

\$72,055,000

HOSPITAL AUTHORITY OF HOUSTON COUNTY, GEORGIA
Revenue Anticipation Certificates (Houston Healthcare Project), Series 2007

Dated: Date of Delivery**Due: October 1, as shown below**

The Series 2007 Certificates are being issued for the purpose of (i) financing the acquisition, construction, installation and equipping of certain additions and improvements to Houston Medical Center and related facilities owned by the Hospital Authority of Houston County, Georgia (in such capacity, the "Authority"), including capitalized interest during the construction period, and (ii) paying all or a portion of the costs of issuance of the Series 2007 Certificates. The Series 2007 Certificates are being issued pursuant to a Trust Indenture, dated as of August 1, 2007 (the "2007 Indenture"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Series 2007 Certificates are payable from and secured by the Trust Estate under the 2007 Indenture pledged by the Authority to secure the Series 2007 Certificates, including a pledge of revenues derived by the Authority under the hereinafter described 2007 Master Note and by other funds pledged under the 2007 Indenture. The 2007 Master Note is being issued and secured under and pursuant to a Master Trust Indenture, dated as of August 1, 2007, as supplemented from time to time (the "Master Indenture"), between the Authority and Houston Heart Institute, Inc. ("HHI," and together with the Authority, the "Obligated Group") and U.S. Bank National Association, as trustee (the "Master Trustee"). As security for the obligations under the Master Indenture, the Obligated Group has pledged its Gross Revenues (as defined in the Master Indenture) to the Master Trustee as described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES" herein.



HOUSTON HEALTHCARE
Houston Medical Center • Perry Hospital

The Series 2007 Certificates will only be issued in book-entry form registered in the name of Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"). Payment of the principal of and interest on the Series 2007 Certificates will be made by the Trustee directly to Cede & Co., as nominee for DTC, as registered owner of the Series 2007 Certificates, to be subsequently disbursed to DTC Participants and thereafter to beneficial owners of the Series 2007 Certificates, all as further described herein. See "DESCRIPTION OF THE SERIES 2007 CERTIFICATES -- Book-Entry System of Registration" herein.

The Series 2007 Certificates will be issued as fully registered Certificates in the denomination of \$5,000 or any integral multiple thereof. Interest on the Series 2007 Certificates will be payable semiannually on each April 1 and October 1, commencing October 1, 2007. See "DESCRIPTION OF THE SERIES 2007 CERTIFICATES -- General" and "-- Terms; Registration and Transfer" herein.

The Series 2007 Certificates are subject to optional and mandatory redemption prior to their respective maturities as described herein. See "DESCRIPTION OF THE SERIES 2007 CERTIFICATES -- Optional Redemption" and "-- Mandatory Sinking Fund Redemption" herein.

In the opinion of Bond Counsel, under existing law and subject to conditions hereinafter described, interest on the Series 2007 Certificates (including any original issue discount properly allocable to an owner thereof) is not included in gross income for federal income tax purposes, and is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations; provided, however, with respect to certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on such corporations. In the opinion of Bond Counsel, interest on the Series 2007 Certificates is exempt from present State of Georgia income taxation under existing statutes. See "LEGAL MATTERS - Tax Exemption" herein."

The Series 2007 Certificates are not a debt or a general obligation of the State of Georgia or any political subdivision thereof. Neither the general credit nor the taxing power of the State of Georgia or any political subdivision thereof, including Houston County, is pledged for the payment of the Series 2007 Certificates. The Series 2007 Certificates and other obligations issued on a parity therewith are limited obligations of the Authority payable solely from the moneys pledged thereto under the 2007 Indenture. The Authority has no taxing power.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire official statement to obtain information essential to making an informed investment decision.

The Series 2007 Certificates 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 2007 Certificates and certain other matters by Oliver, Maner & Gray LLP, Savannah, Georgia, Bond Counsel. Certain legal matters will be passed on for the Authority by Walker, Hulbert, Gray & Byrd, LLP, Perry, Georgia, and for the Underwriter by King & Spalding LLP. The Series 2007 Certificates in definitive form are expected to be available for delivery through The Depository Trust Company in New York, New York on or about August 23, 2007.

Wachovia Securities

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES OR YIELDS

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Approximate Yield</u>	<u>Price</u>
2010	\$60,000	4.250%	4.290%	99.881
2011	70,000	4.250	4.330	99.698
2012	80,000	4.250	4.380	99.407
2013	90,000	4.250	4.440	98.989
2014	95,000	4.250	4.500	98.489
2015	1,185,000	5.250	4.580	104.489
2016	1,250,000	5.250	4.650	104.407
2017	1,315,000	5.000	4.730	102.144
2018	1,380,000	5.250	4.830*	103.322
2019	1,450,000	5.250	4.890*	102.838
2020	1,525,000	5.250	4.920*	102.597
2021	1,610,000	5.250	4.950*	102.357
2022	1,690,000	5.250	4.970*	102.198
2023	1,780,000	5.250	4.990*	102.038
2024	1,875,000	5.250	5.020*	101.800
2025	1,970,000	5.250	5.040*	101.641
2038	3,815,000	5.000	5.240	96.330

\$26,410,000 5.250% Term Bonds due October 1, 2035, Priced at 100.149 to Yield 5.230%.*

\$7,095,000 5.000% Term Bonds due October 1, 2037, Priced at 96.526 to Yield 5.230%.

\$7,310,000 5.250% Term Bonds due October 1, 2042, Priced at 99.201 to Yield 5.300%.

\$10,000,000 5.000% Term Bonds due October 1, 2042, Priced at 95.236 to Yield 5.300%.

* Yield shown is the yield to the first call date.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement in connection with the offering contained herein, and if given or made, such other information or representations must not be relied upon. 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 2007 Certificates by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from representatives of the Authority and HHI, and other sources considered to be reliable. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities 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. The delivery of this Official Statement at any time does not imply that any information herein is correct as of any time subsequent to its date. Any statements in this Official Statement involving estimates, assumptions and matters of opinion, whether or not so expressly stated, are intended as such and not representations of fact.

NO REGISTRATION STATEMENT RELATING TO THE SERIES 2007 CERTIFICATES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC") OR ANY STATE SECURITIES AGENCY. THE SERIES 2007 CERTIFICATES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SEC OR ANY STATE SECURITIES AGENCY, NOR HAS THE SEC OR ANY STATE SECURITIES AGENCY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

\$72,055,000

HOSPITAL AUTHORITY OF HOUSTON COUNTY, GEORGIA Revenue Anticipation Certificates (Houston Healthcare Project), Series 2007

INTRODUCTION

General

The purpose of this Official Statement, including the cover page and the Appendices, is to furnish certain information in connection with the offering of \$72,055,000 in aggregate principal amount of Hospital Authority of Houston County, Georgia Revenue Anticipation Certificates (Houston Healthcare Project), Series 2007 (the "Series 2007 Certificates"). Capitalized terms used and not otherwise defined herein shall have the meanings set forth in Appendix C hereto.

Purpose of the Series 2007 Certificates

The Series 2007 Certificates are being issued by Hospital Authority of Houston County, Georgia (the "Authority") for the purpose of (i) financing the acquisition, construction, installation and equipping of certain additions and improvements to Houston Medical Center and related facilities ("Houston Healthcare"), which is owned by the Authority, and (ii) paying all or a portion of the costs of issuance of the Series 2007 Certificates. See "PLAN OF FINANCING."

Security for and Sources of Payment for the Series 2007 Certificates

The Series 2007 Certificates will be issued pursuant to and secured by a Trust Indenture (the "2007 Indenture"), dated as of August 1, 2007, between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). Pursuant to the 2007 Indenture, the Authority will assign and pledge to the Trustee as security for the Series 2007 Certificates the 2007 Trust Estate, which includes all of its respective right, title and interest in and to a 2007 Master Note and the payments due thereunder. The 2007 Master Note, dated the date of issuance of the Series 2007 Certificates, will be issued and secured under and pursuant to a Master Trust Indenture, dated as of August 1, 2007, as supplemented from time to time (as so supplemented, the "Master Indenture"), among the Authority and Houston Heart Institute, Inc. ("HHI," and together with the Authority, the "Obligated Group") and U.S. Bank National Association, as trustee (in such capacity, the "Master Trustee"). See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES" and Appendix C.

Pursuant to the Master Indenture, the Obligated Group has pledged all of its right, title and interest in the Gross Revenues of the Obligated Group to the payment of the Series 2007 Master Note and all other obligations issued thereunder (collectively, the "Outstanding Master Notes") and any other future parity Obligations ranking as to lien under Master Indenture on a parity with the lien securing the Outstanding Master Notes (the Outstanding Master Notes, together with any future parity Obligations issued under the Master Indenture, the "Obligations"). At the present time, the only other Obligation secured under the Master Indenture is a note (the "Series 2002 Master Note") securing obligations relating to the Authority's Tax-Exempt Adjustable Mode Revenue Bonds, Series 2002, currently outstanding in the principal amount of \$7,610,000, as described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES."

THE AUTHORITY

General

The Authority was established by a joint resolution of the Board of Commissioners of Roads and Revenues of the County, adopted on February 26, 1957, as amended by resolutions adopted on January 8, 1963 and March 18, 1969. The Authority is a public body corporate and politic of the State of Georgia, duly created and validly existing pursuant to the Hospital Authorities Law of the State of Georgia, Section 31-7-70 *et seq.*, of the Official Code of Georgia Annotated, as amended (the "Act"). Under the Act, the Authority has broad powers to acquire, construct, improve, alter and repair hospitals, clinics, nursing homes, extended care facilities, medical office buildings and

other public health facilities, to issue revenue certificates, to establish rates and charges for the services and use of its facilities and to mortgage, pledge or assign any revenue or income received by it to the payment of the principal of, redemption premium (if any) and interest on, such revenue certificates, and to refund such revenue certificates. The Authority has no taxing power.

The Authority is governed by a nine-member Board of Trustees (the “Authority Board”). Members are appointed for overlapping four-year terms by the Commission of the County (the “Commission”). The current members of the Authority Board, their principal business or professional affiliations and their terms are as follows:

<u>Name</u>	<u>Present Principal Business or Professional Affiliation</u>	<u>Term of Office Expires</u>
Sonny Watson, Chairman		02/2009
Daniel A. Deighton, MD, Vice Chairman	Chief of Staff - Houston Medical Center	Concurrent with term as Chief of Staff
Horatio V. Cabasares, MD	Chief of Staff - Perry Hospital	Concurrent with term as Chief of Staff
Ed Dyson	Executive Director, Houston County Board of Education	02/2009
Glynn Greenway	Owner, Insurance Agency	02/2010
Fred Graham	Attorney	02/2011
Jack Ragland	Retired, Comptroller, Macon State College	02/2010
Trudie Warren	Retired, Manager, Flint Energies	02/2008
Larry Warnock	Owner, Construction Business	02/2011

The Authority owns and operates (i) a general hospital in Houston County, Georgia known as Houston Medical Center (“Houston Medical Center”), (ii) a general hospital in Perry, Georgia known as Perry Hospital (“Perry Hospital”, (iii) the Houston Health Pavilion (the “Pavilion”), and (iv) Houston Lake Med-Stop and Occupational Health and Wellness Center (“Houston Lake Med-Stop”). All of these facilities, together with Houston Heart Institute, Inc. (the “Heart Institute”) and any future health care facilities owned and operated by the Authority or by the Heart Institute, are collectively referred to herein as the “Facilities.”

Established in 1989 as a Georgia non-profit corporation, the Heart Institute is a tax-exempt organization described under Section 501(c)(3) of the Code. The Authority is the sole member of the Heart Institute. The Heart Institute is a comprehensive outpatient cardiac catheterization laboratory equipped for both diagnosis and treatment of cardiovascular disease. Services include echocardiograms, holter monitoring, pacemaker implants, doppler echocardiography, and vascular studies in addition to cardiac catheterization and cardiac outpatient rehabilitation. The Heart Institute is housed in a building that is attached to, and integrated with, the main Houston Medical Center hospital building.

Houston Medical Center was established in Warner Robins, Georgia as a 50-bed acute care facility in 1960. Three expansion programs have increased the current bed complement to 250, of which 180 are currently operational. Perry Hospital was built to provide healthcare to patients in and around Perry, Georgia. Perry Hospital has maintained its original complement of 45 operational beds since opening in 1969, and in 1983, was expanded to better provide outpatient services. Both Houston Medical Center and Perry Hospital provide medical, surgical, pediatric and intensive care. Houston Medical Center also provides psychiatric services. Both hospitals offer emergency and ancillary inpatient or outpatient services on a 24-hour basis. The Pavilion opened in 1985 and provides urgent care, diagnostic and counseling services. Houston Lake Med-Stop opened in 2001 and provides urgent care and occupational health and wellness services. For a more detailed description of the Authority and its facilities and operations, see Appendix “A.”

DESCRIPTION OF THE SERIES 2007 CERTIFICATES

General

The Series 2007 Certificates will be dated the date of their initial issuance and delivery. The Series 2007 Certificates will mature on October 1 in the year and principal amounts set forth on the cover page hereof. The Series 2007 Certificates will bear interest at the respective rates per annum set forth on the cover page hereof and will be payable semi-annually on each April 1 and October 1, commencing October 1, 2007. The Series 2007 Certificates will be initially issued as book-entry-only Certificates in fully registered form in the denomination of \$5,000 each or any integral multiple thereof.

While the Series 2007 Certificates are in book-entry form, principal of, redemption premium (if any) and interest on the Series 2007 Certificates will be payable by wire transfer to Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). See "DESCRIPTION OF THE SERIES 2007 CERTIFICATES -- Book-Entry System of Registration." When not in book-entry form, interest on the Series 2007 Certificates will be paid by U.S. Bank National Association, as Certificate Registrar by check or draft mailed to the registered owner of each Series 2007 Certificate as shown on the certificate registration book maintained by the Certificate Registrar as of the fifteenth day preceding an interest payment date.

Terms, Registration and Transfer

When in book-entry form, the Series 2007 Certificates held by DTC (or its nominee, Cede & Co.) on behalf of the Beneficial Owners thereof are transferable in the manner described herein under the heading "-- Book-Entry System of Registration". When not in book-entry form, ownership of the Series 2007 Certificates may be registered as transferred only upon surrender thereof to the Certificate Registrar, together with an assignment duly executed by the registered owner or his attorney duly authorized in writing, in such form as shall be satisfactory to the Certificate Registrar. In addition, when not in book-entry form, the Series 2007 Certificates may be exchanged by the registered owner hereof or his or her duly authorized attorney upon presentation at the principal corporate trust office of the Trustee for an equal aggregate principal amount of Series 2007 Certificates of the same maturity and in any authorized denominations in the manner, subject to the conditions and upon payment of charges, if any, provided in the 2007 Indenture. Upon any such registration of transfer or exchange, the Certificate Registrar shall authenticate and deliver in exchange for such Series 2007 Certificates so surrendered, a new Series 2007 Certificate of the same series registered in the name of the transferee in the denomination of \$5,000 or any integral multiple thereof and in an aggregate principal amount equal to the aggregate principal amount of the Series 2007 Certificate so surrendered and of the same maturity. For every exchange or registration of transfer of a Series 2007 Certificate, the Certificate Registrar may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer, but no other charge may be made to the owner for any exchange or registration of transfer of Series 2007 Certificates.

The Certificate Registrar shall not be required register the transfer of or to exchange any Series 2007 Certificates called for redemption during a period beginning 15 days before the date of the notice of redemption is to be given and ending on the redemption date, except in such manner as may be necessary to effect the partial redemption of any Series 2007 Certificate.

In case any Series 2007 Certificate shall become mutilated, the Certificate Registrar may, in its discretion and at the expense of the owner of such certificate, authenticate and deliver a new certificate of like tenor in exchange and substitution for such mutilated certificate.

If any Series 2007 Certificate shall become lost, destroyed or wrongfully taken, evidence of such loss, destruction or wrongful taking within a reasonable time thereafter may be submitted to the Authority and the Trustee and if such evidence shall be satisfactory to both, and if indemnity of a character and in an amount satisfactory to them, respectively, is given, then the Trustee shall cause a new certificate of like tenor registered in the name of the owner to be authenticated by the Certificate Registrar and delivered to the registered owner, at the owner's expense.

Optional Redemption

The Series 2007 Certificates maturing on and after October 1, 2017 may be redeemed by the Authority, at the option of in whole or in part, on any date in any year not earlier than October 1, 2017 from any moneys which

may be made available for such purpose at a redemption price equal to par plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption

The Series 2007 Certificates maturing on October 1, 2035 are subject to mandatory redemption, in part, at a redemption price equal to par on October 1 of the years and in the principal amounts shown below (the October 1, 2035 amount to be paid rather than redeemed):

<u>October 1 of the Year</u>	<u>Principal Amount of Certificates Redeemed</u>
2026	\$2,075,000
2027	2,185,000
2028	2,300,000
2029	2,420,000
2030	2,545,000
2031	2,680,000
2032	2,820,000
2033	2,970,000
2034	3,125,000
2035	3,290,000

The Series 2007 Certificates maturing on October 1, 2037 are subject to mandatory redemption, in part, at a redemption price equal to par on October 1 of the years and in the principal amounts shown below (the October 1, 2037 amount to be paid rather than redeemed):

<u>October 1 of the Year</u>	<u>Principal Amount of Certificates Redeemed</u>
2036	\$3,460,000
2037	3,635,000

The Series 2007 Certificates maturing on October 1, 2042 bearing interest at 5.250% are subject to mandatory redemption, in part, at a redemption price equal to par on October 1 of the years and in the principal amounts shown below (the October 1, 2042 amount to be paid rather than redeemed):

<u>October 1 of the Year</u>	<u>Principal Amount of Certificates Redeemed</u>
2039	\$1,700,000
2040	1,780,000
2041	1,870,000
2042	1,960,000

The Series 2007 Certificates maturing on October 1, 2042 bearing interest at 5.000% are subject to mandatory redemption, in part, at a redemption price equal to par on October 1 of the years and in the principal amounts shown below (the October 1, 2042 amount to be paid rather than redeemed):

<u>October 1 of the Year</u>	<u>Principal Amount of Certificates Redeemed</u>
2039	\$2,310,000
2040	2,435,000
2041	2,560,000
2042	2,695,000

Selection of Series 2007 Certificates to be Redeemed

In the case of a redemption of Series 2007 Certificates in part, the Authority may select the specific maturities of the Series 2007 Certificates to be redeemed. If less than all of the Series 2007 Certificates of a single maturity are to be redeemed, the particular Series 2007 Certificates of such maturity to be redeemed shall be selected

by the Trustee by lot or by such other means as the Trustee shall determine. Any Series 2007 Certificate of such maturity outstanding in a denomination of greater than \$5,000 principal amount may be called for partial redemption in the principal amount of \$5,000 or any multiple thereof and for the purpose of designating the particular Series 2007 Certificates of such maturity to be redeemed or the amount of any Series 2007 Certificate to be partially redeemed, the Trustee shall treat the entire principal amount of the Series 2007 Certificates of such maturity then outstanding as if same were separate Series 2007 Certificates of \$5,000 each and shall assign separate numbers to each for the purpose of determining the Series 2007 Certificates or the principal amount of any Series 2007 Certificate in a denomination greater than \$5,000 to be redeemed by lot.

Partially Redeemed Certificates

In case any Series 2007 Certificate shall be redeemed in part only, upon the surrender of such Series 2007 Certificate for such partial redemption, the Trustee shall authenticate and shall deliver or cause to be delivered to or upon the written order of the owner thereof, at the expense of the Authority, a Series 2007 Certificate or Certificates of the same maturity (but only in authorized denominations), for the unredeemed portion of such partially-redeemed Series 2007 Certificate. Any Series 2007 Certificate, a portion of which has been redeemed as contemplated by this Section, shall be considered to be outstanding only in an amount reduced by the portion thereof so redeemed whether or not it has been surrendered as aforesaid.

Notice and Procedure for Redemption

In the event that the Authority elects to optionally redeem the Series 2007 Certificates, in whole or in part, the Trustee shall provide a notice of redemption by first class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the redemption date, to the owners of Series 2007 Certificates to be redeemed (in whole or in part) at the addresses appearing in the certificate registration book maintained by the Trustee.

Effect of Redemption Call

Notice having been given in the manner and under the conditions provided in the 2007 Indenture, and moneys for the payment of the redemption price being held by the Trustee, all as provided in the 2007 Indenture, the Series 2007 Certificates so called for redemption shall, on the redemption date designated in such notice, become and be due and payable at the redemption price provided for redemption of such Series 2007 Certificates on such date, interest on the Series 2007 Certificates so called for redemption shall cease to accrue, such Series 2007 Certificates shall cease to be entitled to any lien, benefit or security under the 2007 Indenture, and the owners of such Series 2007 Certificates shall have no rights in respect thereof except to receive payment of the redemption price thereof.

Book-Entry System of Registration

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered Certificates registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity and will be deposited with DTC.

DTC, the world's largest depository, 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 Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities Certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC,

also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC System is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Certificates under the DTC System must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC’s records. The ownership interest of each actual purchaser of Certificates (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all the Certificates deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of Certificates; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct 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. **BENEFICIAL OWNERS SHOULD MAKE APPROPRIATE ARRANGEMENTS WITH THEIR BROKER OR DEALER TO RECEIVE NOTICES (INCLUDING NOTICES OF REDEMPTION) AND OTHER INFORMATION REGARDING CERTIFICATES THAT MAY BE SO CONVEYED TO DIRECT PARTICIPANTS AND INDIRECT PARTICIPANTS.**

Redemption notices shall be sent to DTC. If less than all of the Certificates within an issue are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC’s Procedures. 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 Direct Participants to whose accounts Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts, upon DTC’s receipt of funds and corresponding detail information from the Authority or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by 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 such Participant and not of DTC, the Authority or the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to Certificates at any time by giving reasonable notice to the Authority or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Certificates for the Certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Certificates for the Certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

NEITHER THE AUTHORITY NOR THE PAYING AGENT NOR THE UNDERWRITER (OTHER THAN IN THEIR CAPACITY, IF ANY, AS A DIRECT PARTICIPANT OR AN INDIRECT PARTICIPANT) WILL HAVE ANY OBLIGATION TO THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS AND BENEFICIAL OWNERS.

NEITHER THE AUTHORITY NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY PARTICIPANT, OR BY ANY PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON CERTIFICATES; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY PARTICIPANT, OR BY ANY PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO HOLDERS OR OWNERS OF CERTIFICATES; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF CERTIFICATES; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF CERTIFICATES.

The provisions of this Official Statement relating to the delivery of physical Series 2007 Certificates shall be deemed inapplicable or be otherwise so construed as to give full effect to such book-entry system.

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Limited Obligation

Neither the State of Georgia nor any political subdivision thereof, including Houston County, shall, in any event, be liable for the payment of the principal of, redemption premium, if any, or interest on the Certificates, or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever that may be undertaken by the Authority, and none of the Certificates or the Authority's agreements or obligations shall be construed to constitute a debt or a pledge of the faith and credit of the State of Georgia or any political subdivision of the State of Georgia within the meaning of any constitutional or statutory provision whatsoever Certificates do not directly, indirectly or contingently obligate the State of Georgia, Houston County or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor or to make any appropriation for the payment thereof. The Authority has no taxing power.

The Series 2007 Certificates are limited obligations of the Authority, payable solely from the 2007 Trust Estate which is assigned and pledged to the Trustee by the Authority. The 2007 Trust Estate for the Series 2007 Certificates is defined to include all of the Authority's right, title and interest in and to (i) the 2007 Master Note, including, but not limited to, the present and continuing right to make claim for, collect, receive and receipt for any of the sums, amounts, income, revenues, issues and profits and any other sums of money payable or receivable under the 2007 Master Note, to bring actions and proceedings thereunder or for the enforcement thereof, and to do any and all things which the Authority is or may become entitled to do under the 2007 Master Note, (ii) all moneys

and securities held by the Trustee in any and all funds and accounts established from time to time under the 2007 Indenture and (iii) any and all other property of every name and nature from time to time hereafter by delivery or by writing of any kind, given, granted, pledged and assigned as and for additional security under the 2007 Indenture, by the Authority or by anyone in its behalf or with its written consent, to the Trustee, which is authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms of the 2007 Indenture.

