, without express limit as to principal amount but in any event upon the terms and conditions specified in the Indenture, having under certain circumstances a claim or charge on Gross Receipts on a parity with that of the Series 2006 Bonds and the other Bonds outstanding under the Indenture, but subject to the prior pledge on Gross Receipts securing the Prior Lien Obligations. See APPENDIX C - "SUMMARY OF THE INDENTURE – Additional Bonds and Other Senior Debt".

Series 2006 Reserve Fund Account

An account of the Reserve Fund (the "Series 2006 Reserve Fund Account") will be established for the benefit of the holders of the Series 2006 Bonds. At closing, the Authority will cause to be deposited in the Series 2006 Reserve Fund Account, from proceeds of the Series 2006 Bonds, an amount equal to the Series 2006 Reserve Fund Account Requirement. See Appendix C – "SUMMARY OF THE INDENTURE – Reserve Fund - Series 2006 Reserve Fund Account".

Remedies

The Authority is, under existing law, subject to suit in the event that it defaults in payment of the principal of or the interest on the Series 2006 Bonds. However, the extent of the remedies afforded to the holders of the Series 2006 Bonds by any such suit, and the enforceability of any judgment against the Authority resulting therefrom, are subject to those limitations inherent in the fact that the Series 2006 Bonds are special or limited obligations of the Authority, and may be subject to, among other things, bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and the exercise of judicial discretion in appropriate cases.

THE PLAN OF FINANCING

Proceeds of the Series 2006 Bonds will be used (i) to finance the costs of the acquisition and construction of certain health care improvements to the Authority's facilities, (ii) to fund the Series 2006 Reserve Fund Account and (iii) to pay the costs of issuance of the Series 2006 Bonds. For a description of the facilities to be financed with proceeds of the Series 2006 Bonds, see "Appendix A – "INFORMATION CONCERNING THE AUTHORITY--Capital Projects".

SOURCES AND USES OF FUNDS

The estimated sources and uses of funds, rounded to the nearest whole dollar, for the plan of financing with respect to the issuance of the Series 2006 Bonds are as follows:

Sources of Funds

Principal proceeds of Series 2006 Bonds ⁽¹⁾	\$30,000,000
Plus original issue premium	<u>1,098,600</u>
Total Sources of Funds	<u>\$31,098,600</u>

Uses of Funds

Costs of facilities	\$27,897,106
Deposit to Series 2006 Reserve Fund Account	2,841,494
Underwriter's discount	122,700
Legal, accounting and other financing expenses	<u>237,300</u>
Total Uses of Funds	<u>\$31,098,600</u>

(1) Accrued interest on the Series 2006 Bonds will be deposited in the Bond Fund established under the Indenture and applied to the payment of interest due December 1, 2006, on the Series 2006 Bonds.

DEBT STRUCTURE OF THE AUTHORITY

Existing Long-Term Debt

After giving effect to the issuance of the Series 2006 Bonds, the Authority will have the following long-term debt outstanding:

Series 2006 Bonds. These are the Series 2006 Bonds offered pursuant to this Official Statement.

Series 2002 Bonds. In October 2002 the Authority issued the Series 2002 Bonds pursuant to the Indenture in the aggregate principal amount of \$75,850,000. The Series 2002 Bonds are outstanding in the principal amount of \$63,050,000 and mature, or are subject to mandatory redemption, on June 1 in the years 2007 through 2024.

Series 2000 Bonds. In June 2000 the Authority issued the Series 2000 Bonds pursuant to the Indenture in the aggregate principal amount of \$25,000,000, all of which are currently outstanding. The Series 2000 Bonds mature on June 1, 2020.

Series 1998 Bonds. In March 1998 the Authority issued the Series 1998 Bonds pursuant to the Indenture in the aggregate principal amount of \$33,620,000. The Series 1998 Bonds are outstanding in the aggregate principal amount of \$23,085,000 and mature, or are subject to scheduled mandatory redemption, on June 1 in the years 2007 through 2021.

Prior Lien Obligation. Prior to the delivery of the original 1987 Indenture, the Authority incurred various obligations payable from the Gross Receipts that are described in the Indenture as the “Prior Lien Obligations”. The only outstanding Prior Lien Obligation is the following:

Fayette Lease. In connection with the lease of Fayette Medical Center and Nursing Home, the Authority entered into a Lease Agreement in 1984 (the “Fayette Lease”), which was renewed in 1996 for a term of 20 years and which obligates the Authority to pay annual rent in an amount equal to the greater of \$100,000 or one-half the net profits from that facility adjusted by debt service payments and all capital improvements and equipment additions. Under the Fayette Lease, the Authority is required to expend an additional five million dollars in capital improvements and equipment additions beginning with the effective date of the amended lease through August 31, 2016. Although the Fayette Lease is treated as a “Prior Lien Obligation” under the Indenture, it is treated as an operating lease, rather than a capitalized lease, for accounting purposes. Accordingly, payments due under the Fayette Lease are not included in debt service in the table under “SCHEDULE OF DEBT SERVICE REQUIREMENTS”.

Other Long-Term Debt. The Authority has long-term debt not secured by the pledged revenues or payable from such revenues on a subordinate basis with respect to bonds issued under the Indenture. Such debt consists of the following:

Laundry Loan. In April 1996, the Authority borrowed the principal sum of \$2,300,000 from AmSouth Bank (the “Laundry Loan”) to finance capital improvements at Fayette Medical Center and to acquire and install laundry equipment at DCH Regional Medical Center. The Laundry Loan was refinanced on May 1, 2006. As of June 30, 2006, the outstanding principal balance of the Laundry Loan was \$981,000.

Existing Short-Term Debt

The Authority will not have any outstanding short-term debt when the Series 2006 Bonds are issued.

Additional Debt

The Authority does not expect to incur any other debt during the next three years. However, the Authority does expect that additional debt will be incurred during the term of the Series 2006 Bonds for purposes and in amounts not yet determined. See Appendix C for a summary of the terms for incurring additional debt.

Interest Rate Swaps

As of June 30, 2006, the Authority had no interest rate swaps or other derivatives outstanding and has no present plans for the use of any derivative instruments. While the Series 2006 Bonds are outstanding, however, the Authority may enter into derivatives contracts for the purpose of managing its debt and asset portfolios.

SCHEDULE OF DEBT SERVICE REQUIREMENTS

The following table sets forth estimated debt service requirements on all long-term debt of the Authority that will be outstanding when the Series 2006 Bonds are issued.

Debt Service Requirements on Indebtedness of the Authority

Fiscal Year Ending September 30	Miscel- laneous Debt ⁽¹⁾	Series 1998 Bonds	Series 2000 Bonds ⁽²⁾	Series 2002 Bonds	Series 2006 Bonds			Total Debt Service
					Principal	Interest	Total	
2007	\$224,292	\$2,426,570	\$2,232,250	\$6,139,053		\$1,153,125	\$1,153,125	\$12,175,290
2008	224,292	2,428,070	2,229,950	6,132,453		1,537,500	1,537,500	12,552,265
2009	224,292	2,426,870	2,230,600	6,136,053		1,537,500	1,537,500	12,555,315
2010	224,292	2,426,550	2,234,000	6,135,053		1,537,500	1,537,500	12,557,395
2011	149,528	2,425,270	2,230,050	6,131,453		1,537,500	1,537,500	12,473,801
2012		2,424,075	2,233,800	6,137,253		1,537,500	1,537,500	12,332,628
2013		2,424,613	2,234,950	6,136,853		1,537,500	1,537,500	12,333,916
2014		2,421,250	2,233,500	6,135,253		1,537,500	1,537,500	12,327,503
2015		2,426,750	2,234,400	6,134,228		1,537,500	1,537,500	12,332,878
2016		2,427,500	2,232,500	6,136,653		1,537,500	1,537,500	12,334,153
2017		1,608,500	2,232,750	6,134,228		1,537,500	1,537,500	11,512,978
2018		1,610,500	2,230,000	6,131,288		1,537,500	1,537,500	11,509,288
2019		1,609,250	2,234,150	2,882,488		1,537,500	1,537,500	8,263,388
2020		1,614,750	2,229,950	2,885,138		1,537,500	1,537,500	8,267,338
2021		1,606,500		2,886,750		1,537,500	1,537,500	6,030,750
2022				2,883,000		1,537,500	1,537,500	4,420,500
2023				2,888,500		1,537,500	1,537,500	4,426,000
2024				2,887,500		1,537,500	1,537,500	4,425,000
2025					\$1,870,000	1,537,500	3,407,500	3,407,500
2026					1,965,000	1,441,663	3,406,663	3,406,663
2027					2,070,000	1,340,956	3,410,956	3,410,956
2028					2,175,000	1,234,869	3,409,869	3,409,869
2029					2,285,000	1,123,400	3,408,400	3,408,400
2030					2,400,000	1,006,294	3,406,294	3,406,294
2031					2,525,000	883,294	3,408,294	3,408,294
2032					2,655,000	753,888	3,408,888	3,408,888
2033					2,790,000	617,819	3,407,819	3,407,819
2034					2,935,000	474,831	3,409,831	3,409,831
2035					3,085,000	324,413	3,409,413	3,409,413
2036					3,245,000	166,306	3,411,306	3,411,306
Total	\$1,046,696	\$32,307,018	\$31,252,850	\$90,933,197	\$30,000,000	\$38,195,856	\$68,195,858	\$223,735,619

(1) Consists of the Laundry Loan. See "DEBT STRUCTURE OF THE AUTHORITY".

(2) The Series 2000 Bonds bear interest at a variable rate. The debt service in this column assumes (i) interest on the Series 2000 Bonds accrues at an average annual rate of 4% (including the fee on the letter of credit) and (ii) the principal of the Series 2000 Bonds is amortized through fiscal year 2020, in which the stated maturity of the Series 2000 Bonds occurs. Actual debt service on the Series 2000 Bonds may differ from the amounts shown in this table.

DEBT SERVICE COVERAGE

Set forth in the table below is information about the Authority's net income available for debt service during the fiscal years indicated and resulting coverage ratios. Results of operations for the periods included may not be indicative of results of operations in the future.

	Fiscal Year ended September 30,		
	2003	2004	2005
Excess of revenues over expenses	\$7,964,592	\$11,633,218	\$23,558,755
Less: Donations	(134,075)	(104,324)	(731)
Plus: Depreciation and amortization	22,985,398	22,332,274	21,889,338
Plus: Interest expense	<u>4,619,267</u>	<u>4,476,647</u>	<u>4,095,442</u>
Available Net Income	\$35,435,182	\$38,337,815	\$49,542,804
Historical maximum annual debt service ⁽¹⁾	\$11,175,105	\$10,714,303	\$10,714,303
Historical debt service coverage ⁽²⁾	3.17x	3.58x	4.62x
Pro forma maximum annual debt service ⁽³⁾	\$12,557,395	\$12,557,395	\$12,557,395
Pro forma debt service coverage of maximum annual debt service ⁽⁴⁾	2.82x	3.05x	3.95x

(1) Maximum annual debt service as of the fiscal year indicated.

(2) Income available for debt service for the fiscal year indicated divided by maximum annual debt service requirements as of such year.

(3) This includes debt service on the Series 2006 Bonds offered by this Official Statement. See "SCHEDULE OF DEBT SERVICE REQUIREMENTS". Interest on the Series 2000 Bonds is assumed to accrue at an annual rate of 4.00%, and principal on the Series 2000 Bonds is assumed to be amortized through fiscal year 2020, in which the stated maturity of the Series 2000 Bonds occurs.

(4) Available Net Income for the fiscal year indicated divided by estimated maximum annual debt service requirements on all long-term debt of the Authority that will be outstanding after giving effect to the issuance of the Series 2006 Bonds.

THE AUTHORITY

Creation and Powers

The Authority was reincorporated as a health care authority (and public corporation) under Act. No. 82-418 enacted at the 1982 Regular Session of the Legislature of Alabama, by Certificate of Incorporation filed in the office of the Judge of Probate of Tuscaloosa County on June 29, 1982.

Under the provision of applicable law, the Authority is empowered, among other things, to issue bonds, to acquire real and personal property, to manage, construct, equip, enlarge, improve, maintain and operate hospitals and other health-care facilities (whether located within or without Tuscaloosa County), to mortgage, pledge or otherwise convey its properties and its revenues from any source and to establish, collect and alter charges for services rendered by it. The Board of Directors of the Authority may propose amendments to the Authority's Certificate of Incorporation so as to make any changes thereto deemed desirable by said Board of Directors and not inconsistent with law (including, for example, changes in the number of members of the Board of Directors of the Authority), subject to the approval and authorization of such proposed amendments by the governing bodies of the City of Tuscaloosa, Alabama, the City of Northport, Alabama and Tuscaloosa County. Under existing law, the Authority's Certificate of Incorporation may not be amended unless such amendment is first proposed by the Authority's Board of Directors. Without such a proposal by the Board of Directors, the governing bodies of the City of Tuscaloosa, Alabama, the City of Northport, Alabama and Tuscaloosa County cannot unilaterally amend such Certificate of Incorporation.

Governing Body

The Authority is now governed by a nine-member Board of Directors appointed for staggered six-year terms. Under the provisions of applicable law and the Authority's Certificate of Reincorporation, two members of the Board of Directors of the Authority are appointed by the governing body of Tuscaloosa County, two by the governing body of the City of Tuscaloosa, one by the governing body of the City of Northport, two by the active medical staffs of the DCH Regional Medical Center and Northport Medical Center and two by those members of the Board of Directors who are appointed by the governmental sponsors and the medical staffs. The current directors of the Authority, the dates of expiration of their current terms of office, and their present principal business or professional affiliations are set forth below:

Name of Board Member	Date of Expiration of Current Term	Present Principal Business or Professional Affiliation
J. Barry Mason	June 2008	Dean, School of Commerce
Joseph A. Colquitt	June 2008	Professor of Law, Retired Judge
Lucie M. King, M.D.	September 2009	Orthopaedic Surgeon
W. Paul Ray	June 2009	Certified Public Accountant
Joseph C. Kennedy	June 2010	Retired Salesman
John Mize	June 2011	Banker
Harvey A. Edwards, III, M.D.	September 2007	Obstetrician/Gynecologist
Caroline Powell	June 2012	Retired, University of Alabama Development Office
Ronald R. Turner	September 2007	Businessman

Officers

Among the current officers of the Authority are the following, each of whom is a member of its Board of Directors but none of whom is active in the day-to-day management of the Authority:

Chairman	J. Barry Mason
Vice-Chairman	Joseph A. Colquitt
Secretary	Lucie M. King, M.D.
Treasurer	W. Paul Ray

Other Information

For information about the Authority's operations and financial condition see APPENDIX A. For information about the Authority's debt structure, see "DEBT STRUCTURE OF THE AUTHORITY".

RISK FACTORS

The following discussion of risk factors is intended only as a summary and does not purport to identify all the risk factors that may affect the Authority.

Limitations on Remedies Upon Default

It should be noted that the assignment and pledge of Gross Receipts made pursuant to the Indenture may be limited by a number of factors, including (i) provisions prohibiting the direct payment of amounts due to health care providers from Medicaid or Medicare programs to persons other than such providers; (ii) the absence of an express provision permitting assignment of receivables due to the Authority under contracts with Blue Cross, and prohibitions against assignment contained in any applicable statutes or regulations; (iii) certain judicial decisions that cast doubt upon the right of the Trustee, in the event of the bankruptcy of the Authority, to collect and retain accounts receivable from government programs; (iv) commingling of revenues with other moneys not subject to the

assignment and pledge created by the Indenture; (v) statutory liens; (vi) rights arising in favor of the United States of America or any agency thereof; (vii) constructive trusts or equitable or other rights impressed or conferred by a court in the exercise of its equitable jurisdiction; and (viii) federal bankruptcy laws which may affect the enforceability of the assignment and pledge of Gross Receipts that are earned within 90 days preceding, and after any effectual institution of, bankruptcy proceedings by or against the Authority.

The Indenture does not create or establish a mortgage or lien on, or a security interest in, the health care facilities of the Authority for the benefit of holders of the Series 2006 Bonds. The Indenture does, however, permit certain liens with respect to the Authority's assets for the benefit of other creditors. The nature and extent of such liens are governed by the Indenture. See Appendix C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Special Covenants of the Authority—Warranty of Title; Permitted Encumbrances". If the Authority becomes bankrupt or insolvent and its assets are liquidated, creditors with prior liens would, in general, be entitled to the proceeds of their collateral before claims of the holders of the Series 2006 Bonds, and the holders of the Series 2006 Bonds and any other general, unsecured creditors of the Authority would be entitled to the proceeds of the unencumbered assets of the Authority on an equal and proportionate basis. The health care facilities of the Authority are limited use, or special purpose, facilities that would not have practical value for persons other than health care providers, which may depress the price obtained upon liquidation.

Enforcement of the remedies under the Indenture may be limited or restricted by laws relating to bankruptcy and rights of creditors and by the application of general principles of equity, and may be substantially delayed in the event of litigation or statutory remedy procedures.

Tax-Exempt Status of Bonds

It is expected that the Series 2006 Bonds will qualify as tax-exempt obligations for federal income tax purposes as of the date of issuance. See "TAX STATUS". Bond counsel is delivering an opinion with respect to certain aspects of the tax status of the Series 2006 Bonds. That opinion is attached to this Official Statement as Appendix D and should be read in its entirety for a complete understanding of the scope of the opinion and the conclusions expressed. A legal opinion is only the expression of professional judgment and does not constitute a guaranty with respect to the matters covered. In addition, the opinion of bond counsel speaks only as of its date, and bond counsel does not undertake any obligation to advise Bondholders about subsequent developments.

The tax status of the Series 2006 Bonds could be affected by post-issuance events. There are various requirements of the Internal Revenue Code that must be observed or satisfied after the issuance of the Series 2006 Bonds in order for the Series 2006 Bonds to qualify for, and retain, tax-exempt status. These requirements include use of the proceeds of the Series 2006 Bonds, use of the facilities financed by the Series 2006 Bonds, investment of bond proceeds, and the rebate of so-called excess arbitrage earnings. Compliance with these requirements is the responsibility of the Authority.

The Internal Revenue Service conducts an audit program to examine compliance with the requirements regarding tax-exempt status. Under current IRS procedures, in the initial stages of an audit with respect to the Series 2006 Bonds the Authority would be treated as the taxpayer, and the owners of the Series 2006 Bonds may have limited rights to participate in the audit process. The initiation of an audit with respect to the Series 2006 Bonds could adversely affect the market value and liquidity of the Series 2006 Bonds, even though no final determination about the tax-exempt status has been made. If an audit results in a final determination that the Series 2006 Bonds do not qualify as tax-exempt obligations, such a determination could be retroactive in effect to the date of issuance of the Series 2006 Bonds.

In addition to post-issuance compliance, a change in law after the date of issuance of the Series 2006 Bonds could affect the tax-exempt status of the Series 2006 Bonds or the economic benefit of investing in the Series 2006 Bonds. For example, Congress could eliminate the exemption for interest on the Series 2006 Bonds, or it could reduce or eliminate the federal income tax, or it could adopt a so-called flat tax.

The Indenture does not provide for the payment of any additional interest or penalty if a determination is made that the Series 2006 Bonds do not comply with the existing requirements of the Internal Revenue Code or if a

subsequent change in law adversely affects tax-exempt status of the Series 2006 Bonds or the effect of investing in the Series 2006 Bonds.

Additional Indebtedness

The Indenture permits the Authority to incur other indebtedness in addition to and on a parity with Series 1998 Bonds, the Series 2000 Bonds, the Series 2002 Bonds and the Series 2006 Bonds with respect to the revenues pledged to the payment of the Series 1998 Bonds, the Series 2000 Bonds, the Series 2002 Bonds and the Series 2006 Bonds. Such indebtedness would increase debt service requirements and could adversely affect the ability of the Authority to meet debt service requirements or financial covenants under the Indenture. The ability of the Authority to incur such indebtedness is subject to the provisions of the Indenture limiting the incurrence of Additional Bonds and Other Senior Debt. See Appendix C – “SUMMARY OF THE INDENTURE – Additional Bonds and Other Senior Debt”.

Health Care Industry Factors Affecting the Authority

The health care industry is highly dependent on a number of factors which may limit the ability of the Authority to meet its obligations under the Indenture and to pay debt service on the Series 2006 Bonds. Among other things, participants in the health care industry are subject to significant regulatory requirements of federal, state and local governmental agencies and independent professional organizations and accrediting bodies, technological advances and changes in treatment modes, various competitive factors and changes in third party reimbursement programs. Discussed below are certain of these factors which could have a significant impact on the future operations and financial condition of the Authority.

Federal and State Legislation and Regulation. Federal and state legislative and regulatory actions over the past several years have included changes in the structure of the Medicare and Medicaid payment systems, limitations on increases in Medicare and Medicaid payments and efforts to increase competition among health care providers. Any new, significant legislation or governmental policies affecting hospital, governmental and commercial medical insurance payment or reimbursement programs or the health care industry in general, including any significant deregulation measures designed to stimulate competition among hospitals, could adversely affect the revenues of the Authority.

Health Care Reform. From time to time, Congress considers legislative proposals to reform the health care system of the nation, many of which would substantially alter the methods by which health care is delivered and financed. In addition, the State legislature may enact health care reform measures which have a similar effect. There are many possible financial effects, both positive and negative, that could result from enactment of any federal or state legislation proposing to regulate or reform the health care industry, and it is not possible at this time to predict with assurance the effect on the Authority of any health care reform proposals which might be enacted.

Third Party Reimbursement. The Authority derives a significant portion of its revenues from Medicare, Medicaid, Blue Cross and other third-party payor programs. Such programs generally provide payment for services rendered to their beneficiaries in an amount that is less than actual patient charges. Contractual allowances result from participation in third-party payor programs, and revenues received under reimbursement agreements are subject to audit and adjustment by such third-party payors. The receipt of future revenues by the Authority is subject to, among other factors, federal and state laws and policies affecting the health care industry, the interpretation by governmental authorities of federal and state laws and regulations, non-governmental third-party payor policies and other conditions that are impossible to predict. The effect on the Authority of these factors cannot be fully or accurately determined at this time. No assurance is given or can be given that any of the third-party programs presently in effect for the Authority will remain at their current levels of reimbursement or that they will be maintained in the present form.

The House Committee on Energy and Commerce has launched a nationwide investigation of hospital billing and collection practices and prices charged to uninsured patients. The Subcommittee on Oversight and Investigations of the Committee conducted hearings in the summer of 2004 at which a number of representatives of the healthcare industry and others testified. In addition, lawsuits have been filed in both state and federal courts alleging, among other things, that hospitals overcharge uninsured patients. See Appendix A – “INFORMATION

CONCERNING THE AUTHORITY – Litigation” for a discussion of such a suit filed against the Authority. It is uncertain if legislative changes as a result of these lawsuits or investigations will occur or what the effects of any such changes would be on the Authority’s revenues.

Medicare Payments. Medicare reimbursement methodologies are changed frequently by Congress and may adversely effect various components of the Authority’s health care provider system. The current trend of federal Medicare legislation and regulations favors the replacement of cost-based, provider-specific reimbursement with prospectively determined payment rates, which may be periodically adjusted. In fact, outpatient hospital services were changed from a cost-based reimbursement to a prospective payment system beginning in August 2000. The impact of the change to a prospective payment system for outpatient services on the Authority’s revenue, and the overall trend away from cost-based reimbursement, cannot be precisely determined at this time. The net effect, however, could be lower revenues which could adversely affect the Authority’s and the facilities’ operations.

The Balanced Budget Act of 1997 (“BBA”) contained substantial provider payment reductions. Following the implementation of many of these reductions, many hospitals across the nation began intense lobbying efforts to reduce the payment reductions. Legislative relief from the Benefits Improvement and Protection Act of 2000 (“BIPA”) and the Medicare Prescription Drug, Improvement and Modernization Act of 2003 have decreased the amount of these reductions for certain services. It is impossible to predict whether the legislative relief will continue.

Limits or Reductions in Level of Support for Medicaid. Currently, the State of Alabama Medicaid Agency obtains funding through a federal matching program in which each dollar appropriated to the Alabama Medicaid budget by the State is presently matched by the federal government on the basis of approximately 3-to-1, provided that the State program meets federally imposed standards.

In State fiscal year 1996, Alabama adopted a prepaid health plan system (the “PHP System”). The PHP System consists of eight corporations which have been formed throughout the State, each in a different geographic district. The shareholders of each corporation are the hospitals located in the same district as that corporation. The corporations contract with Medicaid to provide hospital inpatient services to Medicaid patients. The Medicaid agency pays the corporations a negotiated fee per eligible patient on a monthly basis for inpatient care. Additional payments are made to hospitals with a relatively high rate of uncompensated care and Medicaid use as essential provider payments. Payments called “enhancement payments” are also made to governmental hospitals such as the Authority that provide inter-governmental transfers to provide State funds for matching purposes.

The State’s funding of the Medicaid program has been challenged numerous times in the past and is currently being challenged in several respects. First, although the Federal government previously approved the PHP System, the Centers for Medicare and Medicaid Services (“CMS”, formerly HCFA) have announced that approval of the PHP System will be withdrawn. Second, new “upper payment limit” regulations that are being phased in over the next five years will limit the ability of governmental hospitals such as the Authority to provide inter-governmental transfers in order for the State to obtain federal matching funds. Withdrawal of approval for the PHP System or implementation of the regulations on inter-governmental transfers could significantly reduce the amount of State funds available to obtain federal matching funds unless the State provides an alternate source of funds. If federal matching funds are reduced, the State Medicaid program will experience shortfalls in its budget and will likely reduce its payments to hospitals in the State. Third, an audit of the State’s Medicaid program by the Office of the Inspector General of the United States Department of Health and Human Services (“HHS”) has resulted in a recommendation to CMS that the State refund approximately \$510 million for overpayments in past years under the Medicaid program. If a refund is required, the State may attempt to recoup the amount of any refund from health care providers in the State, either through direct payments from the health care providers or through a reduction in future payments.

The State and health care provider representatives are negotiating with CMS about the future funding system and the alleged overpayments. If these negotiations do not reach a successful conclusion, the Authority’s Medicaid payments could be significantly reduced. Similar negotiations in the past have resulted in continued funding of the Medicaid program without a material adverse effect on health care providers; however, it is impossible to predict the outcome of the current negotiations or the amount of any reduction in Medicaid funding.

Factors such as the increasing pressure on sources of Medicaid funding at both the state and the federal level, and the expanding number of people covered by this program, are likely to cause future concern over the Alabama Medicaid budget. The PHP System could be substantially revised. No assurances can be given at this time that Medicaid funds will be appropriated by the State to meet program needs or that Medicaid reimbursement will continue at the present rate. Further, there can be no assurance that the current State plan is or will remain in compliance with federal guidelines and regulations, that federal allocations to Medicaid will continue at their present level or that Medicaid payments will be adequate to meet the costs of providing care.

Because deficit spending is prohibited by the Constitution of Alabama, allocations from the General Fund, including Medicaid payments, may be subject to proration. There can be no assurance that proration of the General Fund budget will not occur and that such proration will not have a materially adverse effect on Alabama Medicaid payments.

Federal Anti-Fraud and Abuse Laws and Self-Referral Prohibitions. In addition to the foregoing Medicare and Medicaid reimbursement limitations, various laws enacted by Congress to reduce unnecessary spending may affect the Authority. In 1977, Congress adopted the Medicare and Medicaid Anti-Fraud and Abuse Amendments of 1977 (the “Anti-Fraud and Abuse Law”), which have been strengthened by subsequent amendments and the creation of the Office of Inspector General (“OIG”) to enforce compliance with the statute. The laws provide for civil monetary and criminal penalties and exclusion from the Medicare/Medicaid programs for knowing and willful solicitation, receipt, offer or payment of remuneration directly or indirectly in return for or to induce the referral of Medicare or Medicaid business. Similarly, an Alabama provision provides for a monetary penalty and imprisonment for knowing and willful solicitation, receipt, offer or payment of remuneration directly or indirectly in return for or to induce the referral of Medicaid business. The Anti-Fraud and Abuse Law and the related Civil Monetary Penalties Law has been amended several times to, among other things, expand the scope of their prohibitions to include most federal health programs, to define additional prohibited behaviors and to significantly increase the penalties thereunder. HHS has issued regulations from time to time setting forth so-called “safe harbors” which would protect providers from prosecution under the Anti-Fraud and Abuse Law for certain limited types of arrangements. The safe harbors are narrow and do not cover a wide range of common economic relationships between and among health care providers. While the failure to qualify for a safe harbor does not necessarily lead to the conclusion that such arrangement violates federal law, such failure may increase the potential for investigation or challenge to the arrangement due to the broad language within the statute itself. The Authority has entered into arrangements with other health care providers one or more of which arrangements may not meet all of the requirements of the “safe harbor” regulations.

Another federal law, commonly referred to as the “Stark Law”, prohibits a physician who has a financial relationship, or whose immediate family member has a financial relationship, with an entity from referring a Medicare or Medicaid patient to the entity for certain designated health services, with limited exceptions. The services identified as “designated health services” are numerous and include most of the services offered by the Authority. The Stark Law also prohibits the entity receiving the referral from filing a claim or billing for the services arising out of the prohibited referral. The prohibition applies regardless of the reasons for the financial relationship and the referral; that is, unlike the federal Anti-Fraud and Abuse Laws, no finding of intent to violate the Stark Law is required. Sanctions include denial of payment for the services provided in violation of the prohibition, refunds of amounts collected in violation, a civil penalty of up to \$15,000 for each claim for a service arising out of the prohibited referral, exclusion from the Medicare and Medicaid programs, and a civil penalty of up to \$100,000 for circumvention schemes. Exclusion from the Medicare and Medicaid programs would have a material adverse effect on the operations and financial conditions of any hospital system, including the Authority, as would any significant penalties, demands for refund or denials of payment.

Regulations implementing the portions of the Stark Law concerning clinical laboratory services (“Stark I”) were issued in August 1995, and partial final regulations implementing the portion of the Stark Law concerning the other designated health services (“Stark II”) were issued in January 2001, with an effective date of January 2002. Further final regulations on the portions not covered by the 2001 regulations are expected to be published by CMS in the future. While some guidance can be obtained from the final regulations, the Authority cannot be assured that financial relationships with referring physicians fully meet the requirements of certain Stark II exceptions until final regulations for all parts of the Stark Law are issued. The Authority has reviewed its arrangements with physicians and is satisfied that it is in compliance with the Stark Law, but there can be no assurance that the Authority will not

be found to have violated the Stark Law, and if so, there can be no assurance that any sanction imposed would not have a material adverse effect on the operations or the financial condition of the Authority.

In recent years, federal prosecutors have increased the use of the Federal False Claims Act to prosecute health care providers, particularly hospitals, for billing practices prohibited by Medicare, as well as violations of the Anti-Fraud and Abuse Law and the Stark Act. The budget for prosecutions also has been significantly expanded, and prosecution of health care fraud has become a priority for the federal government. Private enforcement actions filed under the FCA in qui tam suits brought by private plaintiffs known as “relators” are also beginning to increase in the State, and if successful can result in very significant monetary payments either in damages or in settlement actions. Because qui tam lawsuits are kept under seal while the federal government evaluates whether the United States will join the lawsuit, other than as described below, it is impossible to determine at this time whether any such actions are pending against the Authority, and no assurances can be made that such action will not be filed in the future.

Patient Records and Patient Confidentiality. The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) addresses the confidentiality and security of individuals’ health information. Disclosure of certain broadly defined protected health information is prohibited unless expressly permitted under the provisions of the HIPAA statute and regulations or authorized by the patient. HIPAA’s confidentiality provisions extend not only to patient medical records, but also to a wide variety of health care clinical and financial settings where patient privacy restrictions often impose new communication, operational, accounting and billing restrictions. HIPAA provisions add costs and create potentially unanticipated sources of legal liability which could adversely affect the Authority’s financial condition.

Anti-Dumping. In response to concerns regarding inappropriate hospital transfers of emergency patients based on the patient’s inability to pay for the services provided, Congress enacted, in 1986, the Emergency Medical Treatment and Active Labor Act. This so-called “anti-dumping” law imposes certain requirements on hospitals prior to transferring a patient to another facility. Failure to comply with the law can result in exclusion from the Medicare and/or Medicaid programs as well as civil and criminal penalties. Failure of the Authority to meet its responsibilities under the law could adversely affect the Authority’s financial condition.

Managed Care. Managed care organizations, such as health maintenance organizations (“HMOs”) and preferred provider organizations (“PPOs”), are expected to place increasing pressure on the Authority’s revenues in the future. HMO and PPO provider contracts generally obligate a health care provider to provide services to HMO and PPO participants at a discount from established charges. Through selective contracting, HMOs and PPOs and other managed care providers may direct patients away from nonselected hospitals by denying coverage for services provided by them. It is not possible for the Authority to predict the extent to which HMOs and PPOs and other managed care entities will be a source of the Authority’s revenues in the future. The continued development of managed care programs could result in reductions in the Authority’s revenues, and such reductions could be material.

Health Planning

The National Health Planning and Resources Development Act of 1974 required states to establish a “Certificate of Need” program. The regulations promulgated under this Act set standards for the review and determination of appropriate state agencies of the need for acquisition of certain equipment, the undertaking of certain expenditures, and the offering of certain institutional services. This Act was repealed in 1986, but the state regulatory requirements established in Alabama pursuant to this Act remain in effect. The State Health Planning and Development Agency is the designated planning agency in Alabama for implementing the goals of the Certificate of Need program, which include, among other things, restraining health care costs and preventing unnecessary duplication of health care services. Revision and supplementation of present standards and rules could have a material adverse effect on the ability of the Authority to expand existing services or initiate new services in the future. Repeal of present standards and rules could result in increased competition.

Increased Competition

It is likely that the Authority will face increased competition in the future from other hospitals serving its service area and from other health care providers that offer health care services to the population that the Authority currently serves. In addition, the development of HMOs and PPOs which do not use the Authority's facilities or the development of other alternative forms of health care delivery which are able to offer lower priced services could result in decreased utilization of the services provided by the Authority. Moreover, other forms of competition may affect the Authority's ability to maintain or improve its market share, including increasing competition (i) between physicians who generally use hospitals and non-physician practitioners such as nurse practitioners, chiropractors, physical and occupational therapists and others who may not generally use hospitals, and (ii) from nursing homes, home health agencies, ambulatory care facilities, surgical centers, outpatient radiology centers, rehabilitation and therapy centers, physician group practices, and other non-hospital providers of many services for which patients generally rely on hospitals currently. Finally, modification of the state's existing certificate of need laws could result in existing or additional providers offering duplicate health care services in the Authority's service area and adversely affect its ability to attract physicians and patients.