Debt Service Reserve Fund

The 2007 Indenture provides for the establishment of a Debt Service Reserve Fund which is required to be maintained in an amount equal to the “Reserve Requirement.” The Reserve Requirement is defined as the maximum annual debt service on the Series 2007 Certificates. The 2007 Indenture provides that the Debt Service Reserve Fund will be available to pay the principal of and interest on the Series 2007 Certificates in the event that moneys in the Certificate Fund established under the 2007 Indenture are insufficient for such purpose. In lieu of depositing moneys in the Debt Service Reserve Fund, or in substitution for moneys previously deposited in the Debt Service Reserve Fund, the Authority may provide the Trustee with a surety bond, a letter of credit or any other similar instrument. See Appendix C, “SUMMARY OF CERTAIN DOCUMENTS” for further information regarding the Debt Service Reserve Fund.

The Master Notes

In connection with the issuance of the Series 2007 Certificates, the Obligated Group has agreed to execute and deliver a 2007 Master Note (the 2007 Master Note, and together with the 2002 Master Note hereinafter described and any future Master Notes issued pursuant to the Master Indenture, the “Master Notes”) under which the Obligated Group will agree to make payments to the Authority in such amounts and at such times as shall be necessary to pay the principal, redemption premium, if any, and interest on the Series 2007 Certificates.

The Obligated Group has also issued a note under the Master Indenture (the “2002 Master Note”) in favor of Wachovia Bank, National Association (“Wachovia”), as issuer of a letter of credit securing payment of principal and interest due on the Authority’s Tax-Exempt Adjustable Mode Revenue Bonds, Series 2002 (the “Series 2002 Certificates”) which are presently outstanding in the aggregate principal amount of \$7,610,000. The 2002 Master Note provides for payments to Wachovia to reimburse Wachovia for payments made under its letter of credit to pay amounts due on the Series 2002 Certificates.

The 2002 Master Note and the 2007 Master Note are secured on a pro rata basis under the Master Indenture and share, together with any future Obligations issued under the Master Indenture a lien on the Gross Revenues of the Obligated Group.

The Master Indenture

The 2007 Master Note is being issued as an Obligation under the Master Indenture. Under the Master Indenture, the members of the Obligated Group (as it may exist from time to time) have jointly and severally unconditionally guaranteed to the holder of any Obligation issued under the Master Indenture the due and punctual payment of the principal of and interest on any such Obligation and all other amounts due and payable under the Master Indenture when and as the same become due and payable, whether at the stated maturity or by declaration of acceleration, call for redemption or otherwise according to the terms thereof; provided that the maximum aggregate liability of each member of the Obligated Group as of any date shall be its “Maximum Guaranty Liability” as of such date. The term “Maximum Guaranty Liability” is defined in the Master Indenture as of any date to mean the greater of (i) the greater of (a) the outstanding amount of all Obligations issued by such Person or (b) the fair market value of all property acquired in whole or in part with the proceeds of such obligations by such Person; or (ii) the greatest of the Fair Value Net Worth of such Person as of (w) the latest fiscal year-end of such Person, (x) each fiscal quarter-end of such Person thereafter occurring on or prior to the date of determination of the Maximum Guaranty Liability, (y) the date on which enforcement of the guaranty is sought, and (z) the date on which a case under the United States Bankruptcy Code is commenced with respect to any member of the Obligated Group. In addition, the Master Indenture provides that in the event that any guaranty would constitute or result in a violation of any applicable fraudulent conveyance or similar law of any relevant jurisdiction, then the liability of such member of the Obligated Group under the guaranty in the Master Indenture shall be reduced to the maximum amount permissible under applicable fraudulent conveyance law or similar law.

The Master Indenture permits members of the Obligated Group to issue additional Obligations from time to time under certain circumstances and subject to the terms of the Master Indenture, which Obligations are equally and ratably secured under the Master Indenture with the Master Notes. In addition, the Master Indenture permits the members of the Obligated Group to incur certain other types of indebtedness, including certain guarantees under the circumstances, and to the extent, permitted by the Master Indenture. See “SUMMARY OF CERTAIN DOCUMENTS” in Appendix C. The Obligated Group has previously issued one Obligation, the 2002 Master Note, which is secured on a parity under the Master Indenture with the 2007 Master Note, and, subject to the terms of the Master Indenture, may issue additional such Obligations in the future.

As security for their obligations to pay amounts under the Master Notes and any other Obligations secured under the Master Indenture, the members of the Obligated Group have granted to the Master Trustee a security interest in the “Gross Revenues” (as defined in the Master Indenture) of the Obligated Group.

The members of the Obligated Group have agreed to deposit daily, insofar as practical, all of their Gross Revenues into depository accounts. Upon the occurrence of an Event of Default, the Master Trustee may direct that all future deposits to such depository accounts be transferred to the Master Trustee for deposit into the revenue fund established by the Master Trustee in accordance with the Master Indenture. Upon the occurrence of an Event of Default under the Master Indenture, amounts on deposit in the Revenue Fund will be applied as described in Appendix C, “SUMMARY OF CERTAIN DOCUMENTS.” The enforcement of the pledge of the Gross Revenues may be limited by a number of factors. See “CERTAIN RISKS.”

At this time, the Authority and HHI are the sole members of the Obligated Group and, as such, will be the sole entities responsible for the payment of the Master Notes and other Obligations secured under the Master Indenture from time to time and for performance of the covenants and agreements set forth in the Master Indenture. Subject to certain conditions, the Master Indenture permits additional entities to become members of the Obligated Group. The Master Indenture also permits members of the Obligated Group to withdraw from the Obligated Group under specified conditions, whereupon such withdrawing members of the Obligated Group will cease to be bound by the Master Indenture, including the guaranty described above. In addition, the Master Indenture specifically permits additional entities to become members of the Obligated Group, and the Authority to be released as a member of the Obligated Group, as part of a reorganization in which the Authority leases or otherwise transfers all or substantially all of the assets and operations of the Authority to an entity or group of entities some or all of which are described in section 501(c)(3) of the Code, and such entity or group of entities possess immediately following such reorganization a leasehold or ownership interest in all or substantially all of the assets and operations of the Authority as they existed immediately prior to such reorganization, provided certain conditions specified in the Master Indenture are met.

See Appendix C, “SUMMARY OF CERTAIN DOCUMENTS” for further information regarding the Master Indenture, including a discussion of the conditions under which entities will be permitted to join or withdraw from the Obligated Group, the provisions regarding the incurrence of, and security for, additional Master Indenture Obligations or other Indebtedness and the various financial and operating covenants of, and agreements to be performed by, the Obligated Group.

The Master Indenture contains provisions whereby each Holder of an Obligation issued thereunder is required to surrender its Obligation to the Trustee upon the terms and conditions described therein, whereby the Master Indenture will be replaced by a Replacement Master Indenture and each Master Note will be replaced by a Substitute Obligation issued and secured under such Replacement Master Indenture. See Appendix C, “SUMMARY OF CERTAIN DOCUMENTS.”

PLAN OF FINANCING

General

Proceeds derived from the sale of the Series 2007 Certificates will be used to (i) finance the acquisition, construction, installation and equipping of certain additions and improvements to Houston Medical Center, including capitalized interest during the construction period (the "Project"), and (ii) pay all or a portion of the costs of issuance of the Series 2007 Certificates.

The Project

The Project consists of the acquisition, construction, renovation, installation and equipping of certain additions to the Houston Medical Center campus, including building a new patient tower known as the "Northwest Tower," renovating the existing patient space and providing for approximately 230 additional surface parking spaces. The Northwest Tower is a five-story building which will be joined to the existing main Houston Medical Center hospital building and will include 130,581 square feet of which approximately 13,000 are expected to be shelled for future expansion and programming uses. In the Northwest Tower, the size of the patient rooms will be on average 275 square feet, a significant increase from the 185-square-foot average in the existing building. The service areas between rooms will also increase as compared to the existing facilities. The Northwest Tower will also house an incremental increase of 12 new medical/surgical beds for which Houston has an approved Certificate of Need.

Once the Northwest Tower is complete and the beds are moved from the existing building to the Northwest Tower, the existing building will be renovated to create more 23-hour observation beds which will help manage patient flow and efficiencies. In addition, the renovations will include more than 21,000 square feet of space for ancillary support services including Dietary, Clinical Laboratory and Central Sterile Supply. Other improved areas will include expanded space for admissions and patient registration, education and meeting rooms, lobby and public areas, as well as improved access to the campus. The Project is estimated to cost approximately \$60.4 million. Currently, there is no Guaranteed Maximum Price ("GMP") contract for the Project.

The Authority has received all necessary certificate of need approvals for the Project.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Series 2007 Certificates will be applied substantially as shown below:

Sources of Funds	
Certificate Proceeds	
Principal Amount of Series 2007 Certificates	\$72,055,000.00
Less: Net Original Issue Discount	(444,526.75)
Total Sources of Funds	\$71,610,473.25
Uses of Funds	
Deposit to Project Fund ⁽¹⁾	\$65,791,631.50
Deposit to Debt Service Reserve Fund	4,894,375.00
Issuance Costs ⁽²⁾	924,466.75
Total Uses of Funds	\$71,610,473.25

⁽¹⁾ Includes amounts expected to be utilized to pay capitalized interest during the construction period.

⁽²⁾ Includes underwriting discount, rating agency fees, legal and accounting fees, printing costs and other costs of issuance.

ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth the annual debt service requirements on the Series 2002 Certificates and the Series 2007 Certificates for each Sinking Fund Year, assuming issuance of the Series 2007 Certificates.

Years Ending	Series 2002 Certificates Total Debt Service ⁽¹⁾	Series 2007 Certificates		Total Debt Service for Series 2007 Certificates ⁽²⁾	Combined Total Debt Service
		Principal	Interest		
2008	\$1,119,507.05		\$393,022.92	\$393,022.92	\$1,512,529.92
2009	1,112,946.68		3,723,375.00	3,723,375.00	4,836,321.68
2010	1,110,345.03		3,723,375.00	3,723,375.00	4,833,720.03
2011	1,106,668.96	\$60,000	3,723,375.00	3,783,375.00	4,890,043.96
2012	1,101,888.94	70,000	3,720,825.00	3,790,825.00	4,892,713.94
2013	1,096,038.60	80,000	3,717,850.00	3,797,850.00	4,893,888.60
2014	1,089,016.86	90,000	3,714,450.00	3,804,450.00	4,893,466.86
2015	1,085,862.85	95,000	3,710,625.00	3,805,625.00	4,891,487.85
2016		1,185,000	3,706,587.50	4,891,587.50	4,891,587.50
2017		1,250,000	3,644,375.00	4,894,375.00	4,894,375.00
2018		1,315,000	3,578,750.00	4,893,750.00	4,893,750.00
2019		1,380,000	3,513,000.00	4,893,000.00	4,893,000.00
2020		1,450,000	3,440,550.00	4,890,550.00	4,890,550.00
2021		1,525,000	3,364,425.00	4,889,425.00	4,889,425.00
2022		1,610,000	3,284,362.50	4,894,362.50	4,894,362.50
2023		1,690,000	3,199,837.50	4,889,837.50	4,889,837.50
2024		1,780,000	3,111,112.50	4,891,112.50	4,891,112.50
2025		1,875,000	3,017,662.50	4,892,662.50	4,892,662.50
2026		1,970,000	2,919,225.00	4,889,225.00	4,889,225.00
2027		2,075,000	2,815,800.00	4,890,800.00	4,890,800.00
2028		2,185,000	2,706,862.50	4,891,862.50	4,891,862.50
2029		2,300,000	2,592,150.00	4,892,150.00	4,892,150.00
2030		2,420,000	2,471,400.00	4,891,400.00	4,891,400.00
2031		2,545,000	2,344,350.00	4,889,350.00	4,889,350.00
2032		2,680,000	2,210,737.50	4,890,737.50	4,890,737.50
2033		2,820,000	2,070,037.50	4,890,037.50	4,890,037.50
2034		2,970,000	1,921,987.50	4,891,987.50	4,891,987.50
2035		3,125,000	1,766,062.50	4,891,062.50	4,891,062.50
2036		3,290,000	1,602,000.00	4,892,000.00	4,892,000.00
2037		3,460,000	1,429,275.00	4,889,275.00	4,889,275.00
2038		3,635,000	1,256,275.00	4,891,275.00	4,891,275.00
2039		3,815,000	1,074,525.00	4,889,525.00	4,889,525.00
2040		4,010,000	883,775.00	4,893,775.00	4,893,775.00
2041		4,215,000	679,025.00	4,894,025.00	4,894,025.00
2042		4,430,000	463,825.00	4,893,825.00	4,893,825.00
2043		4,655,000	237,650.00	4,892,650.00	4,892,650.00
TOTAL	<u>\$8,822,274.97</u>	<u>\$72,055,000.00</u>	<u>\$91,732,522.92</u>	<u>\$162,787,525.97</u>	<u>\$172,609,797.89</u>

⁽¹⁾ The Series 2002 Certificates bear interest at a variable rate, determined weekly. The debt service on the Series 2002 Certificates in the table above assumes a constant interest rate of 3.68%.

⁽²⁾ The debt service on the Series 2007 Certificates is the gross debt service; it does not reflect the funds available for capitalized interest or any assumed debt service reserve fund earnings.

HISTORICAL DEBT SERVICE COVERAGE OF MAXIMUM ANNUAL DEBT SERVICE

The following table sets forth for the fiscal years ended February 28, 2005, 2006 and 2007 certain information concerning the pro-forma and actual historical debt service coverage of maximum annual debt service on the Series 2002 Certificates and the Series 2007 Certificates. Such information should be considered in conjunction with the financial statements and notes thereto included as Appendix B.

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Income Available for Debt Service ⁽¹⁾	\$12,784,876	\$24,170,489	\$27,314,289
Historical Actual Maximum Annual Debt Service Requirements ⁽²⁾	\$1,128,477	\$1,125,177	\$1,125,177
Historical Actual Debt Service Coverage of Maximum Annual Debt Service	11.3	21.5	24.3
Historical Pro-Forma Maximum Annual Debt Service Requirements	\$4,894,375	\$4,894,375	\$4,894,375
Historical Pro-Forma Debt Service Coverage of Maximum Annual Debt Service	2.6	4.9	5.6

⁽¹⁾ The amount by which gross revenues of the Authority for such period exceed the expenses of the Authority for such period, other than depreciation and amortization and interest expenses, all as determined in accordance with generally accepted accounting principles consistently applied. For purposes of the Master Indenture, the definition of "Income Available for Debt Service" excludes extraordinary items, any gain or loss resulting from either the extinguishment of indebtedness or the sale, exchange or other disposition of assets not made in the ordinary course of business and unrealized gains or losses on securities and certain interest rate swap and hedge obligations.

⁽²⁾ Maximum Annual Debt Service is the maximum amount of principal and interest due (assuming a constant 3.68% interest rate) on the Series 2002 Certificates. The Series 2002 Certificate bear interest at a variable rate and the actual rates may vary from this assumption.

CERTAIN RISKS

General

Potential investors should carefully consider the following risks, among others, prior to making a decision to purchase the Series 2007 Certificates. The following risks are not intended to be exhaustive of the general or specific risks relating to the purchase of the Series 2007 Certificates. Additional risks relating to the purchase of the Series 2007 Certificates are described throughout this Official Statement, whether or not specifically designated as risks.

Concerning the Financing Documents

Enforcement of remedies under the Master Indenture or the 2007 Indenture may be limited or restricted by laws relating to bankruptcy and rights of creditors and by application of general principles of equity applicable to the availability of specific performance or other equitable relief and may be substantially delayed in the event of litigation or statutory remedy procedures. The enforcement of the pledge under the Master Indenture of the Gross Revenues may be limited by a number of factors, including the absence of an express provision permitting assignment of payments due to the Obligated Group under Medicare or Medicaid programs and the contracts relating to coverage provided by Blue Cross. In the event of any default by the members of the Obligated Group under the Master Indenture, the Master Trustee may not be able to require Medicare, Medicaid or other intermediaries to make payments directly to the Master Trustee. Under current law, such pledge may be further

limited by the following: (i) statutory liens; (ii) rights arising in favor of the United States or any agency thereof; (iii) present or future prohibitions against assignment contained in any federal statutes or regulations; (iv) constructive trusts, equitable liens or other rights imposed or conferred by any state or federal court in the exercise of its equitable jurisdiction; (v) federal bankruptcy laws affecting assignments of revenue earned after institution of bankruptcy proceedings by or against the members of the Obligated Group; (vi) rights of third parties in revenues of the member of the Obligated Group converted to cash and not in possession of the Master Trustee (or a depository on behalf of the Master Trustee); and (vii) the requirement that appropriate financing or continuation statements or similar notices be filed in accordance with the Georgia Uniform Commercial Code as from time to time in effect, or other applicable laws of the State of Georgia.

Under the United States Bankruptcy Code and state fraudulent conveyance statutes, an obligation may be declared void if (a) the obligation has been incurred (within one year of the filing of a petition under the Bankruptcy Code) without receipt of fair consideration or of reasonably equivalent value by the obligor, or (b) the obligor was insolvent at the time the obligation was incurred or the incurrence of such obligation renders the obligor insolvent, as defined in the Bankruptcy Code or in the applicable state statute.

Medicare, Medicaid and Other Third-Party Payment Programs

(a) Medicare. The Medicare program, established in 1965, is a governmental health insurance program that reimburses health care providers, such as hospitals and physicians, for services provided to eligible elderly and disabled persons. Medicare consists of four primary parts, typically referred to as Parts A, B, C, and D. Part A generally covers inpatient hospital, skilled nursing facility, hospice and home health services. Part B generally covers services provided in an outpatient setting, such as physician and diagnostic services. Part C, once known as "Medicare+Choice" and now referred to as "Medicare Advantage," is intended to provide Medicare beneficiaries with access to private health plan choices and serve as an alternative to the traditional fee-for-service Medicare program. Part D is the prescription drug benefit added to the Medicare program by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. The Medicare program is administered by the Centers for Medicare & Medicaid Services, which is commonly referred to as CMS.

Medicare is financed by the federal government. Payments to hospitals for all Medicare-covered inpatient and outpatient services, with certain limited exceptions, as well as skilled nursing and some home health services are based on a prospective reimbursement methodology referred to as the Prospective Payment System ("PPS") for inpatients and Ambulatory Payment Classifications ("APCs") for outpatients. Under PPS, a hospital is reimbursed at predetermined rates for an episode of care based on DRGs for inpatients and APCs for outpatients, which classify treatments for illnesses according to the estimated intensity of hospital resources necessary to furnish care for each diagnosis. Reimbursement is not related to the hospital's charges or to the cost of providing the care. If a hospital's cost to provide a particular service is less than the payment associated with the DRG for that service, the hospital gets to keep the difference; if a hospital's costs are more than the set rate, the hospital absorbs the loss. Charges are considered with respect to special adjustments made to hospital payments for (i) patients who are costlier to treat than the norms used by the CMS in establishing the PPS payment amount (so-called outlier payments), and (ii) new technology. The capital component of care is paid on a fully prospective basis. Payments made by CMS are updated periodically (generally annually). Although there has been some recent legislation that has increased Medicare payments to hospitals, the general trend in recent years has been toward modest payment increases that may not keep pace with health care cost inflation. It is not possible to predict the adequacy of future Medicare reimbursement for health care services provided by the System. Changes in Medicare reimbursement may have a materially adverse effect on the operations of the System.

Medicare Advantage, Part C, is intended to offer Medicare beneficiaries a variety of health plan options, including provider sponsored organizations, coordinated care plans, Health Maintenance Organizations ("HMO") (with and without point-of-service features involving out-of-network providers), and health savings accounts. The Medicare Modernization Act of 2003 amended the statutory provisions regarding Medicare managed care to, among other things, incentivize additional managed care companies to participate in the program. The number of these plans and the number of Medicare beneficiaries enrolled in these plans will likely increase, which may result in significant reductions in Medicare admissions or payments to hospitals. While Medicare beneficiaries' current use of HMOs is substantially less than that found in the private sector, enrollment differs significantly from state to state. The amount of reimbursement that the System receives from Medicare may decrease if beneficiaries move from the Part A Program to the Part C Program.

Most hospitals are subject to audits and retroactive audit adjustments with respect to the Medicare program. Management of the Obligated Group believes that adequate provisions have been made for any adjustments that might result from such reviews or audits, but such adjustments could exceed any reserves maintained for that purpose. Medicare regulations also provide for withholding Medicare payments in certain circumstances, and Medicare payments may be subject to delay due to the processing of Medicare claims by Medicare intermediaries. Such withholdings and delays, if significant, could have an adverse effect on the System's operations.

(b) Medicaid. Medicaid is a state-administered medical assistance program that covers certain health care services provided to eligible disabled, low-income and medically indigent individuals including children up to age 19. The Georgia Medicaid program is jointly funded by the State of Georgia and the federal government. Medicaid policies relating to eligibility, services, and payment are determined by the state.

The Division of Medical Assistance of the Georgia Department of Community Health (“DCH”) administers the Medicaid and other related programs such as PeachCare, the State's child health insurance program. DCH uses Diagnosis Related Groups (DRGs) to reimburse hospitals for inpatient services to Medicaid recipients. DRGs are a system of classifying inpatient hospital services based on a person's medical diagnosis, any secondary diagnoses, surgical procedures, age, sex and presence of any complications. Payments are made to hospitals based on the DRG assignment for each patient's diagnosis, similar to Medicare inpatient services. Hospital reimbursement will be set at specific rates established by Medicaid for that particular patient's DRG, regardless of the actual costs incurred by the hospital for such treatment. The State of Georgia periodically audits the reimbursable costs on which patient Medicaid reimbursements are paid. While the administrative staff of the Obligated Group believes that the rates to be charged Medicaid patients will be appropriately premised on allowable costs, no assurance can be given that certain costs will not be disallowed.

From time to time, the governor of Georgia or the Georgia legislature may change policies relating to Medicaid eligibility, services, and reimbursement. Any reduction in the services covered by the Georgia Medicaid program or in the payment amounts available for covered services could negatively impact the Medical Center's business. In addition, the federal contribution to Medicaid programs could diminish in the coming years if Congress decides to reduce the overall federal deficit by slowing Medicaid spending or making fundamental reforms to the state/federal cost sharing relationship. Any reduction in the federal government's contribution to the Georgia Medicaid program could negatively impact the amount of reimbursement available through the program and could ultimately negatively impact the Medical Center's revenues.

Since Medicaid is a significant payor for the Obligated Group, changes in the qualification criteria, covered benefits and reimbursement amounts could have a material effect on the Obligated Group net revenue and operating margin. Additionally, the effect of the implementation of a Medicaid managed care program cannot be predicted. With increased benefit limitations and more restrictive payments for services, reductions in reimbursement could be materially greater than current estimates and could result in more uninsured patients. Accordingly, there is no assurance that Medicaid payments are, or will continue to be, adequate.

(c) Other Third Party Payment Programs. Payments are made to the Medical Center by patients, by various insuring organizations and by HMOs, Preferred Provider Organizations (“PPO”) and Blue Cross plans. Amounts received under HMO, PPO and other payment arrangements are generally less than established charges of the Obligated Group. Under HMO and PPO plans, the provider is not allowed to “balance bill” the patient for the deficiency (if any) between the provider's normal charge and the plan reimbursement. Most private insurance carriers reimburse their policy holders or make direct payments to the Obligated Group for charges at rates specified under policies. The patient remains responsible to the healthcare provider for any difference between the insurance proceeds and the total charges. The Obligated Group cannot accurately predict the future growth or the financial impact of these potential sources of revenue.

Payments under managed care contracts are based on discounts, off charges or per case arrangements. Most contracts have stop loss provisions limiting losses in catastrophic cases. Some HMOs are now offering or mandating a “capitation” payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is “assigned” to or otherwise directed to receive care at a particular hospital. In a capitated payment system, the hospital assumes an insurance risk for the cost and scope of care given to such HMO enrollees for the term of the contract. If payments under HMO and PPO contracts are insufficient to meet the hospital's costs of care, the financial condition of the hospital may erode rapidly and significantly.

Often, HMO or PPO contracts are enforceable for a stated term regardless of provider losses or of bankruptcy on the part of the respective HMO or PPO. Further, HMO contracts may contain a requirement that the hospital care for HMO enrollees for a certain period of time regardless of whether the HMO has funds to make payment to the hospital. In cases in which an HMO is a major purchaser of services from a particular hospital, contract rate reduction, contract cancellations, inability to pay, business failure or bankruptcy of the HMO may have a substantial negative effect on a hospital's financial condition. As more employers adopt managed care plans and as restrictions on contract reimbursement become greater, the financial performance of the Obligated Group is likely to be adversely affected.

The growth of alternative delivery systems can have a negative impact on hospitals in several ways. First, a hospital generally will not be able to serve the patients of alternative delivery systems with which it does not contract. Second, a hospital generally is required to substantially reduce its charges to obtain a contract to service alternative delivery system patients. Third, the alternative delivery systems market is becoming increasingly competitive and certain of the alternative delivery systems with which the Obligated Group has contracted may not survive, which may result in the Obligated Group being responsible for providing services for which the Obligated Group ultimately may not be compensated.

Governmental bodies, employers 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 Obligated Group 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 financial condition and results of operations of the Obligated Group.

In an effort to reduce payments for hospital services, a number of third party payors are selectively contracting with a limited number of hospitals based on the rates and services offered by these hospitals. Such selective contracting may force the Medical Center to reduce or discount rates from current levels in order to retain or attract patients of these payors.

Regulatory Factors

The members of the Obligated Group are subject to substantial federal, state and local government regulation. Failure to comply with such regulation could result in the revocation of the operating licenses, exclusion from the Medicare or Medicaid program, civil penalties or criminal penalties. Such regulations provide for periodic inspections by federal and state agencies to determine compliance with their respective standards of medical care, staffing, equipment and cleanliness necessary for continued state licensing or participation in governmental payor programs. The Joint Commission on Accreditation of Healthcare Organizations ("JCAHO") also inspects hospital operations for accreditation purposes.

In response to perceived abuses and actual violations of the terms of existing federal, state and local health care payment programs, such agencies have increased their audit and enforcement activities, and federal and state legislation has been considered or enacted providing for civil and criminal penalties against certain activities. In addition, federal, state and local agencies have increased their scrutiny of transactions involving nonprofit, tax-exempt organizations and are focusing in particular upon limitations on the use of charitable assets and revenues. Additionally, lawsuits against hospitals alleging uninsured patients are being subjected to improper billing and collection practices, are being overcharged for services and that hospitals are misusing their tax exempt status to the detriment of such patients, have been filed across the country including in Georgia. This litigation and the issue of uninsured patients is a current focus at all levels of government including health care enforcement agencies. The Obligated Group cannot predict the effect of such scrutiny on its methods of financial operations.

Neither the Indenture nor the Master Indenture controls certain types of transactions, such as contractual relationships with physicians and other providers. Notwithstanding compliance by the Obligated Group with the terms of such documents, a governmental agency may determine that a transaction may have violated applicable laws and may proceed to enjoin the transactions or impose civil or criminal penalties. Violations of such laws may have a material adverse effect on the operations and financial condition of the Obligated Group.

The facilities of the Obligated Group are subject to regulatory actions and policy changes by those governmental and private agencies that administer Medicare, Medicaid and third party payment programs (to the extent that such entities maintain participating contracts with such agencies), and actions by, among others, the

JCAHO and other federal, state and local government agencies. Management of the Obligated Group currently anticipates no difficulty in renewing or maintaining currently held licenses, certifications or accreditations, and does not anticipate a reduction in third-party payments that would materially adversely affect the operations or financial condition of the Obligated Group due to licensing, certification or accreditation difficulties. Nevertheless, actions in any of these areas could result in a reduction in utilization or revenues or both, or the loss of the ability of the Obligated Group to operate all or a portion of the facilities, and, consequently, could adversely affect the ability of the Obligated Group to make payments on the Master Notes and the Series 2007 Certificates.

The obtaining of approvals for construction of new health care facilities and renovation of and additions to existing health care facilities is subject, in Georgia, to various governmental requirements, such as approval of sites and findings of community need for additional hospital facilities, beds and services. Under the Georgia State Health Planning and Development Act, a certificate of need (“CON”) program is administered by the Georgia DCH’s Office of General Counsel. Georgia’s CON program requires, among other things, DCH’s review prior to construction of a new health care facility, a capital expenditure in excess of a statutory threshold, an increase in bed capacity, the establishment of a new clinical health service or the purchase of diagnostic or therapeutic equipment valued in excess of a statutory threshold. DCH’s review is based on a variety of statutory requirements, including a finding of community need for additional health care facilities and services. A CON is issued for a specific expenditure and project, and the applicant is required to build the approved project within a specified period of time. If a new institutional health service was offered or developed without first obtaining prior CON approval as required by law, or if a CON for such a new institutional health service is revoked for failure to comply with the Georgia State Health Planning and Development Act, DCH may assess an administrative fine against the operator of \$5,000 for each day the new institutional health service continues to be offered or developed without CON approval. DCH may also seek injunctive relief to enforce the law, and may inform the Department of Human Resources, which may revoke all or a portion of the license of the operator. No assurance can be given as to the ability of the Obligated Group to obtain CON approval for future projects necessary to maintain competitive rates and charges or its quality and scope of care.

Failure to comply with various provisions of federal law in the future could have a material adverse effect on the operations of the Obligated Group. These provisions include the following:

(a) Medicare and Medicaid Patient and Program Protection Act of 1987. The Secretary of the Department of Health and Human Services (“DHHS”) is required under this Act to exclude from participation in the Medicare and Medicaid programs any individual or entity that has been convicted of a criminal offense relating to (a) the delivery of services under Medicare or Medicaid or state health programs or (b) the neglect or abuse of patients. In addition, DHHS is given the authority to exclude from participation in the Medicare program individuals or hospitals upon the occurrence of certain events. These include license revocation, exclusion from some other government program, making of claims for payment of excess charges or for unnecessary services, and failure to disclose certain required information or to grant proper access to facility books and records.

(b) Civil Monetary Penalties. Under Section 1128A of the Social Security Act, DHHS has the authority to impose civil monetary penalties against any participant in the Medicare program which makes claims for payment for services which were not rendered or were rendered by a person or entity not properly licensed under state law. Under this law the Secretary of the DHHS has the authority to impose a penalty of not more than \$10,000 for each improperly claimed service and an assessment equal to not more than twice the amount claimed for each service claimed but not rendered.

(c) Criminal Sanctions. Section 1128B of the Social Security Act (the “Anti-Fraud and Abuse Law”) makes it a felony, subject to certain exceptions, for a health care provider to make false statements relating to claims for payment under the Medicare program, to engage in illegal remuneration arrangements with physicians and other health care providers, or to make false statements relating to compliance with the Medicare conditions of participation. In addition, the making of false claims for payment by providers participating in the Medicare program is subject to criminal penalty under federal laws relating generally to claims for payment made to the federal government or any agency. The provisions prohibiting illegal remuneration arrangements with physicians and other health care providers is very general and may be construed quite broadly. On July 29, 1991, the DHHS Office of the Inspector General issued final “safe harbor” regulations entitled “Medicare and Medicaid Programs; Fraud and Abuse; OIG Anti-Kickback Provisions” as required by the Anti-Fraud and Abuse Law. The OIG has issued additional “safe harbor” regulations since 1991 and annually solicits public comment for recommendations for additional safe harbors to be considered by the OIG. The regulations are designed to offer health care

institutions, physicians and other providers of health care services and supplies guidance on the types of arrangements that will not be subject to DHHS scrutiny for fraud and abuse. The regulations specify detailed requirements for “safe harbor” status for several types of agreements between health care providers, including physician investments, investments in ambulatory surgery centers, personal services and management contracts, space and equipment leases, referral services, discounts, group purchasing organizations, sale of a practice, and practitioner recruitment in rural areas. The regulations do not include safe harbors for a number of activities in which many hospitals have traditionally engaged, including various physician recruiting (in non-rural settings) and retention activities. Some of these recruiting and retention strategies have been addressed, however, by the Internal Revenue Service (“IRS”) and CMS under the Stark Law discussed below. The omissions have raised the question as to whether activities which do not fall within the safe harbors, previously thought to be within the law, will be subject to enforcement, including criminal sanctions, civil penalties and exclusion from the Medicare and Medicaid programs. By proposing exacting rules, DHHS effectively has brought many arrangements between hospitals and other providers under scrutiny as potential “kickbacks” subjecting a violator to criminal sanctions, exclusion from Medicare and Medicaid programs, and civil penalties. In addition, decisions of the United States Courts of Appeals have held that the anti-kickback provisions are violated if only one purpose (as opposed to a primary or sole purpose) of a payment is to induce referrals. These decisions indicate that the anti-kickback provisions will be construed to prohibit a wide range of arrangements.

The safe harbors described in the regulations are narrow and do not cover a wide range of common economic relationships between and among hospitals, physicians and other health care providers. The regulations describe safe harbors and do not purport to describe comprehensively all lawful or unlawful economic arrangements or other relationships between healthcare providers and referral sources. While the failure to qualify for a safe harbor does not necessarily lead to the conclusion that such arrangement violated federal law, such failure may increase the potential for investigation or challenge to the arrangement.

Management of the Obligated Group believes that all of its relationships with physicians and other referral sources are in compliance with the Social Security Act. However, it has determined that it is appropriate to structure such relationships to the extent possible in a manner that qualifies for safe harbor protection under the regulations. However, in view of the large number of such relationships and in the light of the narrowness of the safe harbor regulations there can be no assurance that a member of the Obligated Group will not be alleged to have violated the Social Security Act. Again, management asserts that all such relationships have heretofore been entered in compliance with the Social Security Act. However, a sanction imposed by an agency against a member of the Obligated Group might arise and there can be no assurance that such a sanction would not have a material adverse effect on the operations of such member or the financial condition of the Obligated Group.

(d) Federal Self-Referral Prohibitions. A 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 (including a hospital), from referring a Medicare or Medicaid patient to the entity for certain designated health services, with limited exceptions. Such designated health services include inpatient and outpatient hospital services, physical therapy services, occupational therapy services, radiology services, including MRIs, CAT scans and ultrasound services and diagnostic nuclear medicine services, durable medical equipment, radiation therapy services including therapeutic nuclear medicine services, parenteral and enteral nutrients, equipment and supplies, prosthetics, orthotics and prosthetic devices, home health services, outpatient prescription drugs, and clinical laboratory services. 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. Unlike the federal Anti-Fraud and Abuse Law, no finding of intent to violate the Stark Law is required. The Stark Law also requires an entity providing designated health services to report to DHHS, upon DHHS’ request, information concerning the entity’s ownership, investment and compensation arrangements, including the covered services and items provided by the entity and the names and physician identification number of physicians (and immediate relatives) having a financial relationship with the entity. 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 against parties that enter into a scheme to circumvent the Stark Law’s prohibition. Exclusion from the Medicare and Medicaid programs would have a material adverse effect on the operations and financial conditions of the Obligated Group, as would any significant penalties, demands for refund or denials of payment. The type of financial arrangements between a physician and an entity that would trigger the self-referral prohibition are broad, and include ownership and investment interests and compensation arrangements. CMS has promulgated exceptions that

cover arrangements that CMS does not consider “financial relationships” subject to the referral and billing prohibitions of the Stark Law.

Management of the Obligated Group believes that the Obligated Group is in material compliance with the Stark Law. However, because of the newness of regulations and the scarcity of case law interpreting the Stark Law, there can be no assurances that the Obligated Group would not be found to have violated the Stark Law, and if so, whether any sanctions imposed would have a material adverse effect upon the operations and financial condition of the Obligated Group.

(e) Physician Contracting and Relations. The Obligated Group has entered into a variety of relationships with physicians. Many of these relationships may be of material importance to the operations of the facilities and, in an increasingly complex legal and regulatory environment, these relationships pose a variety of legal or business risks.

The primary relationship between a hospital and physicians who practice in it is through the organized medical staff. Medical staff bylaws, rules, and policies establish 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 such membership or privileges curtailed, denied or revoked often file legal actions against hospitals and medical staffs. Such actions 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 its medical staff may result in hospital liability to third parties. All hospitals, including the Obligated Group, are subject to such risks.

Certain contracts between hospitals and physicians might be void or voidable if challenged by one of its participants in situations where a hospital exercises certain aspects of control over a physician's practice or where the physician is in a position to refer patients to the hospital. The validity of such agreements and the materiality of their loss is dependent on factual circumstances and on the relative position of the parties at a particular time. Consequently, the outcome cannot be determined with precision in advance of a dispute or controversy with respect to the relationship. The Obligated Group is not aware of specific, related controversies that it believes would lead to the loss of a contractual relationship with physicians which would be material with respect to the operation or financial condition of the Obligated Group.

(f) 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 Labor Act. This patient anti-dumping law imposes certain requirements on hospitals regarding the medical screening, stabilization and transfer of patients with an emergency medical condition. 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 Obligated Group to meet its responsibilities under the law could adversely affect the Obligated Group's financial condition.

(g) Antitrust. Enforcement of the antitrust laws against health care providers is becoming more common, and antitrust liability may arise in a wide variety of circumstances including medical staff privilege disputes, third party contracting, physician relations, and joint venture, merger, affiliation and acquisition activities. In some respects, the application of the federal and state antitrust laws to health care providers is still evolving, and enforcement activity by federal and state agencies appears to be increasing. At various times, health care providers may be subject to an investigation by a governmental agency charged with the enforcement of the antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. Violation of the antitrust laws could be subject to criminal and civil enforcement by federal and state agencies, as well as by private litigants.

From time to time, the Obligated Group may be involved in a variety of activities that could receive scrutiny under the antitrust laws, and it cannot be predicted when or to what extent liability may arise. With respect to payor contracting, the Obligated Group may, from time to time, be involved in joint contracting activity with hospitals or their providers. The precise degree to which joint contracting activities may expose the participants to antitrust risk from governmental or private sources is dependent on a number of factual matters which may change from time to time.

The ability to consummate mergers, acquisitions or affiliations may also be impaired by the antitrust laws resulting in the inability of the Obligated Group to fulfill its strategic plans. Liability in any of these or other antitrust areas of liability may be substantial, depending on the facts and circumstances of each case.

(h) Federal False Claims Act. The Federal False Claims Act provides in part that the federal government may bring a lawsuit against any person whom it believes has knowingly presented, or caused to be presented, a false or fraudulent request for payment from the federal government, or who has made false statements or has used a false record to get such a claim approved. Penalties include civil penalties of not less than \$5,000 and not more than \$10,000 plus three times the amount of damages which the federal government sustains because of the act of that person and the costs of a civil action brought to recover any such penalty or damages. Management of the Obligated Group believes that the Obligated Group members are in substantial compliance with the rules and regulations to which the Federal False Claims Act apply. However, there can be no assurances that a member of the Obligated Group will not be found to have violated certain rules and regulations resulting in sanctions under the Federal False Claims Act, and if so, whether any sanctions imposed could have a material adverse effect upon the operations and financial condition of the Obligated Group.

(i) Deficit Reduction Legislation. Attempts to eliminate the federal deficit may also affect Medicare and Medicaid reimbursement to health care providers. In the past, Congress has introduced legislation designed to balance the budget. This legislation has often included reductions in the rate of increase in Medicare expenditures, and to a lesser extent Medicaid expenditures. In February 2006, Congress passed the Deficit Reduction Act of 2005 which made many changes to the Medicaid program and was designed to cut Medicaid spending over several years. Additionally, the Deficit Reduction Act of 2005 added fraud, waste and abuse provisions applicable to the Medicaid program, including provisions encouraging states to enact false claims acts and mandating employers who receive over \$5 million in Medicaid funds to educate their employees about false claims acts. Congress could enact legislation in the future which may significantly change or reduce the amount that government payors, like Medicaid, will pay for the Obligated Group's services. Additionally, federal and state statutes or regulations may be enacted to impose additional requirements on the Obligated Group to maintain eligibility to participate in federal and state payment programs. Any new legislation or regulations, or new interpretations of existing statutes and regulations, governing reimbursement of hospital providers or the manner in which hospitals provide services to patients could have a material impact on the Medical Center and could adversely affect its profitability.

(j) HIPAA and Health Information. The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") established requirements regarding the privacy, security and transmission of health information. DHHS has issued several sets of regulations under HIPAA that apply directly to health care providers who conduct certain health claims transactions electronically, and to health plans, and health care clearinghouses, as well as indirectly, in certain instances, to those who provide services on behalf of these entities that involve the receipt or disclosure of health information. Members of the Obligated Group are covered entities and their employee health plans also are subject to the HIPAA regulations.

DHHS issued final HIPAA privacy regulations that became binding on covered entities on April 14, 2003, establishing comprehensive federal standards relating to the use and disclosure of protected health information. These regulations, among other things, establish limits on the use and disclosure of protected health information, provide for patients' rights to access, request amendments, and receive an accounting of certain disclosures of protected health information, and require covered entities to implement certain safeguards to protect identifiable health information. The federal privacy regulations do not supersede state privacy laws that are more stringent requiring compliance by a covered entity with state laws in addition to the federal regulations.

Compliance by covered entities with the HIPAA security regulations was required by April 21, 2005. The security regulations establish the minimum standard for the protection of individual health information that is stored or transmitted electronically. The regulations provide administrative procedures, physical safeguards, and technical mechanisms that may be implemented to satisfy the regulations. Violations of the privacy and security regulations are punishable by civil and criminal penalties. State laws may impose similar sanctions.

DHHS also issued final electronic transaction standards for the processing of health claims, which establish uniform standards relating to data reporting, formatting, and coding that covered entities must use in conducting certain health care transactions electronically. Violations of the electronic transactions standards are punishable by civil penalties.

Since members of the Obligated Group are covered entities under these regulations, the HIPAA privacy, security and transaction standards regulations could result in significant financial obligations for the System and pose increased regulatory risk. At this time, the full consequences of the HIPAA regulations for the Medical Center business or the total cost of complying with these regulations cannot be determined. However, the HIPAA regulations may have a significant impact operationally and financially.

(k) Compliance Program. The Authority has a compliance program which in the regular course of its activities monitors and audits the Authority's operations. Through these and other compliance activities, the Authority, from time to time, identifies operational errors which require refund of an overpayment to a payor.

Industry Integration and Consolidation

The health care industry is in the process of rapid and fundamental change, triggered by public and private initiatives to contain health care costs, the growing national strength of managed care plans, and the anticipated acceleration of direct contracting between providers and employers or governmental programs such as Medicare. The growth of the managed care industry and pressure to enter into direct contracts with employers and governmental programs is being driven in part by increased pressures from employers and other purchasers that are seeking to reduce their health care premium costs. In other parts of the country, regional integrated delivery Medical Centers are developing in order to provide adequate geographical coverage for major purchasers of health care and to provide a system through which cost savings may be realized. This trend, if it spreads to the Southeast, may further increase competitive pressures on operators of acute care hospitals, including Houston Medical Center.

In addition, other proprietary and non-profit entrants to the market may, in certain instances, have significantly greater financial resources than the members of the Obligated Group and may have significantly more experience in managing such risk. This and other competitive threats may lead to a significant restructuring of the current health care delivery systems in the Southeast, and such restructuring may have a material adverse effect on the members of the Obligated Group.

Potential Reorganization

The Authority's management team currently expects that the Board will approve a reorganization of the Authority into one or more private, non-profit corporations, some or all of which to be described in Section 501(c)(3) of the Code. Such reorganization is presently expected to be approved in late August 2007. If approved, the reorganization is expected presently to be complete by September 2008. See also "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES -- The Master Indenture" and Appendix C, "SUMMARY OF CERTAIN DOCUMENTS," for a discussion of the impact of such reorganization on the Obligated Group and the provisions for allowing such reorganization under the Master Indenture.

Military Base Closure

As described more completely in Appendix "A", a significant source of revenue for the Obligated Group and a significant employer in the Service Area of the Obligated Group is Robins Air Force Base. In recent years, there have been a number of military base closures. While the Authority is not presently aware of any plans to close or limit operations at Robins Air Force Base, it is possible that further efforts to reduce or limit military bases could impact Robins Air Force Base. It is not possible at this time for the Authority to predict whether any such base closure activity will affect Robins Air Force Base, or what the effect of any such activity could be on the Authority or its operations.

Physician-Owned Facilities

As described in Appendix "A" - Competition, there are several physician-owned facilities in the Authority's service area. It is not possible at this time to predict whether additional such facilities will be acquired or constructed, or whether such facilities will have a material impact on the results of operations for the Obligated Group.

Other Risk Factors

In the future, the following factors, among others, may adversely affect the operation and revenues of healthcare facilities, including those of the Authority and to an extent that cannot be determined at this time.

- (a) Adoption in the State of Georgia of legislation that would establish a rate-setting agency with statutory control over hospitals in Georgia.
- (b) Increase in expenses without corresponding increase in revenues.
- (c) The reduced need for hospitalization or other services arising from future medical and scientific advances.
- (d) A substantial shift of the leading admitting physicians toward the use of other hospitals.
- (e) The inability to attract and retain adequate nursing and other skilled personnel.
- (f) Increased competition in the future from other hospitals or other types of healthcare providers, including health maintenance organizations, that would offer comparable healthcare services to the population that the Obligated Group presently serve.
- (g) A decline in the population, a change in the age composition of the population, or a decline in the economic condition of the service area.
- (h) Efforts by insurers and governmental agencies to limit the costs of hospital services and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care.
- (i) Cost and availability of medical malpractice insurance in the State of Georgia.
- (j) Cost and availability of insurance, such as fire, automobile, and general comprehensive liability, that hospitals of a similar size and type generally carry.
- (k) Unreimbursed increases in utility costs in the future due to an energy shortage or other factors.
- (l) Imposition of wage and price controls for the healthcare industry.
- (m) Developments or events affecting the federal or state exemption of the income of the members of the Obligated Group from taxation or the adoption of federal or state legislation adversely affecting the members of the Obligated Group or their revenue producing capability or adversely affecting the exemption of property owned by them from state and local property taxation or the ability of its members to utilize tax-exempt financing.
- (n) A reduction in the amounts of grants and contributions received from various sources, or the elimination of such grants and contributions.
- (o) The occurrence of natural disasters, including floods, tornadoes and earthquakes, which may damage the facilities of the Obligated Group or interrupt utility service to the facilities, or otherwise impair the operation of the facilities of the members of the Obligated Group and the generation of revenue from their facilities.
- (p) The ability to comply with environmental laws and regulations.

LEGAL MATTERS

Validation

As required by the Act, the Authority caused proceedings to be instituted by the Superior Court of Houston County, Georgia, to validate the Series 2007 Certificates. A final judgment confirming and validating the Series 2007 Certificates and the security therefor is expected to be entered on or about August 15, 2007. A final judgment validating the Series 2007 Certificates is a condition to the issuance and sale of the Series 2007 Certificates. Under the law of the State of Georgia, the judgment of validation is final and conclusive with respect to the Series 2007 Certificates and the security therefor.

Litigation

There is no controversy or litigation of any nature now pending against the Authority for which service has been perfected restraining or enjoining the issuance or delivery of the Series 2007 Certificates or questioning or affecting the validity of the Series 2007 Certificates or the proceedings and authority under which they are issued. There is no litigation pending for which service has been perfected which in any manner questions the power of the Authority to issue the Series 2007 Certificates and to secure the Series 2007 Certificates in accordance with the provisions of the Indenture, nor is there now pending any litigation which in any manner questions the powers of the Authority.

TAX EXEMPTION

Certain legal matters incident to the authorization and issuance of the Series 2007 Certificates are subject to the approval of Oliver, Maner & Gray, Savannah, Georgia, Bond Counsel, whose approving opinion will be available at the time of issuance and delivery of the Series 2007 Certificates. It is anticipated that the approving opinion will be in substantially the form attached hereto as Appendix D.

General

In the opinion of Bond Counsel, assuming continued compliance by the Authority with the covenants described below, interest on the Series 2007 Certificates (including any original issue discount properly allocable to an owner thereof) is exempt from present State of Georgia income taxation, is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or corporations; provided, however, with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax imposed on such corporations.

In rendering such opinion, with respect to the determination that none of the Series 2007 Certificates is an "arbitrage bond" within the meaning of Section 148(a) of the Internal Revenue Code of 1986, as amended (the "Code"), Bond Counsel has relied upon the covenants of the Authority contained in the Indenture relating to compliance with the arbitrage restrictions contained in Section 148 of the Code, including a covenant to make the arbitrage rebate payments, if any, required by Section 148(f) of the Code.

In concluding that the interest on the Series 2007 Certificates is not included in gross income for federal income tax purposes, Bond Counsel will (i) rely as to certain factual matters upon representations of the Authority with respect to, among other things, the use of the proceeds of the Series 2007 Certificates and of the facilities financed or refinanced with the proceeds of the Series 2007 Certificates without undertaking to verify the same by independent investigation, and (ii) assume the continued compliance by the Authority with its respective covenants relating to the use of the proceeds of the Series 2007 Certificates and compliance with other requirements of the Code. The inaccuracy of any such representations or noncompliance with such covenants may cause interest on the Series 2007 Certificates to become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2007 Certificates.

Except as set forth below with respect to original issue discount, Bond Counsel expresses no opinion regarding other tax consequences arising with respect to the Series 2007 Certificates.