Physician Relations

The primary relationship between a hospital and physicians who practice in it is through the hospital's organized medical staff. Medical staff bylaws, rules and policies established the criteria and procedures by which a physician may have his or her privileges or membership curtailed, denied or revoked. Physicians who are denied medical staff membership or certain clinical privileges, or who have membership or privileges curtailed, denied or revoked often file legal actions against the hospitals. Such action may include a wide variety of claims, some of which could result in substantial uninsured damages to a hospital. In addition, failure of the hospital governing body to adequately oversee the conduct of the medical staff may result in hospital liability to third parties.

Licensing, Surveys, Investigations and Audits

On a regular basis health care facilities, including those of the Authority, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare and Medicaid participation and payment, state licensing agencies, private payors, the Joint Commission on Accreditation of Healthcare Organizations and other accrediting bodies. Renewal and continuance of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative action or response by the Authority. These activities generally are conducted in the normal course of business of health care facilities. Nevertheless, an adverse result could create a loss or reduction in the Authority's scope of licensure, certification or accreditation, or could reduce the payment received or require repayment of amounts previously remitted.

The Authority believes the Authority's facilities are in material compliance with these requirements and currently anticipates no difficulty renewing or continuing currently held licenses, certifications or accreditations. Nevertheless, adverse actions in any of these areas could result in the loss of utilization or revenues, or the Authority's ability to operate all or a portion of the Authority's facilities, and, consequently, could adversely affect the Authority's ability to make payments of principal of or interest on the Series 2006 Bonds. In addition, no assurance can be given as to the effect on future operations of the Authority of existing laws, regulations and standards for certification or accreditation or of any future changes in such laws, regulations and standards.

Other Risk Factors

In the future, the following additional factors, among others, may adversely affect the operations of health care providers, including the Authority, to an extent that cannot be determined at this time:

- (1) Increased efforts by insurers, private employers and governmental agencies to limit the cost of hospital services (including, without limitation, the implementation of a system of prospective review of hospital rate changes and negotiating discounted rates), to reduce the number of hospital beds and to reduce utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety, and outpatient care.

(2) Cost increases without corresponding increases in revenue which could result from, among other factors, increases in the salaries, wages, and fringe benefits of hospital employees, increases in costs associated with advances in medical technology or with inflation or future legislation which would prevent or limit the ability of the Authority to increase revenues.

(3) Any termination or alteration of existing agreements between the Authority and individual physicians and physician groups who render services to the Authority's patients or any termination or alteration of referral patterns by individual physicians and physician groups with whom the Authority does not have contractual arrangements.

(4) Future contract negotiations between public and private insurers and participating hospitals, including the Authority, and other efforts of these insurers and of employers to limit hospitalization costs and coverage which could adversely affect the level of reimbursement to the Authority.

(5) The ability of, and costs to, the Authority to insure or otherwise protect itself against malpractice and general liability claims.

(6) Future legislation and regulations affecting hospitals, their tax-exempt status, governmental and commercial medical insurance and the health care industry in general which could adversely affect the operations of the Authority's facilities.

(7) The reduced need for hospitalization or other services, including those of the Authority, arising from medical and other scientific advances.

(8) An inflationary economy and difficulty in increasing charges and other fees charged while at the same time maintaining the amount or quality of health services which may affect the ability of the Authority to maintain sufficient operating margins.

(9) Hospitals are major employers of various types of workers, such as professional, quasi-professional, technical, clerical, housekeeping, maintenance, and dietary. Hospitals bear a wide variety of risks in connection with their employees, including, but not limited to strikes, and other work-related actions, contract disputes, discrimination claims, personnel tort action, work-related injuries, exposure to hazardous materials, interpersonal torts, and other risks that may flow from the relationship between employer and employee or between physicians, patients and employees. Many of these risks are not covered by insurance, and certain of them cannot be anticipated or presented in advance.

(10) The possible inability to obtain future governmental approvals to undertake projects necessary to remain competitive both as to rates and charges as well as quality and scope of care.

(11) Imposition of wage and price controls for the health care industry, such as those that were imposed and adversely affected health care facilities in the early 1970s.

(12) Limitations on the availability of or increased compensation necessary to secure and retain nursing, technical or other personnel.

(13) Proposals to eliminate the tax-exempt status of bonds issued to finance health facilities, or to limit the use of such tax-exempt bonds, which have been made in the past, and which may be made again in the future. The adoption of such proposals would increase the cost to the Authority of financing future capital needs.

(14) Increased unemployment or other adverse economic conditions which could increase the proportion of patients who are unable to pay fully for the cost of their care. In addition, increased unemployment caused by a general downturn in the economy of the Authority's service area or by the closing of operations of one or more major employers in such service areas may result in a significant

change in the demographics of such service areas, such as a reduction in the population, which could result in reduced demand for the Authority's services.

(15) Judicial interpretations of existing law that reduce payments to hospitals for workers' compensation services.

(16) Technological advances in recent years have accelerated the trend toward the use by hospitals of sophisticated, and costly equipment and services for diagnosis and treatment. The acquisition and operation of certain equipment or services may continue to be a significant factor in hospital utilization, but the ability of a hospital to offer such equipment or services may be subject to governmental approval, the availability of equipment or specialists or the ability to finance such acquisition or operation.

(17) The occurrence of a natural disaster, fire, or other casualty loss may damage some or all of the facilities, interrupt utility service to some or all of the facilities or otherwise impair the operation of some or all of the facilities operated by the Authority.

Bond Ratings

There is no assurance that the ratings assigned to the Series 2006 Bonds at the time of issuance (see "RATINGS") will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price and marketability of the Series 2006 Bonds.

The foregoing risk factors are not a listing of all the risks which may affect the Authority, its operations, its revenues and expenses and its continuing ability to pay its obligations, but are merely illustrative of the types of risks that health care providers, such as the Authority may face in the future and which may affect its operations, or the market value of the Series 2006 Bonds, to an extent that cannot be determined at this time.

UNDERWRITING

AmSouth Bank (the "Underwriter") has agreed to purchase the Series 2006 Bonds for a purchase price of \$30,975,900.00 (face amount plus original issue premium of \$1,098,600.00 less Underwriter's discount of \$122,700.00) plus accrued interest on the Series 2006 Bonds to the date of delivery to the Underwriter.

To the extent permitted by law, the Authority has agreed to indemnify the Underwriter against, and to contribute to losses arising out of, certain liabilities, including liabilities arising under federal and state securities laws.

The initial offering price set forth on the cover page of this Official Statement may be changed by the Underwriter, and the Underwriter may offer to sell the Series 2006 Bonds to certain dealers (including dealers depositing the Series 2006 Bonds into investment trusts) and others at prices lower than the offering price set forth on the cover page of this Official Statement.

RATINGS

Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., has assigned the ratings to the Series 2006 Bonds as noted on the cover page. The Authority furnished to the rating agencies the information contained in this Official Statement and certain other information respecting the Authority and the Series 2006 Bonds. Any further explanation of these ratings may be obtained only from the appropriate rating agency. There is no assurance that any such rating will remain in effect for any given period of time or that the rating will not be revised downward or withdrawn entirely by the rating agency furnishing the same, if, in its judgment, the circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Series 2006 Bonds. Neither the Authority nor the Underwriter has undertaken any responsibility either to bring to the attention of the holders of the Series 2006 Bonds any proposed revision, suspension or withdrawal of a rating or to oppose any such revision, suspension or withdrawal.

TAX MATTERS

Pursuant to the provisions of the Internal Revenue Code of 1986, as amended (the “Code”), the exclusion of the interest income on the Series 2006 Bonds from gross income of the recipients thereof for Federal income tax purposes is dependent upon the continued compliance by the Authority with certain provisions of the Code subsequent to the issuance of the Series 2006 Bonds, including certain requirements relating to the use and expenditure of the proceeds of the Series 2006 Bonds, restrictions on the investment of proceeds earned prior to expenditure, and the requirement that certain earnings be rebated to the United States of America. In the Indenture, the Authority has made certain covenants (the “Compliance Covenants”) to the effect that it will comply with all conditions to and requirements imposed by the Code for the exclusion from gross income of the recipients thereof for Federal income tax purposes of the interest income on the Series 2006 Bonds. Failure to comply with the Compliance Covenants may result in the interest income on the Series 2006 Bonds being included in the gross income of the recipients thereof for Federal income tax purposes from the date of issuance of the Series 2006 Bonds.

Bradley Arant Rose & White LLP, Bond Counsel to the Authority, is of the opinion that, based upon its examination of the Code and the Indenture, and assuming compliance by the Authority with the Compliance Covenants, the interest income on the Series 2006 Bonds is excludable from gross income of the recipients thereof for Federal income tax purposes and the interest on the Series 2006 Bonds will not be an item of tax preference included in alternative minimum taxable income for the purpose of computing the alternative minimum tax imposed by Section 55 of the Code, but that a portion of the interest on the Series 2006 Bonds will be included in alternative minimum taxable income of corporations for the purpose of computing the alternative minimum tax imposed by Section 59A of the Code. Bond Counsel will state in its opinion that it expresses no opinion with respect to the Federal tax consequences of ownership of the Series 2006 Bonds under any other provision of the Code.

Prospective purchasers of the Series 2006 Bonds should be aware that ownership of the Series 2006 Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with “excess net passive income”, foreign corporations subject to a branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Series 2006 Bonds. Bond Counsel will not express any opinion as to such collateral tax consequences. Prospective purchasers of the Series 2006 Bonds should consult their tax advisors as to collateral federal income tax consequences.

Bond Counsel is of the opinion that the interest income on the Series 2006 Bonds is exempt from present Alabama income taxation.

Original Issue Premium

An amount equal to the excess of the purchase price of a Series 2006 Bond over its stated redemption price at maturity constitutes premium on such Series 2006 Bond. A purchaser of a Series 2006 Bond must amortize any premium over such Series 2006 Bond’s term using constant yield principles, based on the purchaser’s yield to maturity. As premium is amortized, the purchaser’s basis in such Series 2006 Bond is reduced by a corresponding amount, resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Series 2006 Bond prior to its maturity. Even though the purchaser’s basis is reduced, no federal income tax deduction is allowed. Purchasers of any Series 2006 Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Series 2006 Bonds.

LITIGATION

There is no litigation pending, or to the knowledge of the Authority threatened, questioning or affecting the validity of the Series 2006 Bonds, the proceedings under which they are to be issued, the security for the Series 2006

Bonds provided by the Indenture, the consummation of the transactions contemplated by the Indenture, the organization of the Authority, or the election or qualification of the Authority's directors or officers.

While the Authority is a party to certain pending litigation (not relating to the Series 2006 Bonds), it does not believe that such litigation will have a material adverse effect upon its financial condition or operation.

Recent court decisions have substantially eroded the immunity from tort liability formerly enjoyed by local governmental units in Alabama. However, Chapter 93 of Title 11 of the Code of Alabama 1975, as amended, now prescribes certain limits on the liability of local governmental units (such as the Authority) for bodily injury, sickness, disease or death sustained by a person and for injury to or destruction of tangible property. The limits are presently \$100,000 in the case of bodily injury or death of one person in any single occurrence, \$300,000 in the aggregate where more than two persons have claims or judgments on account of bodily injury or death arising out of single occurrence, and \$100,000 in the case of property damage arising out of a single occurrence. The Supreme Court of Alabama has held that the limitations prescribed by Chapter 93 are constitutional. However, such limitations do not apply to all types of liability of the Authority. For example, local governmental units throughout the country have been increasingly subjected to lawsuits - many of which claim damages in large amounts - for alleged denials of civil rights under the provisions of Section 1983 of Title 42 of the United States Code. While the question is not free from doubt, it should be assumed that existing Alabama statutory limitations on liability for personal injury would not serve to limit liability under Section 1983.

LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Series 2006 Bonds by the Authority are subject to the approval of Bradley Arant Rose & White LLP, Birmingham, Alabama, Bond Counsel. It is anticipated that the approving opinion of Bond Counsel will be in substantially the form attached hereto as Appendix D.

Certain legal matters in connection with the Series 2006 Bonds are being approved for the Authority by its legal counsel, Phelps Jenkins Gibson & Fowler L.L.P., Tuscaloosa, Alabama, and for the Underwriter by its counsel, Presley Burton & Collier, LLC, Birmingham, Alabama.

CONTINUING DISCLOSURE

General

The Authority has covenanted for the benefit of the holders of the Series 2006 Bonds to provide (i) certain financial information and operating data relating to the Authority on an annual basis (the "Annual Financial Information") within 150 days after the end of its fiscal year, beginning with the fiscal year ending September 30, 2006, (ii) certain financial information and operating data relating to the Authority within 45 days after the close of each fiscal quarter of each fiscal year (the "Quarterly Financial Information") and (iii) notices ("Material Event Notices") of the occurrence of the following events, if it deems them to be material:

1. A delinquency in payment of principal of or interest on the Series 2006 Bonds.
2. Non-payment related defaults under the Indenture, whether or not such defaults constitute an event of default thereunder.
3. Unscheduled draws on any debt service reserve fund reflecting financial difficulties of the Authority.
4. Unscheduled draws on any credit enhancement or liquidity facility with respect to the Series 2006 Bonds reflecting financial difficulties of the Authority.

5. Substitution of a credit enhancer for the one originally described in the Official Statement (if any), or the failure of any credit enhancer respecting the Series 2006 Bonds to perform its obligations under the agreement between the Authority and such credit enhancer.
6. The existence of any adverse tax opinion with respect to the Series 2006 Bonds or events affecting the tax-exempt status of interest on the Series 2006 Bonds.
7. Any modification of the rights of the registered owners of the Series 2006 Bonds.
8. Redemption of any of the Series 2006 Bonds prior to the stated maturity or mandatory redemption date thereof.
9. Defeasance of the lien of any of the Series 2006 Bonds or the occurrence of circumstances which, pursuant to such authorizing proceedings, would cause the Series 2006 Bonds, or any of them, to be no longer regarded as outstanding thereunder.
10. The release, substitution or sale of the property securing repayment of the Series 2006 Bonds.
11. Any changes in published ratings affecting the Series 2006 Bonds.

In addition, the Authority has covenanted to provide in a timely manner to each information repository and to the appropriate state information repository (if any), notice of the Authority's failure to provide the Annual Financial Information or Quarterly Financial Information on or before the date specified herein.

The Annual Financial Information will include financial information and operating data relating to the Authority of the type found in Appendix A - "RESULTS OF OPERATIONS". In addition, the Authority will provide, when and if available, audited financial statements prepared in accordance with accounting principles described in the audited financial statements included in this Official Statement as an appendix. The Quarterly Financial Information will include certain unaudited financial information and operating data relating to the Authority of the type found in the section of Appendix A of this Official Statement called "RESULTS OF OPERATIONS" and will include an internally prepared and unaudited quarterly Balance Sheet and Statement of Revenues and Expenses in a format similar to that found in the audited financial statements in Appendix B.

The Annual Financial Information and Quarterly Financial Information is required to be filed with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") as designated by the Securities and Exchange Commission, with any Alabama state information depository and with any requesting Bondholder. Dissemination to any requesting Bondholder may be (at the Authority's discretion) by U.S. Mail, facsimile or electronic mail, or by posting such financial information on the Authority's website. Material Event Notices are required to be filed with each NRMSIR and any Alabama state information depository or the Municipal Securities Rulemaking Board and any Alabama state information repository.

The Authority shall never be subject to money damages for its failure to comply with its obligations to provide the required information. The only remedy available to the holders of the Series 2006 Bonds for breach by the Authority of its obligations to provide the required information shall be the remedy of specific performance or mandamus against appropriate officials of the Authority. The failure by the Authority to provide the required information shall not be an event of default with respect to the Series 2006 Bonds under the Indenture.

No person other than the Authority shall have any liability or responsibility for compliance by the Authority with its obligations to provide information. The Trustee has not undertaken any responsibility with respect to any required reports, notices or disclosures.

The Authority retains the right to modify its obligations described above as long as such modification is done in a manner consistent with Rule 15c2-12 of the Securities and Exchange Commission; provided that no such modification shall obviate the obligation of the Authority to provide Annual Financial Information and Quarterly Financial Information to any requesting Bondholder.

Any filing under the Continuing Disclosure Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the “MAC”) as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

FINANCIAL ADVISOR

Ponder & Co., Chicago, Illinois, has served as financial advisor to the Authority in connection with the financing described in this Official Statement. Ponder & Co. is a national consulting firm which acts as capital advisor to health care organizations, particularly in the areas of short and long-term debt financing, derivatives, mergers and acquisitions and overall capital planning.

FINANCIAL STATEMENTS

The financial statements and selected financial data of the Authority included in this Official Statement as APPENDIX B have been examined by Morrison & Smith, LLP, independent certified public accountants, as set forth in their report appearing in APPENDIX B.

MISCELLANEOUS

The Authority has duly authorized the execution and delivery of this Official Statement.

THE DCH HEALTH CARE AUTHORITY

By: _____
 s/ J. Barry Mason
 J. Barry Mason, Chairman of the Board of Directors

APPENDIX A

Information Concerning the Authority

INFORMATION CONCERNING THE AUTHORITY

History of Facilities and Services

The DCH Health Care Authority (the “Authority”), a regional healthcare provider, is headquartered in Tuscaloosa, Alabama. Its healthcare facilities include DCH Regional Medical Center, a 583-licensed bed, regional referral hospital located in Tuscaloosa, Alabama (the “DCH Regional Medical Center”), Northport Medical Center, a 204-licensed bed general acute-care hospital in Northport, Alabama (“Northport Medical Center”), and Fayette Medical Center and Nursing Home, a 61-licensed bed hospital (“Fayette Medical Center”) and 122-licensed bed nursing home facility located in Fayette, Alabama (together with Fayette Medical Center, “Fayette Medical Center and Nursing Home”). The Authority also provides management services for the Pickens County Medical Center, a 56-licensed bed general acute-care hospital in Carrolton, Alabama (“Pickens Medical Center”).

The Authority was reincorporated as a health care authority called The Druid City Healthcare Authority under Act No. 82-418 enacted at the 1982 Regular Session of the Alabama Legislature. The Authority and the DCH Regional Medical Center officially took the name DCH in January 1985. The Authority is empowered, among other things, to issue bonds; acquire property; manage, build and operate hospitals and other health care facilities; mortgage or convey its properties and revenues from any source; and establish and collect charges for the services it renders. The Board of Directors may propose amendments to its Certificate of Incorporation and make changes if approved by the governing bodies of the City of Tuscaloosa, the City of Northport and Tuscaloosa County. The governing bodies of the City of Tuscaloosa, the City of Northport and Tuscaloosa County cannot unilaterally amend the Authority’s Certificate of Incorporation.

Surgical and medical specialties and services currently provided by the Authority include, among others, Anesthesiology, Cardiology, Dermatology, Emergency Medicine, Family Practice, Gastroenterology, Hematology/Oncology, Internal Medicine, Neonatology, Nephrology, Neurology, OB/GYN, Ophthalmology, Orthopedics, Otolaryngology, Pathology, Pediatrics, Pediatric Hematology/Oncology, Psychiatry, Pulmonary Medicine, Radiation Oncology, Radiology, Rheumatology, Cardiology Surgery, Colon/Rectal Surgery, General Surgery, Neurology Surgery, Oral & Maxillary Surgery, Thoracic Surgery, Plastic Surgery, Urology, and a 122-bed extended care unit providing skilled nursing care.

DCH Regional Medical Center. The Authority’s largest asset is DCH Regional Medical Center, which has served as the region’s medical center since 1923 and accounts for 70-75% of the Authority’s net patient service revenue. Tuscaloosans raised \$100,000 to build and equip the DCH Regional Medical Center through a \$50,000 bond issue, matched by an equal amount in public subscription, after the town outgrew the small infirmary that had served Tuscaloosa’s health care needs until that time. The 50-bed Druid City Hospital opened on March 25, 1923, and was operated by a private nonprofit corporation. The facility was soon expanded to include 74 beds, but after World War II, it was obvious that Druid City Hospital could not continue to meet the rapidly growing community’s health care needs with its existing resources.

To generate the considerable funds required to build a new hospital, Druid City Hospital’s operation was taken over by the city and county governments in 1946. When the U.S. Army’s Northington General Hospital closed following World War II, the governing bodies obtained the use of a 196-bed section of the facility to serve as a temporary hospital until a permanent structure could be built to house the new Druid City Hospital.

Aided by Hill-Burton Act funds, a modern 240-bed facility opened on December 11, 1952. In 1958 a south wing consisting of 105 beds was added, bringing Druid City Hospital’s total bed capacity to 345. Four years later, an expansion added 18 patient beds and enlarged the x-ray department. Expansion projects in 1966 and 1967 brought improvements to the pharmacy, emergency department, surgical area, physical therapy facility and laboratory. A 17-bed Intensive Care Unit was also completed at that time. In April 1976, a new wing housing a short-term psychiatric unit, a sub-intensive medical and surgical unit, an orthopedic unit and two medical-surgical units was completed, bringing the medical center to 658 beds.

In July 1986 a Cancer Treatment center was opened, which services both inpatients and outpatients. In July 1989 a ten-story Medical Office Building was opened, which, in addition to physician offices, also has a retail pharmacy, and other ancillary services on the first two floors.

In 2004, the Authority leased an existing floor in DCH Regional Medical Center to Noland Health Services, Inc., which operates a 27-bed “hospital within a hospital” long-term acute care unit in the leased space.

DCH Regional Medical Center offers a variety of medical and surgical services, including cardiology and open-heart surgery, endoscopy, a neuroscience laboratory, orthopedics, labor and delivery services, a cancer treatment center, an intensive care nursery and a pediatric unit. DCH Regional Medical Center’s Emergency Department is the regional trauma center for seven counties. DCH Regional Medical Center’s Outpatient Care Center offers a range of outpatient services, including surgery and diagnostic tests. A Home Health agency is also located at DCH Regional Medical Center. DCH Regional Medical Center also offers the community a variety of fitness programs and health education classes to promote healthy lifestyles.

Northport Medical Center. Northport Medical Center (formerly known as West Alabama General Hospital) opened in 1976. In 1979, 56 beds were added and in 1980 American Medical International, Inc. purchased this hospital. The Women’s Pavilion opened in 1987, and the Sports Medicine Complex was opened in 1989. The Authority acquired this facility on May 28, 1992. In October 1996, the Authority’s inpatient rehabilitation services were relocated to Northport Medical Center. The Authority’s Psychiatric Services were moved to Northport Medical Center in October 1998. Northport Medical Center currently has 204 licensed beds, of which 100 are for acute care.

Fayette Medical Center and Nursing Home. The Fayette Medical Center and Nursing Home was founded in 1934 by Dr. B. W. McNease, and had 17 beds. The hospital was expanded to 35 beds in 1958, and a 50-bed nursing home was added in 1963. The hospital was expanded to its present size of 61 beds in 1967, and the nursing home was enlarged to its present capacity of 122 beds in 1996.

In 1984, the Fayette County Hospital Board voted to sign a 20-year lease with the Authority. In 1996, the lease term was extended until 2016. This affiliation has provided Fayette Medical Center with needed access to finances and management expertise from the Authority. The Authority has continued to expand services at this facility, with recent improvements in Special Care, Radiology, and other services. A Home Health agency is also located at Fayette Medical Center.

Management Services Agreement for Pickens County Medical Center. Effective December 1, 2002, the Authority entered into a management services agreement with Pickens County Hospital Association and Pickens County Medical Center pursuant to which the Authority provides certain administrative services and supplies at cost. The agreement was renewed in 2005 through November 2008. Under the agreement, the Authority was paid \$226,699 and \$261,148 for the fiscal years ended September 30, 2004 and 2005, respectively. The Authority has no obligation for debt or capital of Pickens County Medical Center.

Medical Office and Other Buildings. The Authority currently owns and operates four medical office buildings described below. Two are located on its main campus, one is in Northport, Alabama, and one is located in Fayette, Alabama.

In 1989, a new 10-story office building was opened on the main campus. The building contains approximately 120,000 square feet. Seven of the top eight floors are reserved for physician offices, with one floor being reserved for guest rooms. The bottom two floors are reserved for various outpatient ancillary services, as well as a retail pharmacy outlet.

In August 1999 the Authority opened a 35,000 square-foot SpineCare Center containing medical office space and located near the DCH Regional Medical Center. In December 2005 the Authority opened a diagnostic imaging facility adjacent to its SpineCare Facility for the purpose of handling the increased demand for services and for additional convenience for its patients.

The Authority owns a medical office building located on the Northport Medical Center campus. This building is a two-story steel column and beam structure and is attached to Northport Medical Center by an enclosed passageway. There is approximately 36,500 sq. ft. of rentable space available in the building for physician offices. Ample at-grade parking is available on either side of the building. There is also physician office space in the Women’s Pavilion and the Sports Medicine Complex.

The Authority also owns an office building adjacent to Fayette Medical Center in Fayette, Alabama. The building has a total capacity for eight physicians.

Capital Projects

As a part of the ongoing capital program of the Authority, the Authority expects to engage in several capital projects at its facilities during the next three fiscal years. Major capital projects include a cancer treatment center, a new wound care center, emergency department expansion, renovation and expansion of its endoscopy suites, and cafeteria expansion at DCH Regional Medical Center and renovations at Fayette Medical Center. A portion of the costs of these projects will be funded with proceeds of the Series 2006 Bonds, with the balance expected to be funded from operations or funded depreciation. A portion of the proceeds of the Series 2006 Bonds will be used to reimburse the Authority for approximately \$14 million in previous capital expenditures.

Governing Body and Organization

Governance for the Authority is provided by a nine-member board of directors. See “THE AUTHORITY—Governing Body” in the Official Statement.

Administrative Staff

President/CEO – DCH Health Care Authority – Bryan N. Kindred (48) became President/CEO in June 1996. He was Executive Vice President/Chief Operating Officer from October 1994 to May 1996, Executive Vice President/Administrator from December 1988 to October 1994 and Associate Administrator from February 1985 to December 1988. He held a variety of positions for National Healthcare, Inc. from November 1982 through January 1985, including Administrator and Associate Administrator of Operations at Wayne County Hospital and Executive Director at England Community Hospital and Buffalo Island Community Hospital. From August 1982 through November 1982, he was an Accountant for Southeast Alabama Medical Center. He received an Associate Degree in Business Administration from Chattahoochee Valley Community College in Phenix City, Alabama in June 1978. In June 1980, he received a Bachelors Degree in Business Administration from Columbus State University in Columbus, Georgia, and in August 1982, he received a Masters Degree in Business Administration from Troy State University in Troy, Alabama. Mr. Kindred’s community and professional memberships include:

- Fellow, American College of Healthcare Executives
- Board Member, Alabama Hospital Association
- Board Member, Coastal Insurance Risk Retention Group, Inc.
- Board Member, Blue Cross and Blue Shield of Alabama
- Chairman, VHA Southeast
- Member, Tuscaloosa Rotary Club
- Board Member and Past Chairman, West Alabama Chamber of Commerce

Vice President, Finance/Chief Financial Officer – John W. Winfrey (61) became Vice President/CFO in April 1997. Before joining the Authority, he was the Vice President of Finance for South Fulton Medical Center, Inc. in East Point, Georgia, from 1993. From 1978 until 1993, he served at Park Health Corporation at Winter Park Memorial Hospital in Winter Park, Florida, first as Associate Administrator – Finance, then as Senior Vice President of Operations. He was Senior Auditor at the Corporate Office of Humana Inc. in Louisville, Kentucky from 1974 – 1976, then served as their Associate Administrator of Finance at the General Hospital in Fort Walton Beach, Florida, from 1976-1978. From 1972-1974, Mr. Winfrey was Staff Auditor for the Ford Motor Company at their World Headquarters in Dearborn, Michigan. He also served as a Personnel Specialist – Air Training Command in the United States Air Force and was a Revenue Agent for the U.S. Internal Revenue Service in Louisville, Kentucky. Mr. Winfrey received a Bachelor of Science Degree from Western Kentucky University in Bowling Green, Kentucky, in 1967 and a Masters of Business Administration from Midwestern University in Wichita Falls, Texas in 1971. He is a Diplomate in the American College of Healthcare Executives and an Advanced Member in the Healthcare Financial Management Association. Mr. Winfrey is also the Chairman of VHA SouthEast Cost Management Partners, Inc.

Administrator, DCH Regional Medical Center; Executive Vice President, DCH Health System – William H. Cassels (53) has served as Administrator of DCH Regional Medical Center since October 1994. Mr. Cassels joined the Authority as Vice President in January 1993. From March 1991 until he joined the

Authority, he was the Chief Executive Officer of Northeast Tennessee Rehabilitation Hospital in Johnson City, Tennessee, a 60-bed free-standing physical medicine rehabilitation facility of Continental Medical Systems, Inc., based in Mechanicsburg, Pennsylvania. He was President of Southern Management Resources, a consulting firm in Dothan, Alabama, for practicing physicians, free-standing clinics and hospitals, from January 1988 to February 1991. From July 1988 to June 1990, he was President and co-founder of ADDvantage College Management, Inc., an accounts receivable management and physician billing company. From January 1986 to December 1987, he was Senior Vice President of National Healthcare and President of National Healthcare Management, Inc., located in Dothan, overseeing the ongoing operations of 10 to 15 hospitals in several states. He was Administrator of Southeast Alabama Medical Center, a 400-bed facility in Dothan, Alabama, from November 1984 to December 1985. From September 1979 to October 1984, he was Associate Administrator of Operations of Southeast Alabama Medical Center. He was Assistant Administrator of Southeast Alabama Medical Center from November 1978 to August 1979. From September 1978 to October 1978, he was transition Administrator of Southeast Alabama Medical Center. He was Assistant Administrator of South Highlands Hospital in Birmingham, Alabama, from August 1977 to August 1978. From September 1976 to July 1977, he was an administrative resident at Parkway Medical Center in Decatur. He received his undergraduate Bachelor of Science Degree in 1975 from the University of Alabama and his Master of Science Degree in Hospital and Health Administration in 1978 from the University of Alabama at Birmingham. He is a member of the American College of Health Care Executives and an officer of the West Alabama Hospital Council. He also served in numerous capacities in community organizations including major fund raising roles and chairmanship roles of the United Way of West Alabama, Boy Scouts of America, Explorers and others.

Administrator, Northport Medical Center; Vice President, DCH Health Care Authority – Lewis A. Standeffer (39) was named to the position of Administrator of the Northport Medical Center in January of 2006. He came to work for the Authority in April 2005 as a Vice-President. Mr. Standeffer was most recently Administrator/CEO of the HealthSouth Medical Center in Birmingham, a position he had held since 1999. In 1997 he was the CEO of HealthSouth Medical Center in Richmond, VA. Mr. Standeffer received a bachelor's degree in Health-Care Management from the University of Alabama and a MBA from Mississippi State University. He served an internship with the DCH Health System in 1990. He was Assistant Administrator of Operations for the Fayette Medical Center from 1990-1997. He serves on the Alabama Hospital Association Board of Trustees and is also on the Executive Committee. He is a member of the University of Alabama Board of Governors for the College of Continuing Studies.

Administrator, Fayette Medical Center and Nursing Home – Harold Reed (56) became Administrator at Fayette Medical Center and Nursing Home in January 1990. Prior to coming to the Authority, he was Administrator of Perry County Hospital and Nursing Home in Marion, Alabama. Mr. Reed holds a Bachelor of Science Degree from the University of Alabama and is a graduate of the University of Alabama at Birmingham's Health Service Administrator's Development Program. He is a Licensed Nursing Home Administrator. Mr. Reed is a Fellow of the American College of Healthcare Executives. He is also a member of the West Alabama Hospital Council, a member of the Board of Directors of the West Alabama Emergency Medical Services and the Alabama Rural Health Association, Chairman of the Blue Cross/Blue Shield Hospital Advisory Board, Past-President of the Alabama Society for Hospital Engineering, past Board member of the Alabama Hospital Association, and a member of various local and state organizations.

Vice President, Patient Care Services – Dr. Eula Das (57) was appointed Vice President, Patient Care Services in March 1996. She has more than 20 years of Progressive Management experience. Prior to March 1996, Dr. Das was Senior Vice President, Hospital Operations at Methodist Hospital of Indiana. She became a Registered Nurse in 1970 and completed her Masters of Science Degree from Texas Women's University in 1975 and Doctorate Degree: Major-Nursing: Minor-Health Care Administration in 1981. She is active in numerous professional organizations including American College of Healthcare Executives (ACHE), American Organization of Nurse Executives (AONE), Alabama Hospital Association, Alabama State Nurses' Association and Sigma Tau, Nursing Honor Society.

Vice President, Medical Affairs – David L. Rice (64) has been employed at DCH Regional Medical Center since June 1992. He received his Medical Degree from Tulane University in 1968. After serving in the military for two years he joined the faculty of the University of Texas Medical School at Houston from 1975-1980. He has been a member of the DCH Medical Staff since 1980 and is a Clinical Professor of the College of Community Health Sciences at the University of Alabama. Board certification includes Internal Medicine and Pulmonary Disease.

Vice President, Outpatient/Ancillary Services – Donna E. Marrero (46) joined the Authority as Vice President in November 1997. From November 1985 until she joined the Authority, she was Vice President at North Mississippi Medical Center in Tupelo, Mississippi, a rural referral center with 650 beds, free-standing ambulatory surgery center, six dialysis facilities, four satellite hospitals, three nursing homes and 26 primary care clinics and 23 home care offices. From January 1984 through October 1985, she was an Administrative Assistant at Stormont-Vail Regional Medical Center in Topeka, Kansas, a regional referral center with 451 beds. Her first year at Stormont-Vail Regional Medical Center was spent as an administrative resident. She received her undergraduate degree in 1982 from Mississippi University for Women in Business Administration and Political Science/Economics and her Master of Science in Hospital and Health Administration in 1984 from the University of Alabama at Birmingham. She is a Diplomate in the American College of Healthcare Executives

Vice President, Legal Services/General Counsel – Janet Teer (51) joined the Authority as the Safety Director in 1980. Prior to coming to the Authority, she was a claims representative for State Farm Insurance Company in Huntsville, Alabama. She became Risk Manager at the Authority in 1988 and was promoted to General Counsel in 1990. She received a Bachelor of Arts (Magna Cum Laude) in History from Judson College in 1975 and a Juris Doctor from the University of Alabama in 1978. She is a member of the Alabama Bar Association, the Tuscaloosa County Bar Association, the American Society of Risk Management. She is a member of the Alabama Society of Risk Management and is a past-president of that organization. She is a member of the Healthcare Compliance Officers of Alabama, and is currently a Board member of that organization. In the past, she has served on the Board of Directors for Hospice of West Alabama and Theatre Tuscaloosa. Currently, she serves on the Board of Directors for the Kentuck Association and Tuscaloosa Youth for Christ. She serves on the Claims Committee for Coastal Insurance Risk Retention Group, Inc.

Vice President, Human Resources – Kay K. Troxler (60) joined the Authority in January 1974. Prior to being promoted to Vice President of Human Resources in 1993 she served the Authority as Personnel Assistant, Assistant Personnel Director, Personnel Director, and Assistant Vice President for Human Resources. She was Relocation Officer for the Housing Authority of the City of Bessemer from November 1971 to December 1973 prior to coming to the Authority. From July 1970 to October 1971, she was employed by the Center for Health Service Continuing Education with the University of Alabama in Birmingham. She received her Bachelor of Science Degree in Industrial Relations from the University of Alabama in 1968. In 1969 she completed course work in the School of Education at the University of Alabama for Teacher Certification. Ms. Troxler's civic and professional affiliations include: Alabama Hospital Association (AHA) Human Resource Committee; Alabama Society for Hospital Personnel Administrators (ASHPA); American Society for Healthcare Human Resources Administration (ASHHRA); Society for Human Resource Management (SHRM); Tuscaloosa Human Resources Professionals (THRP); Tuscaloosa Personnel Association (TPA); Board member of the West Alabama Chapter of the American Red Cross, Chairman Human Resources Committee; member of West Alabama Job Services Employer Committee (JSEC).

Vice President, Construction/Engineering – Charles E. Orr (62) was appointed Vice President for Construction/Engineering in October 1992. He joined the Authority as the Assistant Vice President for Construction in September 1990. Prior to joining the Authority he was Principal and Executive Vice President of Almon Associates, Inc., Consulting Engineers and Architects for the period 1977 to 1990. In 1974 he was appointed temporary instructor at the University of Alabama, College of Engineering. From 1970 to 1973 he served as Chief, Solid Waste Management Office, Tennessee Department of Public Health. He received a Bachelor of Science Degree in Civil Engineering in 1967 and a Masters of Science Degree in Civil Engineering in 1971 from the University of Alabama. He is a Registered Professional Engineer in the State of Alabama. He has served as the District Vice President of the American Consulting Engineers Council. He is a member of the American Society of Civil Engineers, American Society of Healthcare Engineering, and Alabama Hospital Association.

Capacity for Service

Bed Complement by Service. The table on the following page summarizes the Authority's licensed and staffed bed capacity as of June 30, 2006.

**Distribution of Beds by Service
as of June 30, 2006**

Service	DCH Regional Medical Center		Northport Medical Center		Fayette Medical Center		Fayette Nursing Home	
	Licensed Beds	Beds Staffed	Licensed Beds	Beds Staffed	Licensed Beds	Beds Staffed	Licensed Beds	Beds Staffed
Med/Surg	336	264	75	75	45	36	0	0
OB/GYN	48	32	17	17	9	0	0	0
Pediatrics	42	22	0	0	2	2	0	0
Orthopedics	48	40	0	0	0	0	0	0
ICU/CCU	109	48	8	8	5	5	0	0
Psychiatric	0	0	54	54	0	0	0	0
Rehab	0	0	50	42	0	0	0	0
Nursing Home	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>122</u>	<u>122</u>
Total	583	406	204	196	61	43	122	122

Source: Authority Records.

Medical Staff- DCH Regional Medical Center. As of June 30, 2006, the Medical Staff membership of the DCH Regional Medical Center consisted of 426 members. The active staff has 247 members. The Courtesy Staff members can admit and/or treat no more than 24 patients to the hospital in a year. Also included in the Courtesy Staff number is Consulting and Affiliate Staff. There are 6 Dental Staff members.

**DCH Regional Medical Center
Medical Staff Composition and Certification
Number of Physicians as of June 30, 2006**

Department/Specialty	Active & Professional	Board Certified	Average Age	Admissions Fiscal Year Ended September 30, 2005
Anesthesiology	9	8	48	28
Pain Management	3	2	48	1
Emergency Medicine	13	10	38	26
Family Medicine	22	20	51	4,118
Immunology	0	0	0	4
Internal Medicine	31	25	46	9,106
Cardiology	8	8	51	1,530
Endocrinology	2	2	48	25
Gastroenterology	10	9	48	118
Hematology/Oncology	3	3	46	313
Infectious Disease	2	2	48	31
Nephrology	4	4	49	987
Neurology	8	6	45	31
Physical Medicine	3	3	49	0
Pulmonary Medicine	7	7	50	206
Radiation Oncology	2	2	42	10
Rheumatology	0	0	0	1
Obstetrics & Gynecology	10	9	39	1,826
Pathology	4	4	54	0
Pediatrics	16	13	43	1,794
Hematology/Oncology	0	0	0	0
Neonatology	4	4	50	320
Neuro-Pediatric	1	1	47	7
Psychiatry	6	4	54	0
Child-Adolescent	0	0	0	0
Radiology	24	22	45	0
Surgery, General	10	10	58	1,996
CV/Thoracic	3	3	54	412
Colon & Rectal	1	1	58	0
Neurosurgery	3	3	43	399
Ophthalmology	4	4	48	3
Retina	1	1	42	0
Oral Surgery	4	4	48	47
Orthopaedic	11	10	50	1,178
Otolaryngology	9	8	45	104
Plastic & Reconstruction	3	3	50	97
Urology	6	6	55	411
Total	247	221		25,129
Total Active Medical Staff		247		
Dental		6		
House Staff		34		
Courtesy (includes Affiliate & Consulting)		73		
Medical Assistants		42		
Full Emeritus		<u>24</u>		
Total DCH Medical Staff		426		

Source: Authority Records.

**DCH Regional Medical Center
Distribution of Medical Staff by Age
Number of Physicians as of June 30, 2006**

Physician Age	Number of Physicians	Percent of Total Staff
Under 30	1	0.00%
30-39	62	19.93%
40-49	119	38.26%
50-59	94	30.22%
60 & Over	<u>35</u>	<u>11.25%</u>
Total	311*	100.00%

Source: Authority Records.

*This number includes Total Active Medical Staff, Dental, House Staff and Full Emeritus.

Medical Staff-Northport Medical Center. As of June 30, 2006, the Medical Staff membership of the Northport Medical Center consisted of 255 members. The active staff has 147 members. The Courtesy Staff members can admit and/or treat no more than 24 patients to the hospital in a year. Also included in the Courtesy Staff number is Consulting and Affiliate Staff. There are 4 Dental Staff members.

**Northport Medical Center
Medical Staff Composition and Certification
Number of Physicians as of June 30, 2006**

Department/Specialty	Active/ Active/ Associate- Departmental	Courtesy/ Courtesy-Associate Consulting/ Referral	Board Certified	Average Age	Admissions Fiscal Year Ended September 30, 2005
OBGYN/PEDIATRICS					
OBGYN	10	2	5	43	1,955
Pediatrics	7	6	11	45	1,067
Neonatology	4	0	4	50	180
Neuro-Pediatric	1	0	1	47	1
RADIOLOGY	24	0	24	45	
SURGERY					
Anesthesiology	8	0	6	50	
Cardiovascular/Thoracic	0	3	3	54	
Dentistry	4	0	0	48	
Neurosurgery	3	0	3	43	
Ophthalmology	4	1	5	48	
Orthodontics	0	0	0		
Orthopaedics	12	3	12	49	926
Otolaryngology	9	0	8	45	23
Pathology	4	0	4	54	
General	6	4	10	53	264
Oral	4	0	2	48	2
Plastic Surgery	4	0	4	51	3
Urology	6	0	6	55	5
MEDICINE					
Cardiology	0	4	5	46	20
Dermatology	0	6	4	55	
Emergency Medicine	5	0	3	41	12
Endocrinology	0	1	1	50	15
Family Practice	7	18	21	46	1,212
Gastroenterology	5	0	5	47	22
Hematology/Oncology	0	3	3	46	
Immunology	2	0	2	51	1
Infectious Disease	1	1	1	45	113
Internal Medicine	3	18	18	54	757
Nephrology	1	4	4	51	64
Neurology	2	9	7	59	18
Physical Medicine	3	0	3	49	705
Psychiatry	7	13	14	53	2,287
Pulmonary	1	7	7	51	99
Radiation Oncology	0	3	3	45	
Rheumatology	<u>0</u>	<u>2</u>	<u>2</u>	54	<u>2</u>
Total	147	108	211		9,753

Source: Authority Records.

Northport Medical Center
Distribution of Medical Staff by Age
Number of Physicians as of June 30, 2006

Physician Age	Number of Physicians	Percent of Total Staff
Under 30	0	0.00%
30-39	51	20.30%
40-49	105	41.10%
50-59	68	26.50%
60 & Over	<u>31</u>	<u>12.10%</u>
Total	255	100.00%

Source: Authority Records.

Medical Staff Fayette Medical Center. As of June 30, 2006, the Medical Staff membership of the Fayette Medical Center consisted of 82 members. The active staff has 10 members. The courtesy, consulting and affiliate staffs are comprised of 72 members. This number includes one dentist.

Fayette Medical Center
Medical Staff Composition and Certification
Number of Physicians as of June 30, 2006

Specialty	Active & Professional	Consulting & Affiliate Prov.	Board Certified	Average Age	Admissions Fiscal Year Ended September 30, 2005
Cardiology	0	4	4	57	
Dentistry	0	1	1	47	
Emergency Medicine	0	15	4	41	
Family Practice	5	1	6	54	1,208
General Practice	2	0	0	64	
Gynecology	0	1	1	50	
Hematology/Oncology	0	3	3	46	
Internal Medicine	1	2	3	41	314
Nephrology	0	1	1	52	
Neurology	0	2	2	48	
Ophthalmology	0	1	1	49	
Orthopaedics	0	2	2	55	
Otolaryngology	0	5	5	46	
Pathology	0	4	4	55	
Pediatrics	0	0	0	0	94
Plastic Surgery	0	1	1	57	
Psychiatry	0	0	0	0	
Radiology	1	21	21	47	
Rheumatology	0	1	1	48	
Surgery	1	3	2	52	143
Urology	<u>0</u>	<u>4</u>	<u>4</u>	52	
Totals	10	72	66		1,759

Source: Authority Records.

Fayette Medical Center
Distribution of Medical Staff by Age
Number of Physicians as of June 30, 2006

Physician Age	Number of Physicians	Percent of Total Staff
Under 30	0	0.00%
30-39	22	27.00%
40-49	27	33.00%
50-59	21	25.00%
60 & Over	<u>12</u>	<u>15.00%</u>
Total	82	100.00%

Source: Authority Records.

The following table represents the specialty, age and number and percent of admissions for the fiscal year ended September 30, 2005 attributed to the top 10 admitters on the active medical staff of DCH Regional Medical Center.

Rank	Specialty	Age	Number Admissions	Percent of Total Admissions
1	Internal Medicine	56	679	2.70%
2	Internal Medicine	49	624	2.48%
3	Cardiology	62	592	2.36%
4	Internal Medicine	36	540	2.15%
5	Internal Medicine	36	449	1.79%
6	Internal Medicine	47	446	1.77%
7	Internal Medicine	52	400	1.59%
8	Family Practice	54	395	1.57%
9	OB/GYN	42	360	1.43%
10	Internal Medicine	58	<u>356</u>	<u>1.42%</u>
	TOTAL		4,841	19.27% ⁽¹⁾

Source: Authority Records.

(1) Percent of Total Admissions does not total due to rounding.

The following table represents the specialty, age and number and percent of admissions for the fiscal year ended September 30, 2005 attributed to the top 10 admitters on the active medical staff of Northport Medical Center.

Rank	Specialty	Age	Number Admissions	Percent of Total Admissions
1	Psychiatry	60	796	8.16%
2	Psychiatry	67	710	7.28%
3	OB/GYN	55	358	3.67%
4	Physical Medicine	60	345	3.54%
5	Physical Medicine	45	340	3.49%
6	Psychiatry	41	313	3.21%
7	Psychiatry	49	279	2.86%
8	Orthopedics	43	264	2.71%
9	Internal Medicine	47	247	2.53%
10	OB/GYN	47	<u>224</u>	<u>2.30%</u>
TOTAL			3,876	39.74% ⁽¹⁾

Source: Authority Records.

(1) Percent of Total Admissions does not total due to rounding.

The following table represents the specialty, age and number and percent of admissions for the fiscal year ended September 30, 2005 attributed to the 9 admitters on the active medical staff of Fayette Medical Center.

Rank	Specialty	Age	Number Admissions	Percent of Total Admissions
1	Family Medicine	66	401	22.82%
2	Internal Medicine	36	316	17.99%
3	Family Medicine	36	231	13.15%
4	Family Medicine	43	184	10.47%
5	Family Medicine	52	173	9.85%
6	General Surgery	53	148	8.42%
7	General Medicine	49	137	7.80%
8	Family Medicine	61	125	7.11%
9	General Medicine	80	<u>42</u>	<u>2.39%</u>
TOTAL			1,757	100.00% ⁽¹⁾

Source: Authority Records.

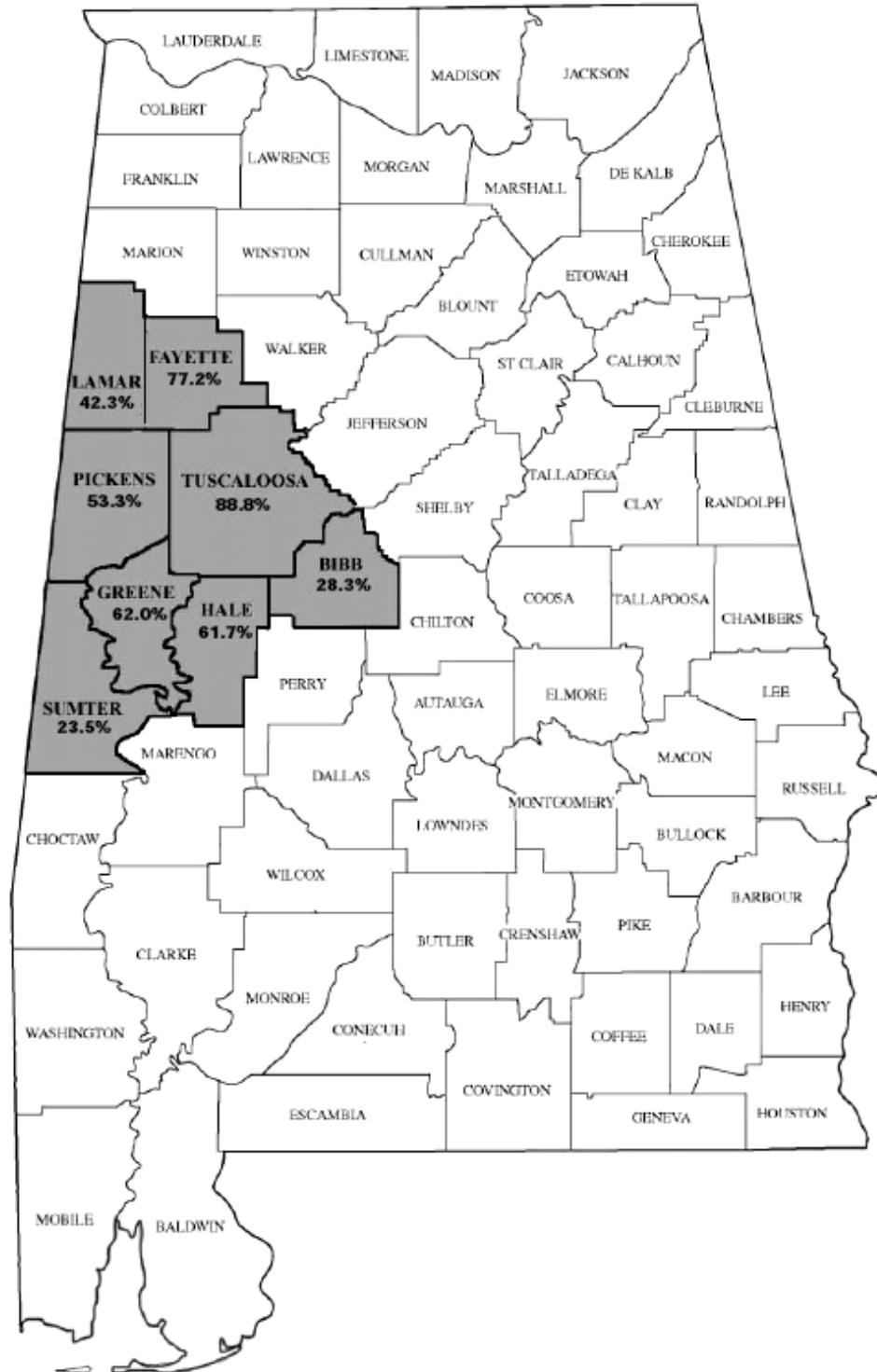
(1) Percent of Total Admissions does not total due to rounding.

Service Area Information

Patient Origin. The Authority draws over 93% of its patients from Tuscaloosa County and the west Alabama counties of Bibb, Fayette, Greene, Hale, Lamar, Pickens and Sumter, which taken together comprise the Authority's primary and secondary service areas. Tuscaloosa County is considered to be the Authority's primary service area. Fayette County is considered to be the primary service area for Fayette Medical Center, but is a part of the secondary service area for the Authority as a whole. In addition to Fayette County, the Authority's secondary service area consists of Bibb, Greene, Hale, Lamar, Pickens and Sumter Counties.

The following map outlines the primary and secondary service area of the Authority and the Authority's market share for each county as indicated, based on discharges during the month of April 2005, as reported by the Alabama State Health Planning and Development Agency. These percentages exclude the effect of Pickens County Medical Center, for which the Authority provides certain management services.

DCH Health Care Authority April 2005



The following tables present data on the Authority's patient origins:

**DCH Regional Medical Center
Origin of Patients by County
For the Fiscal Year Ended September 30**

	2004		2005	
	Discharges	Percent of Discharges	Discharges	Percent of Discharges
PRIMARY SERVICE AREA				
Tuscaloosa County	18,754	68.3%	16,951	68.9%
SECONDARY SERVICE AREA				
Bibb County	1,066	3.9%	820	3.3%
Fayette County	885	3.2%	835	3.4%
Greene County	948	3.5%	760	3.1%
Hale County	1,922	7.0%	1,638	6.7%
Lamar County	417	1.5%	391	1.6%
Pickens County	1,399	5.1%	1,275	5.2%
Sumter County	287	1.0%	204	0.8%
Total Secondary	6,924	25.2%	5,923	24.1%
OTHER AREAS	<u>1,770</u>	<u>6.4%</u>	<u>1,715</u>	<u>7.0%</u>
TOTAL SERVICE AREA	27,448	100.0%	24,589	100.0%

Source: DCH Health System Finance Department.

**Northport Medical Center
Origin of Patients by County
For the Fiscal Year Ended September 30**

	2004		2005	
	Discharges	Percent of Discharges	Discharges	Percent of Discharges
PRIMARY SERVICE AREA				
Tuscaloosa County	7,236	69.3%	6,362	69.6%
SECONDARY SERVICE AREA				
Bibb County	318	3.0%	258	2.8%
Fayette County	469	4.5%	370	4.0%
Greene County	214	2.0%	162	1.8%
Hale County	493	4.7%	445	4.9%
Lamar County	178	1.7%	198	2.2%
Pickens County	853	8.2%	729	8.0%
Sumter County	92	0.9%	82	0.9%
Total Secondary	2,617	25.1%	2,244	24.5%
OTHER AREAS	<u>590</u>	<u>5.6%</u>	<u>535</u>	<u>5.9%</u>
TOTAL SERVICE AREA	10,443	100.0%	9,141	100.0%

Source: DCH Health System Finance Department.

**Fayette Medical Center
Origin of Patients by County
For the Fiscal Year Ended September 30**

	2004		2005	
	Discharges	Percent of Discharges	Discharges	Percent of Discharges
PRIMARY SERVICE AREA				
Fayette County	1,333	66.9%	1,140	65.9%
SECONDARY SERVICE AREA				
Lamar County	476	23.9%	414	23.9%
Marion County	10	0.5%	93	5.4%
Total Secondary	486	24.4%	507	29.3%
OTHER AREAS	<u>173</u>	<u>8.7%</u>	<u>84</u>	<u>4.9%</u>
TOTAL SERVICE AREA	1,992	100.0%	1,731	100.0%

Source: DCH Health System Finance Department.

Service Area Population Growth. The following table shows historical and projected population data for the counties comprising the Authority's service area:

DCH Regional Medical Center and Northport Medical Center Hospital Service Area Historical Population Growth						
	Census 1990	Census 2000	Percent Change	Estimated 2005	Projected 2015	Percent Change
Primary Service Area						
Tuscaloosa County	150,522	164,875	9.5%	168,908	180,779	7.0%
Secondary Service Area						
Bibb County	16,576	20,826	25.6%	21,516	26,910	25.1%
Fayette County	17,962	18,495	3.0%	18,228	18,848	3.4%
Greene County	10,153	9,974	-1.8%	9,961	9,572	-3.9%
Hale County	15,498	17,185	10.9%	18,316	19,726	7.7%
Lamar County	15,715	15,904	1.2%	14,962	16,158	8.0%
Pickens County	20,699	20,949	1.2%	20,178	21,434	6.2%
Sumter County	16,174	14,798	-8.5%	13,819	13,538	-2.0%
Secondary Subtotal	112,777	118,131	4.7%	116,980	126,186	7.9%
Total Service Area	263,299	283,006	7.5%	285,888	306,965	7.4%

Source: University of Alabama Center for Business & Economic Research.

Employment. Government is the largest employer in the Authority's primary service area, closely followed by manufacturing and trade. The relatively high state and local government figures for the area are due in part to the presence of The University of Alabama, local school systems, and state-sponsored entities such as Bryce Hospital and Partlow State School in the Tuscaloosa area.

The following table summarizes recent employment trends:

	2004		2005	
	Number Employed	Unemployment Rate	Number Employed	Unemployment Rate
Tuscaloosa County	80,305	4.6%	82,061	3.3%
State of Alabama	2,029,314	5.6%	2,069,173	4.0%
United States	139,252,000	5.5%	141,730,000	5.1%

Sources: University of Alabama Center for Business and Economic Research.

Economic Characteristics of the Primary Service Area

Tuscaloosa County has a relatively diversified employment base. The principal employers in the County and the approximate number of Tuscaloosa employees are each shown below:

Major Employers in Tuscaloosa County June 2006

	Employer	Product	Approximate Number of Employees
1.	The DCH Health Care Authority	Medical Services	4,060
2.	Mercedes Benz U.S. International	All-Activity Vehicles	4,000
3.	The University of Alabama	Higher Education	3,865
4.	Tuscaloosa County School System	Public Education	2,000
5.	Jim Walter Resources	Coal Mining	1,378
6.	Phifer Wire Products	Aluminum (fiberglass screening)	1,350
7.	Tuscaloosa City School System	Public Education	1,325
8.	Michelin/B.F. Goodrich	Radial Tires	1,300
9.	City of Tuscaloosa	City Services	1,160
10.	Johnson Controls	Automotive Supplies	900

Source: West Alabama Chamber of Commerce.

Per Capita Income. The following table gives estimated per capita income for Tuscaloosa County, the State of Alabama, and the United States:

	2003	2004	Percent Change (2003-2004)
Tuscaloosa County	\$27,732	\$28,833	4.0%
State of Alabama	26,326	27,695	5.2%
United States	31,484	33,050	5.0%

Source: University of Alabama Center for Business & Economic Research.

The following table sets forth the principal employers and the approximate number of employees for each in Fayette County, which is the primary service area for Fayette Medical Center and is in the secondary service area for the Authority as a whole:

**Major Employers in Fayette County
June 2006**

Employers	Approximate No. of Full-Time Equivalent Employees
1. Fayette Medical Center	400
2. Pittsburg & Midway Mining	400
3. Best Glove Company	210
4. Ox Bodies	165
5. North River Apparel	150
6. Georgia Pacific	135
7. Delta Apparel	100
8. Dal Tile, Inc.	100
9. Source America	80
10. Custom Automated Services	50

Source: Fayette County Chamber of Commerce.

Competing Hospitals

DCH Regional Medical Center and Northport Medical Center. Eight other general acute care hospitals exist in the service area for the DCH Regional Medical Center and Northport Medical Center, with none in the primary service area and all eight in the secondary and tertiary service areas. Of the ten total hospitals, DCH Regional Medical Center has had the largest patient day total in each of the last five years. The following hospitals are located in the service area for the DCH Regional Medical Center and Northport Medical Center:

Pickens County Medical Center is a 56-bed (licensed capacity) facility located in Carrollton, Alabama, approximately 40 miles from the DCH Regional Medical Center. Pickens County Medical Center is managed by the Authority.

Bibb Medical Center and Nursing Home is a 35-bed (licensed capacity) facility located in Centreville, Alabama, approximately 35 miles from the DCH Regional Medical Center. Bibb Medical Center and Nursing Home is operated by Bibb County.

Hale County Hospital is a 39-bed (licensed capacity) facility located in Greensboro, Alabama, approximately 40 miles from the DCH Regional Medical Center. Hale County Hospital is operated by Hale County.

Greene County Hospital and Nursing Home is a 20-bed (licensed capacity) facility located in Eutaw, Alabama, approximately 30 miles from the DCH Regional Medical Center. Greene County Hospital and Nursing Home is operated by Greene County.

Hill Hospital of Sumter County is a 33-bed (licensed capacity) facility located in York, Alabama, approximately 68 miles from the DCH Regional Medical Center. Hill Hospital of Sumter County is operated by Sumter County.

Marion Regional Medical Center is a 57-bed (licensed capacity) facility located in Hamilton, Alabama, approximately 40 miles from the DCH Regional Medical Center. Marion Regional Medical Center is operated by North Mississippi Health Services, Tupelo, Mississippi.

Northwest Medical Center is a 71-bed (licensed capacity) facility located in Winfield, Alabama, approximately 56 miles from the DCH Regional Medical Center. Northwest Medical Center is operated by LifePoint Hospitals, Inc.

Bryan W. Whitfield Memorial Hospital is a 99-bed (licensed capacity) facility located in Demopolis, Alabama, approximately 60 miles from the DCH Regional Medical Center. Bryan W. Whitfield Memorial Hospital is operated by The Tombigbee Healthcare Authority.

Fayette Medical Center and Nursing Home. Two other general acute care hospitals exist in the Fayette Medical Center and Nursing Home's service area, each of which is in the secondary service area.

Marion Regional Medical Center is a 57-bed (licensed capacity) facility in Hamilton, Alabama, approximately 39 miles from Fayette Medical Center and Nursing Home. Marion Regional Medical Center is operated by North Mississippi Health Services, Tupelo, Mississippi.

Northwest Medical Center is a 71-bed (licensed capacity) facility located in Winfield, Alabama, approximately 18 miles from Fayette Medical Center. Northwest Medical Center is operated by LifePoint Hospitals, Inc.

Service Area Hospitals

The Authority operates the only tertiary level, acute-care hospital in the service area. The secondary service area contains six hospitals. The other hospitals listed operate in adjacent areas. None of these hospitals has a number of beds or range of services comparable to that of the Authority. The following table presents an inventory of the existing acute-care hospitals in the service area.

Inventory of Service Area Hospitals

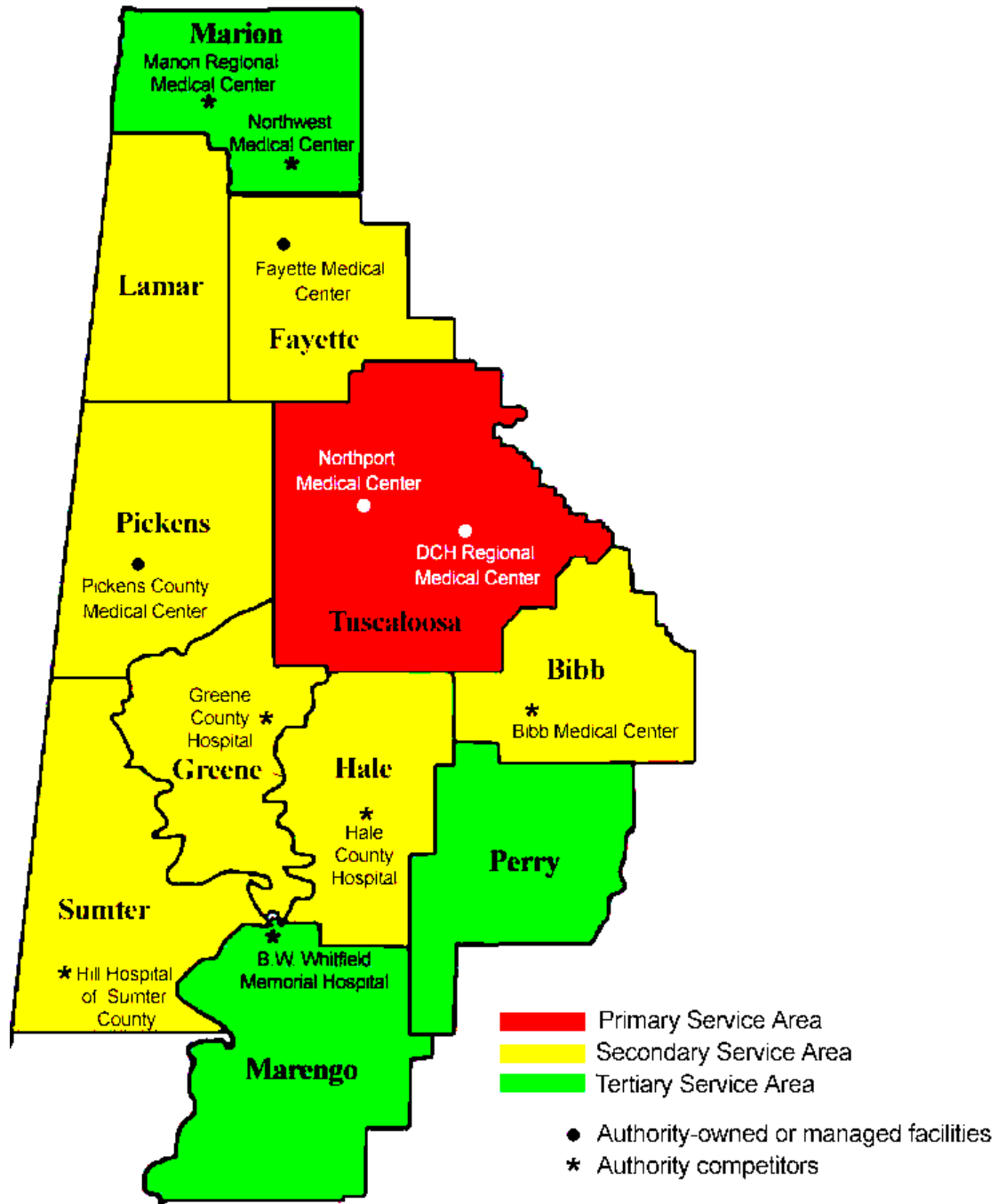
Hospital	Approximate Miles from DCH Regional Medical Center	Licensed Beds as of Sept. 30, 2005	Occupancy 12-Month Period Ended Sept. 30, 2005
Primary Service Area			
DCH Regional Medical Center ¹	---	583	57.8%
Northport Medical Center ¹	6	204	68.2%
Secondary Service Area			
Bibb Medical Center	35	35	13.0%
Fayette Medical Center ¹	50	61	32.1%
Greene County Hospital	35	20	18.5%
Hale County Hospital	35	39	17.3%
Pickens County Medical Center ²	45	56	37.7%
Hill Hospital of Sumter County	70	33	56.4%
Other Hospitals			
Marion Regional Medical Center	40	57	7.9%
Northwest Medical Center	56	71	43.8%
Bryan W. Whitfield Memorial Hospital	60	99	42.3%

Source: Alabama State Health Planning and Development Agency.

¹. Authority hospitals.

². Managed by the Authority.

The following map shows acute-care hospitals in the Authority's primary and secondary service areas, as well as acute care hospitals in adjacent counties considered to be in the Authority's tertiary service area:



**Market Share Analysis
2004-2005**

	April 2004		April 2005	
	Primary Service Area	Secondary Service Area	Primary Service Area	Secondary Service Area
DCH Regional Medical Center	66.2%	36.1%	65.4%	32.0%
Northport Medical Center	24.2%	10.4%	23.3%	12.3%
Fayette Medical Center	0.1%	8.1%	0.2%	7.6%
Pickens County Medical Center ¹	<u>0.3%</u>	<u>9.1%</u>	<u>0.2%</u>	<u>9.7%</u>
Total Authority and Authority Managed	<u>90.7%</u>	<u>63.8%</u>	<u>89.0%</u>	<u>61.6%</u>
Bibb Medical Center	0.0%	2.8%	0.1%	2.6%
Greene County Hospital	0.0%	1.7%	0.1%	1.9%
Hale County Hospital	0.0%	3.3%	0.0%	4.2%
Hill Hospital of Sumter County	0.2%	0.7%	0.4%	1.0%
Marion Regional Medical Center	0.0%	0.7%	0.0%	0.9%
Northwest Medical Center	0.0%	3.9%	0.0%	4.4%
Bryan W. Whitfield Memorial Hospital	0.0%	4.5%	0.1%	4.2%
Other	<u>9.1%</u>	<u>18.6%</u>	<u>10.3%</u>	<u>19.2%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Source: Alabama State Health Planning and Development Agency.

¹ Managed by the Authority.

Alternative Delivery Systems and Other Services

In addition to the competitive environment outlined above, there are several preferred providers and health maintenance organizations operating in the DCH Regional Medical Center’s service areas. Generally, a preferred provider organization (“PPO”) is a group of health care providers who have contractual arrangements to provide specific or full scope services at a negotiated price to a defined group of patients. A health maintenance organization (“HMO”) is responsible for, and directly assumes the financial risk of, providing health care services to its members in return for a set, pre-paid monthly premium. An HMO may be designed as a group practice model where a physician group contracts with the HMO or as a staff model where the HMO directly employs its physicians. Another type of HMO, the individual practice association (“IPA”) model utilizes physicians who practice independently in their own offices and are paid a fee-for-services basis. The primary objective of HMO’s and PPO’s is to reduce overall hospital utilization and health care costs to the consumer.

Unlike HMO’s, PPO’s do not currently require licensure to operate and, therefore, there is no state listing. Management of the Medical Center is aware of one area PPO, Blue Cross and Blue Shield Preferred Medical Doctors (PMD). The presence of both HMO’s and PPO’s in the service area is expected to continue to reduce overall hospital utilization in the service area.

HMO’s and PPO’s (other than Blue Cross and Blue Shield Preferred Medical Doctors) together account for less than 3% of the Authority’s total service revenue.