Prospective purchasers of the Series 2007 Certificates should be aware that ownership of the Series 2007 Certificates may also result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with “excess net passive income,” and foreign corporations subject to the branch profits tax. Bond Counsel will not express any opinion as to such collateral consequences. Prospective purchasers of the Series 2007 Certificates should consult their tax advisors as to collateral federal income tax consequences relating to the ownership of, or receipt or accrual of interest on the Series 2007 Certificates.

In the opinion of Bond Counsel, under existing law, any original issue discount in the selling price of a Series 2007 Certificate, to the extent properly allocable to a holder of such Series 2007 Certificates, is excluded from gross income for federal income tax purposes with respect to such holder. The original issue discount is the excess of the stated redemption price at maturity of such Series 2007 Certificates over the initial offering price to the public, excluding underwriters and other intermediaries, at which price a substantial amount of such Series 2007 Certificates were sold.

Under Section 1288 of the Code, original issue discount on tax-exempt obligations accrues on a constant yield to maturity basis. The amount of the original issue discount that accrues to an owner of a discount bond who acquires such discount bond during any accrual period generally equals (i) the issue price of such discount bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such discount bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such discount bond during such accrual period.

The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner’s tax basis in a discount bond for the purpose of determining gain or loss upon a subsequent sale, exchange, payment, or redemption. Any gain realized by an owner from a sale, exchange, payment, or redemption of a discount bond would be treated as gain from the sale or exchange of such discount bond.

The foregoing is a general discussion of certain federal income tax consequences of original issue discount and does not purport to deal with all tax questions that may be relevant to particular investors or circumstances. Holders of the Series 2007 Certificates should consult their own tax advisors with respect to the apportionment for federal income tax purposes of accrued tax-exempt interest upon a sale or exchange (including redemption) and with respect to the state and local tax consequences of original issue discount.

Certain Series 2007 Certificates are being sold at prices in excess of the principal amount thereof. Under the Code, the excess of an owner’s cost basis of a bond over the principal amount of such bond (other than a bond held as inventory, stock in trade, or for sale to customers in the ordinary course of business) is generally characterized as “bond premium.” For federal income tax purposes, bond premium is amortized over the term of the related bond. An owner will therefore be required to decrease its basis in such Series 2007 Certificates by the amount of amortizable bond premium attributable to each taxable year it holds such Series 2007 Certificates. The amount of amortizable bond premium attributable to each taxable year is determined on an actuarial basis at a constant interest rate compounded on each interest payment date. The amortizable bond premium attributable to a taxable year is not deductible for federal income tax purposes; however, an owner is required to amortize bond premium by offsetting part of the interest allocable to an accrual period with the bond premium allocable to the accrual period. Purchases of such Series 2007 Certificates should consult their own tax advisors with respect to the precise determination for federal income tax purposes of the treatment of bond premium upon sale, redemption, or other disposition of such Series 2007 Certificates.

Interest on the Series 2007 Certificates may or may not be subject to state or local income taxation in jurisdictions other than Georgia under applicable state or local laws. Each purchaser of the Series 2007 Certificates should consult his or her own tax advisor regarding the tax-exempt status of the interest on the Series 2007 Certificates in a particular state or local jurisdiction other than Georgia.

MISCELLANEOUS

Continuing Disclosure

The Obligated Group has covenanted for the benefit of the owners of the Series 2007 Certificates in a Continuing Disclosure Agreement to provide (i) certain financial information and operating data relating to the Obligated Group (the “Operating and Financial Data”) to each nationally recognized municipal securities information repository (“NRMSIR”) and to the state information depository, if any (the “SID”) and (ii) notices of the occurrence of certain events, if deemed by the Authority to be material (the “Material Events Notices”), to each NRMSIR or the Municipal Securities Rulemaking Board and to the SID, if any, in order to enable the Underwriter to comply with Securities and Exchange Commission Rule 15c2-12 (the “Rule”). A form of the Continuing Disclosure Agreement is included as Appendix E.

Ratings

Moody’s Investors Services, Inc. (“Moody’s”) and Fitch, Inc. (“Fitch”) have assigned the Series 2007 Certificates the ratings of “A2” and “A+,” respectively, on the Certificates. Each rating should be evaluated independently of any other rating. An explanation of the significance of such ratings may be obtained from the entity furnishing the same.

The above-described ratings are not recommendations to buy, sell or hold the Series 2007 Certificates. Generally, rating agencies base their ratings on information and materials furnished to the agencies and on investigations, studies and assumptions by the agencies. There is no assurance that the ratings will be maintained for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency furnishing the same if, in such agency’s judgment, circumstances so warrant. Any such downward revision or withdrawal of a rating or ratings may have an adverse effect on the market price of the Series 2007 Certificates.

Financial Advisor

Kaufman, Hall & Associates, Inc. (the “Financial Advisor”), has been engaged by the Authority as its financial advisor for this offering. The Financial Advisor has not conducted a detailed investigation of the affairs of the Authority to determine the completeness or accuracy of this Official Statement. Because of its limited participation, the Financial Advisor has not independently verified any of the data contained herein, makes no representations or warranties, express or implied, as to the accuracy or completeness of such information, and has no responsibility for the accuracy or completeness thereof.

Underwriting

Wachovia Bank, National Association (the “Underwriter”), has agreed to purchase the Series 2007 Certificates pursuant to a Certificate Purchase Agreement entered into between the Authority, HHI and the Underwriter. The Underwriter has agreed to purchase the Series 2007 Certificates at a purchase price of \$71,261,006.50 representing the par amount of the Series 2007 Certificates of \$72,055,000.00 less a net original issue discount of \$444,526.75 and less an underwriting discount of \$349,466.75. The Certificate Purchase Agreement provides that the Underwriter will purchase all of the Series 2007 Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Certificate Purchase Agreement. The Underwriter intends to offer the Series 2007 Certificates to the public initially at the offering prices shown on the cover page hereof, which prices may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with other dealers and underwriters in offering the Series 2007 Certificates to the public. The Underwriter may offer and sell the Series 2007 Certificates to certain dealers at prices lower than the public offering.

Wachovia Bank, National Association is an indirect, wholly-owned subsidiary of Wachovia Corporation. Wachovia Corporation conducts its investment banking, institutional and retail securities and capital markets business through its various bank, broker-dealer and non-bank subsidiaries, including Wachovia Bank, National Association under the trade name of Wachovia Securities. Any references to Wachovia Securities in this Official Statement, however, do not include Wachovia Securities, Inc., a member of NASD/SIPC, a separate broker-dealer subsidiary of Wachovia Corporation and an affiliate of Wachovia Bank, National Association.

Independent Auditors - Draffin & Tucker, LLP

The consolidated financial statements of the Hospital Authority of Houston County as of February 28, 2006 and 2007 and for the years then ended, included in Appendix B to this Official Statement, have been audited by Draffin & Tucker, LLP, certified public accountants, as stated in their report appearing herein.

Additional Information

Use of the words “shall” or “will” in this Official Statement in summaries of documents to describe future events or continuing obligations is not intended as a representation that such event or obligation will occur but only that the document contemplates or requires such event to occur or obligation to be fulfilled.

Any statements made in this Official Statement involving estimates or matters of opinion, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates or matters of opinion will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of the Series 2007 Certificates.

**AUTHORIZATION OF AND CERTIFICATION
CONCERNING OFFICIAL STATEMENT**

The execution and delivery of this Official Statement has been authorized by the Authority. Concurrently with the delivery of the Series 2007 Certificates, the Authority will furnish a certificate to the effect that nothing has come to the attention of the Authority which would lead it to believe that this Official Statement contained, as of the date of delivery of the Series 2007 Certificates, any untrue statement of a material fact or omitted to state a material fact which should be included herein for the purposes for which this Official Statement is intended to be used or which is necessary to make the statements contained herein, in light of the circumstances under which they were made, not misleading.

THE HOSPITAL AUTHORITY OF HOUSTON
COUNTY, GEORGIA

By: _____ /s/ _____
Chairman

APPENDIX A

THE AUTHORITY

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THE AUTHORITY

General

The Hospital Authority of Houston County, Georgia (the “Authority”) d/b/a Houston Healthcare (“Houston” or the “System”) is a healthcare system with facilities in Houston County, Georgia and primarily serving communities within both Houston County and Peach County. Houston and Peach Counties are contiguous counties – Peach to the northwest of Houston – located in central Georgia as the accompanying map shows. Houston and Peach Counties cover more than 525 square miles and are located approximately 100 miles south of Atlanta and approximately 20 miles south of Macon, Georgia. Interstate Highway I-75 which connects Atlanta and Macon runs through Houston County.



The System’s mission is to improve the healthcare of the communities Houston serves by providing patient-focused, high quality and cost-effective services while promoting health and wellness. To accomplish that, the System owns and operates several healthcare facilities including two acute care community hospitals, Houston Medical Center (“HMC”) and Perry Hospital (“PH”). HMC is the larger of the two hospitals with 186 licensed beds. It is located in the city of Warner Robins, the largest city in Houston County, and has been operating at its current site since 1960. Warner Robins is located in the north end of Houston County. Founded in 1969, PH with 45 licensed beds is located in the city of Perry, the county seat for Houston County. PH is approximately 30 minutes driving distance or 20 miles south of HMC, off of Interstate 75. Of the 45 licensed beds, PH currently operates 39 beds with the remaining 6 beds leased out to an unrelated hospice organization. The accompanying table shows the breakout of the types of beds at both HMC and PH.

LICENSED BED CAPACITY

Area of Care	HMC	PH	Combined
Medical/Surgical	112	33	145
Obstetrics	35		35
ICU	16	4	20
Psychiatry	15		15
Family Care			
Hospice (Leased)		6	6
Pediatrics	8	2	10
Total	186	45	231

In addition to the two hospitals described above, the System has other health care facilities in Houston County where it provides services.

Description of the Facilities

Houston offers its service area an array of specialized medical, surgical and diagnostic services through its facilities. As mentioned above, the main facilities of the System are the two hospital campuses.

HMC Campus

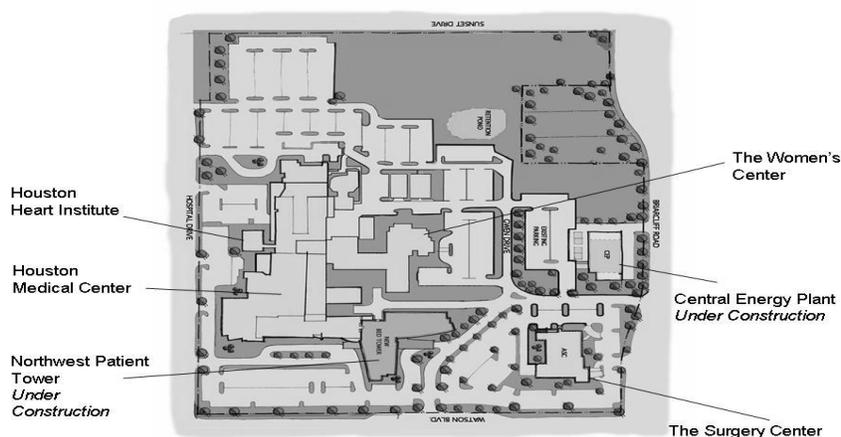
Originally a 50-bed hospital, HMC has grown, through several expansion and renovation programs, into a facility with 186 beds, all of which are private rooms. The HMC campus currently consists of 348,900 square feet of improvements on 24.39 acres and includes approximately 950 parking spaces. In addition to the 4-story main hospital building, the campus includes:

(1) The Women's Center, which is a facility that opened in September, 1997 to provide care for women and infants and includes comprehensive fetal monitoring systems, birthing suites that allow new moms to labor, deliver and recover in the same room, special operating suites for C-sections, a neonatal intensive care nursery, outpatient testing rooms and a classroom for educational programs and breast feeding consultation. The Women's Center is attached to and integrated with the main HMC hospital building.

(2) The Surgery Center, which is an ambulatory surgery center opened in January, 2005 and includes three general operating suites and two endoscopy suites. Although it is located on the campus of HMC in Warner Robins, it is a separate and distinct building from the main hospital building.

(3) Houston Heart Institute ("HHI"), is a comprehensive outpatient cardiac catheterization laboratory equipped for both diagnosis and treatment of cardiovascular disease. Services include echocardiograms, holter monitoring, pacemaker implants, doppler echocardiography, and vascular studies in addition to cardiac catheterization and cardiac outpatient rehabilitation. HHI is housed in a building that is attached to, and integrated with, the main HMC hospital building. HHI recently underwent an expansion and in June, 2007 four additional recovery beds were opened.

Houston also owns 5 buildings located on property contiguous with the HMC campus which consists of approximately 29,740 square feet and are used for, among other things, medical office space, the Human Resources offices, educational classrooms, engineering offices, and storage warehouses.



HMC CAMPUS

The Series 2007 Bonds are being used, along with other sources of funds, to make improvements to the HMC campus, including building a new patient tower known as the "Northwest Tower," upgrading and expanding

the energy system for the campus, renovating the existing patient space and providing for approximately 230 additional surface parking spaces. See "PLAN OF FINANCING -- The Project" in the Official Statement. The Northwest Tower is a five-story building which will be joined to the existing main HMC hospital building and will include 130,581 square feet of which approximately 13,000 are expected to be shelled for future expansion and programming uses. In the Northwest Tower, the size of the patient rooms will be on average 275 square feet, a significant increase from the 185-square-foot average in the existing building. The service areas between rooms will also increase as compared to the existing facilities. The Northwest Tower will also house an incremental increase of 12 new medical/surgical beds for which Houston has an approved Certificate of Need. Houston is hopeful that additional CON approvals for more new beds will come prior to the completion of construction. The possible revisions and request for additional inpatient beds through DCH will occur in the 2nd and 4th quarter of the year starting in the 4th quarter, 2007.

Once the Northwest Tower is complete and the beds are moved from the existing building to the Northwest Tower, the existing building will be renovated to create more 23-hour observation beds which will help manage patient flow and efficiencies. In addition, the renovations will include more than 21,000 square feet of space for ancillary support services including Dietary, Clinical Laboratory and Central Sterile Supply. Other improved areas will include expanded space for admissions and patient registration, education and meeting rooms, lobby and public areas, as well as improved access to the campus.

PH Campus

The PH campus with 45 beds (16 of which are semi-private) currently consists of a 79,990 square-foot facility on 30.19 acres with 243 surface parking spaces. PH opened a 25,000-square-foot addition in the fall of 1996 which included a new outpatient surgery center, offering endoscopy and laparoscopy. The surgery center is attached to and integrated with the main hospital building on the PH campus.

Other System Facilities in Houston County

Houston also owns other properties in non-contiguous locations in Houston County totaling approximately 51,200 square feet. These facilities house educational classrooms and offices, storage warehouses, and physician offices. The primary two off-campus facilities that offer medical services are:

Houston Health Pavilion	The Houston Health Pavilion is a 47,200-square-foot ambulatory care center located in the Houston Mall, approximately 2 miles from HMC in Warner Robins. Services offered at this facility include: outpatient diagnostic imaging, lab services, cardio-pulmonary rehabilitation, physical rehabilitation, urgent care and community health education.
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Houston Lake Center	Houston Lake Center is another ambulatory care center, located in the middle of the county, approximately mid-way between HMC and PH on Highway 127 in Kathleen, Georgia. Urgent care services, occupational medicine and physical rehabilitation are the major services available at this location.
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Houston currently owns 2 parcels of undeveloped land. There is a 134-acre tract of land that was held as a potential development property located on Highway 41. Through Houston's strategic planning process, Houston has determined that this parcel will not be developed and a contingent offer exists to buy this parcel. There is also a 52-acre tract of land located off of Houston Lake Road and Highway 96 that is 8.8 miles from HMC and 8.6 miles from PH. Currently plans are being considered for a Cancer Center on approximately 5 acres of this site in a coordinated effort with the radiation oncologists and medical oncologists on staff at HMC. Plans include Houston maintaining a land lease for the property with the building to be owned by a real estate investment trust.

Houston's Services and Programs

Houston provides a full range of services consistent with its role as a regional acute care system. Both hospital campuses of the System provide similar services. The HMC campus maintains inpatient services in the

following areas, among others: medical/surgical, critical care, obstetrics, intensive and coronary care, pediatrics, and psychiatry. Additionally, the HMC campus maintains a pain treatment center and imaging services.

Perry Hospital offers many of the same services as HMC, including ICU, inpatient and outpatient surgery, an emergency department, pain management, rehabilitation and physical therapy, respiratory and cardiovascular services, and laboratory and imaging services, including CT, mammography, ultrasound and MRI. In 2003, the Authority decided to consolidate its women's services at the HMC campus at The Women's Center; obstetrical services are no longer provided at PH.

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The following table identifies at which locations some of the major categories of services are provided:

	HMC Campus	PH Campus	Health Pavilion Campus	Houston Lake Campus
Angiographic Services	X			
Behavioral Health	X			
Cardiac Catheterization	X			
Cardiology	X	X		
Cardiopulmonary Rehab			X	
Diagnostic Imaging	X	X	X	
Electroencephalography	X			
Emergency Service	X	X		
Enterostomal Therapy	X	X		
General Medicine	X	X		
General Surgery	X	X		
Gynecology	X	X		
Intensive Care	X	X		
Interventional Radiology	X			
IV Therapy	X			
Laboratory	X	X		
Maternity Services	X			
Neonatal Intensive Care*	X			
Neonatal Services	X			
Nephrology	X	X		
Neurology	X			
Obstetrics	X			
Occupational Medicine				X
Occupational Therapy			X	X
Oncology	X			
Orthopedics	X	X		
Otolaryngology	X	X		
Pain Management	X	X		
Pediatrics	X	X		
Pharmacy	X	X		
Physical Therapy	X	X	X	X
Pulmonology	X			
Speech Therapy			X	
Urgent Care			X	X
Urology	X	X		

<p>* HMC provides Level I (Basic) and Level II (Intermediate, Specialty) as defined by the DHR ORS Rules & Regulations described in the <i>Recommended Guidelines for Perinatal Care in Georgia</i>.</p>
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Accreditation and Professional Memberships

Both HMC and PH are licensed to operate their combined 231 beds pursuant to a license from the Georgia Department of Human Resources. HMC received its latest Accreditation from the Joint Commission on Accreditation of Healthcare Organizations on July 13, 2006 and PH on December 16, 2006. Both HMC and PH are approved for participation in the Medicare and Medicaid reimbursement programs. Both are members of several professional associations, including the American Hospital Association, the Georgia Hospital Association, VHA Georgia and the Georgia Alliance for Community Hospitals.

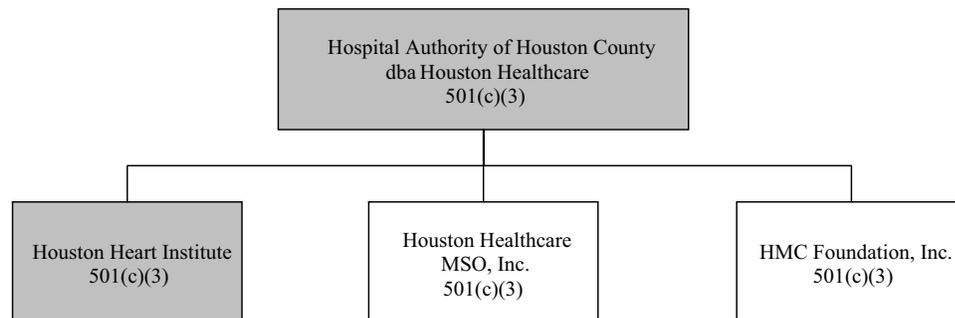
Educational Affiliations and Programs

Houston provides clinical training facilities for medical vocation courses offered by Middle Georgia Technical College such as nursing, radiation technology, surgical technology and medical assistant training. The System also provides clinical training facilities for students in the RN nursing programs at area colleges including Macon State College, Middle Georgia College, Georgia College and State University, and Georgia Southwestern College. Additionally, Houston provides funding for a faculty position in the RN program at Macon State College and is a partner in a grant program of Macon State College which provides for an LPN-to-RN bridge program.

Corporate Structure

Houston is a Georgia hospital authority organized and existing under the Georgia Hospital Authorities Law and is also recognized as a tax-exempt organization described under Section 501(c)(3) of the Internal Revenue Code (the “Code”). Houston owns and operates PH and HMC as well as Houston Health Pavilion, the Houston Lake Center and the Surgery Center, which are operating divisions of HMC. In addition, HMC has an operating division called Houston Healthcare Emergency Medical Services (“EMS”). EMS is an ambulance service serving Houston County with around-the-clock 911 emergency transportation and medical services via five ambulance stations throughout Houston County and 10 ambulances. In addition, EMS also provides non-emergency transportation and stand-by services within middle Georgia. Although the contributions of EMS, HMC, PH, the Houston Health Pavilion, the Houston Lake Center, and the Surgery Center are currently broken out in some of the supplemental schedules set forth in the System’s financial audit (see Appendix B), these divisions are not separate entities. All are directly owned and operated by Houston and are governed by the Authority, which is described under the section entitled “Governance.”

The organizational structure of Houston and its affiliated corporate entities (collectively, the “Houston Affiliates”) is illustrated below.



Note: Shaded entities are part of the Obligated Group for the Series 2007 Bonds

The three entities which are incorporated separately from Houston are:

Houston Heart Institute (“HHI”) – Established in 1989 as a Georgia non-profit corporation, the Houston Heart Institute is a tax-exempt organization described under Section 501(c)(3) of the Code. As described earlier, HHI operates a comprehensive outpatient cardiac catheterization laboratory located in a building which is integrated with the main hospital building on the campus of HMC. The Authority is the sole member of HHI, and HHI is a member of the Obligated Group.

Houston Healthcare Complex MSO, Inc. (“MSO”) – Incorporated as a Georgia non-profit corporation in 1996 as a tax-exempt organization described under Section 501(c)(3) of the Code, the MSO was formed to provide billing and support services to physician practices and engage in managed care contracting and related functions. The Authority is the sole Class C member of MSO, and MSO is not a member of the Obligated Group. Class A members consist of certain primary care physicians and Class B members consist of certain physician specialists.

Houston Medical Center Foundation, Inc. (the “Foundation”) – The Foundation is the fundraising arm of the System. It was created in 1989 and is a tax-exempt organization described under Section 501(c)(3) of the Code. The Authority is the sole member of the Foundation. Currently, the Foundation has no substantial assets and it is not a member of the Obligated Group.

As the sole member of the Authority’s three affiliates, the Authority maintains certain reserved powers within each Affiliate including revisions to the number of Board Trustees, election and removal of governance and corporate officers, approval of budgets, new loans and charitable contributions and changes in corporate existence, mission and/or structure of the affiliates; however, such reserved powers do not include the ability to transfer cash, or other assets, from the affiliates without the express approval of the affected Boards.

ONLY THE MEMBERS OF THE OBLIGATED GROUP (HOUSTON and HHI) ARE OBLIGATED TO PAY THE PRINCIPAL, INTEREST OR REDEMPTION PREMIUM, IF ANY, DUE, OR TO BECOME DUE, AND PAYABLE ON THE MASTER NOTE WHICH SECURES THE SERIES 2007 BONDS.

Governance

The Hospital Authority of Houston County is a public corporation created on March 14, 1957 by the Houston County Board of Commissioners (the “Board”), to operate, control and manage all matters concerning the County’s health care functions. The Authority is organized and exists under the provisions of the Georgia Hospital Authorities Law. The Authority has the ultimate responsibility and authority for all activities of Houston.

The business activities of the Authority are managed and conducted by a board of nine voting members. This board operates under the Hospital Authorities Law and bylaws established by the Authority. Seven of the members are appointed by the Houston County Board of Commissioners for staggered four-year terms. The other two trustees of the Authority serve by virtue of their roles as the chiefs of staffs, one of the medical staff of Houston Medical Center and the other of the medical staff of Perry Hospital. The officers of the Authority are elected by the Authority members and serve one term. Officers may serve two consecutive terms.

The Authority monitors the operations of Houston through both formal committees and through working groups. Management’s and any committee or working group reports are provided to Authority members prior to each monthly Board meeting. Current committees or working groups are focused around: nominating, joint conference, finance, investments, quality and other topics.

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A listing of the current members of the Authority, including the expiration date of their term and occupation, is listed below.