Medical Malpractice Considerations and Insurance Coverage

The following is a description of the insurance coverage currently carried by the Authority:

Medical Malpractice Insurance. The Authority carries basic comprehensive professional liability insurance in the amount of \$1,000,000 per occurrence and a maximum of \$3,000,000 per year with a deductible of

\$250,000 per claim and \$500,000 aggregate per year. The Authority also maintains umbrella professional liability insurance in the amount of \$6,000,000 after a retained layer of \$4,000,000.

General Liability Insurance. The Authority maintains comprehensive general liability (other than patient liability) coverage insuring against personal injury and property damage with an aggregate limit of \$3,000,000 for personal injury and \$3,000,000 for property damage.

Real and Personal Property. The Authority maintains insurance coverage on all real and personal property comprising the Facilities in the amount of \$546,664,585 (with a \$25,000 deductible), which is the estimated cost of replacement of the existing Facilities and medical office facilities and contents.

Other Insurance Coverage. In addition to the medical malpractice insurance, general liability insurance and real and personal property coverage described above, the Authority maintains boiler and machinery liability insurance up to a limit of \$112,019,000; comprehensive automobile liability insurance with limits of \$1,000,000 for bodily injury per person and \$5,000,000 per auto accident and property damage coverage of the value of the vehicle per occurrence; and blanket coverage insurance in the amount of \$500,000 for each claim. The Authority also maintains Directors and Officers Liability Coverage, which includes entity coverage and employment practices coverages. There is \$100,000 deductible for most claims. This coverage is with Darwin Professional Underwriters. The Authority also maintains Workers' Compensation insurance, as well as fiduciary liability insurance.

Employees and Labor Relations

As of June 30, 2006, the Authority employed approximately 4,723 full and part-time employees. The Authority has implemented a comprehensive personnel management program that includes an employee performance evaluation system tied to a merit compensation plan. The Authority continually evaluates its regional competitiveness in the employment market through wage and salary surveys. The Authority believes that the wages, salaries and benefits presently paid are above average of those paid by other hospitals in its service area. Although there have been efforts to organize certain Authority employees, the Authority currently has no contracts with any labor unions. The management of the Authority has characterized labor relations with employees at the Authority as good.

Employee Pension Plan

The Authority has a noncontributory pension plan covering employees at DCH Regional Medical Center and Northport Medical Center who are age 21 or over with a minimum of one (1) year of service as defined in the plan. Pension expense for the fiscal years 2004 and 2005 was \$5,177,668 and \$6,276,212, respectively. The assumed rate of return used in determining the actuarial present value of accumulated plan benefits is 8.25%. The following is a summary of plan benefits and assets information as of January 1, 2006, the most recent valuation date.

	January 1, 2006
	(000's omitted)
Actuarial Present Value of Accumulated Plan Benefits:	\$121,758
Vested Benefits	\$107,205
Nonvested Benefits	\$14,553
 Net Assets Available for Benefits	 \$116,262

The pension plan of Fayette Medical Center and Nursing Home covers substantially all of its eligible employees. The pension expense for the years ended September 30, 2004 and 2005 was \$496,437 and \$513,319, respectively, which includes amortization of past service cost over a period of sixteen and twenty-three years. Management began funding the pension costs on a 19-year amortization period in January 1986. The comparison of accumulated plan benefits and plan assets is presented below.

January 1, 2006
(000's omitted)

Actuarial Present Value of Accumulated Plan Benefits:	\$6,037
Vested Benefits	\$5,139
Nonvested Benefits	\$889
 Net Assets Available for Benefits	 \$5,353

The Authority also sponsors a defined contribution plan covering all employees at DCH Regional Medical Center, Northport Medical Center, and Fayette Medical Center after two years with 1,000+ hours of service each year plus age 21. For eligible employees, the Authority will match 25% of up to 6% of compensation if the participant is employed on December 31 in the year of deferral. For the plan year ended December 31, 2005, the plan expense was \$944,635.

Accreditations, Licenses and Memberships

The DCH Regional Medical Center, Northport Medical Center and Fayette Medical Center and Nursing Home were most recently surveyed for accreditation by the Joint Commission On Accreditation (“JCAHO”) in 2004, and each received a full three-year accreditation, effective through 2007, from JCAHO. Each of the three facilities is licensed by the Alabama State Board of Health.

Educational Affiliations

The Authority has educational affiliations with a number of colleges, universities, secondary schools and other organizations in residency programs, nursing, physical therapy, pharmacy, nurse anesthesia, medical laboratory technology, dietetics, healthcare management and other health-related fields. Current affiliations include programs with the University of Alabama, the University of Alabama at Birmingham, Auburn University, Samford University, the University of South Alabama, Mississippi University for Women, Texas Woman’s University, the University of West Alabama, Alabama State University, the University of Mississippi Medical Center, South University, Shelton State Community College, Bevill State Community College, Jefferson State Community College, Wallace State Community College, Meridian Junior College, the Alabama Fire College, the American Society of Health System Pharmacists, Training USA, Carraway Methodist Hospital and several area high schools.

Information Services Systems

The Authority uses Meditech for the core of its information systems. Included with this system is an integrated financial and clinical system that includes patient registration, medical records, clinical services, automated results reporting and on line real time access to patient information for the Medical Staff on and off site. Complimenting the Meditech system are various other clinical and financial systems including automated radiology picture archiving system, electronic medical record and financial cost accounting systems at all of its facilities. The information system function has been recognized as “most improved wired Hospitals” by Hospitals and Health Networks, and is a top 10 showcase Meditech facility.

Budgetary Procedures

The Authority’s budgetary processes are formalized in the budget manual utilized by cost center managers through senior administration. The budgeting process begins in April of each year with the object of incorporating the approved budget into the financial reporting system by October 1, which is the beginning of the next fiscal year. The budgeting process is a top down and bottoms up process whereby management sets certain assumptions and cost center managers develop the operating and capital budgets for their respective areas. These budgets are reviewed and if necessary, amended by the appropriate administrator. The Authority uses a budgeting system that electronically accumulates financial information from respective cost centers which aids in producing a final operating and capital budget. After appropriate adjustments, the finance department forwards the operating and capital budgets to senior administration for further review and analysis. The budget will then either be returned electronically to division administrators and/or cost center managers for further revision prior to being forwarded to the Finance Committee for its approval and recommendation to the entire Board of Directors of the Authority. During the year, the Authority measures monthly performance against budgeted performance on both the monthly

and year-to-date basis. Variance analysis is conducted at the cost center level and reported to the appropriate administrator.

Utilization Review Plan

The Authority has approved a Utilization Review Plan established by the Medical Audit and Utilization Review Committee (MAURC) to assure that high-quality, cost-effective patient care is provided, maximizing all available DCH Regional Medical Center services. The MAURC consists of sixteen physicians, four nurses, a Quality Assurance Coordinator, four Medical Records personnel, and two Administrative representatives. The MAURC monitors the quality of care of clinical practice and patient care in all medical staff departments. The Committee is a fact-finding, educational instrument of the medical staff. All hospital admissions are reviewed according to pre-established, medical staff-approved criteria, regardless of pay classification. Any medical staff problems are referred by the MAURC to the Medical Staff Executive Committee, which is composed of thirteen physicians from all specialties. Any medical staff problems of Fayette Medical Center and Nursing Home are referred to its two or more member Executive Medical Staff.

Litigation

In 2005 a lawsuit was filed against the Authority in the Circuit Court of Fayette County, Alabama styled Yolanda Powell and Daniel Cherry v. DCH Regional Medical Center; Fayette Medical Center; and DCH Healthcare Authority, Civil Action No. CV-2005-102. This complaint seeks class certification for a class of plaintiffs composed of certain uninsured patients who were charged an undiscounted rate for medical care, and of uninsured patients who receive medical treatment at Authority hospitals in the future. The suit essentially alleges that the Authority has overcharged uninsured patients. A number of similar “charity care” lawsuits have been filed across the country in the past few years.

The Authority will continue to contest class certification and the merits of plaintiffs’ claims. The Authority is not aware of any determination by a jury to date in any similar class action case. While the Authority has not fully assessed the impact an unfavorable outcome in the suit could have, an unfavorable outcome, coupled with class action certification, could have a material adverse effect on the Authority’s financial position.

In the opinion of the Authority and its counsel, there is no other litigation pending or threatened which could have a material adverse effect upon the financial condition of the Authority.

Related Organizations

Hospital Subsidiaries, Inc., a wholly-owned subsidiary of the Authority, has a 50% interest in Century Health Alliance, L.L.C., a preferred provider managed care organization. DCH Holdings, Inc., a wholly-owned subsidiary of the Authority, has a minority interest in DVA Centers of Tuscaloosa, LLC, which operates outpatient dialysis facilities. The Authority is also the sole owner of Practice Advantage, Inc., which provides management services to physician practices. The Authority has interests in other health care ventures, none of which presently has a material impact on the Authority’s financial position.

The DCH Foundation, Inc. (the “Foundation”) raises funds for the benefit of the Authority. The Foundation makes distributions to the Authority from time to time as determined by the Foundation’s board of directors. The Fayette Medical Center Foundation raises funds for Fayette Medical Center and makes distributions for such purpose from time to time as determined by such foundation’s board of directors.

RESULTS OF OPERATIONS

Utilization and Patient Service Statistics

The following table sets forth certain statistical information relating to the combined operations of the Authority during each of the periods ended as shown below:

**The DCH Health Care Authority
Combined Operations
Historical Inpatient Utilization**

	Fiscal Years Ended September 30,					Nine Months Ended June 30,	
	2001	2002	2003	2004	2005	2005	2006
Patient Days-Adult & Pediatric							
Medicare	109,770	108,683	109,143	105,693	99,260	75,036	72,057
Medicaid	24,895	23,713	19,786	22,038	20,835	15,052	15,875
All Other	60,044	63,123	66,648	65,752	60,861	45,423	46,557
Total	194,709	195,519	195,577	193,483	180,956 ¹	135,511	134,489
Births	2,999	2,975	3,010	2,994	3,050	2,230	2,227
Admissions	36,773	38,600	38,356	37,219	34,018	25,442	25,722
Average Length of Stay	5.29	5.07	5.10	5.20	5.32	5.33	5.23
Case Mix Index	1.1785	1.1861	1.2017	1.2361	1.2861	1.2744	1.3006
Emergency Room Number of Visits	121,585	125,754	121,813	122,663	126,487	94,831	95,497
Surgeries							
Inpatient	8,960	9,263	9,235	8,759	8,373	6,250	6,225
Outpatient	11,856	11,789	12,823	13,147	12,002	8,896	9,354
Home Health Visits	69,293	39,880	41,152	48,391	45,724	29,919	23,734
Outpatient Visits	271,453	320,197	419,596	385,653	404,206	298,964	307,962
Average Daily Patient Census	533.45	535.67	535.83	530.09	495.77	371.26	368.46
Full-time Equivalent Employees at End of Last Payroll Each Period	3,804	3,739	3,784	3,751	3,785	3,772	3,944
Average Semi-Private Room Rate	570	595	620	650	675	675	700
Occupancy Rate (%) of Available Beds	75.88%	76.19%	79.73%	78.88%	73.77%	73.86%	73.30%
Staffed Beds	703	703	672	672	672	672	672

Source: Authority Records.

¹ Admissions classified as "Observation Admissions" increased to 7,366 from 5,959, for the fiscal years ended September 30, 2005 and 2004, respectively, which increase is a factor in the decrease in patient days for the same periods.

Major Third-Party Reimbursement Programs

Medicare and Medicaid. Medicare is a federal program administered by the Health Care Financing Administration available to individuals of age 65 or over and certain other classes of individuals. The program provides, among other things, hospital insurance benefits that cover, within prescribed limits, the major cost of hospital care to beneficiaries. See “RISK FACTORS—Health Care Industry Factors Affecting the Authority”.

Medicaid is a federal and state medical assistance program administered by the State of Alabama, available to individuals meeting certain income or other need requirements. The program provides, among other things, hospital insurance benefits that cover, within prescribed limits, the cost of hospital care to beneficiaries. Inpatient claims are paid on the basis of a prospective cost-based per diem amount, while outpatient claims are paid from an established fee schedule. See “RISK FACTORS”.

The Authority receives Medicaid payments under Alabama’s Prepaid Health Plan (PHP), which is a network of all hospitals in Alabama divided into eight districts which contract with the State of Alabama Medicaid Agency to provide inpatient services for all Medicaid patients. The Authority’s facilities are in PHP District Two, which consists of west Alabama hospitals. The Medicaid Agency pays PHP Two a capitated amount based on Medicaid enrollees in the district. In turn, the PHP pays the hospitals a set per diem for each Medicaid inpatient day. If the district uses its entire capitated fund, the hospitals do not receive any payment for the remaining Medicaid days incurred except for enhancement payments.

Blue Cross and Commercial Insurance. Inpatient services rendered to Blue Cross and Blue Shield of Alabama (“Blue Cross”) subscribers are reimbursed at prospectively determined rates that are not subject to retroactive settlement. Outpatient services rendered to Blue Cross subscribers are reimbursed under a combination of prospectively determined rates and a cost reimbursement methodology. The prospective rates are not subject to retroactive settlement. The Authority is reimbursed under the cost reimbursement methodology at a tentative rate with final settlement determined after submission of an annual cost report and audit thereof by Blue Cross.

The Authority is paid for covered services based on hospital charges rendered to patients insured by commercial insurance companies. Rate increases by the Authority are not subject to approval by these companies. The Authority hospitals are reimbursed directly by commercial insurance companies for covered services at prevailing room rates plus ancillary service charges. Any amounts that are not covered by the commercial insurers due to subscriber contract provisions become the liability of the patient.

The following table indicates the estimated percentage of total service revenue for the Authority for the periods indicated, from Medicare, Medicaid and all other sources of revenue:

Sources of Patient Service Revenue by Payor

	Fiscal Years Ended September 30,				
	2001	2002	2003	2004	2005
Medicare	46.82%	46.65%	46.43%	46.54%	45.72%
Blue Cross	26.63%	27.44%	25.90%	26.26%	26.07%
Medicaid	11.60%	11.25%	9.34%	9.53%	9.72%
Medicaid Waiver	0.00%	0.00%	1.85%	1.85%	1.93%
Self-Pay	6.47%	6.79%	7.16%	6.75%	7.28%
Commercial	3.88%	3.54%	3.28%	3.31%	3.42%
Workmen’s Compensation	1.31%	1.26%	1.01%	0.95%	0.78%
PPO	2.63%	2.44%	2.31%	1.89%	1.75%
Other	<u>0.66%</u>	<u>0.63%</u>	<u>2.72%</u>	<u>2.92%</u>	<u>3.33%</u>
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Authority Records.

Governmental bodies and insurers have become increasingly concerned with the cost of health care programs. Such third party payors provide a significant part of the revenues of the Authority, and there is no assurance that existing programs will continue or that if continued, they will be funded at present levels. The discontinuance of existing programs or the reduction of funding of such programs could have a material adverse effect on the revenues of the Authority. See "RISK FACTORS."

Summary of Revenues and Expenses

The following summary financial information has been obtained from the audited financial statements of the Authority for the fiscal years ended September 30, 2001 through 2005, and from the unaudited financial statements of the Authority for the nine-month periods ended June 30, 2005 and 2006. The financial statements for fiscal years 2001 through 2005 have been examined by Morrison & Smith, LLP, independent certified public accountants. The reports on the fiscal years 2004 and 2005 are included in APPENDIX B to this Official Statement. Operating results for the nine-month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the entire fiscal year ending September 30, 2006. This summary financial information should be read in conjunction with the financial statements and notes thereto included as APPENDIX B.

**The DCH Health Care Authority
Summary of Revenues and Expenses**

	Fiscal Years Ended September 30,					Nine Months Ended June 30,	
	2001	2002	2003	2004	2005	2005	2006
Gross Patient Service Revenue	\$307,584,151	\$333,604,255	\$351,706,894	\$384,833,037	\$413,849,654	\$302,524,198	\$320,472,122
Less: Provision for Bad Debts	(33,610,385)	(38,705,470)	(45,924,589)	(66,348,297)	(71,058,149)	(47,247,866)	(51,668,830)
Net Patient Service Revenue	273,973,766	294,898,785	305,782,305	318,484,740	342,791,505	255,276,332	268,803,292
Other Revenue	11,786,519	12,603,182	13,110,571	13,144,295	14,111,527	10,990,619	12,078,406
TOTAL REVENUE	285,760,285	307,501,967	318,892,876	331,629,035	356,903,032	266,266,951	280,881,698
EXPENSES							
Operating Expenses	258,317,481	269,854,348	288,511,533	296,140,831	310,182,267	230,744,350	251,660,158
Depreciation and Amortization	21,456,019	22,137,740	22,985,398	22,332,274	21,889,338	16,001,563	17,361,194
Interest	5,830,719	5,673,478	4,619,267	4,476,647	4,095,442	4,004,131	3,827,387
TOTAL EXPENSES	285,604,219	297,665,566	316,116,198	322,949,752	336,167,047	250,750,044	272,848,739
INCOME FROM OPERATIONS	\$156,066	\$9,836,401	\$2,776,678	\$8,679,283	\$20,735,985	\$15,516,907	\$8,032,959
NON-OPERATING REVENUE							
Income from Investments	5,705,718	2,850,545	4,008,303	1,903,549	1,363,203	1,703,827	2,229,010
Gain (Loss) on Investment	1,013,806	(3,655,869)	1,045,536				
Donations	313,984	120,186	134,075	104,324	731		
Interest							
Miscellaneous Revenue				4,418			
Gain (Loss) on Disposal of Assets				(728,989)	(79,668)	(72,617)	
Other Deductions							
Earnings in Subsidiaries		259,722		1,670,633	1,538,524	196,612	169,088
TOTAL NON-OPERATING REVENUE	\$7,033,508	\$(425,416)	\$5,187,914	\$2,953,935	\$2,822,790	\$1,827,822	\$2,398,099
REVENUE IN EXCESS OF EXPENSES	\$7,189,574	\$9,410,985	\$7,964,592	\$11,633,218	\$23,558,775	\$17,344,729	\$10,431,056

**The DCH Health Care Authority
Selected Balance Sheet Items
(dollars in thousands)**

	Fiscal Year Ended September 30,					Nine Months Ended June 30,	
	2001	2002	2003	2004	2005	2005	2006
Cash and Cash Equivalents	\$10,288	\$11,259	\$14,442	\$25,637	\$9,049	\$13,735	\$8,868
Assets whose use is limited -							
Funded Depreciation	49,662	51,254	51,324	63,680	74,221	89,172	84,947
Investments - other debt securities ¹	<u>8,196</u>	<u>6,697</u>	<u>7,147</u>	<u>7,910</u>	<u>12,312</u>	---	---
Total	\$68,146	\$69,210	\$72,913	\$97,227	\$95,582	\$102,907	\$93,815
Accounts Receivables - Patients (net)	\$64,661	\$67,906	\$67,634	\$59,298	\$64,462	\$61,500	\$57,909
Property, plant and equipment (net)	202,295	209,005	212,423	205,843	214,881	210,157	228,352
Total Long-Term Liabilities	118,586	114,772	122,053	118,528	113,746	111,388	106,912
Net Assets - Unrestricted	108,977	109,834	110,845	130,761	141,553	140,947	134,912

Source: Authority records.

¹ For the nine-months ended June 30, 2005 and 2006, Investments – other debt securities are included in the Total figures and are not separately stated.

**MANAGEMENT’S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

The Authority continues to dominate the West Alabama region with a market share of 89% in its primary market and a market share of 61% in the primary-secondary region of eight (8) counties.

Inpatient and observation admissions for the Authority’s facilities grew by 5.3% from the period of fiscal year 2005 to fiscal year 2006, while patient days were reduced by almost 1%. Management continues its focus on resource utilization by employing more clinical management expertise and systems, and has reduced length of stay from 5.3 days to 5.2, a reduction of almost 2%. From fiscal year 2005 to fiscal year 2006, outpatient registrations grew by 3% reflecting a solid market share in laboratory services as well as an aggressive strategy to grow diagnostic radiology services. During the current fiscal year, the Authority opened its first off-campus diagnostic radiology facility, which has been well accepted by physicians and patients. Radiology imaging growth in the market grew by 9.87% from the prior year.

For the nine-month period ended June 30, 2006, revenues and gains in excess of expenses trailed budget for by \$1.9 million, with performance steadily improving from the last quarter when gains were less than budget by \$4.1 million. Management projects that the \$15 million budgeted surplus will be achieved by fiscal year end. Earlier in the fiscal year financial performance was adversely impacted by higher than anticipated bad debt that coincided with the aftermath of Hurricane Katrina.

Total cash on hand at September 30, 2004 and 2005, and at June 30, 2006 (unaudited) is detailed as follows:

	2004	2005	June 30, 2006
Cash and Cash Investments	\$25,637,000	\$9,049,000	\$8,868,000
Funded Depreciation & Other Investments	71,590,000	86,533,000	84,947,000

Although operating results for the first nine months of fiscal year 2006 were below budget projections, the Authority is beginning to experience the results of properly classifying patients as *inpatient* vs. *observation (outpatients)*. Earlier in the fiscal year, about 20% of total admissions were classified as outpatients. Increased efforts in documenting inpatient classification have reduced the observation percentage to around 10% for the third fiscal quarter ended June 30, 2006. For certain payers, reimbursement differences amount to \$3,400 or more per case.

During the last 24 months, management has also adopted the Baldrige model to further advance the Authority’s benchmarking capability as well as streamline and standardize performance standards among all its facilities. Improved standardization in such areas as quality management, coding and documentation, and case management has served to improve resource utilization, revenue generation and patient care. Also, during the last 12 months, a complete review of Sarbanes-Oxley requirements was conducted by an outside firm, and many of the recommendations were adopted and implemented by the Authority’s Board of Directors. Adoption of Sarbanes-Oxley (although not required) is expected to strengthen internal controls further as well as to ensure compliance with current and future governmental requirements.

For fiscal year 2007, management is anticipating increased inpatient census and continued growth in outpatient diagnostic market penetration as well as system-wide standardization of operations among all its facilities which will improve revenues as well as enhance efficiency. With a stable workforce (over 90% retention), a stable management team and a continued domination in the eight (8) county service area, management expects DCH to be able to sustain respectable margins in the coming years.

APPENDIX B

**Financial Statements of the Authority
for Fiscal Years 2004 and 2005**

AUDITED FINANCIAL STATEMENTS AND OTHER

SUPPLEMENTAL INFORMATION

THE DCH HEALTH CARE AUTHORITY

TUSCALOOSA, ALABAMA

September 30, 2005

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
The DCH Health Care Authority
Tuscaloosa, Alabama

We have audited the accompanying statements of net assets of The DCH Health Care Authority, an Alabama public corporation, as of September 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 financial statements referred to above present fairly, in all material respects, the financial position of The DCH Health Care Authority as of September 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The DCH Health Care Authority has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2006 on our consideration of The DCH Health Care Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Morrison and Smith

MORRISON & SMITH, LLP
Certified Public Accountants

February 2, 2006

STATEMENTS OF NET ASSETS ----- SEPTEMBER 30, 2005 and 2004

<u>A S S E T S</u>		
<u>CURRENT</u>	<u>2005</u>	<u>2004</u>
Cash and Cash Equivalents	\$ 9,048,962	\$ 25,637,018
Accounts Receivable - Patients (Net of Allowances for Uncollectible Accounts of \$31,890,902 and \$27,984,251 for 2005 and 2004, respectively)	64,461,959	59,297,535
Other Receivables	2,264,822	2,385,615
Inventory of Supplies	5,197,307	3,112,250
Prepaid Expenses	1,634,615	1,599,430
Estimated Third Party Settlements	3,473,916	350,760
Interest Receivable	846,781	724,364
<u>Total Current Assets</u>	<u>86,928,362</u>	<u>93,106,972</u>
 <u>ASSETS WHOSE USE IS LIMITED OR RESTRICTED</u>		
By Board for Funded Depreciation	74,221,366	63,680,468
Under Bond Indenture Agreement Held by Trustee	6,373,542	6,372,436
Restricted Assets for Benefit Restoration	1,495,792	1,198,278
<u>Total Assets Whose Use Is Limited or Restricted</u>	<u>82,090,700</u>	<u>71,251,182</u>
 <u>PROPERTY, PLANT AND EQUIPMENT, NET</u>	 <u>214,880,786</u>	 <u>205,842,852</u>
 <u>OTHER ASSETS</u>		
Land - Held for Future Expansion	1,449,600	1,449,600
Investments - Other	18,253,663	12,644,344
Unamortized Goodwill	1,601,304	1,601,304
Unamortized Construction Interest	1,102,314	1,290,115
Unamortized Bond Issue Costs	267,981	289,263
<u>Total Other Assets</u>	<u>22,674,862</u>	<u>17,274,626</u>
 <u>TOTAL ASSETS</u>	 <u>\$406,574,710</u>	 <u>\$387,475,632</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 <u>CURRENT</u>		
Accounts Payable	\$ 9,169,978	\$ 8,078,188
Accrued Payroll	5,827,332	4,877,445
Current Maturities of Long-Term Debt	5,382,434	4,333,690
Accrued Paid Time Off	10,407,145	9,575,218
Estimated Third Party Payor Settlements	12,475,650	15,222,349
Other Liabilities	3,265,471	4,118,686
<u>Total Current Liabilities</u>	<u>46,528,010</u>	<u>46,205,576</u>
 <u>LONG-TERM LIABILITIES</u>		
Revenue Bonds - Series 1998, 2000 and 2002	106,620,100	110,637,342
Other	7,126,130	7,891,019
<u>Total Long-Term Liabilities</u>	<u>113,746,230</u>	<u>118,528,361</u>
 <u>TOTAL LIABILITIES</u>	 <u>160,274,240</u>	 <u>164,733,937</u>
 <u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	98,373,744	85,607,895
Unrestricted:		
Designated for Debt Service	6,373,542	6,372,436
Unrestricted	141,553,184	130,761,364
<u>Total Net Assets</u>	<u>246,300,470</u>	<u>222,741,695</u>
 <u>TOTAL LIABILITIES AND NET ASSETS</u>	 <u>\$406,574,710</u>	 <u>\$387,475,632</u>

(SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED SEPTEMBER 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>OPERATING REVENUES</u>		
Net Patient Service Revenue (Net of provision for Bad debts of \$71,058,149 and \$66,348,297 for the Years ended September 30, 2005 and 2004, respectively	\$342,791,505	\$318,484,740
Other Revenue	14,111,527	13,144,295
<u>TOTAL OPERATING REVENUES</u>	<u>356,903,032</u>	<u>331,629,035</u>
<u>OPERATING EXPENSES</u>		
Salaries and Benefits	188,796,052	177,205,043
Medical Supplies and Drugs	74,034,592	71,754,348
Depreciation and Amortization	21,889,338	22,332,274
Purchased Services	14,329,756	14,378,428
Repairs and Maintenance	9,466,446	7,688,523
Physician Fees	7,690,774	10,335,199
Utilities	7,380,814	7,082,083
Interest Expense	4,095,442	4,476,647
Other Expenses	3,560,482	2,559,799
Insurance	2,778,442	2,440,194
Rent	2,144,909	2,697,214
<u>TOTAL OPERATING EXPENSES</u>	<u>336,167,047</u>	<u>322,949,752</u>
<u>INCOME FROM OPERATIONS</u>	<u>20,735,985</u>	<u>8,679,283</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Miscellaneous Revenue		4,418
Loss on Disposal of Assets	(79,668)	(728,989)
Investment Income	1,363,203	1,903,549
Earnings in Subsidiaries	1,538,524	1,670,633
Other Donations	731	104,324
<u>TOTAL NONOPERATING REVENUES (EXPENSES) - NET</u>	<u>2,822,790</u>	<u>2,953,935</u>
<u>INCREASE IN NET ASSETS</u>	<u>23,558,775</u>	<u>11,633,218</u>
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>222,741,695</u>	<u>211,108,477</u>
<u>NET ASSETS - END OF YEAR</u>	<u>\$246,300,470</u>	<u>\$222,741,695</u>

(SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS)

THE DCH HEALTH CARE AUTHORITY ----- TUSCALOOSA, ALABAMA

STATEMENTS OF CASH FLOWS ---- FOR THE YEARS ENDED SEPTEMBER 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received from Patient Services	\$331,878,019	\$330,438,343
Cash Received from Other Revenue	14,111,527	13,029,867
Payments to Vendors and Suppliers	(123,213,334)	(121,416,101)
Payments to Employees	(186,974,209)	(176,837,123)
Interest Paid on Long-Term Debt	(4,149,990)	(4,524,378)
<u>Net Cash Provided By Operating Activities</u>	<u>31,652,013</u>	<u>40,690,608</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Principal Paid on Long-Term Debt	(4,555,049)	(4,383,061)
Cash Received from Grants and Donations	731	104,324
<u>Net Cash (Used) By Financing Activities</u>	<u>(4,554,318)</u>	<u>(4,278,737)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchases and Construction of Property, Plant and Equipment	(30,313,736)	(15,674,858)
Net Change in Assets Whose Use is Limited	(10,542,004)	(12,354,960)
Net Change in Investments - Other	(5,609,319)	(766,072)
Investment Income (Loss)	2,779,308	3,578,599
<u>Net Cash (Used) By Investing Activities</u>	<u>(43,685,751)</u>	<u>(25,217,291)</u>
<u>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	<u>(16,588,056)</u>	<u>11,194,580</u>
<u>CASH AND CASH EQUIVALENTS - BEGINNING</u>	<u>25,637,018</u>	<u>14,442,438</u>
<u>CASH AND CASH EQUIVALENTS - ENDING</u>	<u>\$ 9,048,962</u>	<u>\$ 25,637,018</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Income from Operations	\$ 20,735,985	\$ 8,679,283
Adjustments to Reconcile Revenues and Gains in Excess of Expenses and Losses To Net Cash Provided By Operating Activities and Gains and Losses:		
Depreciation and Amortization	21,889,338	22,332,274
Provision for Bad Debts	71,058,148	66,348,296
Decrease (Increase) in Accounts Receivable-Net	(76,222,573)	(58,011,944)
Decrease (Increase) in Supplies and Other Receivables	(1,964,264)	(786,016)
Decrease (Increase) in Prepaid Expenses	(35,186)	232,039
Decrease (Increase) in Third Party Receivable	(3,123,156)	2,477,577
Increase (Decrease) in Third Party Payable	(2,746,697)	1,865,643
Increase (Decrease) in Payables and Accrued Expenses	2,060,418	(2,446,544)
<u>Net Cash Provided By Operating Activities</u>	<u>\$ 31,652,013</u>	<u>\$ 40,690,608</u>

(SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS)

1. GENERAL INFORMATION

The DCH Health Care Authority is a public corporation organized under the laws of the State of Alabama and reincorporated under the Health Care Authorities Act of 1982 on June 29, 1982.

The accompanying financial statements include the operations of DCH Regional Medical Center and Northport Medical Center (formerly Northport Hospital - DCH), owned by The DCH Health Care Authority (the Authority), and the operations of Fayette Medical Center (formerly Fayette County Hospital and Nursing Home) which is leased by the Authority. These facilities provide health care services to the West Alabama area. Inter-hospital transactions have been eliminated.

Effective September 1, 1984, the Authority entered into a twenty-year lease agreement with the Fayette County Commission and Fayette County Hospital Board (lessors). The Authority leased the real property and all equipment of Fayette Medical Center for an annual rental of the greater of \$100,000 or one-half of the net profit of the facility adjusted by debt service payments. The lease agreement specified that the Authority spend at least three million dollars in capital improvements and equipment additions to the leased property during the term of the lease, which has been done.

The Authority entered into a new agreement for the Fayette facility on October 8, 1996 which extended the lease term until August 31, 2016. The amended lease calls for an annual rental of the greater of \$100,000 or one-half of the net profits of the facility adjusted by debt service payments and all capital improvements and equipment additions. The Authority is required to expend an additional five million dollars in capital improvements and equipment additions beginning with the effective date of the amended lease through August 31, 2016. Rent expense was \$100,000 and \$100,000 for the years ended September 30, 2005 and 2004, respectively.

Upon termination of the aforesaid lease, the lessors agree to purchase the net working capital (as defined by the lease agreement) of the lessee employed in the operation of the leased facilities. The purchase price will be paid in twelve monthly installments beginning thirty days from the effective date of the termination of the lease. Additionally, improvements made and equipment purchased becomes the property of the lessors.

On May 28, 1992, the Authority purchased the land, building, equipment and inventory now known as Northport Medical Center from American Medical International, Inc. and assumed a lease covering the sports medicine complex. The purchase price was \$34,000,000. The lease terms are disclosed in Note 11.

Effective December 1, 2002, the Authority entered into a three year agreement with Pickens County Hospital Association (PCHA) and Pickens County Medical Center (PCMC) to provide administrative services and supplies to PCMC at cost. PCHA paid \$261,148 and \$226,699 for these services in 2005 and 2004, respectively.

1. (Continued)

Related Parties

The DCH Foundation, Inc.

The DCH Foundation, Inc. raises funds for the benefit of the DCH Health Care Authority. The Foundation is governed by a Board of Directors independent of the Authority's Board. The Foundation's Board determines the amount and timing of distributions unless otherwise specified by donors. There were distributions made during the years ended September 30, 2005 and 2004 totaling \$731 and \$104,324, respectively.

Hospital Subsidiaries, Inc.

Hospital Subsidiaries, Inc. is a corporation formed to own an interest in Century Health Alliance, LLC and to appoint board members. The Board of Directors is composed of two members of the Authority's Board plus administrative personnel. Century Health Alliance, LLC is a preferred provider organization. Transactions between Hospital Subsidiaries, Inc. and DCH Regional Medical Center during the years ended September 30, 2005 and 2004 are included in the Authority's financial statements.

Professional Office Building

The Authority built a professional office building and issued a revenue bond to finance the project. The Authority entered into a lease agreement with Drs. Boston and Buckley providing for building rent equal to the debt service requirements of the bond and for additional ground rent based on current land values plus interest at the current rate. The revenue bond is not a general obligation of the Authority and will never constitute a personal or pecuniary liability or charge against the credit of the Authority. The bond is to be paid solely from the revenues from the office building. The ground rent as collected is reflected in the financial statements as rental income. Neither the amount of the bond principal nor the cost of the office building are included in the Authority's financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the Authority which affect the determination of financial position, changes in financial position and results of operations are summarized below.

Basis of Presentation

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Board has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) unless those pronouncements conflict with or contradict GASB pronouncements.