Name	Present Principal Business or Professional Affiliation	Term or Office Expires
Sonny Watson, <i>Chairman</i>	Owner, Insurance Agency & Former State Representative	February 2005 - 2009
Daniel A. Deighton, MD, <i>Vice Chairman</i>	Chief of Staff, Houston Medical Center	Term Concurrent with Term as Chief of Staff
Horatio V. Cabasares, MD	Chief of Staff, Perry Hospital	Term Concurrent with Term as Chief of Staff
Ed Dyson	Executive Director, Houston Board of Education	February 2001 - 2009
Fred Graham	Attorney	February 2007 - 2011
Glynn Greenway	Owner, Insurance Agency	February 2006 - 2010
Jack Ragland	Retired Comptroller, Macon State College	February 2006 - 2010
Trudie Warren	Retired Manager, Flint Energies	February 2000 - 2008
Larry Warnock	Owner, Construction Business	February 2007 - 2011

Executive Administration

The management team is responsible for adherence to the Authority’s stated mission and the ultimate attainment of its vision through the implementation of organization strategies and the maintenance of a strong financial position. The following information identifies key members of the Authority’s executive team.

Anthony Alford, D.O., FACHE (59)– Chief Executive Officer of the System

Dr. Tony Alford was named Chief Executive Officer of Houston in June 2006. He joined Houston in 2001 as Executive Director of Medical Affairs where he served as an advisor and liaison to the medical staffs and Chiefs of Staff of HMC and PH and was responsible for overseeing the Quality Resource Management, Infection Control, Employee Health, Health Information Management, Risk Management, Social Services, Utilization Review, Houston Heart Institute and Corporate Compliance of the organization.

Prior to his position at Houston, Dr. Alford served as the Medical Director of CIGNA of Louisiana. He has served as Medical Director for several health plans and integrated health care delivery systems in Texas, Illinois, Japan and Washington, D.C. During his 20-year career as a Colonel in the United States Air Force, Dr. Alford served as CEO and Medical Director in several hospitals in the United States and overseas. His last assignment was as Deputy Command Surgeon (COO), Air Mobility Command; an eight hospital system.

Dr. Alford earned his medical degree from the Texas College of Osteopathic Medicine, University of North Texas Health Sciences Center, Fort Worth, Texas. He is board certified in Family Medicine (last recertification in 2005). He has a Masters degree in Business Administration from Auburn University and a Masters degree in International Relations from Troy State University, Alabama. His community and professional associations include: Rotary International, Warner Robins Chamber of Commerce—Board member and Military Affairs Committee, American Red Cross – 2nd Vice Chair, United Way of Central Georgia – Past Board Chair and county Campaign Chair, American College of Healthcare Executives--Fellow, President of Physician Executives of Georgia,

American College of Physician Executives, American Board of Family Medicine, Fellow in American Academy of Family Physicians, Georgia Academy of Family Physicians and the Medical Association of Georgia.

Grady W. (Skip) Philips III (44) – Chief Operating Officer of the System

Mr. Philips, a native of Georgia, joined Houston as Administrator of HMC in August 2006. He was named Chief Operating Officer in June, 2007. Prior to arriving at Houston, he served in a variety of roles including Senior Vice President of Operations for Riverside Regional Medical Center at Riverside Health System in Newport News, Virginia. Mr. Philips has 20 years experience as a corporate officer and administrator of healthcare facilities providing a continuum of services from acute care to rehabilitation and retirement communities. Mr. Philips graduated from Emory University with a Bachelor of Arts degree in History and a Bachelor of Science degree in Chemistry. He received a Masters Degree in Business Administration and a Masters Degree in Health Care Administration from Georgia State University. Mr. Philips is a member of the American College of Healthcare Executives (ACHE).

Lora Davis (42) – Administrator of PH

Ms. Davis holds a Masters degree in Business Administration from Georgia College and State University, and she joined Houston in 1985 as a staff accountant. After holding various roles in the organization, she was named Administrator of Perry Hospital in 1998. Mrs. Davis also has administrative responsibility for Rehabilitation Services and Emergency Medical Services (EMS) for the Authority. Ms. Davis, a twenty-three year resident of Houston County, is a Fellow in the American College of Healthcare Executives.

Frank Powell (52) – Chief Financial Officer of the System

Mr. Powell has been employed by Houston as Chief Financial Officer since 2004 and brought to the organization over 24 years experience in health care financial management. Prior to joining Houston, Mr. Powell's background included, Assistant Controller and Controller at Memorial Medical Center and St. Joseph's Hospital in Savannah Georgia respectfully for 8 years, then 13 years as CFO at Henry Medical Center in Stockbridge, Georgia.

Prior to entering healthcare, Mr. Powell earned his CPA and practiced in public accounting. He holds a Bachelor of Business Administration from the University of Georgia and a Masters in Health Administration from Central Michigan University. He is a Fellow, a Certified Managed Care Professional, and a Muncie Gold Merit Award recipient in Healthcare Financial Management Association (HFMA) and currently serves on the Georgia Board of HFMA. He is also a current member of the American Institute of Certified Public Accountants and the Georgia Society of Certified Public Accountants.

Samuel Johnson, M.D. (51) – Executive Director of Medical Affairs for the System

Dr. Johnson joined Houston as Executive Director of Medical Affairs in June 2007. In this position, he serves as an advisor and liaison to the medical staffs and Chiefs of Staff of Houston Medical Center and Perry Hospital. He oversees Quality Resource Management, Infection Prevention and Control, Risk Management, the Medical Staff Office, Social Services and Utilization Review, and the Houston Heart Institute.

Dr. Johnson joined Houston from Tanner Health System in Carrollton, Georgia, where he held the position of Medical Director. He established his medical practice in Carrollton in 1996 and has served as Chair of the Department of Obstetrics/ Gynecology, Chair of the Surgery Department, and Chief of Staff. Dr. Johnson received his medical degree from the Medical College of Georgia and a Bachelor of Science in Biochemistry from the University of Georgia where he graduated Magna Cum Laude. He completed his residency in Obstetrics/Gynecology at Memorial Medical Center in Savannah and was named Chief Resident in 1986.

Tommi Gill, RN (44) – Chief Nurse Executive of the System

Ms. Gill holds a Masters degree in Counseling and Human Development from Troy State University and Bachelor of Science in Nursing from East Tennessee State University. She is also certified as a Nursing Administrator and a Women's Health Care Nurse Practitioner. After retirement from the United States Air Force in

January 2006 Ms. Gill joined Houston as a Clinical Director of Nursing and was named Chief Nurse Executive in July 2006. She has responsibility of all Nursing Services provided throughout the system. Ms. Gill serves on the VHA CNO council as well as the local Advisory Council for the High School Allied Health Program.

David Campbell (53) – Executive Director of Managed Care & Physician Services of the System

Mr. Campbell holds a Masters Degree in Public Administration from Georgia College and State University. He joined Houston in 1990. Currently the Executive Director of Managed Care and Physician Services he has responsibility for physician recruitment, physician practice management, Urgent Care Centers, inpatient psychiatric, Patient Select (MSO), managed care contracts, occupational health program and the Houston County Volunteer Medical Clinic. Mr. Campbell is a twenty-year member of the Warner Robins Rotary Club, a graduate of Georgia Department of Human Resources and Warner Robins Chamber of Commerce Leadership programs, formerly a Director of Warner Robins Chamber of Commerce, Past Chairman of the Salvation Army Safe House Board, current Chairman of the Middle Georgia Technical College Nursing Council, Advisory Council member of the Georgia Transplant Foundation, current Board member of the Georgia Hospital Association's Physician Services Society.

Mary Jane Kinnas (40) – Executive Director of Marketing for the System

Ms. Kinnas holds a Bachelor of Arts degree in Journalism from the University of Georgia and has over 18 years experience in Marketing and Public Relations. She joined Houston as Executive Director of Marketing and Community Relations in 1994. She has responsibility for the organization's marketing, advertising, media/public relations, service excellence, community relations and community education functions. Ms. Kinnas is a 1995 graduate of the Leadership Perry program and served as chairman of the program in 2000. A native of Houston County, she currently serves as a member of the Board of Directors of Middle Georgia Technical College and the Perry Kiwanis Club.

Linda Watson (55) – Executive Director of Human Resources for the System

Ms. Watson holds a Bachelor's Degree of Business Administration from Wesleyan College and is a Certified Human Resources Generalist. She began her career with Houston in 2000 as an HR Generalist but has also served as Recruitment Manager and Assistant Director of Human Resources. In her capacity as Executive Director of Human Resources, Ms. Watson has oversight of Employee Relations, Recruitment, Benefits and Employee Health Department all within the HR department as well as the Medical Library and Organizational Development. She is currently a Leadership Warner Robins participant, serves on the VHA HR Council, is a member of the local and national Society for Human Resource Management and is a 25 year resident of Houston County.

Beth Benefield (44) – Chief Information Officer of the System

Ms. Benefield holds a Bachelor's degree in Computer Science from Valdosta State University, and she joined Houston in 1987 as a computer programmer. Ms. Benefield has held various roles in the Hospital Information Systems Department and various Leadership responsibilities to include Imaging and Laboratory Services. Ms. Benefield currently serves as the Chief Information Officer for the System and is currently seeking a Master of Business Administration from Wesleyan College.

Medical Staff

As of February 2007, Houston's Medical Staffs totaled 213 professionals. Membership on the Medical Staff is open to licensed physicians, dentists, and podiatrists who have privileges to attend to patients of Houston. There are currently separate bylaws that govern the medical staff for the two hospitals. The Administrators of HMC and PH along with the Executive Director of Medical Affairs will be working collaboratively with the medical staff leadership to begin the administrative process of creating a common set of bylaws. Centralized credentialing will also be part of the initial efforts.

The bylaws of Houston Medical Center provide for five primary categories and two military categories of physician affiliation within the Hospital, as follows:

(1) **Active Medical Staff** members consist of physicians who are licensed to practice in the State of Georgia, can document their experience, background, training, which have demonstrated ability, physician health status and are determined on the basis of documented references to adhere strictly to the ethics of their respective professions. Active Medical Staff members must be members in good standing in their national, state, and local accrediting associations.

(2) **Consulting Medical Staff** members consist of physicians or practitioners who meet the basic qualifications of the Active Medical Staff but are not members of the Active Medical Staff. Consulting Staff members are occasionally called for temporary consultations.

(3) **Courtesy Staff** members consist of physicians with active privileges at area hospitals that are requested by active staff members to cover their call responsibility in their absence who meet the basic qualifications of the Active Medical Staff but are not members of the Active Medical Staff. These physicians are allowed to admit patients to the care of the sponsoring active staff member and care for them until his/her return.

(4) **Active Military Staff**

(5) **Military Consulting Staff** -- this category and Active Military Staff above are specific to the physicians who are responsible for patient care in Houston's area that are part of the United States Department of Defense (DOD) authorized beneficiaries. These two categories are rarely used with HMC but are available in our supportive role with Robins Air Force Base.

(6) **Senior Active Medical Staff** members consist of physicians 60 years and older who have requested to be removed from the Active Medical Staff. Senior Active Medical Staff have the same privileges and responsibilities as Associate Staff Members except they are not obligated to take emergency service calls.

(7) **Associate Medical Staff** members consist of physicians and dentists who have met all the requirements of Active Medical Staff but who admit 12 or fewer patients per year.

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As of February 28, 2007 the total staff of HMC and PH was divided among the following classifications (note that any doctors who have privileges at both HMC and PH are reflected in the HMC numbers and are not double-counted):

<u>Medical Staff Distribution</u>	<u>HMC</u>	<u>PH</u>	<u>Combined</u>
Active	114	11	125
Senior	<u>9</u>	<u>0</u>	<u>9</u>
Active Medical Staff	123	11	134
Consulting	37	36	73
Courtesy/Associate	2	4	6
Active Military	0	0	0
Consulting Military	<u>0</u>	<u>0</u>	<u>0</u>
Total Medical Staff	<u>162</u>	<u>51</u>	<u>213</u>

Of the 123 active physicians at HMC, 97% are Board Certified and/or Board Eligible as compared to 100% of the 11 active PH physicians in their specialties or sub-specialties and the average age of the active members is 46.7 years. Of the 97% Board Certified at HMC, four physicians are board eligible.

The following table shows how the Active medical staff size has grown over time.

	<u>FY2004</u>			<u>FY2005</u>			<u>FY2006</u>			<u>FY2007</u>		
	<u>HMC</u>	<u>PH</u>	<u>Combined</u>	<u>HMC</u>	<u>PH</u>	<u>Combined</u>	<u>HMC</u>	<u>PH</u>	<u>Combined</u>	<u>HMC</u>	<u>PH</u>	<u>Combined</u>
Beginning of FY	90	12	102	97	13	110	101	14	115	108	12	120
Additions	11	1	12	8	2	10	9	2	11	11	-	11
Departures	<u>(4)</u>	-	<u>(4)</u>	<u>(4)</u>	<u>(1)</u>	<u>(5)</u>	<u>(2)</u>	<u>(4)</u>	<u>(6)</u>	<u>(5)</u>	<u>(1)</u>	<u>(6)</u>
End of FY	97	13	110	101	14	115	108	12	120	114	11	125

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Medical Staff - Specialty and Age

The following medical staff profile identifies the number of physicians by specialty as of February 28, 2007 along with corresponding admission statistics for FY2007.

HOUSTON MEDICAL CENTER PHYSICIAN PROFILE

Specialty	Average Age of Medical Staff	Total Medical Staff	Active Staff	Courtesy/ Associate Staff	Consulting Staff	Senior Active Staff	Number of Admissions ⁽¹⁾	Percentage of Admissions ⁽²⁾
Anesthesia	46	8	6			2	-	
Cardiology	42	4	4				149	1.27%
Dentistry	55	2			2		-	
Dermatology	49	1	1				-	
Emergency Medicine	44	24	1		22	1	-	
Family Practice	42	10	10				-	
Gastroenterology	44	1	1				18	0.15%
General Surgery	49	6	4			2	500	4.27%
Infectious Disease	43	3	3				409	3.49%
Internal Medicine	47	23	22			1	3,619	30.88%
Medical Oncology	56	6	6				39	0.33%
Neonatology	53	2			2		-	
Nephrology	41	5	5				-	
OB-GYN	47	15	13			2	2,665	22.74%
Ophthalmology	65	1		1			-	
Oral Surgery	40	1			1		1	0.01%
Otolaryngology	51	2	2				10	0.09%
Pathology	46	3	3				-	
Pediatrics	47	13	12			1	2,642	22.54%
Podiatry	53	3			3		2	0.02%
Psychiatry	51	3	3				413	3.52%
Pulmonology	35	1	1				167	1.42%
Radiation Therapy	51	2			2		10	0.09%
Radiology	51	8	4		4		-	
Urology	50	3	3				172	1.47%
Other/Neurology	50	1	1				-	
Ortho-Surgical	47	11	9	1	1		905	7.72%
Total/Average	46.9	162	114	2	37	9	11,721	100.00%

⁽¹⁾ Admission Figures EXCLUDE newborns.

⁽²⁾ Percentages not included are at or near 0.00%.

PERRY HOSPITAL PHYSICIAN PROFILE

Specialty	Average Age of Medical Staff	Total Medical Staff	Active Staff	Courtesy / Associate Staff	Consulting Staff	Senior Active Staff	Dual Membership HMC/PH	Number of Admissions⁽¹⁾	Percentage of Admissions⁽²⁾
Anesthesia	46	3	1		2			-	
Cardiology	44	2			2		4	-	
Dentistry	39	1			1			-	
Emergency Medicine	45	18	1		17			-	
Family Practice	51	1	1				1	348	16.07%
Gastroenterology	45						1	-	
General Surgery	57	2	2					71	3.28%
Infectious Disease	49						2	-	
Internal Medicine	43	6	6				3	1,513	69.88%
Medical Oncology	50	2			2				
Nephrology	42	3		3			3	-	
OB-GYN	51	1		1			6	5	0.23%
Optometry	45	1			1			-	
Pathology	48	2			2		3	-	
Pediatrics	50						9	97	4.48%
Plastic Surgery	51	1			1			-	
Podiatry	51	1			1		1	-	
Radiology	46	7			7		8	-	
Urology	47						1	1	0.05%
Ortho-Surgical	44						7	130	6.00%
Total/Average	45.9	51	11	4	36	-	49	2,165	100.00%

⁽¹⁾ Admission Figures EXCLUDE newborns.

⁽²⁾ Percentages not included are at or near 0.00%.

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Top Ten Admitting Physicians

The following tables set forth the number and percentage of admissions for FY 2007 from March 1, 2006 through February 28, 2007 attributable to the top ten physicians with the number of admissions during the period per physician.

HMC - TOP 10 ADMITTING PHYSICIANS

Rank	Specialty	Solo or Group Practitioner	Group Name	Patient Admissions ⁽¹⁾	Percentage of Admissions ⁽²⁾
1	Internal Medicine	Solo	N/A	596	4.4%
2	Internal Medicine	Solo	N/A	517	3.8%
3	Internal Medicine	Group	Comprehensive Care Medical Offices, LLC	433	3.2%
4	Pediatrics	Group	Youthcare	432	3.2%
5	Internal Medicine	Solo	N/A	410	3.0%
6	Pediatrics	Group	Pediatric Associates	372	2.7%
7	Internal Medicine	Group	Advanced Medical Associates, P.C.	355	2.6%
8	Internal Medicine	Group	Focus Primary Care, LLC	350	2.6%
9	Internal Medicine	Group	Comprehensive Care Medical Offices, LLC	324	2.4%
10	Internal Medicine	Group	Robins Medical Associates	314	2.3%
Total Admissions of Top 10:				4,103	30.2%

⁽¹⁾ Admission Figures INCLUDE newborns.

⁽²⁾ Based on Total Admissions of 13,585.

PH - TOP 10 ADMITTING PHYSICIANS

Rank	Specialty	Solo or Group Practitioner	Group Name	Patient Admissions ⁽¹⁾	Percentage of Admissions ⁽²⁾
1	Internal Medicine	Solo	N/A	414	18.6%
2	Internal Medicine	Solo	N/A	333	15.0%
3	Family Medicine	Solo	N/A	259	11.7%
4	Internal Medicine	Solo	N/A	207	9.3%
5	Internal Medicine	Solo	N/A	193	8.7%
6	Internal Medicine	Solo	N/A	190	8.6%
7	Internal Medicine	Solo	N/A	171	7.7%
8	Internal Medicine	Solo	N/A	154	6.9%
9	Pediatrics	Solo	N/A	145	6.5%
10	Family Medicine	Solo	N/A	100	4.5%
Total Admissions of Top 10:				2,166	97.6%

⁽¹⁾ Admission Figures INCLUDE newborns.

⁽²⁾ Based on Total Admissions of 2,220.

HMC/PH COMBINED - TOP 10 ADMITTING PHYSICIANS

Rank	Specialty	Solo or Group Practitioner	Group Name	Patient Admissions⁽¹⁾	Percentage of Admissions⁽²⁾
1	Internal Medicine	Solo	N/A	596	3.8%
2	Internal Medicine	Solo	N/A	517	3.3%
3	Internal Medicine	Group	Comprehensive Care Medical Offices, LLC	433	2.7%
4	Pediatrics	Group	Youthcare	432	2.7%
5	Internal Medicine	Solo	N/A	414	2.6%
6	Internal Medicine	Solo	N/A	410	2.6%
7	Pediatrics	Group	Pediatric Associates	372	2.4%
8	Internal Medicine	Group	Advanced Medical Associates, P.C.	355	2.2%
9	Internal Medicine	Group	Focus Primary Care, LLC	350	2.2%
10	Internal Medicine	Solo	N/A	333	2.1%
Total Admissions of Top 10:				4,212	26.6%

⁽¹⁾ Admission Figures INCLUDE newborns.

⁽²⁾ Based on Total Admissions of 15,805.

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Physicians Groups

The following table sets forth the number and percentage of admissions for FYE February 28, 2007 attributable to physician groups serving Houston with the number of admissions during the period per physician group.

Group	Total Admissions	Percentage of Admissions
Advanced Medical Associates, P.C.	460	2.9%
Central Georgia Heart Institute, LLC	122	0.8%
Central Georgia Hermatology/Oncology	29	0.2%
Central Georgia Radiation Oncology Centers	-	
Comprehensive Care Medical Offices, LLC	1,107	7.0%
Focus Primary Care, LLC	387	2.4%
Houston Family Medicine	38	0.2%
Houston Neurology	-	
Infection Specialist of Middle Georgia, LLC	7	
Medicine and Surgery of the Foot, Ankle and Lower Leg	1	
Middle Georgia Orthopaedic Surgery & Sports Medicine	801	5.1%
Middle Georgia Medical Associates, P.C.	149	0.9%
Pediatric Associates	969	6.1%
Pediatric First	646	4.1%
Physician's For Women	572	3.6%
Primary Health Care	318	2.0%
Robins Anesthesia	1	
Robins Medical Associates	1,040	6.6%
Surgical Associates	326	2.1%
Women's Health Care	654	4.1%
Youthcare	<u>521</u>	<u>3.3%</u>
Total	<u>8,148</u>	<u>51.6%</u>

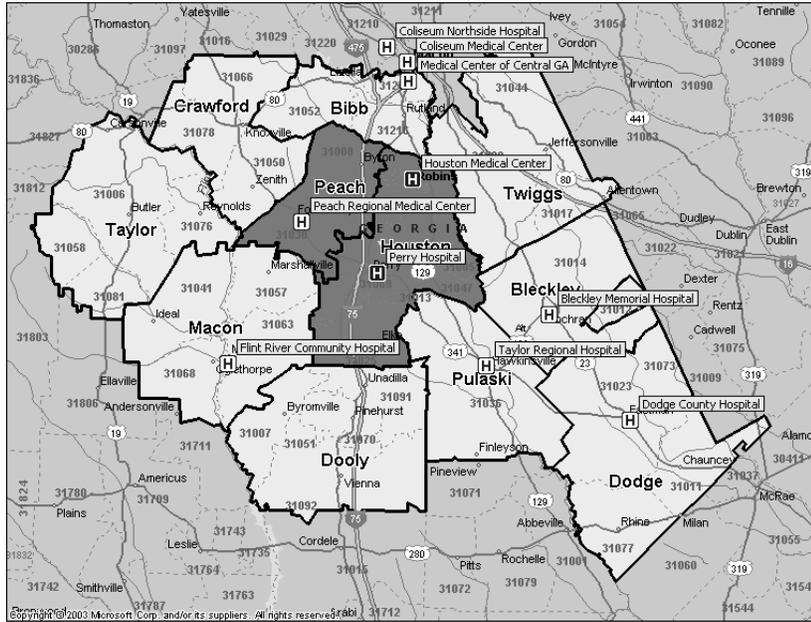
Service Area and Patient Origin Information

Service Area and Patient Origin – Houston defines its market area at two levels:

Primary Service Area (“PSA”) – shown on the map below in dark gray, consisting of the two counties of Houston County and Peach County which encompass five municipalities and in which Houston holds a significant market share. The PSA provided the vast majority (92%) of Houston’s total discharges in FY2007. One other acute care hospital, Peach Regional Medical Center, is located within Houston’s PSA.

Secondary Service Area (“SSA”) – shown on the map below in lighter gray, consisting of the southern part of Bibb County and surrounding counties of Twiggs and Crawford to the north, Taylor and Macon to the west, Dooly and Pulaski to the south and Bleckley and Dodge to the east. The System drew approximately 8% of its total discharges from the SSA through the delivery of both primary and regional level inpatient services in FY2007.