2. (Continued)

In 2002, the Authority adopted GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements establish financial reporting standards and require that financial statements of governmental organizations consist of 1) management's discussion and analysis 2) basic financial statements, and 3) required supplementary information. The most significant impact on the balance sheet, now referred to as the statement of net assets, regarding the implementation of these pronouncements is the reclassification of the unrestricted fund balance into the following net asset categories: invested in capital assets net of related debt, restricted net assets, and unrestricted net assets. The most significant impact on the statement of revenues, expenses and changes in net assets is the reclassification of interest expense from an operating to a nonoperating expense. The most significant impact on the statement of cash flows is the presentation of direct cash flow method as required under GASB No. 34.

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, certificates of deposits and repurchase agreements at cost, with a maturity of three months or less, excluding amounts whose use is limited by board designation or by bond agreement.

At September 30, 2005 and 2004, the carrying amounts of cash and cash equivalents were \$9,048,962 and \$25,637,018 respectively, while the bank balances were \$14,931,883 and \$29,842,432, respectively. Effective January 1, 2001, the cash deposits were covered under the Security for Alabama Funds Enhancement Act or "SAFE" Program enacted by the State Legislature. The SAFE Program creates a pool of collateral administered by the State Treasurer's Office to secure all public fund deposits. Public depositories contribute to this pool in proportion to the total amount of public funds deposits at their institution. Individual banks will no longer pledge separate collateral to each public depositor nor have a separate agreement with each such depositor.

Investments

Investments are stated at market value. Interest, dividends, and gains and losses on investments are included in nonoperating income when earned.

Investments in subsidiaries are carried at cost, adjusted for the Authority's proportionate share of undistributed earnings or losses. Further information with respect to the Authority's investments and financial instruments is disclosed in Notes 6 and 13.

2. (Continued)

Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the hospital 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 payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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 Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues. Further information with respect to charity care is disclosed in Note 3.

Inventory

Central storeroom inventory is valued on a moving average basis. All other inventories are valued on the first-in, first-out basis. These inventories are accounted for by periodic physical counts.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Property and equipment donated for hospital operations are recorded as additions at fair market value at the date of receipt.

Depreciation is computed using the straight-line method over the estimated useful life of the related asset as follows:

Land Improvements	12-15 Years
Building and Fixed Equipment	10-40 Years
Major Moveable Equipment	4-15 Years
Leasehold Improvements	5-20 Years

Further information with respect to property and equipment is disclosed in Note 5.

Amortization

Construction interest is being amortized over the useful life of the assets to which it pertains. Bond issue costs are being amortized over the term of the bond issue. Amortization expense charged to operations for 2005 and 2004 was \$505,399 and \$607,471, respectively.

2. (Continued)

Statement of Revenue and Expenses

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as gains and losses.

Income Taxes

The DCH Health Care Authority is incorporated under Act No. 82-418 of the Alabama Code. As a local governmental entity it is exempt from federal and Alabama income taxes.

Assets Whose Use Is Limited

Assets whose use is limited include assets set aside by the Board of Directors for future capital improvements and debt retirement, over which the Board retains control and may at its discretion subsequently use for other purposes; assets set aside in accordance with agreements with third-party payors; and assets held by a trustee under bond indenture agreements. Further information with respect to assets whose use is limited is disclosed in Note 6.

Donor Restricted Gifts

Unconditional promises to give cash and other assets to the Authority 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 a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is 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 reported as unrestricted contributions in the accompanying financial statements.

Risk Management

The Authority is exposed to various risks of loss from torts: theft of, damage to, and destruction of assets; business interruption, errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded commercial insurance in any of the three preceding years.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. (Continued)

Reclassification

Certain reclassifications were made to the 2004 financial statements presentation in order to conform to the 2005 financial statements presentation. Such reclassifications had no effect on previously reported financial positions or results of operations.

Interest Rate Swap

The Authority enters into interest rate swap agreements to modify interest rates on outstanding debt. Other than the net interest expenditures resulting from these agreements, no amounts are recorded in the financial statements.

Net Assets

Net assets of the Authority are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose, as specified by creditors external to the Authority. Restricted expendable net assets also include amounts deposited with trustees as required by bond indentures. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted net assets.

Operating Revenues and Expenses

The Authority's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services-the Authority's principal activity. Nonexchange revenues are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Paid Time Off

The Authority's employees are eligible for paid time off the first full pay period following successful completion of their initial six month employment period. Employees earn paid time off at varying rates depending on years of service for regular full-time employees or hours worked for regular part-time employees. An accrual for paid time off is included in the accompanying statement of net assets.

Advertising

Advertising costs are expensed as incurred. Advertising costs of \$621,633 and \$636,886 were charged to expense in 2005 and 2004, respectively.

3. CHARITY CARE

The Authority maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and the estimated cost of those services and supplies, and equivalent service statistics. The following information measures the level of charity care provided during the years ended September 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Charges Foregone, Based on Established Rates	\$23,052,203	\$24,193,242
Estimated Costs and Expenses Incurred to Provide Charity Care	\$ 6,519,163	\$ 7,079,854
Equivalent Percentage of Charity Care Patients to All Patients Served	<u>2.83%</u>	<u>2.93%</u>

(CONTINUED)

4. **NET PATIENT SERVICE REVENUE**

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient non-acute services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Authority is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary. The Authority's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Authority. The Authority's cost reports have been audited by the Medicare fiscal intermediary through September 30, 2004 for Northport Medical Center and Fayette Medical Center and through September 30, 2003 for DCH Regional Medical Center.

Medicaid - Services rendered to Medicaid beneficiaries are reimbursed at prospectively determined rates that are not subject to retroactive settlement.

Blue Cross - Inpatient services rendered to Blue Cross subscribers are reimbursed at prospectively determined rates that are not subject to retroactive settlement. Outpatient services rendered to Blue Cross subscribers are reimbursed under a combination of prospectively determined rates and a cost reimbursement methodology. The prospective rates are not subject to retroactive settlement. The Authority is reimbursed under the cost reimbursement methodology at a tentative rate with final settlement determined after submission of an annual cost report and audit thereof by Blue Cross. The Authority's cost reports have been audited through September 30, 2004.

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

Concentrations of credit risk with respect to third-party payors are disclosed in Note 12.

5. **PROPERTY AND EQUIPMENT**

A summary of property and equipment at September 30, 2005 and 2004 follows:

	BALANCE AT 9/30/04	TOTAL ADDITIONS	TOTAL DELETIONS	BALANCE AT 9/30/05
Land	\$ 2,775,743	\$	\$	\$ 2,775,743
Land Improvements	3,463,809		(226,215)	3,237,594
Buildings & Fixed Equipment	239,768,457	21,333,389	(21,364,633)	239,737,213
Major Movable Equipment	153,086,954	18,264,956	(36,382,661)	134,969,249
Leasehold Improvements	13,018,598	578,425	(101,851)	13,495,172
Subtotal	412,113,561	40,176,770	(58,075,360)	394,214,971
Construction in Progress	16,287,300	10,845,790	(20,708,824)	6,424,266
Total Assets	428,400,861	51,022,560	(78,784,184)	400,639,237
Less Accumulated Depreciation & Amortization	(222,558,009)	(21,196,135)	57,995,693	(185,758,451)
Property and Equipment, Net	<u>\$205,842,852</u>	<u>\$29,826,425</u>	<u>\$(20,788,491)</u>	<u>\$214,880,786</u>

(CONTINUED)

6. INVESTMENTS

Assets whose use is limited or restricted:

The composition of assets whose use is limited at September 30, 2005 and 2004 is set forth in the following table. Investments are stated at cost that approximates market.

	<u>2005</u>	<u>2004</u>
By Board for Funded Depreciation:		
Cash and Short-Term Investments	\$ 2,073,431	\$ 2,921,757
Federal Agency Securities	46,003,722	23,979,355
Corporate Obligations	<u>26,144,213</u>	<u>36,779,356</u>
	<u>74,221,366</u>	<u>63,680,468</u>
By Board for Benefit Restoration Plan:		
Cash and Short-Term Investments	170,843	346,087
Mutual Funds	<u>1,324,949</u>	<u>852,191</u>
	<u>1,495,792</u>	<u>1,198,278</u>
Under Bond Indenture Agreement - Held by Trustee:		
Repurchase Agreement	6,139,053	6,139,053
Accrued Interest	93,215	93,215
U. S. Treasury Funds	<u>141,274</u>	<u>140,168</u>
	<u>6,373,542</u>	<u>6,372,436</u>
<u>Total</u>	<u>\$82,090,700</u>	<u>\$71,251,182</u>

All cash and short-term investments were covered by federal depository insurance, by collateral held by the Authority's agent in the Authority's name or by United States Treasury obligations pledged to the Authority.

The Authority's investments in debt securities are classified as available-for-sale and valued at amortized cost, which approximates fair value. At September 30, 2005 and 2004, investments in debt securities classified as available-for-sale were included in balance sheet categories as follows:

	<u>2005</u>	<u>2004</u>
Assets Whose Use is Limited or Restricted	\$72,147,935	\$60,758,711
Investments - Other	<u>12,312,365</u>	<u>7,909,569</u>
<u>Total Debt Securities Available-For-Sale</u>	<u>\$84,460,300</u>	<u>\$68,668,280</u>

At September 30, 2005 investments in debt securities classified as available-for-sale mature as follows:

	<u>WITHIN ONE YEAR</u>	<u>1-5 YEARS</u>
Assets Whose Use is Limited or Restricted		
U.S. Agency Obligations	\$	\$46,003,722
Corporate Obligations	<u>1,012,040</u>	<u>25,132,173</u>
	<u>1,012,040</u>	<u>71,135,895</u>
Investments - Other		
U.S. Agency Obligations		10,750,513
Corporate Obligations	<u>606,426</u>	<u>955,426</u>
	<u>606,426</u>	<u>11,705,939</u>
<u>Total</u>	<u>\$ 1,618,466</u>	<u>\$82,841,834</u>

(CONTINUED)

6. (Continued)

At September 30, 2004 investments in debt securities classified as available-for-sale mature as follows:

	WITHIN <u>ONE YEAR</u>	<u>1-5 YEARS</u>	<u>> 10 YEARS</u>
Assets-Use is Limited or Restricted			
U.S. Agency Obligations	\$	\$23,979,355	\$
Corporate Obligations	<u>11,061,628</u>	<u>25,717,728</u>	<u> </u>
	<u>11,061,628</u>	<u>49,697,083</u>	<u> </u>
Investments-Other			
U.S. Agency Obligations		4,181,160	
Corporate Obligations	<u>1,181,915</u>	<u>2,451,494</u>	<u>95,000</u>
	<u>1,181,915</u>	<u>6,632,654</u>	<u>95,000</u>
<u>Total</u>	<u>\$12,243,543</u>	<u>\$56,329,737</u>	<u>\$ 95,000</u>

Realized gains and losses are determined on the basis of specific identification. During 2005 and 2004, sales proceeds and gross realized gains and losses on securities classified as available-for-sale were:

	<u>2005</u>	<u>2004</u>
Sales Proceeds	<u>\$21,130,640</u>	<u>\$27,126,250</u>
Gross Realized Losses	<u>\$ 2,055,002</u>	<u>\$ 956,562</u>
Gross Realized Gains	<u>\$ 5,000</u>	<u>\$ 172,420</u>

Investments - Other

The composition of investments-other at September 30, 2005 and 2004 is set forth in the following table. Investments are stated at cost which approximates market.

	<u>2005</u>	<u>2004</u>
Debt Securities	<u>\$12,312,365</u>	<u>\$ 7,909,570</u>
Investment in Subsidiaries	<u>3,679,618</u>	<u>2,473,094</u>
Investment in Coastal Insurance	<u>2,261,680</u>	<u>2,261,680</u>
	<u>\$18,253,663</u>	<u>\$12,644,344</u>

7. **PENSION PLANS**

During the fiscal year ended September 30, 1998, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. GASB No. 27 establishes standards for the measurement, recognition, and display of pension expenditures/expense and related liabilities, assets, and note disclosures.

DCH Regional Medical Center and Northport Medical Center

A. Plan Description

The Authority sponsors and serves as the plan administrator for a defined benefit pension plan covering all eligible employees of DCH Regional Medical Center and Northport Medical Center who are age 21 or over with a minimum of one year of service as defined in the Plan. The Plan was originally established effective January 1, 1963. The authority under which benefit provisions are established or may be amended rests with the Authority.

Normal retirement date is the first day of the month coincident with or next following attainment of age sixty-five. A participant who has attained age fifty and whose age plus service totals at least eighty may retire immediately with no reduction in benefits.

7.A. (Continued)

The amount of annual benefit to be paid in monthly installments for life, based on service to termination date, is the sum of:

1. One percent of the participant's average compensation up to covered compensation for each year of credited service not exceeding 40.
2. One and one-half percent of such average compensation in excess of covered compensation for each year of credited service not exceeding 40.
3. One and one-half percent of the participant's average compensation for each year of credited service in excess of 40.

A participant may continue in the employment of the Employer after his normal retirement date. In such event he will receive at actual retirement the greater of the benefit calculated based on service and compensation at his delayed retirement date and the benefit which is the actuarial equivalent of his normal retirement benefit.

Upon the completion of the necessary years of employment and the attainment of a retirement age as defined in the Plan, a participant may elect to retire. He may begin receiving a monthly benefit for life as specified by the Plan.

The Plan also has a provision for early retirement for any participant that has reached age 50 and whose combined age and years of service totals 80 or greater.

The Authority issues a publicly available financial report that includes financial statements and required supplementary information for the DCH Healthcare Authority Pension Plan. That report may be obtained by writing to The DCH Healthcare Authority, 809 University Boulevard, Tuscaloosa, Alabama 35401.

B. Funding Policy

The authority under which the obligations to contribute to the Plan are established and may be amended rests with the Authority. The Authority makes the minimum recommended contribution as determined by the Plan actuaries in their annual valuation report. The Authority contributed to the Plan \$6,276,212 and \$5,177,668 for the Plan years December 31, 2004 and 2003, respectively. This amount was recommended by the actuaries.

C. Annual Pension Cost

For the Plan years ended December 31, 2004 and 2003, the Authority's annual pension contributions were \$6,276,212 and \$5,177,668, respectively while the annual required contributions were \$6,316,278 and \$5,217,734, respectively. The annual pension cost was determined under GASB 27. The actuarial assumptions as of January 1, 2005, the latest actuarial valuation date, were: (a) 8.25 percent investment rate of return on present and future assets, and (b) projected salary increases of 4.75 percent. Information on net pension obligation and annual pension costs is as follows.

The following is a three-year trend information for the Authority:

FISCAL YEAR ENDING	ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED	NET PENSION OBLIGATION
9/30/05	\$6,276,212	100%	\$ 4,752,242
9/30/04	\$5,177,668	100%	\$ 4,752,242
9/30/03	\$4,217,556	120%	\$ 4,752,242

(CONTINUED)

7. (Continued)

D. Net Pension Obligation and Annual Pension Cost

	<u>2005</u>	<u>2004</u>
1. Actuarially Determined Contribution/ Annual Required Contribution	\$6,316,278	\$5,217,734
2. Interest on Net Pension Obligation	392,060	392,060
3. Adjustment to 1*	<u>(432,126)</u>	<u>(432,126)</u>
4. Annual Pension Cost	6,276,212	5,177,668
5. Contributions Made	<u>6,276,212</u>	<u>5,177,668</u>
6. Increase (Decrease) in Net Pension Obligation	0	0
7. Beginning of Year Net Pension Obligation	<u>4,752,242</u>	<u>4,752,242</u>
8. Net Pension Obligation - End of Year	<u>\$4,752,242</u>	<u>\$4,752,242</u>

* The annual required contribution amortizes the entire unfunded each year, so this adjustment backs out the 10-year amortization of the accumulated effect with interest, per GASB 27, paragraph 12.

Below is actuarial information for the most recent actuarial valuation and the two preceding valuations:

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL ACCRUED LIABILITY (AAL) PROJECTED UNIT CREDIT (b)	UNFUNDED (UAAL) (b) - (a)	FUNDED RATIO (a) / (b)	COVERED PAYROLL (c)	UAAL AS A PERCENTAGE OF COVERED PAYROLL [(b) - (a)] / (c)
1/1/05	\$111,830,281	\$134,465,399	\$ 23,635,118	83.17%	\$132,975,587	17.77%
1/1/04	103,896,400	120,945,042	17,048,642	85.90	129,442,842	13.17
1/1/03	98,792,950	110,523,922	11,730,972	89.39	121,781,546	9.63

The GASB Statement No. 27 required and actual contributions are as follows:

YEAR ENDED	ANNUAL REQUIRED CONTRIBUTION	CONTRIBUTION MADE FOR THE PLAN YEAR	PERCENTAGE CONTRIBUTED
12/31/04	\$ 6,316,278	\$ 6,276,212	99%
12/31/03	5,217,734	5,177,668	99
12/31/02	4,593,436	5,041,525	110

FAYETTE MEDICAL CENTER

Fayette Medical Center sponsors and serves as the plan administrator for a defined benefit pension plan covering all employees of Fayette Medical Center who work at least 1,000 hours per year after attaining the age of 21 or completing one year of service, whichever is later. The Plan was originally established effective December 1, 1971.

(CONTINUED)

7. (Continued)

Normal retirement date is the first day of the month coincident with or next following attainment of age sixty-five.

Effective January 1, 2002, the amount of annual benefit to be paid in monthly installments for life, based on service to termination date, is the sum of:

1. One percent of the participant's average compensation up to covered compensation for each year of credited service not exceeding 40.
2. One and one-half percent of such average compensation in excess of covered compensation for each year of credited service not exceeding 40.
3. One and one-half percent of the participant's average compensation for each year of credited service in excess of 40.

A participant may continue in the employment of the Employer up to five years beyond his normal retirement date. In such event, he will receive at actual retirement the benefit calculated based on service and compensation at his delayed retirement date.

Upon completion of ten years of employment and the attainment of age fifty-five, a participant may elect to retire. He may receive a monthly benefit for life beginning at his normal retirement date equal to the benefit accrued at early retirement date. Payments may begin immediately, with the benefit being reduced in accordance with Table 1 of the plan document.

B. Funding Policy

The authority under which the obligations to contribute to the Plan are established or may be amended rests with the Authority. Fayette Medical Center normally makes the minimum recommended contribution as determined by the Plan actuaries in their annual valuation report. Fayette Medical Center contributed to the Plan \$513,748 and \$496,870 for Plan years December 31, 2004 and 2003, respectively. This amount was recommended by the actuaries.

C. Annual Pension Cost

For the Plan years ended December 31, 2004 and 2003, the Authority's annual pension contributions were \$513,748 and \$496,870, respectively while the annual required contributions were \$513,748 and \$496,870, respectively. The annual pension cost was determined under GASB 27. The actuarial assumptions as of December 31, 2005, the latest actuarial valuation date, were: (a) 8.25 percent investment rate of return on present and future assets, and (b) projected salary increases of 4.75 percent. Information on net pension obligation and annual pension cost is as follows.

The following is a three-year trend information for Fayette Medical Center:

YEAR ENDED	ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED	NET PENSION OBLIGATION
9/30/05	\$ 513,319	100%	\$ 50,538
9/30/04	496,437	100	50,967
9/30/03	277,883	121	51,400

(CONTINUED)

7. (Continued)

	<u>2005</u>	<u>2004</u>
D. <u>Net Pension Obligation and Annual Pension Cost</u>		
1. Actuarially Determined Contribution/ Annual Required Contribution	\$513,748	\$496,870
2. Interest on Net Pension Obligation	4,205	4,241
3. Adjustment to 1*	(4,634)	(4,674)
4. Annual Pension Cost	<u>513,319</u>	<u>496,437</u>
5. Contributions Made	513,748	496,870
6. Increase (Decrease) in Net Pension Obligation	(429)	(433)
7. Beginning of Year Net Pension Obligation	<u>50,967</u>	<u>51,400</u>
8. Net Pension Obligation - End of Year	<u>\$ 50,538</u>	<u>\$ 50,967</u>

*The annual required contribution amortizes the entire unfunded each year, so this adjustment backs out the 10-year amortization of the accumulated effect with interest, per GASB 27, paragraph 12.

Below is actuarial information for the most recent actuarial valuation and the two preceding valuations:

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (a)	ACTUARIAL LIABILITY PROJECTED UNIT CREDIT (b)	UNFUNDED ACTUARIAL LIABILITY (b) - (a)	FUNDED RATIO (a) / (b)	COVERED PAYROLL (c)	UNFUNDED ACTUARIAL LIABILITY AS A PERCENTAGE OF COVERED PAYROLL [(b) - (a)] / (c)
1/1/05	\$4,956,483	\$ 6,987,672	\$2,031,189	70.93%	\$9,585,840	21.19%
1/1/04	4,426,888	6,095,076	1,668,188	72.63	9,483,541	17.59
1/1/03	3,878,190	5,471,097	1,592,907	70.89	9,380,966	16.98

Schedule of Employer Contributions

The GASB Statement No. 27 required and actual contributions are as follows:

<u>YEAR ENDED</u>	<u>ANNUAL REQUIRED CONTRIBUTION</u>	<u>CONTRIBUTION MADE FOR THE PLAN YEAR</u>	<u>PERCENTAGE CONTRIBUTED</u>
12/31/04	\$ 513,748	\$ 513,748	100%
12/31/03	496,870	496,870	100
12/31/02	285,365	337,473	118

Tax Sheltered Annuity

The Authority also sponsors a defined contribution plan covering all employees of DCH Regional Medical Center, Northport Medical Center and Fayette Medical Center. The Plan allows employees to contribute pre-tax earnings to the Plan up to limits specified by the Internal Revenue Service. Employees become eligible for the DCH matching contribution after reaching age 21 and having two years of service with at least 1,000 hours worked in each year. If eligible, the Authority will match 25% of up to 6% of compensation if the participant is employed on December 31 of the year of deferral. For the fiscal years ended September 30, 2005 and 2004, Plan expenses were \$923,060 and \$877,007, respectively.

8. ASSETS HELD FOR RETIREMENT

The Authority sponsors and serves as the plan administrator for a benefits plan for designated employees, effective July 1, 2000. The Authority established the Plan to provide these employees with a reasonable level of benefits, while providing these employees with a greater choice of benefits. It is intended that the benefits under this Plan will be nontaxable or tax-deferred under the provisions of the Internal Revenue Code of 1986, as amended. An asset and a liability have been set up for the Plan of \$1,495,792 and \$1,198,278 for 2005 and 2004, respectively.

(CONTINUED)

9. LONG-TERM DEBT

The following summarizes activity in Long-term debt for the year ended September 30, 2005:

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>ENDING BALANCE</u>	<u>AMOUNT DUE WITHIN ONE YEAR</u>
Note Payable secured by revenues, subject to prior pledges for benefit of all bonds, and other senior debt, due \$18,717 monthly including interest at 5.4375%, maturity date is 5/1/06	\$ 1,253,579	\$ 0	\$ 160,395	\$ 1,093,184	\$ 1,093,184
Unsecured note payable in 240 installments, ranging from \$1,238 to \$4,637 plus interest at a fluctuating rate which was 4.25% at September 30, 2005. Maturity date is November 30, 2005	62,543	0	53,293	9,250	9,250
Series 2002 Bonds with interest payable June 1 and December 1 at rates ranging from 3.00% to 5.25%	69,035,000	0	2,940,000	66,095,000	3,045,000
Series 2000 Bonds with interest payable monthly at 3.1% until 6/1/05. Thereafter the rate is variable	25,000,000	0	0	25,000,000	0
Series 1998 Bonds with interest payable June 1 and December 1 at rates ranging from 4.5% to 5.0%	25,500,000	0	1,180,000	24,320,000	1,235,000
Unamortized net discount on Revenue Bonds	(290,556)	0	(17,699)	(272,857)	0
Deferred Loss	(4,487,102)	0	(245,059)	(4,242,043)	0
	<u>\$116,073,464</u>	<u>\$ 0</u>	<u>\$ 4,070,930</u>	<u>\$112,002,534</u>	<u>\$5,382,434</u>

Maturities of long-term debt after 2005 are as follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2006	\$ 5,382,434	\$ 5,085,308	\$10,467,742
2007	4,465,000	4,875,623	9,340,623
2008	4,645,000	4,690,522	9,335,522
2009	4,840,000	4,497,923	9,337,923
2010	5,075,000	4,261,602	9,336,602
2011-2015	28,865,000	17,806,995	46,671,995
2016-2020	51,480,000	10,435,292	61,915,292
2021-2025	11,765,000	1,387,250	13,152,250
	<u>116,517,434</u>	<u>53,040,515</u>	<u>169,557,949</u>
Unamortized Bond Discount	(272,857)		
Deferred Loss	(4,242,043)		
	<u>\$112,002,534</u>		

(CONTINUED)

9. (Continued)

Revenue Bonds Consists of the following:

Health Care Facilities Revenue Bonds - Series 1991

These bonds were issued on September 17, 1991 to finance expansion of the Authority's facilities. During the fiscal year ended September 30, 1998, the Authority placed \$21,787,608 from the proceeds of the Series 1998 Bonds in an irrevocable trust fund (the "Escrow Fund") in order to affect the advance refunding of the Series 1991 Bonds. The deposit was invested in certain obligations of the United States Treasury Department. The Escrow Fund and the income thereon was used at June 1, 2001 to redeem the remaining Series 1991 Bonds. This transaction resulted in a deferred loss on the Series 1991 refunding of \$2,352,172. The deferred loss is presented as a decrease in the book value of the Series 1998 Bonds and is being amortized over the life of these bonds.

Health Care Facilities Revenue Bonds - Series 1993-A

These bonds were issued to refinance the Series 1987 Revenue Bonds. The bonds are secured by a pledge of revenues of the DCH Health Care Authority. During the fiscal year ended September 30, 2003, the Authority placed \$70,406,407 from the proceeds of the 2002 Bonds in an irrevocable trust fund (the "Escrow Fund") in order to effect the current refunding of the Series 1993-A and Series 1993-B Bonds. The deposit was invested in certain obligations of the United States Treasury Department. The Escrow Fund and the income thereon will be sufficient to the interest requirements on the Series 1993 Bonds and the redemption price of the Series 1993 Bonds as they mature and are called for redemption. This transaction resulted in a deferred loss on the Series 1993 refunding of \$3,097,509. The deferred loss is presented as a decrease in the book value of the Series 2002 Bonds and is being amortized over the life of these bonds.

Health Care Facilities Revenue Bonds - Series 1993-B

These bonds were issued to refinance prior subordinated general obligation notes and for expansion of facilities. The bonds are secured by a pledge of revenues of the DCH Health Care Authority. During the fiscal year ended September 30, 2003, the Authority placed \$70,406,407 from the proceeds of the 2002 Bonds in an irrevocable trust fund (the "Escrow Fund") in order to effect the current refunding of the Series 1993-A and Series 1993-B Bonds. The deposit was invested in certain obligations of the United States Treasury Department. The Escrow Fund and the income thereon will be sufficient to the interest requirements on the Series 1993 Bonds and the redemption price of the Series 1993 Bonds as they mature and are called for redemption. This transaction resulted in a deferred loss on the Series 1993 refunding of \$3,097,509. The deferred loss is presented as a decrease in the book value of the Series 2002 Bonds and is being amortized over the life of these bonds.

Health Care Facilities Revenue Bonds - Series 1998

These bonds were issued in order to effect the advance refunding of the Series 1991 Bonds and for the expansion of facilities. The bonds are secured by a pledge of revenues of The DCH Health Care Authority. Interest is payable each June 1 and December 1 with principal paid annually beginning June 1, 1998.

(CONTINUED)

9. (Continued)

Health Care Facilities Revenue Bonds - Series 2000

These bonds were issued on order to finance the acquisition and construction of capital improvements to the facilities of DCH Regional Medical Center, Northport Medical Center and Fayette Medical Center. The bonds are secured by a pledge of revenues of The DCH Health Care Authority. Interest is payable beginning August, 2000 based on a fluctuating rate per annum. The rate is determined weekly by Regions Investment Company, Inc. to be the lowest interest rate that would, in their opinion, result in the market value of the bonds being 100% of the principal amount thereof on the date of such determination, taking into account relevant market conditions and credit rating factors as they exist on such date. The Series 2000 Bonds mature on June 1, 2020.

Health Care Facilities Revenue Bonds - Series 2002

These bonds were issued for the purposes of refunding the outstanding Series 1993-A and Series 1993-B Bonds, funding a reserve fund with respect to the Series 2002 Bonds and paying the costs of issuance of the Series 2002 Bonds. The bonds are secured by a pledge of revenues of The DCH Health Care Authority. Interest is payable each June 1 and December 1 at rates ranging from 3% to 5% with principal redemptions paid annually beginning June 1, 2004.

Swap Agreement

The Authority entered into a five year interest rate swap agreement for \$25 Million of its variable rate 2000 series general obligation bonds. Based on the swap agreement, the Authority owes interest calculated at a fixed rate of 3.1% to the counterparty to the swap. In return, the counterparty owes the Authority interest based on a variable rate that matches the rate required by the bonds. Only the net difference in interest payments is actually exchanged with the counterparty. The \$25 Million in bond principal is not exchanged; it is only the basis on which the interest payments are calculated.

The Authority continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the Authority effectively pays a fixed rate on the debt. The debt service bonds presented in this note are based on that fixed rate. The Authority will be exposed to variable rates if the counterparty to the swap defaults or if the swap is terminated. A termination of the swap agreement may also result in the Authority's making or receiving a termination payment.

As of September 30, 2005, the swap had a negative fair value of \$45,349. The negative fair value of the swap may be countered by reductions in total interest payments required under the variable-rate bond, creating lower synthetic rates. Because the coupons on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was developed by a pricing service using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement of the swap.

(CONTINUED)

9. (Continued)

Assets Held by Trustee

The proceeds of all current and prior year bond issues were deposited into funds established with a trustee. The Current Interest Fund and Capitalized Interest Fund are limited to debt service of the bonds. The earnings from the temporary investment of these funds are restricted to the purpose of each respective fund. FASB Standard No. 62 requires the off-setting of interest earned from these funds against interest expense on the bonds. Interest income used to offset interest expense was \$282,028 and \$280,462 for 2005 and 2004, respectively. Interest capitalized in 2005 and 2004 was \$911,237 and \$605,743, respectively. Total interest paid for 2005 and 2004 before offset and capitalization was \$5,343,257 and \$5,551,507, respectively. At September 30, 2005, the following is a summary of the funds held by the trustee:

	<u>AMOUNT</u>
Balance - October 1, 2005	\$ 6,372,436
Earnings - Including Accrued Interest	282,028
Deposit - From DCH for Principal and Interest Payments	8,277,538
Payment for Principal Due and Interest Expense	<u>(8,558,460)</u>
Balance - September 30, 2005	<u>\$6,373,542</u>

10. MEDICAID PRIVILEGE TAXES

The State of Alabama has levied a privilege tax on all nursing facilities in Alabama. Fayette Medical Center paid taxes in the amount of \$231,795 and \$177,620 for the years ended September 30, 2005 and 2004, respectively. As a result of this privilege tax, the Medicaid reimbursement rates for nursing home residents have been enhanced; therefore, the privilege tax has been reported as a reduction in net patient service revenue. This enhancement is contingent on the continuation of this tax.

11. COMMITMENTS AND CONTINGENCIES

Litigation

The Authority is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

Medical Malpractice Claims

The Authority purchases professional and general liability insurance to cover medical malpractice claims. There are known claims and incidents that may result in an assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. After consultation with legal counsel, management has accrued a provision for estimated losses that will result from existing known claims and has included these losses in the operating results.

12. **CONCENTRATIONS OF CREDIT RISK**

The facilities of the Authority are located in West Alabama. The Authority grants credit without collateral to its patients, almost all of whom are local residents and are insured under third-party payor agreements. Revenues from patients and third-party payors were as follows:

	<u>2005</u>	<u>2004</u>
Medicare and Medicaid	58%	58%
Blue Cross	26	26
Other Third Party Payors	9	9
Patients	7	7
	<u>100%</u>	<u>100%</u>

13. **FAIR VALUE OF FINANCIAL INSTRUMENTS**

Estimated fair values of the Authority's financial instruments are as follows:

	<u>2 0 0 5</u>		<u>2 0 0 4</u>	
	<u>CARRYING</u>	<u>FAIR VALUE</u>	<u>CARRYING</u>	<u>FAIR VALUE</u>
	<u>AMOUNT</u>		<u>AMOUNT</u>	<u>FAIR VALUE</u>
ASSETS:				
Cash and Cash Equivalents	\$ 9,048,962	\$ 9,048,962	\$ 25,637,018	\$ 25,637,018
Assets Limited as to Use	82,090,700	82,090,700	71,251,182	71,251,182
Estimated Third Party Settlements	3,473,916	3,473,916	350,760	350,760
Long-term Investments	18,253,663	18,253,663	12,644,344	12,644,344
LIABILITIES:				
Accounts Payable and Accrued Expenses	34,052,360	34,052,360	30,983,227	30,983,227
Estimated Third Party Settlements	11,683,471	11,683,471	15,222,349	15,222,349
Long-Term Debt	113,746,230	115,484,130	118,528,361	124,457,763

The carrying amount approximates fair value of cash and cash equivalents, receivables, other receivables, estimated third party settlements and payables. The fair value of investments are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. The fair value of the long-term debt is estimated based on current market rates as advised by the Authority's bankers.

14. **AUDIT PROCESS AND AVAILABILITY OF FINANCIAL STATEMENTS**

An audit of the Authority's financial statement is required by the State of Alabama and by covenants of bond issues. The independent auditors who performed this audit are selected by the Audit Committee of the Authority's Board and approved by the State of Alabama Department of Examiners of the Public Accounts (the Public Examiners). The independent audit is required to be performed in accordance with generally accepted auditing standards and generally accepted governmental auditing standards.

14. (Continued)

The financial statements must be approved by the Public Examiners prior to issuance. Once approved, the financial statements are submitted to the Public Examiners. The Public Examiners forward copies of the reports to the Governor of Alabama, the presiding Circuit Judge, the Circuit Clerk and the District Attorney. The District Attorney presents the report to the Grand Jury for their approval. The report becomes a public document upon distribution by the Department of Examiners of Public Accounts and is available to anyone through the Public Examiners or the Office of the Circuit Clerk.