**SECONDARY SERVICE AREA
(Bibb, Bleckley, Crawford, Dodge, Dooly, Macon, Pulaski, Taylor and Twiggs counties)**



Competitive Environment – Primary and Secondary Service Areas

The following chart lists the other major medical facilities located in Houston’s primary and secondary service areas:

Hospital	Number of Beds	Location	Miles
Medical Center of Central Georgia	615 licensed/495 staffed	Bibb	19.2
Coliseum Medical Center (HCA)	285 licensed/246 staffed	Bibb	21.3
Coliseum Northside Hospital (HCA)	103 licensed and staffed	Bibb	22.4
Peach Regional Medical Center	25 beds Critical Access	Peach	15.6
Taylor Regional Hospital	70 licensed/55 staffed	Pulaski	31.1
Bleckley Memorial Hospital	25 beds Critical Access	Bleckley	29.4
Dodge County Hospital	94 licensed/87 staffed	Dodge	47.1
Flint River Community Hospital	27 staffed	Macon	42.7

Source: American Hospital Association Guide 2007

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Patient Origin Analysis – Service Area Discharges

The following table shows the distribution of discharges from the System for the fiscal years 2005 to 2007 for the primary and secondary service areas:

County	Municipality	Zip Code	FY 2005		FY 2006		FY 2007		Compound
			Discharges	% of Total	Discharges	% of Total	Discharges	% of Total	Annual Growth Rate
Primary Service Area (PSA)									
Houston									
	Warner Robins	31093/88/95/99	7,598	49.90	7,904	49.98	7,934	49.53	2.2%
	Perry	31069	2,070	13.60	2,118	13.39	2,269	14.17	4.7%
	Kathleen	31047	560	3.70	579	3.66	671	4.19	9.5%
	Elko	31025	94	0.61	116	0.73	95	0.59	0.5%
	Robins AFB	31098	297	1.95	237	1.50	190	1.19	(20.0%)
	Centerville	31028	440	2.89	489	3.09	520	3.25	8.7%
	Bonaire	31005	904	5.94	971	6.14	951	5.94	2.6%
Total Houston County			11,963	78.59	12,414	78.49	12,630	78.86	2.7%
Peach									
	Fort Valley (1)	31030	866	5.69	825	5.22	839	5.24	(1.6%)
	Byron	31008	883	5.80	890	5.63	978	6.10	5.2%
Total Peach			1,749	11.49	1,715	10.85	1,817	11.34	1.9%
Total PSA			13,712	90.08	14,129	89.34	14,447	90.20	2.6%
Secondary Service Area (SSA)									
Pulaski									
	Hawkinsville (6)	31036	166	1.09	194	1.23	192	1.20	7.5%
Crawford									
	Roberta	31078	51	0.03	54	0.34	40	0.25	(11.4%)
	Zenith	31050	6		7		12		
	Knoxville	31052	24	0.15	35	0.22	28	0.17	8.0%
Taylor									
	Reynolds	31076	75	0.49	103	0.65	86	0.54	7.1%
	Butler	31006	55	0.36	60	0.38	50	0.31	(4.7%)
Macon									
	Montezuma	31063	69	0.45	68	0.43	62	0.39	(5.2%)
	Oglethorpe (5)	31068	41	0.27	23	0.15	57	0.35	17.9%
	Marshallville	31057	102	0.67	106	0.67	115	0.72	6.2%
	Ideal	31041	13	0.08	12	0.08	11	0.07	(8.0%)
Dooly									
	Unadilla	31091	45	0.30	63	0.40	52	0.33	7.5%
	Vienna	31092	18	0.12	16	0.10	9	0.06	(29.3%)
	Byromville	31007	17	0.11	15	0.09	18	0.11	2.9%
	Pinehurst	31070	11	0.07	16	0.10	12	0.07	4.4%
Bleckley									
	Cochran (3)	31014	121	0.79	116	0.73	106	0.66	(6.4%)
Bibb									
	Macon (2)	31201	11	0.07	18	0.11	6	0.04	(26.1%)
		31204	36	0.23	40	0.25	32	0.20	(5.7%)
		31206	75	0.49	70	0.44	67	0.42	(5.5%)
		31210	34	0.22	43	0.27	28	0.17	(9.3%)
		31216	110	0.72	137	0.87	125	0.78	6.6%
Twiggs									
	Jeffersonville	31044	24	0.16	12	0.08	19	0.12	(11.0%)
	Danville	31017	11	0.07	20	0.13	23	0.14	44.6%
		21020	1	0.01	7	0.04	6	0.04	144.9%
Dodge									
	Eastman (4)	31023	26	0.17	28	0.18	26	0.16	-
Total SSA			1,143	7.50	1,264	7.97	1,182	7.36	1.7%
Outside PSA & SSA			374	2.46	422	2.67	389	2.43	2.0%
Grand Total			15,227		15,815		16,018		2.6%

Notes: Discharges are net of same-day surgeries

- (1) Location of Peach Regional Medical Center
- (2) Location of Medical Center of Central Georgia, Coliseum Medical Center and Coliseum Northside Hospital.
- (3) Location of Bleckley Memorial Hospital
- (4) Location of Dodge County Hospital
- (5) Location of Flint River Community Hospital
- (6) Location of Taylor Regional Hospital

Source: Houston Healthcare Health Information Management

Competition

As mentioned above, Houston has one other competing acute care hospital in its PSA (Peach Regional Medical Center) and four other acute care hospitals in its SSA which it considers major competitors. Those hospitals along with short accompanying descriptions are provided below.

	<u>Municipality</u>	<u>County</u>	<u>Staffed Beds</u>	<u>Miles from HMC</u>
Peach Regional Medical Center	Fort Valley	Peach	25	15.6
Medical Center of Central Georgia	Macon	Bibb	495	19.2
Coliseum Medical Center	Macon	Bibb	246	21.3
Coliseum Northside Hospital	Macon	Bibb	103	22.4
Taylor Regional Hospital	Hawkinsville	Pulaski	55	31.1

Source: American Hospital Association Guide, 2007

Peach Regional Medical Center

The only other acute care hospital in Houston’s PSA is Peach Regional Medical Center (“Peach RMC”) a non-profit 501(c)(3) hospital governed by the Hospital Authority of Peach County and located in Fort Valley, Peach County, Georgia. Peach RMC is a 25-bed, non-teaching, acute care hospital located approximately fifteen miles east of HMC. Peach RMC provides emergency services, outpatient services and a range of inpatient services, including medical, surgical, radiology, cardio-pulmonary and laboratory services. Specialized services include an extended care unit, cardiac rehabilitation, and physical therapy. Peach RMC has been designated a Critical Access Hospital, as defined by the Office of Rural Health Policy, part of the Health Resources and Services Administration of the U.S. Department of Health and Human Services.

Medical Center of Central Georgia

The Medical Center of Central Georgia (“MCCG”) in Macon, Georgia is a 501(c)(3) private, not for-profit corporation owned by the Macon-Bibb Hospital Authority. It is a 615-licensed bed (495 staffed beds) full-service, acute care teaching hospital and is the second largest hospital in the state of Georgia. MCCG serves as the primary teaching hospital for the Mercer University School of Medicine. As a tertiary care facility, MCCG has a primary service area of 30 counties in Central Georgia, including Bibb and the neighboring counties of Crawford, Houston, Jones, Monroe, Peach and Twiggs, but it serves patients from nearly 80 percent of Georgia’s 159 counties. MCCG is designated by the Georgia Department of Human Resources as a Level One Trauma Center, one of only four in the state. MCCG offers a full range of services through their Georgia Heart Center, Emergency Center, Surgery Center, Cancer Life Center, Children’s Hospital, and JointWorks.

Coliseum Medical Center and Coliseum Northside Hospital

Coliseum Medical Center (“CMC”) and Coliseum Northside Hospital (“Northside” and collectively with CMC, “Coliseum”) are both acute care hospitals in Macon, Georgia owned and operated by the Hospital Corporation of America, Inc. (“HCA”), a for-profit, public corporation headquartered in Nashville, Tennessee. HCA owns and operates approximately 179 hospitals and approximately 104 freestanding surgery centers in 21 states, England and Switzerland. Among the services offered by Coliseum are same day surgery, cardiac care and rehabilitation, a cancer center, diabetes management, rehabilitation, obstetrics, wound healing and other services. Collectively, Coliseum is licensed for 388 beds and currently staffs 349.

Taylor Regional Hospital

Taylor Regional Hospital (“Taylor”) in Hawkinsville, Georgia is located approximately 30 miles southeast of HMC. Taylor is a private, non-profit 501(c)(3) acute care hospital licensed for 70 beds with 55 of those beds currently staffed. Taylor is affiliated with Bleckley Memorial Hospital, a 25-bed critical access hospital in Bleckley County, Georgia. Services offered include Adult/General Medicine, Anesthesiology, Cardiology, Dermatology, Emergency Medicine, Family Practice, General Surgery, Internal Medicine, Obstetrics/Gynecology, Nephrology, Oncology, Otolaryngology, Pathology, Pediatrics, Pediatric Neurology, Podiatry, Psychology, and Radiology.

The following table is an abbreviate comparison of the types of inpatient services each of the above facilities provides:

<u>Inpatient Clinical Capabilities</u>	<u>HMC</u>	<u>PH</u>	<u>Peach RMC</u>	<u>MCCG</u>	<u>Coliseum</u>	<u>Taylor</u>
Medical/Surgical	x	x	x	x	x	x
ICU/CCU	x	x	x	x	x	x
Obstetrics	x			x	x	x
Pediatrics	x	x		x	x	x
Neonatal Intensive Care	x			x		
Cardiac Surgery				x	x	
Cardiac Catheterization (Full Service)				x	x	
Cardiac Catheterization (Low Risk)	x			x	x	
Psychiatric Unit	x			x	x	
Trauma Center				x		

Source: Georgia Hospital Association DATABANK

In addition to the above hospital competitors, there is an existing competing urgent care facility owned by a local doctor which has been operational since March 2007 and is located in Houston County on Hwy 96 at Lake Joy Road. There are three doctor-owned outpatient surgery centers in Houston County (Dermatology since 1996 Otolaryngology since 2000 and Podiatry opened May 2007). An orthopedic surgery group has received a Letter of Non-Renewability permission from the State of Georgia Department of Community Health to open an outpatient surgery center, which will be located in Warner Robins (Houston County) approximately four miles from HMC.

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Market Share

The following tables show the market share by total discharges for residents of the PSA and the service area as a whole respectively.

The first table represents discharges and market share in the PSA only (Houston and Peach counties – the zip codes are listed below the graph) – the second table represents both the PSA (Houston and Peach) along with the SSA (rest of the counties) discharges and market share with the zip codes listed.

Primary Service Area Total Discharges and Local Market Share

	2004-2006 Compound Annual Growth	2004		2005		2006	
		Discharges	Market Share	Discharges	Market Share	Discharges	Market Share
Houston Medical Center	4.7%	10,890	59.2%	11,472	59.7%	11,932	59.4%
Perry Hospital	9.2%	1,555	8.5%	1,662	8.7%	1,855	9.2%
Total Houston	5.3%	12,445	67.7%	13,134	68.4%	13,787	68.6%
Coliseum Northside Hospital	7.5%	192	1.0%	218	1.1%	222	1.1%
Coliseum Medical Center	2.9%	1,128	6.1%	1,045	5.4%	1,194	5.9%
Medical Center of Central GA	1.5%	4,154	22.6%	4,266	22.2%	4,278	21.3%
Peach Regional Medical Center	25.5%	292	1.6%	391	2.0%	460	2.3%
Taylor Regional Medical Center	-7.3%	171	0.9%	153	0.8%	147	0.7%
Total	4.5%	18,382	100.0%	19,207	100.0%	20,088	100.0%

Source: Georgia Hospital Association HERMES Health Planner Database

Zip Codes include 31005, 31008, 31025, 31028, 31036, 31047, 31069, 31088, 31093, 31095, 31098, 31099

Primary and Secondary Service Area Total Discharges and Local Market Share

	2004-2006 Compound Annual Growth	2004		2005		2006	
		Discharges	Market Share	Discharges	Market Share	Discharges	Market Share
Houston Medical Center	4.6%	11,693	32.8%	12,315	33.7%	12,791	34.2%
Perry Hospital	8.8%	1,762	4.9%	1,895	5.2%	2,086	5.6%
Total Houston	13.4%	13,455	37.7%	14,210	38.9%	14,877	39.8%
Bleckley Memorial Hospital	8.7%	430	1.2%	439	1.2%	508	1.4%
Coliseum Northside Hospital	3.3%	688	1.9%	701	1.9%	734	2.0%
Coliseum Medical Center	6.9%	3,074	8.6%	3,193	8.7%	3,512	9.4%
Dodge County Hospital	(6.9%)	1,932	5.4%	1,830	5.0%	1,673	4.5%
Flint River Community Hospital	(2.5%)	998	2.8%	986	2.7%	948	2.5%
Medical Center of Central GA	(1.1%)	12,642	35.5%	12,487	34.2%	12,358	33.1%
Peach Regional Medical Center	30.7%	383	1.1%	550	1.5%	654	1.8%
Taylor Regional Medical Center	0.9%	2,063	5.8%	2,147	5.9%	2,100	5.6%
Total	2.4%	35,665	100.0%	36,543	100.0%	37,364	100.0%

Source: Georgia Hospital Association HERMES Health Planner Database

Zip Codes include 31005, 31008, 31025, 31028, 31036, 31047, 31069, 31088, 31093, 31095, 31098, 31099, 31036, 31078, 31076, 31006, 31063, 31068, 31057, 31041, 31091, 31007, 31070, 31014, 31206, 31216, 31044, 31017, 31023, 31050, 31052, 31020

Source: Georgia Hospital Association HERMES Health Planner Database

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Service Area Demographic Information

As mentioned earlier, Houston’s primary service area includes all of Houston and Peach counties and the PSA has accounted for approximately 70% of the patients admitted to the HMC or PH campuses during FY2007. Houston County, approximately 100 miles south of Atlanta, covers approximately 400 square miles and enjoys close proximity to Interstates 75 and 16. Warner Robins, the city in which HMC is located, is the largest city in Houston County. The table below demonstrates the population trends in the PSA:

<u>County</u>	2000	2006	2015	Compound Annual Growth Rates	
	<u>Census</u>	<u>Estimate</u>	<u>Projection</u>	<u>2000-06</u>	<u>2006-15</u>
Houston	110,765	127,530	160,698	2.4%	2.6%
Peach	<u>23,668</u>	<u>24,785</u>	<u>Unavailable</u>	<u>0.8%</u>	
Total	<u>134,433</u>	<u>152,315</u>		<u>2.1%</u>	
Georgia	8,186,453	9,363,941	10,230,578	2.3%	1.0%
United States	281,421,906	299,398,484	332,365,787	1.0%	1.2%

Source: US Census Bureau

Median household income and unemployment data for Houston and Peach counties is as follows:

<u>County</u>	Median Household Income ⁽¹⁾		2006 Average Annual Unemployment Rate ⁽²⁾
	2000	2005	
<u>Census</u>	<u>Estimate</u>		
Houston	\$43,638	\$48,962	4.30%
Peach	\$34,453	\$36,029	5.90%
Georgia	\$42,433	\$45,604	4.60%
United States	\$41,994	\$46,242	4.60%

Sources: ⁽¹⁾ U.S. Census Bureau; ⁽²⁾ U.S. Bureau of Labor Statistics

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The top ten employers in Houston County are listed in the following table.

TOP TEN HOUSTON COUNTY EMPLOYERS

Employer	Location	Approximate # of Employees
Robins Air Force Base	Robins AFB	25,000
Houston County Board of Education	Various	4,000
Perdue Farms	Perry	2,000
Houston Healthcare	Various	1,848
Frito-Lay	Perry	1,200
Houston County	Centerville	688
City of Warner Robins	Warner Robins	609
Anchor Glass Container Corporation	Warner Robins	443
Middle Georgia Technical Institute	Warner Robins	400
Warner Robins Supply Company	Warner Robins	250

Source: Houston County Development Authority 2007.

As shown above, Houston County’s largest employer is Robins Air Force Base (“RAFB”), which is also the largest industrial complex in Georgia. Houston’s EMS service is contracted to provide ambulance services on the base. Robins Air Force Base is the home of Warner Robins Air Logistics Center, the 78th Air Base Wing, and more than 60 other units that make up the Air Force war fighting team. According to the *RAFB Economic Impact Statement, July 14, 2006*, RAFB employs a work force of over 25,584 civilian, contractor, and military members (13,431 civilian, 6,329 military and approximately 5,824 contract civilian). 71.75% reside in Houston County; 12.15% reside in Bibb County; and 5.63% live in Peach County. In 2005, RAFB estimated there 24,205 retirees living in the 28 counties surrounding RAFB, accounting for \$490.9 million in federal retiree annuity pay. It is estimated that 10,697 of these retirees reside in Houston County. The total economic impact of RAFB in FY05 was \$2.8 billion.

Houston is a member of the *21st Century Partnership*, a non-profit organization, composed of elected and non-elected Middle Georgians, which functions as the one community focal point for providing support for Robins Air Force Base. The organization is funded by Middle Georgians committed to the continued viability of Robins Air Force Base and our Nation’s strong national defense posture. Dr. Anthony Alford, CEO of Houston, is a member of the Executive Board.

Through the 2002 Defense Authorization Act, Congress approved a round of Base Closure and Realignment (BRAC) to be finalized in 2005. The Middle Georgia community was at a great advantage since the community had been working BRAC type issues continuously through the 21st Century Partnership. Through the initiative and leadership of Warner Robins Industry Now Group (WRING), over \$1.5 million dollars was raised to enable conduct of the Middle Georgia BRAC prep and execution plan. The BRAC 2005 Commission recommendations netted a total gain of 500-600 new jobs at RAFB. Management is not aware of any announcement relating to reducing operations or closing RAFB or any of its operations.

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Utilization Data

The following table provides certain utilization data for the System for the years ended February 28, 2005-2007, and for the three months ended May 31, 2006 and 2007:

	Years Ended February 28			3 Months Ended May 31	
	2005	2006	2007	2006	2007
Licensed Beds:					
TOTAL LICENSED BEDS	231	231	231	231	231
Maintained Beds:					
TOTAL MAINTAINED BEDS	225	225	225	225	225
Admissions (excluding newborns):					
TOTAL ADMISSIONS	12,710	13,363	13,756	3,391	3,463
Patient Days (excluding newborns):					
TOTAL PATIENT DAYS	50,662	56,919	59,906	14,672	16,419
Occupancy % (based on licensed beds):					
TOTAL OCCUPANCY	60.1%	67.5%	71.1%	69.0%	77.3%
Average Length of Stay:					
TOTAL ALOS	3.99	4.26	4.35	4.33	4.74
Outpatient Statistics					
Emergency Room Visits	61,673	65,787	69,304	17,307	17,251
Outpatient Surgery	10,418	10,536	10,391	2,653	2,630
Other Outpatient Visits	141,287	160,336	160,609	40,989	40,755
Radiology Procedures	88,790	96,979	104,205	26,523	26,193
Nuclear Medicine Procedures	1,733	2,037	2,250	554	593
Laboratory Tests	294,683	321,220	360,791	86,775	96,040
Births	1,786	1,792	2,018	483	495
23-Hour Observations	3,446	3,214	2,741	762	719

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Historical Summary of Revenues and Expenses

Set forth below is a historical, comparative summary of the revenues and expenses of Houston as derived from the audited consolidated financial statements of the Authority for the fiscal years 2005, 2006 and 2007, each ending on the last day of February for the respective years. Items have been reclassified from Governmental Auditing Standards Board (GASB) presentation for all years to reflect a Financial Accounting Standards Board (FASB) presentation. The primary difference is the inclusion of Provision for Uncollectible Accounts and interest expense in expenses under FASB. These consolidated financial statements include not only the members of the Obligated Group, but also MSO and the Foundation which are not members of the Obligated Group.

The financial data of the three month periods ended May 31, 2006 and 2007 are derived from unaudited financial statements. The unaudited financial statements include all adjustments, consisting of normal recurring accruals which Houston considers necessary for a fair presentation of the financial position and the results of operations for these periods. Operating results for the three months ended May 31, 2007 are not necessarily indicative of the results that may be expected for the entire year ending February 29, 2008. The consolidated financial statements and other financial information contained in Appendix B are of the Authority and all subsidiaries as is the selected financial data below. The data below should be read in conjunction with the consolidated financial statements and related notes, and other financial information contained in Appendix B of the Official Statement.

	<u>Years Ended February 28</u>			<u>3 Months Ended May 31</u>	
	<u>2005</u> <i>(Audited)</i>	<u>2006</u> <i>(Audited)</i>	<u>2007</u> <i>(Audited)</i>	<u>2006</u>	<u>2007</u>
Revenue, gains and other support:					
Net patient service revenue	\$154,030,044	\$182,957,752	\$198,657,465	\$48,240,878	\$50,986,154
Other revenue, net	1,483,283	1,304,884	1,457,523	399,229	375,686
Total revenue, gains, and other support	155,513,327	184,262,636	200,114,988	48,640,107	51,361,840
Operating expenses:					
Salaries and benefits	74,960,970	80,071,870	87,861,318	21,763,486	23,065,793
Medical and professional fees	7,619,567	7,551,303	7,713,764	1,974,991	1,947,505
Medical supplies and drugs	19,348,481	24,089,549	28,190,253	7,400,666	7,898,100
Provision for uncollectible accounts	14,512,008	21,786,609	23,993,795	5,102,251	5,953,517
Insurance	4,148,773	4,032,572	3,969,783	797,122	893,359
Supplies and other expenses	24,085,140	25,526,472	25,266,022	6,266,227	6,400,362
Depreciation and amortization	7,563,599	7,538,375	8,086,038	1,968,292	2,290,086
Interest	<u>204,056</u>	<u>306,828</u>	<u>346,922</u>	<u>71,697</u>	<u>72,366</u>
Total operating expenses	<u>152,442,594</u>	<u>170,903,578</u>	<u>185,427,895</u>	<u>45,344,732</u>	<u>48,521,088</u>
Operating income	3,070,733	13,359,058	14,687,093	3,295,375	2,840,752
Non-operating gains, net	<u>3,012,130</u>	<u>5,331,738</u>	<u>7,950,646</u>	<u>(187,241)</u>	<u>3,837,171</u>
Revenue, gains and other support in excess of expenses	<u>\$6,082,863</u>	<u>\$18,690,796</u>	<u>\$22,637,739</u>	<u>\$3,108,134</u>	<u>\$6,677,923</u>

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Historical Summary of Balance Sheet Items

Set forth below is a historical, comparative summary of certain balance sheet items of Houston as derived from the audited financial statements of Houston for the fiscal years 2005, 2006 and 2007 and from the unaudited financial statement of Houston for the three-month periods ending May 31, 2006 & 2007.

	<u>As of February 28</u>			<u>As of May 31</u>	
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Days Cash on Hand	146.3	171.2	197.8	167.9	204.0
Cash, Marketable Securities & Board Designated Funds	\$ 58,083,934	\$ 76,624,442	\$ 96,091,420	\$ 79,148,444	\$ 102,503,578
Total Operating Expense	152,442,594	170,903,578	185,427,895	45,344,732	48,521,088
Depreciation & Amortization	7,563,599	7,538,375	8,086,038	1,968,292	2,290,086
Debt to Capitalization	6.9%	5.5%	4.2%	5.3%	4.0%
L-T Debt	8,390,694	7,570,278	6,724,861	7,571,423	6,726,007
Net Assets	\$ 112,509,773	\$ 131,200,569	\$ 153,838,308	\$ 134,308,701	\$ 160,516,231

Management's Discussion of Financial Performance

The Authority's overall financial position remains healthy as reflected in the year-end balance sheet and operating income for the year ended February 28, 2007. Operating Income was \$14,687,000 representing an operating margin of 7.3%. This compares to an operating margin of 7.2% for 2006 and 1.9 % for 2005. Net assets grew \$41 million from 2005 to 2007 resulting in \$154 million at February 28, 2007. Days cash on hand, including cash and marketable securities and Board designated funds represented 197.8 days at February 28, 2007. Current operating cash continued to be shifted to longer-term capital asset investments, positioning the Authority for capital investment in the future. The Authority had \$7.6 million of Tax-Exempt Adjustable Mode Revenue Bonds outstanding representing Debt to Capitalization at February 28, 2007 of 4.2%. Capital asset additions for the current year included land and building improvements of \$3.1 million and fixed and major movable equipment of \$5.4 million.

Houston's market share improvement contributed to continued increases in inpatient and outpatient utilization overall. Compounded annual growth from FY 2005 to FY 2007 in the following areas occurred: 4% in Admissions, 5.8% in Emergency Room Visits, 1.5% in Other Outpatient, 8.3% in Radiology Procedures, 14.3% in Laboratory Procedures, and 6.3% in Births. Outpatient Surgery remained almost level with a (.1%) decline. Admissions growth from 2005 to 2006 of 5.1% was significantly impacted by the addition of a spine surgeon to Houston's medical staff mid year 2005. This new service line added a net increase of 117 inpatient cases for 2006. Higher acuity patients with a case mix increase of .0352 contributed to an increased average length of stay of .41 as well as an increase in patient days for the latest three months ended May 31, 2007 over the prior year three months ended May 31, 2006. Case mix index for Medicare patients has increased from 1.236 for FY 2005 to 1.3141 for the latest 3 month period ended May 31, 2007.

Houston experienced an increase in operating income from 2005 to 2006 of \$10 million. Net patient revenue increases of 18.1% outpaced operating expense growth of 12.1% for the FYE 2006. Admissions by new physicians specializing in internal medicine, infectious disease, and orthopedics contributed to the revenue increases. The reduction in contract employee utilization equating to a \$1 million reduction and overall reduction in FTE per Adjusted Occupied Bed from 4.53 to 3.96 contributed to relative labor cost reductions. Reduction in risk management cost brought about by Georgia tort reform legislation and improved pricing on vendor and service contracts brought about another \$750,000 in savings.