15. OPERATING LEASES

The Authority has noncancelable operating leases for rental space and equipment that expire at various dates through January 1, 2009. Those leases generally contain renewal options for periods ranging from two to five years and require the Authority to pay all executory costs such as taxes, maintenance, and insurance. Rental expenses for operating leases totaled \$2,144,909 and \$2,697,214 for the years ended September 30, 2005 and 2004, respectively.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of September 30, 2005 are:

2006	\$456,694
2007	433,982
2008	368,595
2009	222,685
2010	176,348

SUPPLEMENTAL INFORMATION

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CLAUD A. MORRISON
(1925-1999)

WILLIAM D. SMITH, II
(1933-2005)

Board of Directors
The DCH Health Care Authority
Tuscaloosa, Alabama

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

AICPA DIVISION FOR CPA FIRMS
SEC PRACTICE SECTION
PRIVATE COMPANIES PRACTICE SECTION

ALABAMA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

Our report on our audit of the basic financial statements of The DCH Health Care Authority for 2005 and 2004 appears on page one. That audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



MORRISON & SMITH, LLP
Certified Public Accountants

February 2, 2006

THE DCH HEALTH CARE AUTHORITY ----- TUSCALOOSA, ALABAMA

SCHEDULE OF OTHER REVENUE ----- YEARS ENDED SEPTEMBER 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Sales Tax Proceeds	\$ 4,084,460	\$ 3,647,740
Cafeteria and Related Income	3,548,770	3,234,830
Rental Income	2,249,700	1,756,400
Miscellaneous Income	1,761,979	2,258,897
Laundry Service Income	599,705	664,350
Parking Lot Income	557,882	423,148
Gift Shop Income	461,198	383,107
Medical Records	271,190	286,734
Purchase Discounts	235,768	135,875
Court Costs Fees Interest	200,674	242,695
SpineCare Income	<u>140,201</u>	<u>110,519</u>
<u>TOTALS</u>	<u>\$14,111,527</u>	<u>\$13,144,295</u>

(SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS)

THE DCH HEALTH CARE AUTHORITY ----- TUSCALOOSA, ALABAMA

SCHEDULE OF REVENUES AND EXPENSES - BY DIVISION ----- YEAR ENDED SEPTEMBER 30, 2005

	DCH REGIONAL MEDICAL CENTER	NORTHPORT MEDICAL CENTER	FAYETTE MEDICAL CENTER AND NURSING HOME	ELIMINATING ENTRIES	CONSOLIDATED
<u>OPERATING REVENUES</u>					
Net Patient Service Revenue	\$253,113,462	\$66,447,492	\$23,250,376	\$ (19,825)	\$342,791,505
Other Revenue	12,822,090	1,540,360	417,803	(668,726)	14,111,527
<u>TOTAL OPERATING REVENUES</u>	<u>265,935,552</u>	<u>67,987,852</u>	<u>23,668,179</u>	<u>(688,551)</u>	<u>356,903,032</u>
<u>OPERATING EXPENSES</u>					
Salaries and Benefits	137,425,171	38,154,497	13,216,384		188,796,052
Medical Supplies and Drugs	58,451,312	11,987,986	3,615,119	(19,825)	74,034,592
Depreciation and Amortization	15,781,472	4,770,860	1,337,006		21,889,338
Purchased Services	9,875,519	3,737,575	1,226,323	(509,661)	14,329,756
Repairs and Maintenance	8,057,280	1,038,349	529,882	(159,065)	9,466,446
Physician Fees	6,063,489	392,817	1,234,468		7,690,774
Utilities	5,433,596	1,242,259	704,959		7,380,814
Interest Expense	2,216,210	1,936,526	224,734	(282,028)	4,095,442
Other Expenses	2,842,277	382,574	335,631		3,560,482
Insurance	1,781,919	735,854	260,669		2,778,442
Rent	1,572,847	425,702	146,360		2,144,909
Overhead Allocation	(1,572,304)	1,375,636	196,668		
<u>TOTAL OPERATING EXPENSES</u>	<u>247,928,788</u>	<u>66,180,635</u>	<u>23,028,203</u>	<u>(970,579)</u>	<u>336,167,047</u>
<u>INCOME FROM OPERATIONS</u>	<u>18,006,764</u>	<u>1,807,217</u>	<u>639,976</u>	<u>(282,028)</u>	<u>20,735,985</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>					
Gain (Loss) on Disposal of Assets		(37,194)	(42,474)		(79,668)
Investment Income	1,537,504	26,434	81,293	(282,028)	1,363,203
Earnings in Subsidiaries	1,538,524				1,538,524
Other Donations	731				731
<u>TOTAL NON-OPERATING REVENUES (EXPENSES)</u>	<u>3,076,759</u>	<u>(10,760)</u>	<u>38,819</u>	<u>(282,028)</u>	<u>2,822,790</u>
<u>INCREASE IN NET ASSETS</u>	<u>\$ 21,083,523</u>	<u>\$ 1,796,457</u>	<u>\$ 678,795</u>	<u>\$</u>	<u>\$ 23,558,775</u>

(SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS)

SCHEDULE OF REVENUES AND EXPENSES - BY DIVISION - YEAR ENDED SEPTEMBER 30, 2004

	DCH REGIONAL MEDICAL CENTER	NORTHPORT MEDICAL CENTER	FAYETTE MEDICAL CENTER AND NURSING HOME	ELIMINATION ENTRIES	CONSOLIDATED
<u>OPERATING REVENUES</u>					
Net Patient Service Revenue	\$229,428,022	\$66,922,577	\$22,166,042	\$ (31,901)	\$318,484,740
Other Revenue	11,236,470	2,225,829	396,114	(714,118)	13,144,295
<u>TOTAL OPERATING REVENUES</u>	<u>240,664,492</u>	<u>69,148,406</u>	<u>22,562,156</u>	<u>(746,019)</u>	<u>331,629,035</u>
<u>OPERATING EXPENSES</u>					
Salaries and Benefits	126,776,933	37,461,070	12,967,040		177,205,043
Medical Supplies and Drugs	56,441,655	12,027,177	3,317,417	(31,901)	71,754,348
Depreciation and Amortization	15,970,603	5,096,300	1,265,371		22,332,274
Purchased Services	10,014,731	3,927,998	1,149,817	(714,118)	14,378,428
Repairs and Maintenance	6,157,103	1,116,445	414,975		7,688,523
Physician Fees	8,676,875	467,732	1,190,592		10,335,199
Utilities	5,093,611	1,334,247	654,225		7,082,083
Interest Expense	2,571,574	1,950,535	235,088	(280,550)	4,476,647
Other Expenses	1,913,631	301,178	344,990		2,559,799
Insurance	1,858,015	275,717	306,462		2,440,194
Rent	1,597,813	953,228	146,173		2,697,214
Overhead Allocation	(1,572,304)	1,375,636	196,668		
<u>TOTAL OPERATING EXPENSES</u>	<u>235,500,240</u>	<u>66,287,263</u>	<u>22,188,818</u>	<u>(1,026,569)</u>	<u>322,949,752</u>
<u>INCOME FROM OPERATIONS</u>	<u>5,164,252</u>	<u>2,861,143</u>	<u>373,338</u>	<u>280,550</u>	<u>8,679,283</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>					
Miscellaneous Revenue		4,418			4,418
Gain (Loss) on Disposal of Assets		(728,989)			(728,989)
Investment Income	2,110,103	20,549	53,447	(280,550)	1,903,549
Earnings in Subsidiaries	1,670,633				1,670,633
Other Donations	70,000	34,324			104,324
<u>TOTAL NON-OPERATING REVENUES (EXPENSES)</u>	<u>3,850,736</u>	<u>(669,698)</u>	<u>53,447</u>	<u>(280,550)</u>	<u>2,953,935</u>
<u>EXCESS OF REVENUES OVER EXPENSES</u>	<u>\$ 9,014,988</u>	<u>\$ 2,191,445</u>	<u>\$ 426,785</u>	<u>\$</u>	<u>\$ 11,633,218</u>

(SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS)

THE DCH HEALTH CARE AUTHORITY ----- TUSCALOOSA, ALABAMA

ORGANIZATION DATA ----- SEPTEMBER 30, 2005

Date of Original Organization: October, 1947
Date of Reorganization: June 29, 1982
Under the Laws of: State of Alabama
Duration of Charter: Created by Act of Alabama Legislature

<u>NAME</u>	<u>TITLE</u>	<u>ADDRESS</u>	<u>TERM EXPIRATION</u>
<u>DCH HEALTH CARE AUTHORITY BOARD MEMBERS</u>			
Dr. Barry Mason	Chairman	P.O. Box 870223 Tuscaloosa, AL 35487	7/1/08
Judge Joe Colquitt	Vice-Chairman	P.O. Box 870382 Tuscaloosa, AL 35487	7/1/08
Helena T. Buchalter, M.D.	Secretary	902 5 th Avenue Tuscaloosa, AL 35401	10/1/07
W. Paul Ray	Treasurer	216 McFarland Circle, N. Tuscaloosa, AL 35406	7/1/09
Joseph C. Kennedy, Jr.	Board Member	#5 Oak Ridge Tuscaloosa, AL 35401	7/1/10
John Mize	Board Member	P.O. Box 2509 Tuscaloosa, AL 35402	7/1/11
Ronald R. Turner	Board Member	2123 9 th Street, #206 Tuscaloosa, AL 35401	10/1/07
Caroline Powell	Board Member	13297 North River Farms Drive Northport, AL 35473	7/1/06
Lucie M. King, M.D.	Board Member	P.O. Box 2689 Tuscaloosa, AL 35403	10/1/09

DCH HEALTH CARE AUTHORITY EXECUTIVE OFFICIALS

Bryan N. Kindred President/CEO The DCH Health Care Authority
 Tuscaloosa, AL 35401

(SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS)

MORRISON & SMITH, LLP

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CLAUD A. MORRISON

(1925-1999)

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS

(1933-2005)

PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

ALABAMA SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
The DCH Health Care Authority
Tuscaloosa, Alabama

We have audited the financial statements of The DCH Health Care Authority (the "Authority") as of and for the year ended September 30, 2005, and have issued our report thereon dated February 2, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

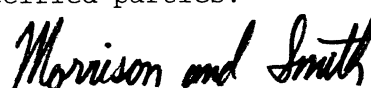
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the audit committee, management and other state officials, bond agencies and financial institutions and is not intended to be and should not be used by anyone other than these specified parties.



MORRISON & SMITH, LLP
Certified Public Accountants

February 2, 2006

APPENDIX C

Summary of the Indenture

APPENDIX C

SUMMARY OF THE INDENTURE

The following (in addition to the material under the captions “THE SERIES 2006 BONDS” and “SECURITY AND SOURCE OF PAYMENT” in the Official Statement) is a brief summary of certain provisions of the Indenture, to which reference is hereby made for the detailed provisions thereof.

Definitions

For purposes of this Summary of the Indenture, words and phrases used but not otherwise defined herein shall have the meanings respectively ascribed to them elsewhere in the Official Statement (including, without limitation, the “GLOSSARY” set out therein), and the following words and phrases shall be given the following respective interpretations herein (notwithstanding that they may be defined and used otherwise in other portions of the Official Statement):

“**Additional Bonds**” means any of the Bonds that may be issued, on a parity of lien with the Series 1998 Bonds, the Series 2000 Bonds, the Series 2002 Bonds and the Series 2006 Bonds, under the provisions of the Indenture.

“**Additional Reserve Fund Account**” means a separate account forming a part of the Reserve Fund created in a supplemental indenture pursuant to which any Additional Bonds are hereafter issued.

“**Annual Debt Service Requirements**” means, with respect to any Funded Debt or class or category thereof, the amount of principal and interest maturing with respect to such Debt in the then current or any subsequent Fiscal Year; provided

(a) that the principal amount of any such Funded Debt required, by the terms thereof, to be redeemed or prepaid during any Fiscal Year shall, for purposes of this definition, be considered as maturing in the Fiscal Year during which such redemption or prepayment is required and not in the Fiscal Year in which its stated maturity or due date occurs;

(b) that for purposes of determining interest on any such Funded Debt bearing interest on a floating or variable rate (as distinguished from a fixed rate) basis for any period for which the actual rate cannot be determined, the rate of interest on such Funded Debt shall, except as otherwise provided in clauses (c) and (d) below, be assumed to be the same as that in effect on the last day of the Authority’s most recently completed quarterly fiscal period (or, in the event such Funded Debt was incurred after the last day of such period, on the date such Funded Debt was incurred);

(c) that the principal of any such Funded Debt that at the time constitutes Put Indebtedness shall be deemed to mature over a term (commencing on the first Put Date next succeeding the date of determination) equal to 25 years less the number of years (counting a fraction of a year as a whole year) elapsed or to elapse between the date such Funded Debt was incurred and the first Put Date next succeeding the date of determination, to bear interest at the Prevailing Rate on the then unpaid principal balance and to be payable as to principal and interest in equal annual installments;

(d) that the principal of any such Funded Debt that at the time constitutes Balloon Debt shall be deemed to mature over a term (commencing on the due date of such principal that constitutes Balloon Debt) equal to 25 years less the number of years (counting a fraction of a year as a whole year) elapsed between the date such Funded Debt was incurred and the date it matures, to bear interest at the Prevailing Rate on the then unpaid principal balance and to be payable as to principal and interest in equal annual installments;

(e) with respect to Guaranteed Funded Debt, there shall be excluded, for purposes of this definition, the following respective portions of the principal thereof: (1) if the payment of such Guaranteed

Funded Debt is secured by a first mortgage or a first lien on any tangible property (real, personal or mixed, including securities) not owned by the Authority and having a fair market value at least equal to 125% of the then outstanding principal of such Guaranteed Funded Debt, the entire principal thereof shall be excluded, and (2) if, with respect to any Guaranteed Funded Debt, the ratio of the Available Net Income of any Obligor thereon (calculated as provided in the Indenture and as if such Obligor were the Authority) for its fiscal year next preceding that during which such determination is made, to maximum Annual Debt Service Requirements (also calculated as provided in the Indenture and as if such Obligor were the Authority) with respect to all Funded Debt of such Obligor was not less than 1.25, the following respective portions of the principal of such Guaranteed Funded Debt shall be excluded:

Portion of Guaranteed Funded Debt Ratio	Excluded
At least 1.25 but less than 1.50	20%
At least 1.50 but less than 1.75	40
At least 1.75 but less than 2.00	60
At least 2.00	80

(f) that there shall be excluded, for purposes of this definition, any installment of principal or interest that is, under the provisions of the Indenture, considered paid [see “Circumstances under which Funded Debt Considered Fully Paid” below]; and

(g) that the term “interest” as used in the preceding provisions of this definition shall not only include interest as such but also, to the extent ascertainable and to the extent consistent with generally accepted accounting principles, any annual or recurring letter of credit fees and any annual or recurring insurance premiums payable by the Authority with respect to such Debt, as well as any other similar charges.

If, in any case where (for purposes of determining Annual Debt Service Requirements with respect to any Funded Debt) a portion of the principal thereof is to be excluded, all of such principal does not mature or otherwise come due on the same date, there shall be excluded from each maturing installment of such principal an amount bearing the same ratio to such principal installment as the total amount of principal to be excluded from such Funded Debt bears to the total outstanding principal of such Funded Debt.

“**Authorized Collateral**” means either of the following that are in bearer form or are registered in the name of the Major Bank (or its nominee) with whom deposited and pledged: (a) Federal Securities or (b) any debt securities of any agency of the United States of America or of any state or local government unit or authority, the payment of the principal of and the interest on which is directly or indirectly guaranteed by the United States of America.

“**Available Net Income**” means, with respect to any Fiscal Year, Net Operating Revenues plus extraordinary items of expense, less (a) Operating Expenses, (b) Contributions and (c) extraordinary items of income.

“**Balloon Debt**” means, with respect to any Funded Debt, any principal that equals or exceeds 25% of the total principal of such Funded Debt and that becomes due (either by maturity or as a result of mandatory redemption requirements) during any period of twelve (12) consecutive calendar months, no part of which principal so become due is required to be redeemed prior to such due date (it being understood if only a portion of the principal of such Funded Debt so becomes due during a period of twelve consecutive calendar months and if the aggregate amount of such principal so becoming due during such period is less than 25% of the total principal of such Funded Debt, such portion shall not be considered “Balloon Debt”).

“**Board**” mean the Board of Directors of the Authority.

“**Bond Counsel**” means an attorney at law not employed full time by the Authority duly admitted to practice before the highest court of any state of the United States of America (or firm thereof all of whose members are so admitted) whose opinions respecting the legality or validity of securities issued by or on behalf of states or political subdivisions thereof are nationally recognized.

“**Bond Fund**” means the Bond Principal and Interest Fund created in the Indenture and consisting of four accounts, the Capitalized Interest Account, the Current Interest Account, the Principal Account and the Sinking Fund Account.

“**Bonds**” means the Series 1998 Bonds, the Series 2000 Bonds, the Series 2002 Bonds, the Series 2006 Bonds and any Additional Bonds that may be issued under the Indenture.

“**Business Day**” means a day of the year on which banks located in the city in which the Trustee has its principal corporate trust office are not required or authorized to remain closed.

“**Capital Improvements**” means improvements, extensions and additions to the Facilities that are properly chargeable to fixed asset account by generally accepted accounting principles and includes (a) real estate (and easements and other interests therein) on, under or over which any such improvements, extensions or additions are, or are proposed to be, located, and (b) furniture, furnishings, fixtures and equipment useful in connection with the operation of the Facilities.

“**Capitalized Interest Account**” means the Capitalized Interest Account forming a part of the Bond Fund.

“**Code**” means the Internal Revenue Code of 1986, as amended.

“**Completion Debt**” means Funded Debt incurred for the purpose of completing the acquisition, by construction or otherwise, of Capital Improvements for the payment of costs of which Long-Term Funded Debt (or Funded Debt incurred in anticipation of the incurring of Long-Term Funded Debt) has been incurred, provided that the principal amount of such Funded Debt incurred for such purpose does not exceed 50% of the estimated total costs of such Capital Improvements.

“**Conduit Facilities**” means any facilities heretofore or hereafter acquired (by construction or otherwise) by the Authority primarily for use by a person or persons other than the Authority, and wholly with

(a) the proceeds of Funded Debt (1) that is payable solely from revenues derived by the Authority from the facilities so acquired or any other Conduit Facilities theretofore so acquired or any combination thereof and (2) for the payment of which the Authority is not generally liable,

(b) moneys that did not, at the time of their expenditure by the Authority, constitute Gross Receipts and were not then subject to the charge or lien of the Indenture, or

(c) any combination thereof.

“**Constituent Entity**” means the Authority and (a) any other entity with whom the Authority proposes to consolidate, is consolidating or has consolidated, (b) any entity into which the Authority proposes to merge, is merging or has merged, or (c) any entity to which the Authority proposes to transfer, is transferring or has transferred as an entirety the Facilities and those of the other assets and properties of the Authority out of the revenues from which the Bonds are payable.

“**Contributions**” means gifts, grants, bequests, legacies, donations and contributions made to or for the account of the Authority, irrespective of whether such gifts, grants, bequests, legacies, donations and contributions were or are designated or earmarked by the donor for a specific purpose.

“**Cost Reimbursing**” means any entity (such as a governmental agency or an insurer funding a program such as Medicare, Medicaid or Blue Cross) that reimburses the Authority, on a cost basis that includes depreciation

(but not principal payable on Funded Debt) as a cost eligible for reimbursement, for health-care services furnished by the Authority to others.

“**Current Interest Account**” means the Current Interest Account forming a part of the Bond Fund.

“**Eligible Certificates**” means certificates of deposit issued by the Trustee or by any other banking corporation or association that is a member of the Federal Reserve System or whose deposits are insured by the Federal Deposit Insurance Corporation, but -- in the case of a certificate of deposit that is issued by other than a Major Bank -- only if

(a) the issuing bank secures such certificate by depositing and pledging with a Major Bank Authorized Collateral having at all times a market value (exclusive of accrued interest) not less than the then outstanding face amount of such certificate, and

(b) the issuing bank furnishes, or causes to be furnished, to the Trustee an appropriate receipt signed on behalf of the Major Bank having custody of such Authorized Collateral and containing a sufficient description thereof;

provided however, a certificate of deposit so issued by other than a Major Bank need not be secured as specified in the preceding clauses (a) and (b) if and to the extent payment of the principal thereof is insured by the Federal Deposit Insurance Corporation or other agency of the United States of America that may succeed to its functions.

“**Eligible Escrow Investments**” means (a) Federal Securities, and (b) securities issued by or on behalf of a state, territory or political subdivision of the United States of America if and to the extent that payment of the principal thereof and the interest (and premium, if any) thereon is fully secured by a trust agreement between the issuer of such securities (or successor obligor, if any) and an Eligible Fiduciary making provision for the payment and retirement of such securities (including payment of the interest that will mature thereon until and on the dates they are retired, as such interest becomes due and payable) by creating for that purpose an irrevocable trust fund sufficient to provide for payment thereof (either by redemption prior to their respective maturities, by payment at their respective maturities, or by payment of part thereof at their respective maturities and redemption of the remainder prior to their respective maturities), which said trust fund shall consist of (1) Federal Securities which are not subject to redemption prior to their respective maturities at the option of the issuer and which, if the principal thereof and the interest thereon are paid at their respective maturities, will produce funds sufficient so to provide for payment and retirement of such securities, or (2) both cash and such Federal Securities which together will produce funds sufficient for such purpose, or (3) cash sufficient for such purpose.

“**Eligible Fiduciary**” means, with respect to securities issued by or on behalf of a state, territory or political subdivision of the United States of America, (a) the trustee under any trust indenture, bond indenture, mortgage indenture or other similar document under which such securities were issued by or by which they are secured, or (b) any Major Bank authorized to accept and administer trusts.

“**Eligible Investments**” means Federal Securities and any of the following that are at the time legal investments for the Authority: (a) Eligible Certificates, (b) any debt securities issued by the Bank for Cooperatives, any Federal Intermediate Credit Bank, any Federal Home Loan Bank, the Export-Import Bank of the United States, any Federal Land Bank, the Federal Financing Bank, the Federal National Mortgage Association or the Government National Mortgage Association, and (c) deposits or interests in any money-market or other similar funds of a financial institution, provided that such deposits or interests are insured by the Federal Deposit Insurance Corporation or other agency of the United States of America that may succeed to its functions.

“**Facilities**” means the entire hospital and health-care system and facilities owned or operated by the Authority, as they now or may hereafter exist, including (without limiting the generality of the foregoing) the Hospital and any other health-care facilities owned or operated by the Authority, but excluding (a) any health-care facilities that are not wholly and directly owned or operated by the Authority (notwithstanding the fact that revenues derived from the ownership interest of the Authority in any such facilities not wholly and directly owned or operated by the Authority constitute Gross Receipts), and (b) Conduit Facilities.

“Federal Securities” means (a) any securities that are direct general obligations of the United States of America, (b) any securities payment of the principal of and the interest on which is unconditionally guaranteed by the United States of America, and (c) to the extent they are legal investments for the Authority, interests in so-called “funds” or “investment trusts” that effectively evidence ownership of principal or interest payments with respect to securities described in the preceding clauses (a) and (b) and which are managed by a Major Bank.

“Fiscal Year” means (a) the period beginning on October 1 of one calendar year and ending on September 30 of the next succeeding calendar year, and (b) any other period of twelve consecutive calendar months that is duly established by the Authority as its fiscal year.

“Funded Debt” means (a) any indebtedness -- whether or not represented by bonds, notes or other securities (including, without limitation, Bonds issued or Other Senior Debt incurred under the provisions of the Indenture) -- for the repayment of borrowed money, (b) any capitalized leases, installment sale agreements and other similar obligations for the payment of the purchase price of property or assets acquired, and (c) any guaranties, endorsements, assumptions and other contingent liabilities in respect of, or to purchase or otherwise acquire, indebtedness of others.

“General Reserve Fund Account” means the General Reserve Fund Account forming a part of the Reserve Fund.

“General Reserve Fund Account Bonds” means the Series 1998 Bonds, the Series 2000 Bonds and any series of Additional Bonds for which an Additional Reserve Fund Account is not created.

“General Reserve Fund Account Requirement” means the lesser of (a) the maximum Annual Debt Service Requirements with respect to the General Reserve Fund Account Bonds during the then current or any succeeding Fiscal Year and (b) the maximum amount that can be invested at an unrestricted yield in a reasonably required reserve or replacement fund without causing the General Reserve Fund Account Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code and any applicable treasury regulations.

“Gross Receipts” means the revenues derived by the Authority from the Facilities and all other revenues, receipts and income of the Authority from its other assets and properties, and interests therein, including (without limitation) (a) management fees and other revenues derived from the operation or management of health-care and related facilities that are not wholly and directly owned or operated by the Authority, (b) revenues derived by the Authority from the leasing of any of its properties, and (c) revenues derived from its ownership interest in any health-care or related facilities that are not wholly and directly owned or operated by it (such as, e.g., cash dividends, partnership distributions, liquidation distributions and the like), but not including (1) any income, gain and profit resulting from any investment of moneys in the Bond Fund, the Reserve Fund or the Redemption Fund (except to the extent that such income, gain or profit is required by the Indenture to be paid out of any such fund to the Authority), (2) Contributions and the income, gain and profit resulting from any investment thereof, or (3) notwithstanding the generality of any of the inclusive language above, any revenues, receipts or income of the Authority from Conduit Facilities.

“Guaranteed Funded Debt” means any Funded Debt of any person other than the Authority and the payment of which is guaranteed by the Authority.

“Hospital” means the real property, buildings, structures and other facilities that at the time together constitute the DCH Regional Medical Center, including (without limitation) that certain hospital building or structure, and appurtenant structures or facilities, that are now located in the City of Tuscaloosa, Tuscaloosa County, Alabama, and that are together now known as the DCH Regional Medical Center, as said real property, buildings, structures and other facilities now exist or as they may hereafter be extended, enlarged, improved or otherwise altered.

“Hospital Consultant” means (a) an independent accounting firm having a national reputation, or (b) an independent consulting or managing firm having a national reputation in the field of hospital management.

“Independent Auditor” means a certified public accountant, or firm thereof, not employed full time by the Authority and regularly engaged in the auditing of financial records.

“Insurance Consultant” means (a) a person, firm or corporation not unsatisfactory to the Trustee, qualified to survey risks and recommend insurance coverage for organizations owning or operating hospitals and other health-care facilities similar in size and character to those at the time forming or anticipated to form a part of the Facilities and having a favorable reputation for skill and experience in such matters, or (b) in the event that, in the opinion of the Trustee, no such person, firm or corporation is reasonably available to the Authority, such other perform, firm or corporation not unsatisfactory to the Trustee and qualified, in the opinion of the Trustee, to perform the duties required of an Insurance Consultant in the Indenture.

“Interest Payment Date” means each June 1 and December 1.

“Investment Consultant” means a person, firm or corporation not employed full time by the Authority, regularly engaged in the business of buying and selling fixed-income taxable and tax-exempt securities or in determining the value thereof and otherwise competent, in the opinion of the Trustee, to make the determination in question.

“Long-Term Funded Debt” means Funded Debt that is due more than one year from the date it is or was incurred, or that is due within one year from such date and that is renewable at the option of the obligor for a period longer than one year from the date originally incurred, it being understood that the due dates of principal of Funded Debt shall be determined and calculated as provided in the definition of the term “Annual Debt Service Requirements” set forth hereinabove.

“Major Bank” means (a) any Federal Reserve Bank or branch thereof, (b) the Trustee, and (c) any bank or trust company organized under the laws of the United States of America or any state thereof and having combined capital, surplus and undivided profits of not less than \$100,000,000.

“Net Operating Revenues” means, with respect to any Fiscal Year, total operating revenues of the Authority from the Facilities plus any other Gross Receipts, computed in accordance with generally accepted accounting principles, less the sum of the following: (a) contractual allowances to third party payors, (b) free care and (c) provision for doubtful accounts.

“Obligor” means, with respect to any Guaranteed Funded Debt, any person other than the Authority who is fully liable for payment of the principal thereof and the interest thereon (whether as maker, endorser, guarantor or otherwise).

“Operating Expenses” means, for the applicable period or periods, the reasonable and necessary expenses of efficiently and economically administering and operating the Facilities (and any other of its assets and properties out of the revenues from which the Bonds are payable) and maintaining them in good repair and operating condition (not including, however, depreciation, amortization, interest, any letter of credit fees, insurance premiums or other charges that under the preceding definition of the term “Annual Debt Service Requirements” are considered as interest, payments into any of the special funds created in the Indenture or any expenses for items properly chargeable by generally accepted accounting principles to fixed asset account), the fees and expenses of the Trustee under the Indenture, and any other charge expressly stated in the Indenture to constitute an Operating Expense.

“Other Senior Debt” means any bonds, notes, certificates of indebtedness or other obligations for the payment of money that are issued by the Authority in accordance with the applicable provisions of the Indenture and that are, under certain circumstances, entitled to a charge, lien or claim on the revenues of the Authority from the Facilities and other Gross Receipts on a parity with the charge, lien or claim of the Bonds thereon, but if and only if there is endorsed on the appropriate and applicable Other Senior Debt Document the legend prescribed in the Indenture.

“Other Senior Debt Document” means, with respect to any bonds, notes, certificates or indebtedness or other obligations for the payment of money, the resolution duly adopted by the Board and authorizing such bonds, notes, certificates of indebtedness or other obligations and specifying the terms and conditions thereof or, in the case

of any bonds, notes, certificates of indebtedness or other obligations issued under the provisions of a trust indenture, bond or other similar indenture or other like document, such trust indenture, bond or other similar indenture or other like document.

“**Permitted Encumbrances**” means, as of any particular time,

(a) the lien on the revenues from the Facilities and the other Gross Receipts for the benefit of the Prior Lien Obligations;

(b) liens for ad valorem taxes, public improvement assessments or other governmental charges not then delinquent;

(c) the lien of any obligation of the Authority on equipment, provided that such obligation was outstanding on the date of delivery of the Indenture and was initially incurred to one or more vendors in connection with the acquisition of such equipment;

(d) with respect to any Conduit Facilities, liens or charges thereon or on the revenues therefrom securing obligations for the payment of which (1) the Authority is not generally liable, and (2) the holder or holders thereof have no claim whatever on (i) the revenues from any of the Facilities, or (ii) any other Gross Receipts;

(e) pledges or deposits to secure obligations under workmen’s compensation or similar laws, including liens of judgments thereunder that are not currently dischargeable;

(f) pledges or deposits to secure performance in connection with bids, tenders, contracts (other than contracts for the payment of money) or leases made in the ordinary course of business to which the Authority is a party as lessee;

(g) pledges or deposits to secure public or statutory obligations of the Authority;

(h) inchoate materialmen’s, mechanics’, suppliers’, vendors’ or other similar liens if payment is not delinquent under the contract giving rise to such lien, or deposits to obtain the release of any such liens;

(i) liens resulting from any litigation, legal proceeding or judgment that is currently being contested in good faith by appropriate proceedings (provided that execution thereon is effectively superseded or stayed), and pledges or deposits to secure, or in lieu of, any surety, stay or appeal bond with respect to any such litigation, legal proceeding or judgment;

(j) leases made, or existing on property acquired, in the ordinary course of business;

(k) statutory landlords’ liens under leases to which the Authority is a party as lessee;

(l) zoning restrictions, easements, licenses and restrictions on the use of or with respect to real property, and minor irregularities in title thereto, that do not, in the opinion of the Authority, materially impair the use of such property in the operation of the business of the Authority or the value of such property for the purpose of such business;

(m) pledges or deposits to enable the Authority to maintain self-insurance or to participate in any self-insurance pools or trusts;

(n) liens on money deposited by patients or others with the Authority as security for, or as prepayment of, the cost of services to be rendered by the Authority;

(o) liens in favor of governmental agencies and insurers operating Medicare, Medicaid, Blue Cross or similar governmental or insurance programs to secure the repayment by the Authority or cost

reimbursements and insurance proceeds in excess of contractual limitations, provided that the payment secured by such lien is not yet delinquent or is being contested in good faith by appropriate proceedings;

(p) restrictions or other liens on property created prior to, or as a condition of, the transfer of such property to the Authority by gift, grant, legacy or bequest;

(q) liens created after the date of delivery of the Indenture to secure the payment of Funded Debt incurred to pay the cost of acquiring (by construction or otherwise) fixed assets for use in the ordinary course of business of the Authority, provided that (1) any such lien shall at all times extend only to the fixed assets so acquired, and (2) the principal amount of Funded Debt secured by any such lien shall at no time exceed the cost of the fixed assets subject to such lien plus any related financing expenses and charges;

(r) any lien on property acquired by the Authority if such lien was created by a person other than the Authority prior to the determination of the Authority to acquire such property;

(s) any lien securing any indebtedness described in clause (e) of the definition of the term "Restricted Funded Debt" set forth below;

(t) Hill-Burton Act rights of recovery; and

(u) any lien (other than a lien created pursuant to another Permitted Encumbrance) securing payment of any Funded Debt of the Authority, if, prior to the creation of such lien, the Authority shall deliver to the Trustee a certificate signed on behalf of the Authority (1) generally describing the nature and extent of the indebtedness the payment of which is to be secured by such lien (including the maximum principal amount thereof) and naming the person or persons, or the class or category of the person or persons, in whose favor such lien is to extend, and (2) stating that the maximum principal amount of the indebtedness the payment of which is to be secured by such lien, together with then outstanding principal of any other indebtedness secured by a lien permitted by the provisions of this clause (u), does not exceed 10% of the book value of its assets, determined in accordance with generally accepted accounting principles, as of the end of the Fiscal Year next preceding that during which such certificate is delivered.

"Prevailing Rate" means the average per annum rate of interest, as determined by a certificate of an Investment Consultant made and dated not more than 30 days prior to the date of calculation, borne by obligations (a) the interest on which is generally exempt from gross income of the recipients thereof for Federal income tax purposes (or, in the event that tax-exempt financing is not expected to be available for the refinancing of the Funded Debt for which interest is being imputed, the interest on which is subject to gross income of the recipients thereof for Federal income tax purposes), (b) that mature over a term of 25 years, and (c) that are incurred by entities engaged in operations similar to those of the Authority and whose obligations enjoy a credit rating similar to that of the Authority.

"Principal Account" means the Principal Account forming a part of the Bond Fund.

"Prior Lien Obligations" means that certain Lease Agreement among Fayette County Commission, Fayette County Hospital Board and the Authority with respect to the leasing by the Authority of Fayette Medical Center and Nursing Home located in Fayette, Alabama, dated October 1, 1984, which was renewed in 1996 for a term of twenty (20) years, which obligates the Authority to pay an annual rent in an amount equal to the greater of \$100,000 or one-half the net profits (computed as provided therein) generated by the operation by the Authority of Fayette Medical Center and Nursing Home.

"Put Date," when used in connection with Put Indebtedness, means a date prior to the state maturity or due date thereof on which the holder thereof may, at the option of such holder, (a) require payment of the principal thereof, or (b) require the purchase thereof by the obligor.

“**Put Indebtedness**” means any Funded Debt that is payable, at the option of the holder thereof, prior to its stated maturity or due date, or that the obligor is required, at the option of such holder, to purchase prior to its stated maturity or due date.