Net operating income increased by \$1.3 million from FY2006 to FY2007. The receipt of additional Medicaid funds under the Upper Payment Limit (UPL) program administered through the State of Georgia in the amount of \$834,000, as well as \$1.7 million from the Indigent Care Trust Fund (ICTF) contributed to the increase in net patient revenue for the FY ended 2007. This was slightly offset by the introduction of two Medicaid Managed

Care Organizations to serve primarily mothers and children. Point of service collections of \$1.4 million and the establishment of a revenue management department enhanced revenue capture and contributed to the increase in net patient revenue for 2007.

Patient accounts receivable, net of estimated uncollectibles, decreased by approximately \$ 30,000 due to improvement in collectability of accounts as well as shorter processing time for patient billing and medical records processing. This decrease resulted in net days in accounts receivable of 53.0 days at FYE 2007, representing a 2.2 days reduction from FY 2006 levels, based on a 90 day calculation.

Total operating expenses in the fiscal year ended February 28, 2007 increased by 8.3% from 2006. Salaries and benefit costs were 9.7% over the prior year. The salary and benefit to net patient service revenue ratio for the fiscal year ended February 28, 2007 of 44.2% represents an improvement from 48.6% in 2005. The Authority adjusted its salary scale to ensure market-based pay, critical for success in recruiting and retaining personnel. Contract staffing utilization declined by \$424,000 from FY 2006 to FY 2007. Volume increases and the reduction of agency use for staffing contributed to the balance of the increase in labor cost. Aggressive Supply chain initiatives as well as pharmaceutical price reductions contributed to the control of non-labor operating expenses. Investment income was \$2.53 million more for the fiscal year ended February 28, 2007 than the prior year due to the increase in noncurrent cash and investments of \$19.0 million and investment gains. Excess of revenues over expenses increased by \$3.9 million.

Expense increases of 7% outpaced net revenue increases of 5.69% for the 3 months ending May 31, 2007 as compared to 3 months ending May 31, 2006 resulting in an interim decline in comparative net operating income of \$455,000. Houston's net revenue for the 3 months ending May 31, 2007 as compared to 3 months ending May 31, 2006 was reduced by \$204,000 resulting from a decline in UPL & ICTF reimbursement from the State of Georgia Medicaid program.

The Georgia Department of Community Health recommended hospitals review outpatient rehabilitation services billed to and paid for by the Medicaid program. Houston, along with many other Georgia hospitals, has completed an internal review of these services. A self-disclosure letter documenting a nominal amount of claims with potential non-compliance with the Division of Medical Assistance Policies and Procedures for Hospital Services Manual Part II, Section 903.5 has been submitted to the Georgia Department of Community Health. Houston estimates it has nominal exposure from this self-disclosure.

As previously referenced, Houston anticipates the opening of a two bed competing ambulatory surgery center by an orthopedic group that is on staff at Houston in the fall of 2007. It is anticipated that some of Houston's profitable orthopedics patients will be served at the competing ambulatory surgery center. The effect of the opening of this facility on the operating results of the System cannot be anticipated at this time. There are no other pending plans of competitors that management is aware of that will threaten the operating results of Houston in the short-term.

Forward-Looking Statements

Information included under the heading, "Management's Discussion of Financial Performance" above and other sections and tables in this Appendix A and the Official Statement to which this Appendix A is attached includes forward-looking statements about the future that are necessarily subject to various risks and uncertainties (the "Forward-Looking Statements"). These Forward-Looking Statements are (i) based on the beliefs and assumptions of management of Houston and on information currently available to such management and (ii) generally identifiable by words such as "estimates," "expects," "anticipates," "plans," "believes" and other similar expressions.

Events that could cause future results to differ materially from those expressed in or implied by Forward-Looking Statements or historical experience include the impact or outcome of many factors that are described throughout this Appendix A and the Official Statement, including, without limitation, the discussions under "Bondholder's Risks" in the Official Statement and "Management's Discussion of Financial Performance" above. Although the ultimate impact of such factors is uncertain, they may cause future performance to differ materially from results or outcomes that are currently sought or expected by Houston.

Sources of Patient Revenues

The following table presents the estimated historical percentage of gross revenues for fiscal years ended February 28, 2005, 2006 and 2007 derived from Medicare, Medicaid, commercial insurance and other payors.

	2005	2006	2007
Medicare	34.9%	35.6%	37.0%
Medicaid	10.6%	10.5%	10.5%
Tricare	9.8%	9.9%	10.2%
Commercial & Managed Care	36.6%	36.1%	34.2%
Self-Pay & Other	8.1%	7.9%	8.1%

No significant trends exist for Houston's payor mix. Medicaid utilization for hospital services has remained almost level at 10.5% of Houston's payor mix. Commercial and Managed care has declined 2.4% to represent 34.2% of total payor mix. There has been a relative increase in payor mix of 2.1% to Medicare to 37.0% and a .4% shift to Tricare to represent 10.2% of total. Self Pay and other has remained relatively level at slightly above 8%.

Tricare is the plan under which the active duty and retired military personnel and their dependents from RAFB are covered. Humana administers these contracts and follows the Tricare/Champus Reimbursement methodology.

Managed Care

The managed care market is relatively limited in Houston's service area. Houston contracts with 20 different providers. Most managed care contracts are based on a percentage of charges. The three largest managed care payers at Houston are Blue Cross, United Healthcare and 1st Medical Network. These three payers represented 56.78%, 14.78% and 5.97%, respectively; of the managed care gross revenue and 18.77%, 4.88% and 1.97%, respectively, of the total gross revenue at Houston in FY 2007. The three largest managed care payors incorporate per diem reimbursement for inpatient services and primarily a percentage of charges for outpatient services. These three contracts are auto renewal contracts with no stated expiration date.

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System Employees

As of February 28, 2007, Houston employed 1,848 employees representing 1,503.8 full time equivalent employees (“FTEs”). Of those, HMC employs 1,579 people or 1,298.6 full time equivalents and PH has a staff of 269 people or 205.2 full-time equivalents. FTEs per adjusted occupied bed were 3.96 in FY2006 and 4.31 in FY2007. In addition to an employed staff, Houston has a volunteer staff of over 200 people, who contributed over 290,000 hours in CY2006.

The composition of the labor force for Houston as of February 28, 2007 was as follows:

	FTEs	Employees
	HHC	HHC
RNs	389.9	495
LPNs	88.8	98
Management	112.2	122
Other	912.9	1,133
Total	1,503.8	1,848

Houston had an overall annual turnover rate of 13.5% among all employees in FY2007. The nurse vacancy rate of 5.9% compares well to the national rate of 13% and the statewide vacancy rate of 10-15%. At the present time, no System employees are represented by a labor union.

Pension & Retirement Plans

Houston contributes to a defined benefit pension plan (the “Plan”) managed by a trustee. All full-time Authority employees, age 21 or older, with at least 1 year of service, are eligible to participate in the Plan. Authority employees who are vested are entitled to an annual benefit payable monthly for life, in an amount equal to 1% of final average earnings up to covered compensation, plus 1.55% of final average earnings in excess of covered compensation, times credited service up to 30 years. Effective March 1, 2007, the Plan was altered to allow employees to become 100% vested after 5 years of vesting service. In prior years, 10 years of employment was required to become fully vested and a participant’s accrued benefit was fifty percent vested after five years of vesting service, increasing by ten percent each year thereafter until 100% vested after 10 years of vesting service. Participants are fully vested at age 65. The net pension obligation was 100% funded as of February 28, 2007. The unfunded actuarial accrued liability was \$4.1 million as of March 1, 2007 representing 7.8% of covered payroll.

Houston provides a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code which allows employee contributions through payroll deduction. The Plan allows eligible employees to make pre-tax contributions up to the maximum allowed by the Internal Revenue Service. Houston will match employee contributions equal to 50% of the pre-tax contributions up to 4% of eligible compensation if employees defer at least one percent per plan year. To participate in the employer contributions portion of the Plan, employees must have attained age 21 and completed 1 year of service.

Houston also provides a non-qualified, tax-deferred compensation 457(b) plan which allows employees contributions through payroll deduction. The Plan allows eligible employees to make pre-tax contributions up to the maximum allowed by the Internal Revenue Service. Because contributions are made before tax, taxes are due when withdrawals are made. However, unlike qualified plans such as 403(b) plans, the 457(b) plans do not impose a penalty on early withdrawals. See Appendix B, “FINANCIAL STATEMENTS OF THE AUTHORITY”, Notes to Financial Statements 9 and 10.

Outstanding Indebtedness

As of May 31, 2007, Houston had only one outstanding piece of long-term indebtedness. In 2002 the Authority issued debt in the principal amount of \$10,000,000 (the "2002 Bonds"). The debt is in the form of tax exempt adjustable mode revenue bonds secured with a direct-pay letter of credit from a commercial bank. As of February 28, 2007, \$7,610,000 in principal amount of the 2002 Bonds remained outstanding. The 2002 Bonds mature in 2014. They are expected to remain outstanding after the issuance of the Series 2007 Bonds.

Other Strategic and Financial Plans

In June, 2007 an expansion of one of the buildings of Houston was opened which includes four additional recovery beds in the Houston Heart Institute. Houston funded that expansion from its internal cash reserves at a cost of approximately \$1 million. In addition, in conjunction with the Project, Houston is investing in an energy plant system that will support the new patient tower and any potential future expansion. The cost of that central energy plant upgrade is expected to be approximately \$15 million which will also be financed from internal cash reserves of Houston.

Houston's long term strategic plan contemplates investigating additional expansion opportunities, both on the existing two campuses and potentially at other locations within Houston County. One of the ideas being considered is a cancer center on a 52-acre tract of land located off Houston Lake Road and Highway 96 in the middle of the county. It will be a coordinated effort with the radiation and medical oncologists on staff at HMC. Houston would maintain a land lease for the property and the building would be owned through a real estate investment trust. Additionally, a master site plan is being developed for PH for future expansion in the southern part of the county.

Whether or not Houston moves forward with any of these plans will depend on market conditions, financial performance and other criteria which guide the Authority members and management team. At the present time, there is neither additional debt nor any major investment of cash in property, plant and equipment beside the projects being financed with the Series 2007 Bonds, and routine capital investment contemplated over the next five years, which has been approved by the Authority.

Insurance

Houston maintains an insurance program that provides the following insurance coverages for the benefit of HMC, PH and the Authority's other subsidiaries:

- A property (real and personal) loss policy is maintained for all risks, (including builder's risk) with coverage at the replacement value.
- The Authority also maintains an automobile liability policy with limits of \$2,000,000 per accident as well as an employer's liability policy with limits of \$1,000,000 per accident and in the aggregate.
- Houston has a \$750,000 self-insured retention with a \$5,000,000 self-insured aggregate for both general liability and hospital professional liability.
- Houston has a \$20,000,000 excess liability policy for both general liability and hospital professional liability. These coverages are in excess of the coverages described above with the exception of the real and personal property loss policy.
- A Directors and Officers Liability policy is also maintained with limits of \$20,000,000 per loss. Employed or contracted physicians are required to maintain a physician's professional liability policy with limits of \$1,000,000 per claim and \$3,000,000 in the aggregate.
- Worker's Comp coverage is \$325,000 retention and \$1,000,000 coverage.

Various investigations, suits and claims arising in the normal course of operations are pending or on appeal against Houston. While the ultimate effect of such actions cannot be determined at this time, it is the opinion of management and legal counsel that the liabilities that may arise from such actions would be covered by insurance and/or would not materially affect the financial position or results of operations of Houston.

Investment Strategy

The Authority oversees the investment management process including the annual review of written policies and performance for both board-designated and pension funds. This annual review is completed with the assistance of an investment consultant who is independent of the investment manager(s) role. The following asset allocation goals have been established to provide expected returns within an acceptable risk profile:

	<u>Board Designated</u>		<u>Pension</u>	
	Range	Target	Range	Target
Cash & Equivalents	0-5%	0%	0-5%	0%
Fixed Income - Short Term	0-50%	5%	2.5-12.5%	5%
Fixed Income - Intermediate	20-70%	40%	27.5-37.5%	40%
Large Cap Value & Growth Equity	15-28%	28%	20-40%	36%
Small Cap Equity	0-15%	5%	0-10%	5%
Mid Cap Equity	0-20%	10%	3.75-18.75%	14%
International Equity	0-17%	12%	0%	0%

Litigation

There is no action, suit, proceeding or investigation pending, or to the best of its knowledge threatened, against Houston except (a) litigation and proceedings involving claims for professional liability in which the probable recoveries and the estimated costs and expenses of defense will be entirely within the limits of Houston's insurance coverage and (b) other litigation and proceedings that, if adversely determined, would not materially and adversely affect the financial condition or results of operations of Houston, the transaction contemplated by this Official Statement or the validity of the Series 2007 Bonds.

APPENDIX B

FINANCIAL STATEMENTS OF THE AUTHORITY

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HOSPITAL AUTHORITY OF HOUSTON COUNTY



FINANCIAL STATEMENTS

for the years ended February 28, 2007 and 2006

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hospital Authority of Houston County
Warner Robins, Georgia

We have audited the accompanying balance sheets of the Hospital Authority of Houston County (Authority), a component unit of Houston County, Georgia, as of February 28, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial 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 have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audits provide 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 Hospital Authority of Houston County as of February 28, 2007 and 2006, and the results of its operations, changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and the analysis of funding progress for pension benefit obligation are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Continued

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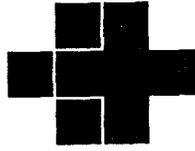
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Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Authority's basic financial statements. The supplementary information (combining statements) presented for the purpose of additional analysis is not a required part of the basic financial statements. The supplementary information (combining statements) 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.

Draffin + Tucker, LLP

Albany, Georgia

May 11, 2007



HOUSTON HEALTHCARE

Houston Medical Center • Perry Hospital

**Management’s Discussion and Analysis
For The Year Ended February 28, 2007**

This section of the Hospital Authority of Houston County, Georgia’s annual financial report represents our discussion and analysis of the Authority’s financial performance during the fiscal year ended February 28, 2007. Please read it in conjunction with the Authority’s financial statements and accompanying notes.

This annual financial report consists of two parts: Management’s Discussion and Analysis (this section) and the basic financial statements. The Authority is a self-supporting entity and follows proprietary fund reporting; accordingly, the financial statements are presented using full accrual accounting.

Financial Analysis of the Authority

The following table summarizes the balance sheets as of February 28, 2007, 2006 and 2005:

Balance Sheet

	<u>2007</u>	<u>2006</u>	<u>2005</u>	Current Year Dollar Increase (Decrease)	Current Year Percentage Increase (Decrease)
Assets:					
Current assets	\$ 36,077,250	\$ 35,449,461	\$ 33,840,501	\$ 627,789	1.8%
Noncurrent cash and investments	91,060,366	72,027,160	54,236,759	19,033,206	26.4%
Capital assets	57,913,355	53,443,167	54,120,513	4,470,188	8.4%
Other noncurrent assets	<u>113,212</u>	<u>127,979</u>	<u>142,746</u>	(14,767)	(11.5%)
Total assets	\$ <u>185,164,183</u>	\$ <u>161,047,767</u>	\$ <u>142,340,519</u>	\$ <u>24,116,416</u>	15.0%

**Management's Discussion and Analysis
For The Year Ended February 28, 2007**

	<u>2007</u>	<u>2006</u>	<u>2005</u>	Current Year Dollar Increase (Decrease)	Current Year Percentage Increase (Decrease)
Liabilities:					
Current liabilities	\$ 24,601,014	\$ 22,276,920	\$ 21,440,052	\$ 2,324,094	10.4%
Long-term debt	<u>6,724,861</u>	<u>7,570,278</u>	<u>8,390,694</u>	(845,417)	(11.2%)
Total liabilities	\$ <u>31,325,875</u>	<u>29,847,198</u>	<u>29,830,746</u>	<u>1,478,677</u>	5.0%
Net assets:					
Invested in capital assets, net of related debt	50,451,706	45,175,868	44,988,953	5,275,838	11.7%
Unrestricted net assets	<u>103,386,602</u>	<u>86,024,701</u>	<u>67,520,820</u>	<u>17,361,901</u>	20.2%
Total net assets	<u>153,838,308</u>	<u>131,200,569</u>	<u>112,509,773</u>	<u>22,637,739</u>	17.3%
Total liabilities and net assets	\$ <u>185,164,183</u>	\$ <u>161,047,767</u>	\$ <u>142,340,519</u>	\$ <u>24,116,416</u>	15.0%

The Authority's overall financial position remains healthy as reflected in the year end balance sheet and operating income for the year. Total assets increased by 15.0% or \$24.1 million. Current operating cash continued to be shifted to longer-term capital asset investments, positioning the Authority for capital investment in the future. Capital asset additions for the current year included land and building improvements of \$3.1 million and fixed and major movable equipment of \$5.4 million.

Patient accounts receivable, net of estimated uncollectibles, decreased by approximately \$ 30,000 due to improvement in collectability of accounts as well as shorter processing time for patient billing and medical records processing. This decrease resulted in Net days in accounts receivable of 53.0 days at FYE 2007, from FY 2006 levels, representing a 2.2 days reduction based on a 90 day calculation.

**Management's Discussion and Analysis
For The Year Ended February 28, 2007**

The following table summarizes the changes in net assets for the years ended February 28, 2007, 2006 and 2005:

Statement of Revenue, Expenses
and Changes in Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>Current Year Dollar Increase (Decrease)</u>	<u>Current Year Percentage Increase (Decrease)</u>
Revenue:					
Operating revenue	\$ 176,121,193	\$ 162,476,027	\$ 141,001,319	\$ 13,645,166	8.4%
Expenses:					
Salaries and benefits	87,861,318	80,071,870	74,960,970	7,789,448	9.7%
Supplies and other expenses	65,139,822	61,199,896	55,201,961	3,939,926	6.4%
Depreciation and amortization	<u>8,086,038</u>	<u>7,538,375</u>	<u>7,563,599</u>	<u>547,663</u>	7.3%
Total expenses	<u>161,087,178</u>	<u>148,810,141</u>	<u>137,726,530</u>	<u>12,277,037</u>	8.3%
Operating Income	<u>15,034,015</u>	<u>13,665,886</u>	<u>3,274,789</u>	<u>1,368,129</u>	10.0%
Nonoperating revenues (expenses):					
Investment income	7,798,269	5,271,934	2,921,703	2,526,335	47.9%
Interest expense	(346,922)	(306,828)	(204,056)	(40,094)	13.1%
Noncapital grants, contributions and other	<u>152,377</u>	<u>59,804</u>	<u>90,427</u>	<u>92,573</u>	154.8%
Total nonoperating revenue	<u>7,603,724</u>	<u>5,024,910</u>	<u>2,808,074</u>	<u>2,578,814</u>	51.3%
Excess of revenues over expenses	22,637,739	18,690,796	6,082,863	3,946,943	21.1%
Beginning net assets	<u>131,200,569</u>	<u>112,509,773</u>	<u>106,426,910</u>	<u>18,690,796</u>	16.6%
Ending net assets	\$ <u>153,838,308</u>	\$ <u>131,200,569</u>	\$ <u>112,509,773</u>	\$ <u>22,637,739</u>	17.3%

Gross patient charges increased by 15.3% due primarily to an increase in patient service volumes and an average rate increase of 9.8%. Total inpatient days increased 5.2%; surgical and endoscopy volumes increased by 2.0%; all other outpatient volumes were up 1.6%. The receipt of additional Medicaid funds under the Upper Payment Limit program administered through the State of Georgia in the amount of \$834,000, as well as \$1.7 million from the Indigent Care Trust Fund contributed to the increase in net patient revenue. Point of service collections of \$1.4 million and enhanced revenue capture contributed to the increase in operating income.

**Management's Discussion and Analysis
For The Year Ended February 28, 2007**

Total operating expenses increased by 8.3% from 2006. Salaries and benefit costs were 9.7% over the prior year. The Authority adjusted its salary scale to ensure market-based pay, critical for success in recruiting and retaining personnel. Contract staffing utilization declined by \$424,000. Volume increases and the reduction of agency use for staffing contributed to the balance of the increase in labor cost. Aggressive Supply chain initiatives as well as pharmaceutical price reductions contributed to the control of non-labor operating expenses. Investment income was \$2.53 million more than the prior year due to the increase in noncurrent cash and investments of \$19.0 million and investment gains. Excess of revenues over expenses increased by \$3.9 million. Net assets increased by \$22.6 million.

Long-term Debt

A recap of the Authority's long-term debt outstanding at February 28, 2007, 2006 and 2005 follows:

<u>Description</u>	<u>Interest Rates</u>	----- Long-Term Debt -----		
		<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenue Certificates, Series 2002	Variable	\$ 7,610,000	\$ 8,435,000	\$ 9,230,000
Total long-term debt, excluding unamortized discounts		\$ 7,574,861	\$ 8,395,278	\$ 9,185,694

HOSPITAL AUTHORITY OF HOUSTON COUNTY

BALANCE SHEETS
February 28, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,965,671	\$ 5,529,168
Patient accounts receivable, net of estimated uncollectibles of \$50,028,000 in 2007 and \$42,290,000 in 2006	26,116,777	26,146,645
Supplies and other assets	<u>3,994,802</u>	<u>3,773,648</u>
Total current assets	<u>36,077,250</u>	<u>35,449,461</u>
Noncurrent cash and investments:		
Internally designated for capital acquisitions and other	90,125,749	71,095,274
Other long-term investments	<u>934,617</u>	<u>931,886</u>
Total noncurrent cash and investments	<u>91,060,366</u>	<u>72,027,160</u>
Capital assets:		
Land	11,916,247	11,726,066
Depreciable capital assets, net of accumulated depreciation	<u>45,997,108</u>	<u>41,717,101</u>
Total capital assets, net of accumulated depreciation	<u>57,913,355</u>	<u>53,443,167</u>
Other assets:		
Deferred financing costs	<u>113,212</u>	<u>127,979</u>
Total assets	<u>\$ 185,164,183</u>	<u>\$ 161,047,767</u>

	<u>2007</u>	<u>2006</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current maturities of long-term debt	\$ 850,000	\$ 825,000
Accounts payable and accrued expenses	9,477,859	8,358,048
Accrued compensation and benefits	11,010,887	10,276,223
Estimated third-party payor settlements	<u>3,262,268</u>	<u>2,817,649</u>
Total current liabilities	24,601,014	22,276,920
Long-term debt, net of current installments	<u>6,724,861</u>	<u>7,570,278</u>
Total liabilities	<u>31,325,875</u>	<u>29,847,198</u>
Net assets:		
Invested in capital assets, net of related debt	50,451,706	45,175,868
Unrestricted net assets	<u>103,386,602</u>	<u>86,024,701</u>
Total net assets	<u>153,838,308</u>	<u>131,200,569</u>
Total liabilities and net assets	\$ <u>185,164,183</u>	\$ <u>161,047,767</u>

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF HOUSTON COUNTY

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
for the years ended February 28, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Net patient service revenue (net of provision for bad debts of \$23,994,000 in 2007 and \$21,787,000 in 2006)	\$ 174,663,670	\$ 161,171,143
Other revenue	<u>1,457,523</u>	<u>1,304,884</u>
Total operating revenues	<u>176,121,193</u>	<u>162,476,027</u>
Operating expenses:		
Salaries and benefits	87,861,318	80,071,870
Medical and professional fees	7,713,764	7,551,303
Medical supplies and drugs	28,190,253	24,089,549
Insurance	3,969,783	4,032,572
Depreciation and amortization	8,086,038	7,538,375
Supplies and other expenses	<u>25,266,022</u>	<u>25,526,472</u>
Total operating expenses	<u>161,087,178</u>	<u>148,810,141</u>
Operating income	<u>15,034,015</u>	<u>13,665,886</u>
Nonoperating revenues (expenses):		
Investment income	7,798,269	5,271,934
Interest expense	(346,922)	(306,828)
Noncapital grants, contributions and other	<u>152,377</u>	<u>59,804</u>
Total nonoperating revenues	<u>7,603,724</u>	<u>5,024,910</u>
Excess of revenues over expenses	22,637,739	18,690,796
Net assets, beginning of year	<u>131,200,569</u>	<u>112,509,773</u>
Net assets, end of year	<u>\$ 153,838,308</u>	<u>\$ 131,200,569</u>

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF HOUSTON COUNTY

STATEMENTS OF CASH FLOWS
for the years ended February 28, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Receipt from and on behalf of patients	\$ 175,138,157	\$ 161,076,858
Payments to vendors and other suppliers	(64,242,193)	(60,891,231)
Payments to employees	(87,126,654)	(80,125,662)
Other receipts and payments, net	<u>1,457,523</u>	<u>1,304,884</u>
Net cash provided by operating activities	<u>25,226,833</u>	<u>21,364,849</u>
Cash flows from noncapital financing activities:		
Proceeds from contributions	<u>64,270</u>	<u>126,788</u>
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(825,000)	(795,000)
Interest paid on long-term debt	(347,950)	(306,828)
Purchase of capital assets	<u>(12,526,538)</u>	<u>(6,829,815)</u>
Net cash used by capital and related financing activities	<u>(13,699,488)</u>	<u>(7,931,643)</u>
Cash flows from investing activities:		
Interest and dividends on investments	2,628,266	2,727,873
Purchase of investments	(14,475,689)	(22,241,320)
Proceeds from sale of investments	<u>2,277,686</u>	<u>7,089,447</u>
Net cash used by investing activities	<u>(9,569,737)</u>	<u>(12,424,000)</u>
Net increase in cash and cash equivalents	2,021,878	1,135,994
Cash and cash equivalents, beginning of year	<u>7,705,811</u>	<u>6,569,817</u>
Cash and cash equivalents, end of year	<u>\$ 9,727,689</u>	<u>\$ 7,705,811</u>

Continued

HOSPITAL AUTHORITY OF HOUSTON COUNTY

STATEMENTS OF CASH FLOWS, Continued
for the years ended February 28, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 5,965,671	\$ 5,529,168
Internally designated for capital acquisitions	3,603,105	1,969,938
Workers compensation fund	<u>158,913</u>	<u>206,705</u>
Total cash and cash equivalents	\$ <u>9,727,689</u>	\$ <u>7,705,811</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 15,034,015	\$ 13,665,886
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	8,086,038	7,538,375
Changes in:		
Patient accounts receivable	29,868	(1,091,132)
Supplies and other current assets	(221,154)	444,852
Accounts payable, accrued expenses and other current liabilities	1,853,447	(189,979)
Estimated third-party payor settlements	<u>444,619</u>	<u>996,847</u>
Net cash provided by operating activities	\$ <u>25,226,833</u>	\$ <u>21,364,849</u>

Noncash Investing Activities:

The Authority held investments at February 28, 2007 with a fair value of \$89,966,836. During 2007 the net increase in fair value of these investments was \$3,769,125.