“**Redemption Fund**” means the Bond Redemption Fund created in the Indenture.

“**Refunding Debt**” means Long-Term Funded Debt incurred to refund existing Long-Term Funded Debt if prior to the incurring thereof the Board determines that the incurring thereof and the refunding accomplished thereby are in the best interests of the Authority.

“**Reserve Fund**” means the Debt Service Reserve Fund created in the Indenture and consisting of the following accounts: (a) the General Reserve Fund Account, (b) the Series 2002 Reserve Fund Account, (c) the Series 2006 Reserve Fund Account and (d) any Additional Reserve Fund Accounts.

“**Restricted Funded Debt**” means any Funded Debt other than

(a) promissory notes or other obligations that are due within one year from date, that are not renewable at the option of the obligor, and that are payable (as to both principal and interest) solely out of, and are secured by a lien on or security interest in, Contributions,

(b) Bonds issued and other obligations of the Authority incurred under the Indenture.

(c) indebtedness evidenced by capitalized or financing leases, installment sale agreements, purchase money mortgages and other similar obligations incurred to finance the acquisition of property or assets, to the extent that the principal amount thereof at the time outstanding does not exceed 25% of Net Operating Revenues for the then preceding Fiscal Year.

(d) Long-Term Funded Debt that constitutes Completion Debt or Refunding Debt.

(e) Funded Debt that is, by its terms, payable solely from sources other than revenues from the Facilities or other Gross Receipts, if the Authority is not generally liable for payment of any part of the principal thereof or the interest thereon and if the holder thereof has no claim whatever on the revenues from the Facilities or other Gross Receipts,

(f) Other Senior Debt, and

(g) the Prior Lien Obligations.

“**Resultant Entity**” means the entity resulting from a consolidation with the Authority, into which the Authority has merged or proposes to merge or to which the Authority has made or proposes to make a transfer (as an entirety) of all or substantially all the Facilities and those of the other assets and properties of the Authority out of the revenues from which the Bonds are payable.

“**Semiannual Fiscal Period**” means each six-month period beginning on the first day of each Fiscal Year and ending on the last day of the sixth month of such Fiscal Year and each six-month period beginning on the first day of the seventh month of a Fiscal Year and ending on the last day of such Fiscal Year.

“**Senior Debt**” means the Bonds (i.e., the Series 1998 Bonds, the Series 2000 Bonds, the Series 2002 Bonds, the Series 2006 Bonds and any Additional Bonds) and Other Senior Debt.

“**Series 1998 Bonds**” means the Authority’s Health Care Facilities Revenue Bonds, Series 1998, which were issued pursuant to the Indenture in the aggregate principal amount of \$33,620,000 and are now outstanding in the aggregate principal amount of \$23,085,000.

“**Series 1998 Bonds Insurance Policy**” means that certain Financial Guaranty Insurance Policy issued by the 1998 Bond Insurer and insuring payment of the principal of and the interest on the Series 1998 Bonds.

“**Series 2000 Bonds**” means the Authority’s Health Care Facilities Revenue Bonds, Series 2000, which were issued pursuant to the Indenture in the aggregate principal amount of \$25,000,000, all of which are now outstanding.

“**Series 2002 Bonds**” means the Authority’s Health Care Facilities Revenue Bonds, Series 2002, which were issued pursuant to the Indenture in the aggregate principal amount of \$75,850,000, which are now outstanding in the aggregate principal amount of \$63,050,000.

“**Series 2002 Reserve Fund Account**” means the Series 2002 Reserve Fund Account forming a part of the Reserve Fund and funded in connection with the issuance and delivery of the Series 2002 Bonds.

“**Series 2006 Reserve Fund Account Requirement**” means the lesser of (a) the maximum Annual Debt Service Requirements during the then current or any succeeding Fiscal Year with respect to the Series 2006 Bonds and (b) the maximum amount that can be invested at an unrestricted yield in a reasonably required reserve or replacement fund without causing the Series 2006 Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code and any applicable treasury regulations.

“**Short-Term Funded Debt**” means Funded Debt that is due within one year from the date it is or was incurred and that is not renewable at the option of the obligor for a period longer than one year from the date originally incurred, it being understood that the due dates of principal of Funded Debt shall be determined and calculated as provided in the definition of the term “Annual Debt Service Requirements” set forth hereinabove.

“**Sinking Fund Account**” means the Sinking Fund Account forming a part of the Bond Fund.

“**1998 Bond Insurer**” means MBIA Insurance Corporation.

“**2006 Construction Fund**” means the 2006 DCH Health Care Authority Construction Fund created in the Indenture.

General

The Indenture authorizes the issuance of the Series 2006 Bonds in the principal amount of \$30,000,000 and specifies the details with respect thereto. See “THE SERIES 2006 BONDS.”

Under the provisions of the Indenture, the entire proceeds to be derived by the Authority from the sale of the Series 2006 Bonds (including accrued interest) are required to be paid to and deposited with the Trustee and to be applied by the Trustee as follows:

- (1) payment into the Current Interest Account of that portion of such proceeds that is allocable to premium (if any) and accrued interest;
- (2) payment into the Series 2006 Reserve Fund Account in the Reserve Fund of an amount equal to the Series 2006 Reserve Fund Requirement; and
- (3) payment of the balance into the 2006 Construction Fund created in the Series 2006 Supplemental Indenture.

Flow of Funds

The Indenture requires that the Authority deposit out of Gross Receipts to the Current Interest Account, the Principal Account, the Sinking Fund Account and the Reserve Fund, in the order named, to the extent required by the Indenture and to the extent that Gross Receipts are sufficient therefor. These required payments are more specifically described below.

Capitalized Interest Account. There shall be paid into the Capitalized Interest Account with respect to any series of Additional Bonds any amounts required by the Supplemental Indenture providing for such Additional Bonds to be paid therein, at the times there specified, which amounts the Trustee will transfer to the Current Interest Account at the times and in the amounts specified in such Supplemental Indenture.

Current Interest Account. The Indenture requires the payment by the Authority into the Current Interest Account on or before the 10th Business Day immediately preceding December 1, 2006, and on or before the 10th Business Day immediately preceding each June 1 and December 1 thereafter of an amount which, when added to the amount then on deposit in the Current Interest Account, will equal the installment of interest maturing on the Bonds on the next succeeding Interest Payment Date; provided, however, that there shall be credited against the payments required to be made by the Authority into the Current Interest Account any amounts on deposit in the Capitalized Interest Account which are required to be transferred to the Current Interest Account on or before the next succeeding Interest Payment Date. Moneys in the Current Interest Account may, with certain limited and narrow exceptions, be applied by the Trustee only for payment of interest on the Bonds on or after the due dates of such interest.

Principal Account. The Indenture next requires that once the required payment into the Current Interest Account has been made, the Authority pay into the Principal Account on or before the 10th Business Day immediately preceding June 1, 2007, and on or before the 10th Business Day immediately preceding each June 1 thereafter, out of Gross Receipts, an amount which, when added to the amount then on deposit in the Principal Account, will equal the principal (if any) maturing on the Bonds on the then next succeeding June 1. Moneys in the Principal Account may, with certain limited and narrow exceptions, be applied by the Trustee only for the purpose of paying the principal of Bonds at or after their respective maturity or due dates.

Sinking Fund Account. The Authority is required by the Indenture to pay into the Sinking Fund Account, out of Gross Receipts, on or before the 10th Business Day immediately preceding June 1, 2007, and on or before the 10th Business Day immediately preceding each June 1 thereafter, and after the required payments into the Current Interest Account and the Principal Account have been made, an amount which, when added to the amount then on deposit in the Sinking Fund Account, will equal the principal amount of the Bonds (if any) that are required, by the provisions of the Indenture, to be redeemed on the then next succeeding June 1.

While the aforesaid payments required to be made into the Sinking Fund Account annually are considered to have been made therein with respect to the Series 2006 Bonds, the Indenture requires, in the case of the subsequent issue of Additional Bonds that are term (as distinguished from serial) bonds, that additional payments be made into the Sinking Fund Account with respect to such Additional Bonds -- all to the end that full provision be made for the retirement of such Additional Bonds at or prior to their maturity.

Under the terms of the Indenture, the aforesaid amounts required to be paid into the Sinking Fund Account with respect to the Series 2006 Bonds are required to be applied, subject to certain limited and narrow exceptions, only (a) to redeem Bonds due on June 1, (b) to the purchase for retirement, at a price not greater than par plus accrued interest, of Series 2006 Bonds, or (c) to pay Series 2006 Bonds, at or after maturity.

Under the terms of the Indenture, the Trustee is required to effect the redemption of Series 2006 Bonds out of the Sinking Fund Account on June 1 in the years and amounts indicated under the caption "THE SERIES 2006 BONDS -- Redemption of Series 2006 Bonds Prior to Maturity -- Sinking Fund Redemption". Provision is made in the Indenture for the credit, on required redemptions of Series 2006 Bonds out of the Sinking Fund Account, of the principal amount of certain of such Bonds theretofore retired (whether by redemption other than out of the Sinking Fund Account, by purchase for retirement or otherwise) and not theretofore credited on any previous required redemption out of the Sinking Fund Account.

Reserve Fund. The Reserve Fund consists of the following separate accounts: (a) the General Reserve Fund Account, (b) the Series 2002 Reserve Fund Account, (c) the Series 2006 Reserve Fund Account, and (d) any Additional Reserve Fund Accounts. Except as provided in the last sentence of the first paragraph under "General Reserve Fund Account" below, the obligation of the Authority to make a monthly deposit into any account in the Reserve Fund shall be on a parity with the obligation of the Authority to make monthly deposits into each other account in the Reserve Fund, and in the event that, after making the monthly payments into the Current Interest

Account, the Principal Account and the Sinking Fund Account, the Authority does not have sufficient Gross Receipts to make the required monthly payments, if any, into all accounts of the Reserve Fund, such payments will be divided among each account of the Reserve Fund pro rata according to the amount then required to be on deposit in each such account.

General Reserve Fund Account. The General Reserve Fund Account shall be solely for the benefit of the General Reserve Fund Account Bonds. The Authority will, no later than thirty (30) days after the end of each Semiannual Fiscal Period, deliver to the Trustee and the 1998 Bond Insurer both of the following:

(a) a certificate signed on behalf of the Authority by its chief executive officer or by its chief financial officer, stating (1) the Available Net Income of the Authority for the immediately preceding Semiannual Fiscal Period and (2) the maximum Annual Debt Service Requirements during the then current or any succeeding Fiscal Year with respect to the then outstanding Long-Term Funded Debt, and

(b) a copy of any financial statements, balance sheets or other records prepared by or for the Authority with respect to the Semiannual Fiscal Period referred to in the said certificate.

If the Available Net Income for any Semiannual Fiscal Period, as shown by the certificate referred to above, is less than 150% of an amount equal to one-half ($\frac{1}{2}$) of the maximum Annual Debt Service Requirements as shown by the said certificate, the Authority will, not later than seven (7) calendar days after the delivery of such certificate and other documents to the Trustee and the 1998 Bond Insurer, transfer and pay into the General Reserve Fund Account an amount equal to the General Reserve Fund Account Requirement. Anything herein to the contrary notwithstanding, the obligation of the Authority to pay into the General Reserve Fund Account the amount required by this paragraph shall be prior to the obligation of the Authority to make monthly deposits into any other account in the Reserve Fund, and, if the Authority is then obligated to make a deposit to the General Reserve Fund Account pursuant to this paragraph, until there is on deposit in the General Reserve Fund Account an amount equal to the General Reserve Fund Account Requirement, no amounts shall be deposited into any other account in the Reserve Fund.

The Authority shall, on or before the 10th Business Day prior to the first day of each June 1 and December 1, after first making any required monthly payments into the Current Interest Account, the Principal Account and the Sinking Fund Account the amount on deposit in the General Reserve Fund Account. If, according to such determination, there is on deposit in the General Reserve Fund Account an amount less than the amount (if any) required to be on deposit therein, the Authority shall, immediately following the making of the last of the required monthly payments into the Current Interest Account, the Principal Account and the Sinking Fund Account with respect to such month and with respect to each of the then next succeeding two calendar months, transfer and pay into the General Reserve Fund Account, all Gross Receipts, until

(a) there has been paid into the General Reserve Fund Account during the then current calendar month a sum at least equal to one-third ($\frac{1}{3}$) of the amount by which the General Reserve Fund Account Requirement exceeded the amount on deposit in the General Reserve Fund Account as of the date of such determination, all to the end that the deficiency in the General Reserve Fund Account be fully restored within not less than three months, or

(b) there is on deposit in the General Reserve Fund Account an amount at least equal to the General Reserve Fund Account Requirement,

whichever of the foregoing (a) or (b) will result in the lesser payment. Furthermore, if, during any calendar month, there is, as a result of a transfer of moneys out of the General Reserve Fund Account pursuant to the provisions of the next succeeding paragraph, on deposit in the General Reserve Fund Account an amount less than the amount (if any) then required to be on deposit therein, the Authority will, immediately following the making of the last of the then required monthly payments into the Current Interest Account, the Principal Account and the Sinking Fund Account and with respect to each of the then next succeeding eleven (11) calendar months, transfer and pay into the General Reserve Fund Account all Gross Receipts received by it until

(i) there has been paid into the General Reserve Fund Account during the then current calendar month a sum at least equal to one-twelfth (1/12) of the amount by which the General Reserve Fund Account Requirement exceeded the amount on deposit in the General Reserve Fund Account following such transfer, all to the end that the deficiency in the General Reserve Fund Account be fully restored within not less than twelve (12) months, or

(ii) there is on deposit in the General Reserve Fund Account an amount at least equal to the General Reserve Fund Account Requirement.

whichever of the foregoing (i) or (ii) will result in the lesser payment. If at any time there is on deposit in the General Reserve Fund Account an amount in excess of the General Reserve Fund Account Requirement, the Trustee will (A) promptly transfer such excess to each other account in the Reserve Fund which has on deposit therein less than the amount (if any) then required to be on deposit therein, pro rata according to the amount required to be on deposit in each such account, and (B) pay any excess after each account in the Reserve Fund has been fully funded to the Authority. Furthermore, at any time following the payment of any amount into the General Reserve Fund Account, if the Authority delivers to the Trustee and the Bond Insurer a certificate of an Independent Auditor stating that the Available Net Income of the Authority for its most recent Fiscal Year was not less than 150% of the maximum Annual Debt Service Requirements during the then current or any succeeding Fiscal Year with respect to the outstanding Long-Term Funded Debt of the Authority, the Trustee shall, promptly upon receipt by it of such certificate and, if the Series 1998 Bonds Insurance Policy is in effect, with the prior written consent of the 1998 Bond Insurer, pay and transfer to the Authority all moneys then on deposit in the General Reserve Fund Account and no further payments into the General Reserve Fund Account shall thereafter be required unless the conditions specified above require any such further payment.

The moneys forming a part of the General Reserve Fund Account shall be transferred

(1) to the Current Interest Account for payment of interest on the General Reserve Fund Account Bonds but may be so transferred only when the moneys on deposit in the Current Interest Account shall not be sufficient to pay a maturing installment of such interest and only to such extent as shall be necessary to prevent a default in the payment of such interest,

(2) to the Principal Account for the payment of principal of the General Reserve Fund Account Bonds but may be so transferred only when the moneys on deposit in the Principal Account shall not be sufficient to pay a maturing installment of such principal and only to such extent as shall be necessary to prevent a default in the payment of such principal, or

(3) to the Sinking Fund Account for the redemption of General Reserve Fund Account Bonds prior to maturity but may be so transferred only when the moneys on deposit in the Sinking Fund Account shall not be sufficient to effect any required redemption of General Reserve Fund Account Bonds and only to such extent as shall be necessary to prevent a default in the making of any such required redemption.

Until such time as the principal of and the interest (and premium, if any) on the General Reserve Fund Account Bonds are paid in full, moneys forming a part of the General Reserve Fund Account may be transferred from there only to the Current Interest Account, to the Principal Account, to the Sinking Fund Account or the Authority and only for the purposes and to the extent specified in this section.

Series 2006 Reserve Fund Account. The Series 2006 Reserve Fund Account shall be solely for the benefit of the Series 2006 Bonds. On the date of delivery of the Series 2006 Bonds, there will be on deposit in the Series 2006 Reserve Fund Account an amount equal to the Series 2006 Reserve Fund Account Requirement.

The Authority shall, on or before the 10th Business Day prior to the first day of each June 1 and December 1, after first making any required monthly payments into the Current Interest Account, the Principal Account and the Sinking Fund Account, with respect to such month, ascertain and determine the amount on deposit in the Series 2006 Reserve Fund Account. If, according to such determination, there is on deposit in the Series 2006 Reserve Fund Account an amount less than the amount (if any) required to be on deposit therein, the Authority shall, immediately following the making of the last of the required monthly payments into the Current Interest Account,

the Principal Account and the Sinking Fund Account with respect to such month and with respect to each of the then next succeeding two calendar months, transfer and pay into the Series 2006 Reserve Fund Account all Gross Receipts until

(a) there has been paid into the Series 2006 Reserve Fund Account during the then current calendar month a sum at least equal to one-third (1/3) of the amount by which the Series 2006 Reserve Fund Account Requirement exceeded the amount on deposit in the Series 2006 Reserve Fund Account as of the date of such determination, all to the end that the deficiency in the Series 2006 Reserve Fund Account be fully restored within not less than three months, or

(b) there is on deposit in the Series 2006 Reserve Fund Account an amount at least equal to the Series 2006 Reserve Fund Account Requirement,

whichever of the foregoing (a) or (b) will result in the lesser payment. Furthermore, if, during any calendar month, there is, as a result of a transfer of moneys out of the Series 2006 Reserve Fund Account pursuant to the provisions of the next succeeding paragraph, on deposit in the Series 2006 Reserve Fund Account an amount less than the amount (if any) then required to be on deposit therein, the Authority will, immediately following the making of the last of the then required monthly payments into the Current Interest Account, the Principal Account and the Sinking Fund Account and with respect to each of the then next succeeding eleven (11) calendar months, transfer and pay into the Series 2006 Reserve Fund Account all Gross Receipts received by it until

(i) there has been paid into the Series 2006 Reserve Fund Account during the then current calendar month a sum at least equal to one-twelfth (1/12) of the amount by which the Series 2006 Reserve Fund Account Requirement exceeded the amount on deposit in the Series 2006 Reserve Fund Account following such transfer, all to the end that the deficiency in the Series 2006 Reserve Fund Account be fully restored within not less than twelve (12) months, or

(ii) there is on deposit in the Series 2006 Reserve Fund Account an amount at least equal to the Series 2006 Reserve Fund Account Requirement.

whichever of the foregoing (i) or (ii) will result in the lesser payment. If at any time there is on deposit in the Series 2006 Reserve Fund Account an amount in excess of the Series 2006 Reserve Fund Account Requirement, the Trustee will (A) promptly transfer such excess to each other account in the Reserve Fund which has on deposit therein less than the amount (if any) then required to be on deposit therein, pro rata according to the amount required to be on deposit in each such account, and (B) pay any excess after each account in the Reserve Fund has been fully funded to the Authority.

The moneys forming a part of the Series 2006 Reserve Fund Account shall be transferred

(1) to the Current Interest Account for payment of interest on the Series 2006 Reserve Fund Account Bonds but may be so transferred only when the moneys on deposit in the Current Interest Account shall not be sufficient to pay a maturing installment of such interest and only to such extent as shall be necessary to prevent a default in the payment of such interest,

(2) to the Principal Account for the payment of principal of the Series 2006 Bonds but may be so transferred only when the moneys on deposit in the Principal Account shall not be sufficient to pay a maturing installment of such principal and only to such extent as shall be necessary to prevent a default in the payment of such principal, or

(3) to the Sinking Fund Account for the redemption of Series 2006 Bonds prior to maturity but may be so transferred only when the moneys on deposit in the Sinking Fund Account shall not be sufficient to effect any required redemption of Series 2006 Bonds and only to such extent as shall be necessary to prevent a default in the making of any such required redemption.

Until such time as the principal of and the interest (and premium, if any) on the Series 2006 Bonds are paid in full, moneys forming a part of the Series 2006 Reserve Fund Account may be transferred from there only to the Current

Interest Account, to the Principal Account, to the Sinking Fund Account or the Authority and only for the purposes and to the extent specified in this section.

Additional Reserve Fund Accounts. In the event that the Authority creates one or more Additional Reserve Fund Accounts as separate security for one or more series of Additional Bonds, the supplemental indentures authorizing each such series of Additional Bonds shall contain provisions substantially the same as set out above for the Series 2002 Reserve Fund Account and the Series 2006 Reserve Fund Account with respect to deposits to and withdrawals from such Additional Reserve Fund Account.

Redemption Fund. The Indenture creates a special Redemption Fund into which certain moneys (if received) are to be paid. Moneys in the Redemption Fund may be used for the purpose of redeeming Bonds prior to maturity or for the purpose of purchasing Bonds for retirement at certain specified maximum prices. Further, under the terms of the Indenture, moneys in the Redemption Fund may also be used

(1) for payment of a maturing installment of interest on the Bonds, but only if the moneys on deposit in the Current Interest Account and the Reserve Fund are insufficient therefor and only to the extent necessary to prevent a default in payment of such interest,

(2) for payment of a maturing installment of principal of the Bonds, but only if the moneys on deposit in the Principal Account and the Reserve Fund are insufficient therefor and only to the extent necessary to prevent a default in payment of such principal, and

(3) for effecting any required redemption of Bonds prior to maturity, but only if the moneys on deposit in the Sinking Fund Account and the Reserve Fund are insufficient therefor and only to the extent necessary to prevent a default in effecting any such required redemption.

The Trustee is effectively required by the Indenture, whenever and as often as there shall be on deposit in the Redemption Fund as much as \$5,000, promptly to exhaust, as nearly as may be practicable, the moneys on deposit in the Redemption Fund by redeeming Bonds prior to maturity, by purchasing Bonds for retirement or by both redeeming Bonds and purchasing Bonds for retirement as aforesaid, all without the necessity of any directions from the Authority. Neither the Trustee nor the Authority is required by the Indenture to advertise for tenders in connection with the purchase of any Bonds for retirement, but either may do so if it so desires.

Depositories for Special Funds. The Indenture designates the Trustee as custodian, depository and disbursing agent for all the foregoing special funds.

Investment of Special Fund Moneys. The Indenture in general requires

(1) that all then unneeded moneys in the Revenue Fund, the Reserve Fund and the Redemption Fund be invested in Eligible Investments, and

(2) that all then unneeded moneys in the Current Interest Account and the Principal Account, and all such moneys paid into the Sinking Fund Account be invested in Eligible Investments other than those described in clause (b) of the definition of that term as set forth hereinabove.

Under the terms of the Indenture, any such investments are required to mature or to be redeemable on such terms and conditions and on such dates as will assure the availability of cash, in the particular fund or account from which moneys were used to make such investment, sufficient to meet the needs of such fund or account, except that (a) any investments forming a part of the Redemption Fund are required to mature (or be redeemable at the option of the holder at a stated price) not later than thirty (30) days from the date of such investment and (b) any investments forming a part of the Reserve Fund are required to mature (or be redeemable at the option of the holder at a stated price) not later than the date of the last maturity of the Bonds then outstanding under the Indenture.

The Trustee or other depository for any such fund or account is authorized by the Indenture to sell or convert into cash, at any time it deems desirable, any investments forming a part of any such special fund or account (provided, in the case of investments forming a part of the Bond Fund, that such sale or other conversion will not

jeopardize the payment of any maturing installment of principal of or interest on the Bonds or the making of any required redemption of Bonds prior to maturity), and it is required to sell or convert into cash any such investments if such sale or conversion is necessary to achieve the purpose for which such fund or account was created. The Indenture provides that the interest income from investments forming a part of any such special fund or account accrues to the fund or account from which moneys were used to make such investment except that interest income from any investments forming a part of the Reserve Fund shall, if at the time such interest income is received there is on deposit in the Reserve Fund an amount at least equal to the then Maximum Required Reserve Fund Requirement, be paid to the Authority.

Use of Moneys in Special Funds to Pay Required Rebates. Moneys on deposit in the Bond Fund, the Reserve Fund and the Redemption Fund may, under the terms of the Indenture, be used and applied to make any rebates or other similar payments to the United States of America if and to the extent necessary to preclude the interest on any series of Bonds from becoming subject to gross income of the recipients thereof for Federal income tax purposes. The Indenture provides, however, that such moneys may be so used and applied only if and to the extent that the Authority does not have other moneys available for payment of any such rebates; and the Indenture further provides that moneys in the Bond Fund, the Reserve Fund and the Redemption Fund may be so used and applied only if and to the extent that such use and application will not jeopardize payment of any maturing installment of principal of or interest on the Bonds or the making of any required redemption of Bonds prior to maturity.

Additional Bonds and Other Senior Debt

Under the provisions of the Indenture, the Authority is authorized to issue or incur, at any time and from time to time, Additional Bonds or Other Senior Debt, without express limit as to principal amount, for the purpose of refunding or retiring any then outstanding Funded Debt or obtaining funds for any other lawful corporate function or purpose (including, without limitation, financing the costs of acquiring, by construction or otherwise, or of completing the acquisition of, any Capital Improvements) and for the combined purpose of refunding any such Funded Debt and providing funds for any other lawful corporate function or purpose.

Additional Bonds issued pursuant to and in compliance with applicable provisions of the Indenture, irrespective of when issued, and Other Senior Debt incurred pursuant to and in compliance with applicable provisions of the Indenture, irrespective of when so incurred, shall all have the same priorities and be entitled to the same lien position, with respect to the pledge of Gross Receipts and other revenues pledged under the Indenture for payment of the Bonds, as the Series 1998 Bonds, the Series 2000 Bonds, the Series 2002 Bonds and the Series 2006 Bonds. However, under the terms of the Indenture, the holders or owners of any such Other Senior Debt are not entitled to any lien on, any interest in or any claim to any moneys or securities at any time on deposit in any of the special funds or accounts created in the Indenture, and the consent of the holders or owners of any such Other Senior Debt is not required as a condition to amending the Indenture.

Conditions Precedent to Issuance of Additional Bonds. As conditions precedent to the issuance of any Additional Bonds, the Authority is required by the Indenture to furnish to the Trustee, among other things, one of the following:

(1) A report or opinion signed by or on behalf of an Independent Auditor acceptable to the Trustee to the effect that the Available Net Income during the Fiscal Year next preceding the Fiscal Year during which such Additional Bonds are issued was not less than 150% of the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the Prior Lien Obligations and the Senior Debt then outstanding and the Additional Bonds proposed to be issued; or

(2) One of the following:

(A) A report or opinion signed by or on behalf of an Independent Auditor acceptable to the Trustee to the effect that the Available Net Income during the Fiscal Year next preceding the Fiscal Year during which such Additional Bonds are issued was not less than 110% of the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the Prior Lien Obligations and the Senior Debt then outstanding, plus a report

of a Hospital Consultant acceptable to the Trustee expressing the opinion that the Available Net Income anticipated to be derived in each of the two Fiscal Years immediately following that during which it is estimated that the Capital Improvements (if any) to be financed, directly or indirectly, by such Additional Bonds will be placed in service (or, if none of such Additional Bonds are being issued for the purpose of financing, directly or indirectly, Capital Improvements, in each of the two Fiscal Years next succeeding that during which such Additional Bonds are issued), will be not less than 120% of the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the Prior Lien Obligations and the Senior Debt then outstanding and the Additional Bonds proposed to be issued; or

(B) A report or opinion signed by or on behalf of an Independent Auditor acceptable to the Trustee to the effect that the Available Net Income during the Fiscal Year next preceding the Fiscal Year during which such Additional Bonds are issued was not less than 120% of the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the Prior Lien Obligations and the Senior Debt then outstanding, plus a financial forecast, signed on behalf of the Authority and setting forth in reasonable detail the significant assumptions on which it is based, projecting that the Available Net Income anticipated to be derived in each of the two Fiscal Years immediately following that during which it is estimated that the Capital Improvements (if any) to be financed, directly or indirectly, by such Additional Bonds will be placed in service (or, if none of such Additional Bonds are being issued for the purpose of financing, directly or indirectly, Capital Improvements, in each of the two Fiscal Years next succeeding that during which such Additional Bonds are issued), will be not less than 150% of the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the Prior Lien Obligations and the Senior Debt then outstanding and the Additional Bonds proposed to be issued.

None of the documents referred to in the preceding paragraph are required to be furnished to the Trustee under either of the following circumstances:

(I) if the Additional Bonds in question are being issued solely for the purpose of financing the costs of completing any Capital Improvements financed (in whole or in part) by a prior series of the Bonds, by Other Senior Debt or by other Funded Debt, and if the principal amount of such Additional Bonds does not exceed 50% of the estimated total costs of such Capital Improvements, or

(II) if such Additional Bonds are being issued solely for the purpose of refunding any Senior Debt then outstanding, if the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the Prior Lien Obligations and the Senior Debt that will be outstanding immediately following the issuance of such Additional Bonds do not exceed 110% of the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the Prior Lien Obligations and the Senior Debt outstanding immediately prior to the issuance of such Additional Bonds, and if the Board adopts a resolution containing a finding that the issuance of such Additional Bonds and the refunding accomplished thereby are in the best interests of the Authority.

Conditions Precedent to Incurring of Other Senior Debt. As conditions precedent to incurring any Other Senior Debt, the Authority is required by the Indenture to furnish to the Trustee, among other things, one of the following:

(1) A report or opinion signed by or on behalf of an Independent Auditor acceptable to the Trustee to the effect that the Available Net Income during the Fiscal Year next preceding the Fiscal Year during which such Other Senior Debt is incurred was not less than 150% of the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the Prior Lien Obligations and the Senior Debt then outstanding and the Other Senior Debt proposed to be incurred; or

(2) One of the following:

(A) A report or opinion signed by or on behalf of an Independent Auditor acceptable to the Trustee to the effect that the Available Net Income during the Fiscal Year next preceding the Fiscal Year during which such Other Senior Debt is incurred was not less than 110% of the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the Prior Lien Obligations and the Senior Debt then outstanding, plus a report of a Hospital Consultant acceptable to the Trustee expressing the opinion that the Available Net Income anticipated to be derived in each of the two Fiscal Years immediately following that during which it is estimated that the Capital Improvements (if any) to be financed, directly or indirectly, by such Other Senior Debt will be placed in service (or, if none of such Other Senior Debt will be placed in service (or, if none of such Other Senior Debt is being incurred for the purpose of financing, directly or indirectly, Capital Improvements, in each of the two Fiscal Years next succeeding that during which such Other Senior Debt is incurred), will be not less than 120% of the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the Prior Lien Obligations and the Senior Debt then outstanding and the Other Senior Debt proposed to be incurred; or

(B) A report or opinion signed by or on behalf of an Independent Auditor acceptable to the Trustee to the effect that the Available Net Income during the Fiscal Year next preceding the Fiscal Year during which such Other Senior Debt is incurred was not less than 120% of the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the Prior Lien Obligations and the Senior Debt then outstanding, plus a financial forecast, signed on behalf of the Authority and setting forth in reasonable detail the significant assumptions on which it is based, projecting that the Available Net Income anticipated to be derived in each of the two Fiscal Years immediately following that during which it is estimated that the Capital Improvements (if any) to be financed, directly or indirectly, by such Other Senior Debt will be placed in service (or, if none of such Additional Bonds are being issued for the purpose of financing, directly or indirectly, Capital Improvements, in each of the two Fiscal Years next succeeding that during which such Other Senior Debt is incurred), will be not less than 150% of the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the Prior Lien Obligations and the Senior Debt then outstanding and the Other Senior Debt proposed to be incurred.

None of the documents referred to in the preceding paragraph are required to be furnished to the Trustee under either of the following circumstances:

(I) if the Other Senior Debt in question is being incurred solely for the purpose of financing the costs of completing any Capital Improvements financed (in whole or in part) by a prior series of the Bonds, by Other Senior Debt or by other Funded Debt, and if the principal amount of such Other Senior Debt does not exceed 50% of the estimated total costs of such Capital Improvements, or

(II) if such Other Senior Debt is being incurred solely for the purpose of refunding any Senior Debt then outstanding, if the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the Prior Lien Obligations and the Senior Debt that will be outstanding immediately following the incurrence of such Other Senior Debt do not exceed 110% of the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the Prior Lien Obligations and the Senior Debt outstanding immediately prior to the incurrence of such Other Senior Debt, and if the Board adopts a resolution containing a finding that the incurring of such Other Senior Debt and the refunding accomplished thereby are in the best interests of the Authority.

Calculation of Imputed Debt Service. The Indenture requires that if the Authority proposes to issue or incur any Additional Bonds or Other Senior Debt -- i.e., any Senior Debt (regardless of whether such proposed Senior Debt also constitutes Put Indebtedness or Balloon Debt) imputed debt service on any Senior Debt that constitutes Put Indebtedness or Balloon Debt (including both any such Senior Debt that is then outstanding and any Senior Debt then proposed to be issued or incurred) be determined and calculated (as provided in the definition of the term "Annual Debt Service Requirements" set forth hereinabove) as of a date not more than ninety (90) days prior to the date on which such proposed Senior Debt is to be issued or incurred by the Authority.

Special Covenants of the Authority

Annual Audit. The Authority has agreed in the Indenture that it will cause an audit of its books with respect to the Facilities, and those of its other assets and properties out of the revenues from which the Bonds are payable to be made at the end of each Fiscal Year by an Independent Auditor acceptable to the Trustee, and that it will cause an appropriately certified report by such Independent Auditor with respect to the audit for such year to be delivered within one hundred twenty (120) days following the close of each Fiscal Year. The Authority is required under the Indenture to furnish a copy of such audit report to the Trustee within ten (10) days of receipt thereof.

Operation of Facilities. The Indenture contains covenants on the part of the Authority (1) to operate and maintain the Facilities in an economical and efficient manner, consistent with standards of operation and maintenance generally acceptable for fully accredited hospital and health-care facilities comparable to those at the time forming a part of the Facilities, and (2) to comply with the applicable rules and regulations of the Alabama State Board of Health.

Maintenance of Adequate Rates. The Indenture obligates the Authority, subject to applicable governmental price regulations, to fix, maintain and collect such rates and charges for services provided by the Hospital and other health-care facilities at the time forming a part of the Facilities (and those of its other assets and properties out of the revenues from which the Bonds are payable) as will produce revenues sufficient to pay, when due, all Operating Expenses, to enable the Trustee to make during each month all payments required by the Indenture to be made into the Bond Fund and the Reserve Fund, at the times and in the manner required by the Indenture, and to pay the principal of and the interest on (1) Other Senior Debt and (2) other Long-Term Funded Debt (not including, however, any Long-Term Funded Debt of the types generally described in clauses (a) and (e) in the definition of the term "Restricted Funded Debt" set forth hereinabove), at the respective maturity or due dates thereof.

Employment of Consultant. The Indenture provides that if the Available Net Income for any Fiscal Year was less than 110% of the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the Prior Lien Obligations and Senior Debt then outstanding, the Authority will employ a consultant, acceptable to the Trustee, qualified to study operations of general hospitals and other similar health-care facilities and having a nation-wide and favorable repute for skill and experience in such work and will continuously keep such a consultant employed until after the conclusion of the first Fiscal Year thereafter for which the Available Net Income equals or exceeds 110% of the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the then outstanding Prior Lien Obligations and Senior Debt. However, the Indenture also provides that

(1) if such Available Net Income was less than 110% but not less than 100% of the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the then outstanding Prior Lien Obligations and Senior Debt, and

(2) if the Trustee is furnished a report or opinion of such consultant, or another such consultant acceptable to the Trustee, to the effect (a) that the failure of the Authority to realize during the Fiscal Year in question Available Net Income of not less than 110% of the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the then outstanding Prior Lien Obligations and Senior Debt, was the result of applicable laws or governmental regulations, and (b) that the Authority has implemented or is in the process of implementing with reasonable diligence (to the extent feasible and lawful) all recommendations made by the consultant so employed by it,

the Authority need not employ such a consultant during the Fiscal Year next succeeding that covered by such report or opinion.

In the event the Authority is obligated under the Indenture to employ such a consultant, it is required to cause such consultant, during the period of its required employment, (1) to review and analyze the budgets, statements and reports of the Authority, and (2) at such time or times as required by the Trustee but not more frequently than once each Fiscal Year, to inspect the Facilities, review and analyze their operation and

administration and submit to the Trustee a written report of such review, analysis and inspection, which report shall contain such consultant's recommendations respecting the operation and administration of the Facilities. The Indenture requires the Authority, to the fullest extent feasible and lawful, to adopt and carry out the recommendations in such report and also requires the Authority to make available to the Trustee, on request, all information resulting from any review, study, analysis or other work performed by such consultant.

The Indenture provides that it is not necessary, in connection with any determination of maximum Annual Debt Service Requirements with respect to any outstanding Senior Debt for purposes of determining whether the Authority is required to employ such a consultant, that a special calculation be made to determine imputed debt service with respect to any such Senior Debt that constitutes Put Indebtedness, Balloon Debt or Guaranteed Funded Debt. Imputed debt service on any such Senior Debt that constitutes Put Indebtedness, Balloon Debt or Guaranteed Funded Debt is instead required to be determined and calculated (as provided in the definition of the term "Annual Debt Service Requirements" set forth hereinabove) as of the then most recent date on which such calculation was required by the Indenture to have been made.

Warranty of Title; Permitted Encumbrances. In the Indenture, the Authority warrants its title to its interest in each and every part of the Facilities as being free and clear of every lien, encumbrance, trust or charge other than Permitted Encumbrances, and the Authority has in the Indenture further agreed that it will not create, permit to be created or suffer to exist any lien or encumbrance on its interest in the Facilities, on any of its other assets and properties out of the revenues from which the Bonds are payable, or on any part of any thereof, other than Permitted Encumbrances, unless all Senior Debt is simultaneously directly secured thereby, equally and ratably with any other Funded Debt secured thereby.

Restrictions on the Sale, Lease or Other Disposition of the Facilities. The Authority has agreed in the Indenture not to sell, lease or otherwise dispose of the whole or any integral part of the Facilities or those of its other assets and properties out of the revenues from which the Bonds are payable (including any cash, cash-equivalent or securities forming a part thereof) until all the Bonds have been paid in full, other than in the ordinary course of business, unless

- (1) such disposition is made pursuant to a merger, consolidation or transfer described under the caption "Merger, Consolidation and Transfer" below,
- (2) the Authority shall determine that the property to be disposed of is obsolete, worn out, unprofitable or unsuitable and that its disposition will not materially impair the value, utility or revenue-producing capacity of the Facilities or the other properties of which such property was a part (such determination on the part of the Authority to be conclusively evidenced by its disposition of such property),
- (3) the Authority shall receive consideration in an amount not less than the fair market value of the property disposed of,
- (4) prior to such disposition the Authority shall deliver to the Trustee a certificate
 - (a) generally describing the property to be disposed of and stating its aggregate fair market value,
 - (b) stating the aggregate fair market value (at the time of disposition) of all other property theretofore disposed of in the same Fiscal year pursuant to those provisions of the Indenture permitting the Authority to dispose of property upon delivery of such a certificate to the Trustee, and
 - (c) stating that the aggregate fair market value of the property to be disposed of, together with the aggregate fair market value of all other property (at the time of disposition) theretofore disposed of in the same Fiscal Year pursuant to the aforesaid provisions of the Indenture, does not exceed 5% of the book value of its assets, determined in accordance with generally accepted accounting principles, as of the end of the Fiscal Year next preceding that during which such certificate is delivered, or

(5) prior to such disposition, the Authority shall deliver to the Trustee a financial forecast, signed on behalf of the Authority, setting forth in reasonable detail the significant assumptions on which it is based and projecting either (a) that the ratio of Available Net Income for the Fiscal Year next following that during which such disposition is made to the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the Prior Lien Obligations and Senior Debt then outstanding (determined as provided in the Indenture) will be not less than 3 to 1, or (b) that the ratio of Available Net Income for the Fiscal Year next following that during which such disposition is made to the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the Prior Lien Obligations and Senior Debt then outstanding (determined as provided in the Indenture) will be (i) not less than 80% of the ratio that would have been achieved had such disposition not occurred, and (ii) not less than 1.1 to 1, together (in either case) with a letter or report dated not more than ninety (90) days prior to such disposition, signed by or on behalf of a Hospital Consultant acceptable to the Trustee stating in substance that such forecast gives effect in all material respects to the significant assumptions therein.

For purposes of these provisions of the Indenture, cash shall be deemed to have a fair market value equal to its face value.

Merger, Consolidation and Transfer. The Authority is effectively allowed under the Indenture to consolidate with or to merge into another entity or to transfer to another entity the Facilities and those of the other assets and properties of the Authority out of the revenues from which the Bonds are payable, as an entirety, subject, however, to certain conditions, including, among others, a requirement that simultaneously with or promptly following such consolidation, merger or transfer the Trustee is furnished one of the following:

(1) a report or opinion of an Independent Auditor acceptable to the Trustee to the effect that the Available Net Income of the Authority during the Fiscal Year next preceding the Fiscal Year during which such consolidation, merger or transfer is effected was at least equal to the lesser of (a) 150% of the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the then outstanding Prior Lien Obligations and Senior Debt of the Authority and the then outstanding Long-Term Funded Debt of each entity with which the Authority is consolidating or the entity into which it is merging or to which such transfer is being made (as the case may be), taken together, or (b) the percentage which is obtained by dividing the Available Net Income of the Authority during the Fiscal Year next preceding the Fiscal Year during which such consolidation, merger or transfer is effected, by the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the then outstanding Prior Lien Obligations and Senior Debt, multiplying the quotient by 100 and expressing the result as a percentage, of the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the then outstanding Prior Lien Obligations and Senior Debt of the Authority and the then outstanding Long-Term Funded Debt of each entity with which the Authority is consolidating or the entity into which it is merging or to which such transfer is being made (as the case may be), taken together; or

(2) a financial forecast of the Resultant Entity setting forth in reasonable detail the significant assumptions on which it is based and projecting on a pro forma basis that the Available Net Income of the Resultant Entity (determined or computed as if the Resultant Entity were the Authority) anticipated to be derived in each of the two Fiscal Years immediately following that during which such consolidation, merger or transfer is effected will be not less than 120% of the maximum Annual Debt Service Requirements during the then current or any subsequent Fiscal Year with respect to the then outstanding Prior Lien Obligations and Senior Debt.

With regard to any such merger, consolidation or transfer, the Indenture requires that, for purposes of ascertaining maximum Annual Debt Service Requirements with respect to any Funded Debt or category thereof, imputed debt service on any such Funded Debt or category thereof that constitutes Put Indebtedness Balloon Debt or Guaranteed Funded Debt be determined and calculated (as provided in the definition of the term “Annual Debt Service Requirements” set forth hereinabove) as of a date that is not more than ninety (90) days prior to the date on which the proposed consolidation, merger or transfer of assets is to be effected.

Except as described or referred to above, the Indenture contains no restrictions on any consolidations or mergers to which the Authority may be a party, no restrictions on the transfer by the Authority of the Facilities as an entirety, and no restrictions on the transfer of properties by others to the Authority.

Limitations on Incurring Restricted Funded Debt. The Indenture prohibits the Authority from hereafter incurring, assuming or guaranteeing, directly or indirectly, the payment of any Restricted Funded Debt, except as follows:

(1) The Authority may incur, assume or guarantee the payment of Short-Term Funded Debt that constitutes Restricted Funded Debt if, and only if, after giving effect thereto,

(a) the principal of all such Short-Term Funded Debt that constitutes Restricted Funded Debt does not exceed fifteen percent (15%) of Net Operating Revenues for the preceding Fiscal Year, and

(b) the principal of all Long-Term Funded Debt and Short-Term Funded Debt that constitutes Restricted Funded Debt plus the principal of any Funded Debt of the type generally described in clause (c) in the definition of the term “Restricted Funded Debt” set forth hereinabove does not exceed twenty-five percent (25%) of Net Operating Revenues for the preceding Fiscal Year.

provided there must be at least thirty (30) consecutive days in each Fiscal Year during which the principal of all outstanding Short-Term Funded Debt incurred, assumed or guaranteed by the Authority that constitutes Restricted Funded Debt does not exceed 3% of Net Operating Revenues for the immediately preceding Fiscal Year.

(2) The Authority may incur, assume or guarantee the payment of Long-Term Funded Debt that constitutes Restricted Funded Debt if, and only if, after giving effect thereto,

(a) the principal of all such Long-Term Funded Debt that constitutes Restricted Funded Debt does not exceed fifteen percent (15%) of Net Operating Revenues for the preceding Fiscal Year, and

(3) the principal of all Long-Term Funded Debt and Short-Term Funded Debt that constitutes Restricted Funded Debt plus the principal of all Funded Debt of the type generally described in clause (c) in the definition of the term “Restricted Funded Debt” set forth hereinabove does not exceed twenty-five percent (25%) of Net Operating Revenues for the preceding Fiscal Year.

The Indenture requires that if the Authority proposes to incur, assume or guarantee any Funded Debt (regardless of whether such proposed Funded Debt also constitutes Put Indebtedness, Balloon Debt or Guaranteed Funded Debt), imputed debt service on any Funded Debt that constitutes Put Indebtedness, Balloon Debt or Guaranteed Funded Debt (including both any such Funded Debt that is then outstanding and any Funded Debt then proposed to be incurred, assumed or guaranteed) shall - unless the proposed Funded Debt constitutes Senior Debt - be determined and calculated (as provided in the definition of the term “Annual Debt Service Requirements” set forth hereinabove) as of the time such proposed Funded Debt is to be incurred, assumed or guaranteed (as the case may be) by the Authority.

Preservation of the Tax-Exempt Status of Series 2006 Bonds. The Indenture contains an agreement on the part of the Authority that from and after the date of issuance of the Series 2006 Bonds, the Authority will

(a) in a timely manner, make all payments of any amount that is required, by the provisions of Section 148(f) of the Code and any applicable regulations, to be paid by the Authority to the United States of America in order that the Series 2006 Bonds shall not be treated as “arbitrage bonds” within the meaning of Section 103(b)(2) and 148 of the Code and any applicable regulations promulgated thereunder,

in order to preserve the exemption of the interest on the Series 2006 Bonds from gross income of the recipients thereof for Federal income tax purposes, and

(b) refrain from taking any action that would, under the provisions of Section 103 of the Code (as it now exists) and any applicable regulations, result in the interest on any of the Series 2006 Bonds being or becoming subject to gross income of the recipients thereof for Federal income tax purposes.

The Indenture further provides that such covenants and agreements of the Authority relating to the tax-exempt status of the interest on the Series 2006 Bonds shall, if and to the extent that compliance with them is required, survive any so-called “constructive” payment and retirement of the Series 2006 Bonds (including, without limitation, the establishment of an escrow providing for retirement of the Series 2006 Bonds on a future date) and shall continue in effect until (1) all the Series 2006 Bonds have become due and payable in accordance with their terms, whether at maturity, by call for redemption or otherwise, and (2) the entire principal and interest (and premium, if any) due and payable thereon have been paid or moneys sufficient therefor have been irrevocably deposited with the Trustee.

Insurance

The Authority is required by the Indenture to take out and maintain the following insurance (unless, in the opinion of an Insurance Consultant, such insurance is not reasonably obtainable):

(1) builders’ risk insurance with respect to any improvements or additions to the Facilities (and any new facilities that are to constitute a part of the Facilities) being constructed for the use and benefit of the Authority;

(2) insurance against loss or damage to the buildings and equipment at the time forming a part of the Facilities, by fire, lightning, vandalism and malicious mischief, with uniform standard extended coverage endorsement (or equivalent);

(3) boiler insurance covering any boilers at the time constituting a part of the Facilities or otherwise available for use at the Hospital by the Authority;

(4) in time of war in which the United States of America is a belligerent, insurance against loss or damage to the Facilities by the risks and hazards of war, to the extent such insurance may be obtained from the United States of America or agency thereof;

(5) comprehensive general insurance against liability for bodily injury to or death of persons and for damage to or loss of property occurring on or in any way related to the operations of the Authority or the Facilities, or both (other than medical liability insurance);

(6) medical liability insurance protecting the Authority against claims arising from professional services rendered or performed by the Authority, which such insurance shall (to the extent in the opinion of the Insurance Consultant it is reasonably obtainable) have limits of not less than \$1,000,000 with respect to injury to or death of any one or more persons arising out of any single occurrence and \$3,000,000 with respect to the aggregate of all such claims during any period of twelve (12) consecutive calendar months; and

(7) workmen’s compensation insurance and fidelity bonds.

Under the terms of the Indenture, (a) any such insurance may be taken out from and maintained in responsible insurance trusts or insurance groups, public or private, insurance companies not qualified under the laws of the State of Alabama or any other state in the United States of America, or any combination of any of the foregoing elected by the Authority, and (b) the Authority may be self-insured with respect to any such risks or insurance if it creates and continues to maintain (or causes to be created and continuously maintained) reasonable separate reserves therefor based on sound actuarial principles (except that the Authority may elect not to create or maintain any reserve for workmen’s compensation insurance). Except as specified above and except in the case of any required

war risk insurance (which, as noted above, may be taken out with the United States of America or agency thereof), the policies evidencing all required insurance are required by the Indenture to be taken out with generally recognized responsible insurance companies, qualified under the laws of Alabama to assume the applicable risks, or from the (Alabama) State Insurance Fund.

The Indenture requires that the proceeds derived by the Trustee from any fire and similar insurance, as well as builders' risk insurance, boiler insurance and war risk insurance, be applied to payment of the costs of repairing, renewing or rebuilding the property damaged or destroyed, to the acquisition (by purchase or construction) of additional property that the Authority may deem of utility in the operation of the Facilities, to redemption of Bonds then redeemable by their terms or to payment into the Redemption Fund for ultimate use for such redemption or for the purchase of Bonds for retirement prior to maturity (in accordance with applicable provisions of the Indenture), or to any combination of the foregoing, all as determined by the Authority.

Condemnation Provisions

The Indenture provides that if the Facilities or any part thereof shall be taken by eminent domain proceedings, the whole compensation therefor shall be paid directly to the Trustee. The Trustee is required by the Indenture to apply the award in that one or both of the following ways, all as shall be specified by the Authority:

- (1) to redemption of Bonds or to payment into the Redemption Fund for ultimate use for such redemption or for the purchase of Bonds for retirement prior to maturity (in accordance with applicable provisions of the Indenture), or
- (2) to the acquisition (by purchase or construction) of additional property deemed by the Authority to be useful in the operation of the Facilities.

Events of Default and Remedies

Under the provisions of the Indenture, any of the following constitutes an event of default under the Indenture: (a) the failure by the Authority to pay when due the principal of, the interest on or the premium (if any) on any Bond as and when the same becomes due as therein and in the Indenture provided (whether such shall become due by maturity or otherwise), including (without limitation) the failure of the Authority to redeem or prepay, when required, the principal of any Bond required by the provisions thereof to be redeemed prior to the maturity or due date of such principal; (b) the failure by the Authority pay the principal of, the interest on or the premium (if any) on any Prior Lien Obligation as and when the same becomes due as therein provided (whether such shall become due by maturity or otherwise), including (without limitation) the failure of the Authority to redeem or prepay, when required, the principal of any Prior Lien Obligation required by the provisions thereof to be redeemed prior to the maturity or due date of such principal; (c) a default by the Authority in the payment of any other indebtedness for borrowed money or under any instrument securing such payment and the continuance thereof until the expiration of any applicable grace period if as a result of such default, the maturity of such other indebtedness is accelerated; (d) the failure of the Authority to pay or otherwise satisfy any final judgment for the payment of money entered against it, or to stay execution of such final judgment or otherwise supersede such final judgment, and the continuance of such failure for a period of thirty (30) or more days after the entry of such final judgment; (e) the failure by the Authority to perform and observe any of the agreements and covenants on its part contained in the Indenture [other than its agreement to pay the principal of, the interest on and the premium (if any) on the Bonds], which such failure shall have continued for a period of not less than thirty (30) days after written notice of such failure has been given to the Authority by the Trustee or by the Holders of not less than twenty-five percent (25%) in principal amount of the Bonds then outstanding and secured hereby, unless during such period or any extension thereof the Authority has commenced and is diligently pursuing appropriate corrective action; (f) the determination by a court having jurisdiction that the Authority is insolvent or bankrupt, the filing by the Authority of a petition under Chapter 9 (or successor provision) of the United States Bankruptcy Code, or the commencement of a case with respect to the Authority thereunder, or the appointment by a court having jurisdiction of a receiver for the Facilities or for a substantial part thereof, or the approval by a court of competent jurisdiction of any petition for reorganization of the Facilities or a substantial part thereof or rearrangement or readjustment of the obligations of the Authority under any provisions of the bankruptcy laws of the United States; (g) at any time during which the Series 1998 Bonds Insurance Policy is in effect, receipt by the Trustee of notice from the 1998 Bond Insurer that an

event of default has occurred and is continuing under the insurance agreement with respect to the Series 1998 Bonds; and (h) receipt by the Trustee of notice from the bank providing a letter of credit with respect to the Series 2000 Bonds that an event of default, as defined therein, has occurred and is continuing under the credit agreement between such bank and the Authority.

The Indenture provides that the Trustee is empowered, upon a default by the Authority, to accelerate the maturity of all the Bonds then outstanding, to proceed against the Authority by suit or action to enforce its obligations under the Indenture, or to apply for and obtain the appointment of a receiver to operate the Facilities.

The Indenture further provides that the Trustee is not required, upon a default, to exercise any of its rights or powers under the Indenture unless requested to do so by the holders of twenty-five percent (25%) or more in principal amount of the then outstanding Bonds and unless it is indemnified by such holders against its prospective liabilities and expenses that in its opinion might result from the exercise of the requested rights or powers. The remedies under the Indenture are by its terms vested solely and exclusively in the Trustee for the equal and pro rata benefit of all bondholders, unless the Trustee refuses or neglects to act within a reasonable time after receiving a written request to act, accompanied by satisfactory indemnity, from the holders of twenty-five percent (25%) or more in principal amount of the then outstanding Bonds, in which event any bondholder may act in the name and behalf of the Trustee or in his own name. No individual bondholder or group of bondholders has the right to enforce any remedy under the Indenture except as therein provided and then only for the equal and pro rata benefit of all the holders of the Bonds.

The Indenture expressly provides that no bondholder shall be entitled to take any action or institute any suit to enforce the payment of any Bond or Bonds held by him, whether for principal, interest or premium, on or after the due date thereof, if and to the extent that the taking of such action or the institution or prosecution of any such suit or the entry of judgment therein would under applicable law result in a surrender, impairment, waiver or loss of the charge or lien of the Indenture upon the revenues from the Facilities or other Gross Receipts, or any part thereof, as security for the Bonds held by any other bondholder.

Whenever the Trustee has a choice of remedies or a discretion as to details in the exercise of its powers with respect thereto, it must, under the terms of the Indenture, follow any specific directions given by the holders of a majority in principal amount of the Bonds at the time outstanding, unless the observance of such directions would in the opinion of the Trustee, unjustly prejudice the non-assenting bondholders.

Defeasance

The Indenture may be satisfied of record upon the deposit with the Trustee of cash sufficient to provide for full payment of all the Bonds, including the interest that will mature thereon until such payment. In addition, any of the Bonds may, for purposes of the Indenture, be considered fully paid (in which case the charge or lien of such Bonds on the Gross Receipts is no longer in effect) upon the execution by the Authority and the Trustee of an appropriate trust agreement under which there is deposited, for payment and redemption of such Bond or Bonds, moneys sufficient for payment or redemption thereof and for payment of the interest to mature thereon until maturity or redemption, or, in lieu thereof, Eligible Escrow Investments (or both cash and Eligible Escrow Investments), which, together with the income to be derived from such Eligible Escrow Investments, will produce moneys sufficient to provide for such payment, redemption and retirement on a timely basis. Further conditions precedent to any of the Bonds being considered "paid" under either of the foregoing circumstances are (1) that there have theretofore been adopted all necessary proceedings relating to the redemption of any such Bonds that are to be redeemed prior to their respective maturities, and (2) that the Trustee shall have been furnished with an opinion of nationally recognized bond counsel to the effect that any such trust agreement will not result in subjecting to gross income for Federal income tax purposes the interest on any of such Bonds. Among the investments that constitute Eligible Escrow Investments under the terms of the Indenture are (in addition to direct obligations of the United States Treasury) certificates issued by banks or other custodians and evidencing ownership of future interest or principal payments on certain specified United States Treasury obligations, as well as (subject to certain conditions) certain obligations issued by state or local government units. See the definition of the term "Eligible Escrow Investments" herein.

Circumstances under which Funded Debt Considered Fully Paid

For purposes of the Indenture, any installment of principal of or interest on any Funded Debt (other than Bonds) shall be considered fully paid and no longer outstanding if there are filed with the Trustee the following:

(1) a trust agreement (satisfactory to the Trustee) with a Major Bank making provision for the payment of such principal or interest installment, by creating for that purpose an irrevocable trust fund sufficient to provide for payment of such principal or interest installment,

(a) in the case of an installment of principal, by redemption or prepayment prior to its maturity or due date,

(b) in the case of an installment of principal or interest, by payment at the maturity or due date thereof, or

(c) in the case of principal, by payment of part thereof at the respective maturity or due dates thereof and redemption or prepayment of the remainder thereof prior to the respective maturity or due dates thereof; and

(2) in the event that, according to such trust agreement, any such principal is to be redeemed or prepaid prior to the respective maturity or due dates thereof, evidence satisfactory to the Trustee that there have been duly taken all actions, and there have been duly given all notices, that are required for such redemption or prepayment.

The trust fund described in the preceding clause (1) must, under the Indenture, consist of (i) Eligible Escrow Investments which are not subject to redemption prior to their respective maturities at the option of the issuer and which, if the principal thereof and the interest thereon are paid at their respective maturities, will produce funds sufficient so to provide for payment of such principal or interest installment, or (ii) both cash and such Eligible Escrow Investments which together will produce funds sufficient for such purpose, or (iii) cash sufficient for such purpose. See the definition of the term "Eligible Escrow Investments" hereinabove set forth.

Supplemental Indentures

The Indenture permits the Authority and the Trustee, without the consent of any bondholders, to enter into supplemental indentures (which will become a part of the Indenture) for the purpose of adding further covenants and agreements on the part of the Authority, curing ambiguities, defects or inconsistent provisions and subjecting the revenues from additional property to the charge or lien of the Indenture. The Indenture also permits the Authority and the Trustee to enter into other supplemental indentures, with the written consent of the holders of not less than sixty-six and two-thirds percent (66-2/3%) in principal amount of the Bonds then outstanding (but without the necessity of the consent of any holders of Other Senior Debt), except that without the written consent of the holder of each Bond affected, the Authority and the Trustee may not enter into any supplemental indenture that has the effect of reducing the principal amount of, the rate of interest on, or the premium payable upon the redemption of, any Bond, nor, without the written consent of the holders of all the then outstanding Bonds, may the Authority or the Trustee enter into any supplemental indenture permitting the extension of the maturity of any installment of principal of or interest on any Bond, any change in the schedule of required sinking fund or other similar payments with respect to any series of the Bonds, the creation of a lien or charge on the revenues from the Facilities or on any other Gross Receipts ranking prior to, or (except in connection with the issuance of Additional Bonds or the incurring of Other Senior Debt) on a parity with, the lien or charge thereon contained in the Indenture, the execution of a mortgage on the Facilities or on any of those of the other assets or properties of the Authority out of the revenues from which the Bonds are payable (or the creation of a lien thereon, other than as otherwise permitted by the Indenture), the establishment of preferences or priorities as between the Bonds, or the establishment of any preferences or priorities of any Other Senior Debt over the Bonds, or a reduction in the aggregate principal amount of Bonds the holders of which are required to consent to such supplemental indenture.

The Trustee

While the Trustee has in the Indenture agreed to perform the duties required of it thereby, it is not liable under the Indenture except for its non-compliance with the provisions thereof, its willful misconduct or its negligence. The Indenture also contains other broad exculpatory clauses in favor of the Trustee.

Under the terms of the Indenture, the Authority's obligation to pay expenses incurred by the Trustee and advances made by it in the performance of its duties under the Indenture, as well as to pay reasonable compensation for its services, is secured by the Indenture, and the payment of such expenses, advances and compensation is given priority over payment of the principal of and the interest (and premium, if any) on the Bonds and Other Senior Debt. The Indenture provides that the Trustee may, upon written notice to the Authority and such publication of such notice as is required, resign and be discharged of the trusts created in the Indenture. Upon any resignation, removal or other failure of the Trustee to act, the Authority may appoint an interim successor trustee, who may act as such until such time as the holders of a majority in principal amount of the then outstanding Bonds select a "permanent" successor trustee. The Indenture also provides that any successor trustee, interim or permanent, shall be a bank or trust company authorized to administer trusts and having combined capital, surplus and undivided profits of at least \$100,000,000.

The Series 1998 Bonds Insurance Policy

The Indenture contains the following provisions with respect to the Series 1998 Bonds Insurance Policy:

(1) The Authority and the Trustee are each required to take such action as shall be necessary or desirable and not inconsistent with the provisions of the Indenture to secure to the holders of the Series 1998 Bonds and the 1998 Bond Insurer their respective rights under the Series 1998 Bonds Insurance Policy. The holders of the Series 1998 Bonds shall be deemed to have consented to the provisions of the Series 1998 Bonds Insurance Policy, including, but without limitation, any subrogation rights of the 1998 Bond Insurer.

(2) Whenever any consent or approval of the holders of a requisite percentage of Bonds is required under the Indenture, the 1998 Bond Insurer shall be deemed to be the holder of all the outstanding Series 1998 Bonds for the purpose of giving or refusing to give such consent or approval.

(3) Upon the occurrence of an event of default under the Indenture, the 1998 Bond Insurer shall be deemed to be the holder of all the Series 1998 Bonds for the purpose of exercising the rights of the holders of the Series 1998 Bonds to direct the enforcement of the rights and remedies granted to the holders of Bonds under the Indenture, to accelerate the maturities of the principal of Bonds and to waive any such event of default or acceleration.

(4) The Authority is required to cause the Trustee to furnish to the 1998 Bond Insurer the following:

(i) as soon as practicable after the filing thereof, a copy of any financial statement filed with the Trustee under the Indenture;

(ii) a copy of any notice required to be given to the holders of the Series 1998 Bonds and any certificate required to be furnished to the Trustee with respect to the security for the Series 1998 Bonds; and

(iii) such additional information as the 1998 Bond Insurer shall reasonably request.

(5) Any Series 1998 Bonds paid with funds provided by the 1998 Bond Insurer shall be deemed to be unpaid and outstanding for purposes of the Indenture, and the 1998 Bond Insurer shall be subrogated to the rights of the holders of the Series 1998 Bonds to the extent of all payments made by it.

(6) For purposes of determining whether any action proposed to be taken under the Indenture may be adverse to the holders of the Bonds, the Trustee shall consider the rights and interests of the holders of the Series 1998 Bonds without regard to the existence of the Series 1998 Bonds Insurance Policy.

APPENDIX D

Proposed Opinion of Bond Counsel

[Insert Date]

The DCH Health Care Authority
Tuscaloosa, Alabama

Ladies and Gentlemen:

We have examined certified copies of proceedings and other documents showing the organization under the laws of Alabama of THE DCH HEALTH CARE AUTHORITY (herein called "the Authority"), together with copies of proceedings of the Authority and other documents submitted to us pertaining to the issuance and validity of

\$30,000,000
THE DCH HEALTH CARE AUTHORITY
Health Care Facilities Revenue Bonds
Series 2006
Dated September 1, 2006

(herein called "the Series 2006 Bonds"). We have not examined any of the Series 2006 Bonds as executed. The statements hereinafter made and the opinions hereinafter expressed are based upon our examination of the aforesaid proceedings and documents.

The documents submitted to us show as follows:

(a) that the Authority has heretofore executed and delivered to Regions Bank (herein called "the Trustee"), a Trust Indenture dated as of June 1, 1987 (herein called "the 1987 Indenture"), wherein the Authority has pledged for payment of all bonds issued under the 1987 Indenture (i) the revenues derived by the Authority from the entire hospital and health-care facilities of the Authority (the said hospital and health-care facilities being herein together called "the Facilities"), and (ii) the revenues derived by the Authority from certain of its other assets and properties (the revenues derived by the Authority from the Facilities and the said revenues derived by the Authority from the said other assets and properties being herein together called "the Pledged Revenues");

(b) that there is presently outstanding under the 1987 Indenture three series of bonds, dated February 1, 1998, June 29, 2000, and October 1, 2002 (herein called "the Outstanding Bonds"); and

(c) that the Authority has reserved, in the Indenture, the privilege of issuing from time to time (i) additional bonds (herein called "Additional Bonds") and (ii) certain other bonds, notes, certificates of indebtedness or other obligations for the payment of money (herein together called "Other Senior Debt"), in one or more series, without limitation as to principal amount, on a parity with the Outstanding Bonds as respects the pledge of the Pledged Revenues, upon compliance with the conditions set forth in the 1987 Indenture.

We are of the following opinion:

(1) that the Authority is a duly organized and existing corporation and instrumentality under the laws of the State of Alabama and has corporate power to issue the Series 2006 Bonds, to execute and deliver the 1987 Indenture, as heretofore supplemented and amended by a First Supplemental Indenture dated as of August 15, 1991, a Second Supplemental Indenture dated as of March 1, 1993, a Third Supplemental Indenture dated as of March 1, 1993, a Fourth Supplemental Indenture dated as of February 1, 1998, a Fifth Supplemental Indenture dated as of June 1, 2000, and a Sixth Supplemental Indenture dated as of October 1, 2002, each between the Authority and the Trustee, and as further supplemented and amended by a Seventh Supplemental Indenture dated as of September 1, 2006, between the Authority and the Trustee (the 1987 Indenture, as so supplemented and amended, being herein called "the Indenture") and to perform the agreements on its part contained therein;

(2) that the Series 2006 Bonds have been duly authorized, sold, executed and issued in the manner provided by the applicable provisions of the Constitution and laws of Alabama, are in due and legal form and evidence valid and binding limited or special obligations of the Authority payable, as to principal, interest and premium (if any), solely out of the Pledged Revenues;

(3) that the payment of the principal of and the interest (and premium, if any) on the Series 2006 Bonds is secured, pro rata with the Outstanding Bonds and with any other of the Additional Bonds that may be hereafter issued and without preference or priority of one bond over another (except as otherwise permitted by the Indenture) by the provisions of the Indenture, including, without limitation, the pledge of the Pledged Revenues;

(4) that the said pledge of the Pledged Revenues is valid, subject to all prior charges thereon and subject to the right reserved by the Authority in the Indenture to pledge such revenues for the payment of Other Senior Debt on a

parity with the pledge thereof for the benefit of the Outstanding Bonds, the Series 2006 Bonds and any other Additional Bonds hereinafter issued, and subject to bankruptcy, insolvency, reorganization and other similar laws affecting creditor's rights;

(5) that the Indenture has been duly authorized, executed and delivered on behalf of the Authority and constitutes a valid and binding agreement, enforceable against the Authority, except to the extent that the enforceability thereof may be limited by bankruptcy, insolvency, reorganization and other similar laws affecting creditor's rights;

(6) that the Series 2006 Bonds are exempt from registration under the Securities Act of 1933, as amended, and the Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended;

(7) that under existing statutes, the interest income on the Series 2006 Bonds is exempt from Alabama income taxation; and

(8) that under the Internal Revenue Code of 1986, as amended (herein called "the Code"), as presently construed and administered, and assuming compliance by the Authority with the covenants set forth in the Indenture with respect to certain requirements of Federal tax law, the interest income on the Series 2006 Bonds will be excludable from gross income of the recipients thereof for federal income tax purposes pursuant to the provisions of Section 103(a) of the Code, and the interest income on the Series 2006 Bonds will not be an item of tax preference included in alternative minimum taxable income for the purpose of computing the alternative minimum tax imposed by Section 55 of the Code. We call to your attention, however, that a portion of the interest income on the Series 2006 Bonds will be included in alternative minimum taxable income of corporations for the purpose of computing the alternative minimum tax imposed by Section 55 of the Code. We express no opinion with respect to the federal tax consequences of ownership of the Series 2006 Bonds under any other provision of the Code.

We have not examined the title of the Authority to the Facilities, but have, pursuant to instructions, assumed that the Authority has good title to the Facilities, subject to "Permitted Encumbrances" as that term is defined in the Indenture.

The Indenture provides that in the event the Authority should default in any of the provisions thereof in the manner and for the time therein provided, the Trustee may declare all

bonds then outstanding under the Indenture to be forthwith due and payable, whereupon the same shall immediately become due and payable and the Trustee shall be entitled to exercise the rights specified in the Indenture. The Indenture does not, however, constitute a mortgage on the Facilities and is not, therefore, subject to foreclosure. The Indenture further provides that to the extent and in the manner provided thereby, it may be amended with the written consent of the holders of at least 66-2/3% in principal amount of the bonds then outstanding thereunder.

We express no opinion with respect to the accuracy, adequacy or completeness of the Official Statement of the Authority with respect to the Series 2006 Bonds.

Yours very truly,