See accompanying notes to financial statements.

HOSPITAL AUTHORITY OF HOUSTON COUNTY

NOTES TO FINANCIAL STATEMENTS

1. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The Hospital Authority of Houston County (Authority) is a public corporation. It was created on March 14, 1957, by the Board of County Commissioners of Houston County, to operate, control, and manage all matters concerning the County's health care functions. The Authority operates Houston Medical Center and Perry Hospital. The Board of County Commissioners appoints the Board of Trustee members of the Authority.

Blended Component Units

Houston Medical Center Foundation, Inc. (Foundation), Houston Heart Institute, Inc. (HHI), Houston Emergency Medical Services (EMS), and Houston Healthcare Complex Management Services Organization, Inc. (HHCMSO) are included in the Authority's financial statements as blended component units. Intercompany transactions are eliminated in the process. The Foundation is authorized by the Authority to solicit contributions on its behalf. HHI provides heart catheterization services to Authority patients. EMS provides ambulance services to the area, and HHCMSO provides anesthesia services to Authority patients. The blended component units' governing bodies are substantively the same as the Authority's governing body.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Enterprise Fund Accounting

The Authority uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund*

Continued

HOSPITAL AUTHORITY OF HOUSTON COUNTY

NOTES TO FINANCIAL STATEMENTS, Continued

1. Description of Reporting Entity and Summary of Significant Accounting Policies, Continued

Enterprise Fund Accounting, Continued

Accounting, as amended, the Authority has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Capital Assets

The Authority's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

Land improvements	15 to 20 years
Buildings and building improvements	20 to 40 years
Equipment, computers, and furniture	3 to 7 years

Costs of Borrowing

Interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Authority's interest cost was capitalized in either 2007 or 2006.

Grants and Contributions

From time to time, the Authority receives grants from the State of Georgia as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operation purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Continued

HOSPITAL AUTHORITY OF HOUSTON COUNTY

NOTES TO FINANCIAL STATEMENTS, Continued

1. Description of Reporting Entity and Summary of Significant Accounting Policies, Continued

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 current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Authority, including amounts deposited with trustees as required by revenue 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*.

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, including grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

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. 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 net patient service revenue.

Continued

HOSPITAL AUTHORITY OF HOUSTON COUNTY

NOTES TO FINANCIAL STATEMENTS, Continued

1. Description of Reporting Entity and Summary of Significant Accounting Policies, Continued

Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

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; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. The Authority is partially self insured for employee health and professional liability as disclosed in Notes 12 and 13.

Investments in Debt and Equity Securities

Investments in debt and equity securities are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

2. Designated Net Assets

Of the \$103,386,602 and \$86,024,701 of unrestricted net assets reported in 2007 and 2006, \$89,967,000 and \$70,889,000, respectively, have been designated by the Authority's Board of Trustees for capital acquisitions. Designated funds remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

3. Deposits and Investments

State law requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts. The Authority's bylaws require that all bank balances be insured or collateralized by U. S. government securities held by the pledging financial institution's trust department in the name of the Authority. The Authority has no custodial credit risk at year end.

Continued

HOSPITAL AUTHORITY OF HOUSTON COUNTY

NOTES TO FINANCIAL STATEMENTS, Continued

3. Deposits and Investments, Continued

The Authority's investments are generally reported at fair value, as discussed in Note 1. At February 28, 2007 and 2006, the Authority's investments consisted of the following, all of which were held in the Authority's name by custodial banks that are agents of the Authority:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 3,762,018	\$ 2,176,643
Corporate bonds and notes	-	1,008,160
Equity securities	36,900,938	29,546,815
Mutual Funds – Domestic	39,048,481	29,847,205
Mutual Funds – International	10,414,312	8,516,451
Partnerships	<u>934,617</u>	<u>931,886</u>
	<u>\$ 91,060,366</u>	<u>\$ 72,027,160</u>

At February 28, 2007, the Authority had the following fixed income investments and maturities:

<u>Investment</u>	<u>Duration/ Maturities</u>	<u>Fair Value</u>
PIMCO Low Duration Institutional Fund	2.75	\$ 2,118,733
PIMCO Total Return Institutional Fund	5.39	17,393,996
Vanguard Short-term Bond Index Fund	2.40	2,107,658
Vanguard Intermediate Term Bond Index Fund	5.90	<u>17,428,094</u>
Total		<u>\$ 39,048,481</u>

Continued

HOSPITAL AUTHORITY OF HOUSTON COUNTY

NOTES TO FINANCIAL STATEMENTS, Continued

3. Deposits and Investments, Continued

Interest Rate Risk

The Authority's investment policy limits exposure to interest rate risk by defining specific allowable investments, including asset classes and characteristics which constrain the degree of interest rate risk. The Authority's fixed income portfolio is professionally managed based on achieving total returns (income plus growth) in accordance with the policy statement. In the context of the total portfolio, interest rate risk is mitigated by diversification among lower correlated asset classes.

Credit Risk

The Authority's investment policy allows for equity investments in common stocks, preferred stocks, convertible securities and certain international equity issues. The equity portion of the investments is to be suitably diversified and no manager is to invest more than 5% of funds in the stock of a single issuer.

The Authority's investment policy allows for fixed income investments of bonds, notes, bills, and pass-through securities and all other marketable debt obligations issued or guaranteed by the U.S. Government or its agencies or instrumentalities. No less than 95% of the portfolio market value shall be invested in bonds and other marketable debt obligations of U. S. corporations which have a quality rating of Baa or better as rated by Moody's or comparable by Standard and Poor's. The fixed income investments are to be suitably diversified and no more than 10% of funds are to be invested in the securities of a single issuer.

The Authority's investment policy allows for fixed income investments in direct obligations of the U.S. Government and those unconditionally guaranteed by the U. S. Government as to principal and interest. Negotiable certificates of deposit, bankers' acceptances, floating rate notes, commercial paper and money market funds may also be purchased.

The investment policy provides for additional guidelines and restrictions. See the Authority's investment policy for details.

Continued

HOSPITAL AUTHORITY OF HOUSTON COUNTY

NOTES TO FINANCIAL STATEMENTS, Continued

3. Deposits and Investments, Continued

The carrying amounts of deposits and investments are included in the Authority's balance sheets as follows:

	<u>2007</u>	<u>2006</u>
Carrying amount:		
Deposits	\$ 5,965,671	\$ 5,529,168
Investments	<u>91,060,366</u>	<u>72,027,160</u>
	<u>\$ 97,026,037</u>	<u>\$ 77,556,328</u>
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 5,965,671	\$ 5,529,168
Noncurrent cash and investments:		
Internally designated for capital acquisitions	90,125,749	71,095,274
Other long-term investments	<u>934,617</u>	<u>931,886</u>
	<u>\$ 97,026,037</u>	<u>\$ 77,556,328</u>

4. Charity Care

Charges excluded from net patient service revenue under the Authority's charity care policy were \$6,656,000 and \$6,097,000 for 2007 and 2006, respectively.

Continued

HOSPITAL AUTHORITY OF HOUSTON COUNTY

NOTES TO FINANCIAL STATEMENTS, Continued

5. 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 psychiatric services are paid based on a cost reimbursement methodology. Effective March 1, 2005, inpatient psychiatric services will be 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.

Outpatient services rendered to Medicare beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. 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. All Medicare cost reports have been audited by the Medicare intermediary through February 28, 2005.

Medicaid

Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a prospectively determined rate per admission. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services rendered to the Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Authority is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicaid fiscal intermediary. The Authority's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through February 28, 2004.

Continued

HOSPITAL AUTHORITY OF HOUSTON COUNTY

NOTES TO FINANCIAL STATEMENTS, Continued

5. Net Patient Service Revenue, Continued

Revenue from the Medicare and Medicaid programs accounted for approximately 35 percent and 10 percent, respectively, of the Authority's net patient revenue for the years ended 2007 and 2006. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

The Authority also has 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.

6. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Authority at February 28, 2007 and 2006 consisted of these amounts:

	<u>2007</u>	<u>2006</u>
<u>Patient Accounts Receivable</u>		
Receivable from patients and their insurance carriers	\$ 50,973,715	\$ 44,249,841
Receivable from Medicare	19,447,770	19,911,919
Receivable from Medicaid	<u>5,723,517</u>	<u>4,274,440</u>
Total patient accounts receivable	76,145,002	68,436,200
Less allowance for uncollectible amounts	<u>50,028,225</u>	<u>42,289,555</u>
Patient accounts receivable, net	\$ <u>26,116,777</u>	\$ <u>26,146,645</u>
<u>Accounts Payable and Accrued Expenses</u>		
Payable to employees (including payroll taxes)	\$ 11,010,887	\$ 10,276,223
Payable to suppliers and others	<u>9,477,859</u>	<u>8,358,048</u>
Total accounts payable and accrued expenses	\$ <u>20,488,746</u>	\$ <u>18,634,271</u>

Continued

HOSPITAL AUTHORITY OF HOUSTON COUNTY

NOTES TO FINANCIAL STATEMENTS, Continued

7. Capital Assets

A summary of capital asset additions, retirements, and balances for the years ended February 28, 2007 and 2006, were as follows:

	<u>2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>2007</u>
Land and land improvements	\$ 13,235,802	\$ 222,308	\$ -	\$ -	\$ 13,458,110
Buildings and improvements	62,763,111	2,861,289	(127,943)	461,601	65,958,058
Equipment	<u>69,604,229</u>	<u>5,418,649</u>	<u>(192,047)</u>	<u>-</u>	<u>74,830,831</u>
Total capital assets	<u>145,603,142</u>	<u>8,502,246</u>	<u>(319,990)</u>	<u>461,601</u>	<u>154,246,999</u>
Less accumulated depreciation and amortization for:					
Land improvements	(752,221)	(97,477)	-	-	(849,698)
Buildings and improvements	(39,985,922)	(2,378,586)	127,943	-	(42,236,565)
Equipment	<u>(51,883,433)</u>	<u>(5,571,064)</u>	<u>185,546</u>	<u>-</u>	<u>(57,268,951)</u>
Total accumulated depreciation	<u>(92,621,576)</u>	<u>(8,047,127)</u>	<u>313,489</u>	<u>-</u>	<u>(100,355,214)</u>
	52,981,566	455,119	(6,501)	461,601	53,891,785
Construction in progress	<u>461,601</u>	<u>4,021,570</u>	<u>-</u>	<u>(461,601)</u>	<u>4,021,570</u>
Capital assets, net	<u>\$ 53,443,167</u>	<u>\$ 4,476,689</u>	<u>\$ (6,501)</u>	<u>\$ -</u>	<u>\$ 57,913,355</u>
	<u>2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>2006</u>
Land and land improvements	\$ 12,511,689	\$ 724,113	\$ -	\$ -	\$ 13,235,802
Buildings and improvements	61,265,854	1,320,258	(143,380)	320,379	62,763,111
Equipment	<u>70,743,732</u>	<u>4,096,322</u>	<u>(5,235,825)</u>	<u>-</u>	<u>69,604,229</u>
Total capital assets	<u>144,521,275</u>	<u>6,140,693</u>	<u>(5,379,205)</u>	<u>320,379</u>	<u>145,603,142</u>
Less accumulated depreciation and amortization for:					
Land improvements	(671,714)	(80,507)	-	-	(752,221)
Buildings and improvements	(37,813,055)	(2,316,251)	143,384	-	(39,985,922)
Equipment	<u>(51,936,576)</u>	<u>(5,081,642)</u>	<u>5,134,785</u>	<u>-</u>	<u>(51,883,433)</u>
Total accumulated depreciation	<u>(90,421,345)</u>	<u>(7,478,400)</u>	<u>5,278,169</u>	<u>-</u>	<u>(92,621,576)</u>
	54,099,930	(1,337,707)	(101,036)	320,379	52,981,566
Construction in progress	<u>20,583</u>	<u>761,397</u>	<u>-</u>	<u>(320,379)</u>	<u>461,601</u>
Capital assets, net	<u>\$ 54,120,513</u>	<u>\$ (576,310)</u>	<u>\$ (101,036)</u>	<u>\$ -</u>	<u>\$ 53,443,167</u>

Continued

HOSPITAL AUTHORITY OF HOUSTON COUNTY

NOTES TO FINANCIAL STATEMENTS, Continued

7. Capital Assets, Continued

Depreciation expense for the years ended February 28, 2007 and 2006 amounted to approximately \$8,050,000 and \$7,478,000, respectively. Construction contracts of approximately \$9,690,000 exist for the remodeling of and additions to the Authority's facilities. At February 28, 2007, the remaining commitment on these contracts approximated \$6,906,000.

8. Long-Term Debt

A summary of long-term debt at February 28, 2007 and 2006, follows:

	<u>2007</u>	<u>2006</u>
Revenue Certificates – Series 2002, Payable in annual installments ranging from \$850,000 on October 1, 2007 to \$1,060,000 on October 1, 2014, with variable interest paid monthly	\$ 7,610,000	\$ 8,435,000
Less current installments of long-term debt	850,000	825,000
Less unamortized discount	<u>35,139</u>	<u>39,722</u>
Long-term debt excluding current installments and unamortized discount	<u>\$ 6,724,861</u>	<u>\$ 7,570,278</u>

Continued

HOSPITAL AUTHORITY OF HOUSTON COUNTY

NOTES TO FINANCIAL STATEMENTS, Continued

8. Long-Term Debt, Continued

	<u>2006</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2007</u> <u>Balance</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Revenue certificates	\$ 8,435,000	\$ -	\$ 825,000	\$ 7,610,000	\$ 850,000
Less unamortized discount	<u>39,722</u>	<u>-</u>	<u>4,583</u>	<u>35,139</u>	<u>-</u>
Long-term debt	<u>\$ 8,395,278</u>	<u>\$ -</u>	<u>\$ 820,417</u>	<u>\$ 7,574,861</u>	<u>\$ 850,000</u>

	<u>2005</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>2006</u> <u>Balance</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Revenue certificates	\$ 9,230,000	\$ -	\$ 795,000	\$ 8,435,000	\$ 825,000
Less unamortized discount	<u>44,306</u>	<u>-</u>	<u>4,584</u>	<u>39,722</u>	<u>-</u>
Long-term debt	<u>\$ 9,185,694</u>	<u>\$ -</u>	<u>\$ 790,416</u>	<u>\$ 8,395,278</u>	<u>\$ 825,000</u>

The Revenue Note Indenture places limits on the incurrence of additional borrowings and requires that the Authority satisfy certain measures of financial performance as long as the notes are outstanding.

Scheduled principal and imputed interest repayments on long-term debt obligations are as follows:

	<u>Principal</u>	<u>Long-Term</u> <u>Debt Imputed</u> <u>Interest</u>
2008	\$ 850,000	\$ 268,889
2009	875,000	237,388
2010	905,000	204,908
2011	935,000	171,328
2012	965,000	136,636
2013-2016	<u>3,080,000</u>	<u>190,789</u>
Total	<u>\$ 7,610,000</u>	<u>\$ 1,209,938</u>

Continued

HOSPITAL AUTHORITY OF HOUSTON COUNTY

NOTES TO FINANCIAL STATEMENTS, Continued

9. Pension Plan

Plan Description

The Authority contributes to a defined benefit pension plan (the Plan) managed by a trustee. All full-time Authority employees, age 21 or older, with at least 1 year of service, are eligible to participate in the Plan. Authority employees who retire at or after age 65 with at least 5 years of credited service are entitled to an annual benefit payable monthly for life, in an amount equal to 1% of final average earnings up to covered compensation, plus 1.55% of final average earnings in excess of covered compensation, times credited service up to 30 years. In February 2007, the Plan was altered to allow employees to become cliff vested after 5 years of employment. In prior years, 10 years of employment was required to become fully vested and a participant's accrued benefit was fifty percent vested after five years of vesting service, increasing by ten percent each year thereafter until 100% vested after 10 years of vesting service. Participants are fully vested at age 65.

Funding Policy

The contribution requirements of plan members and the Authority are established and may be amended by the Board of Trustees. The Authority is required to contribute at an actuarially determined amount; the contribution amount for both 2007 and 2006 is \$1,515,000 and \$1,825,000, respectively.

Annual Pension Cost and Net Pension Obligation

The Authority's annual pension cost and net pension obligation to the Plan for 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Annual required contribution	\$ 2,333,164	\$ 1,910,334
Interest on net pension obligation	(881)	48,062
Adjustment to annual required contribution	<u>1,287</u>	<u>(70,189)</u>
Annual pension cost	2,333,570	1,888,207
Contributions made	<u>2,325,000</u>	<u>2,500,000</u>
Increase (decrease) in net pension obligation	8,570	(611,793)
Net pension obligation, beginning of year	<u>(11,015)</u>	<u>600,778</u>
Net pension obligation, end of year	\$(<u>2,445</u>)	\$(<u>11,015</u>)

Continued

HOSPITAL AUTHORITY OF HOUSTON COUNTY

NOTES TO FINANCIAL STATEMENTS, Continued

9. Pension Plan, Continued

The annual required contribution for the current year was determined as part of the February 28, 2007 actuarial valuation using the projected unit credit method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses) and (b) projected salary increases of 6 percent for registered nurses for the first 5 years beginning March 1, 2003 and 4 percent thereafter, and 4 percent for all other participants. Both (a) and (b) included an inflation component of 3 percent. The actuarial assumptions also include a 3 percent per year cost-of-living adjustment. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The same actuarial assumptions were used to determine the actuarial required contributions for 2006. The unfunded actuarial accrued liability is being amortized as a level dollar on an open basis. The remaining amortization period at February 28, 2007, was 6 years.

Fiscal Year Ending	Three-Year Trend Information		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
02/28/2004	\$ 1,350,448	93%	\$ 847,691
02/28/2005	1,513,087	116%	600,778
02/28/2006	1,888,207	132%	(11,015)
02/28/2007	2,333,570	100%	(2,445)

10. Defined Contribution Plan

The Authority has a defined contribution retirement plan (the Retirement Plan) covering substantially all employees. The Retirement Plan is a tax-deferred annuity plan under Section 403(b) of the Internal Revenue Code which allows employee contributions upon employment and at least 1,000 hours of work, and allows employer contributions upon attainment of the age of 21 and at least one year of service. Participants may contribute up to 20% of their annual compensation up to a maximum dollar limitation. Employer contributions are made at a matching level of 50% of the participants' annual contribution to the Retirement Plan, up to a maximum of 4% of the employee's annual compensation. The Authority contributed approximately \$1,159,000 and \$1,241,000 to the Retirement Plan during the years ended February 28, 2007 and 2006, respectively.

Continued

HOSPITAL AUTHORITY OF HOUSTON COUNTY

NOTES TO FINANCIAL STATEMENTS, Continued

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.

12. Operating Lease

The Authority leases equipment under lease agreements which do not meet the criteria for capitalization. Total rental expense under such leases with nonaffiliates was approximately \$9,000 for the year ended February 28, 2007. Minimum future rentals on existing noncancelable leases for equipment from nonaffiliates as of February 28, 2007 are estimated to be as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2008	\$ 134,000
2009	\$ 153,000
2010	\$ 144,000
2011	\$ 19,000

13. Employee Health Plan

The Authority has a self-insurance program under which a third party administrator processes and pays claims. The Authority reimburses the third party administrator for claims incurred and paid and has purchased stop-loss insurance coverage for claims in excess of \$150,000 for each individual employee. Under this self-insurance program, \$8.3 million and \$9.1 million were paid or accrued and expensed during the years ended February 28, 2007 and 2006, respectively.

14. Professional Liability Claims

The Authority has purchased commercial insurance to cover professional or general liability claims. The policy is written on a claims-made basis with a self-insured retention amount of \$750,000 per claim, \$5 million aggregate. The Authority uses a third party administrator to review and analyze incidents that may result in a claim against the Authority. In conjunction with the third party administrator, incidents are assigned reserve amounts for the anticipated liability that may result from an asserted claim.

Continued

HOSPITAL AUTHORITY OF HOUSTON COUNTY

NOTES TO FINANCIAL STATEMENTS, Continued

14. Professional Liability Claims, Continued

The following schedule presents the changes in claims liabilities for the years ending February 28, 2007 and 2006 for the Authority's self-insurance program.

	<u>2007</u>	<u>2006</u>
Unpaid claims and claim adjustment expenses at March 1	\$ <u>3,684,527</u>	\$ <u>3,189,927</u>
Insured claims and claim adjustment expense:		
Provision for insured events of current fiscal year	1,347,201	1,482,355
Increases in provision for uninsured events of prior fiscal years	<u>-</u>	<u>-</u>
Total incurred claims and claim adjustment expenses	<u>1,347,201</u>	<u>1,482,355</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of current fiscal year	6,183	8,822
Claims and claim adjustment expenses attributable to insured events of prior fiscal year	<u>1,291,018</u>	<u>978,933</u>
Total payments	<u>1,297,201</u>	<u>987,755</u>
Total unpaid claims and paid claim adjustment expenses at February 28	\$ <u>3,734,527</u>	\$ <u>3,684,527</u>

Continued

HOSPITAL AUTHORITY OF HOUSTON COUNTY

NOTES TO FINANCIAL STATEMENTS, Continued

15. Fair Value of Financial Instruments

The following methods and assumptions were used by the Authority in estimating the fair value of its financial instruments:

Cash and Cash Equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Noncurrent Cash and Investments: These assets consist primarily of cash and long-term investments and interest receivable. The carrying amount reported in the balance sheet is fair value.

Accounts Payable and Accrued Expenses: The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

Estimated Third-Party Payor Settlements: The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value.

Long-Term Debt: Fair values of the Authority's revenue notes are based on current traded value. The fair value of the Authority's remaining long-term debt is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of the Authority's financial instruments at February 28, 2007 and 2006, are as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 5,965,671	\$ 5,965,671	\$ 5,529,168	\$ 5,529,168
Noncurrent cash and investments	\$ 91,060,366	\$ 91,060,366	\$ 72,027,160	\$ 72,027,160
Accounts payable and accrued expenses	\$ 20,488,746	\$ 20,488,746	\$ 18,634,271	\$ 18,634,271
Estimated third-party payor settlements	\$ 3,262,268	\$ 3,262,268	\$ 2,817,649	\$ 2,817,649
Long-term debt	\$ 7,574,861	\$ 7,574,861	\$ 8,395,278	\$ 8,395,278

Continued

HOSPITAL AUTHORITY OF HOUSTON COUNTY

NOTES TO FINANCIAL STATEMENTS, Continued

16. Medicaid Upper Payment Limit

The Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provides for enhanced payments to Medicaid providers under the Upper Payment Limit (UPL) methodology. Subsequent to the implementation of the UPL methodology, federal budget concerns have led to reconsideration of the BIPA legislation with possible elimination or reduction of enhanced Medicaid payments. Effective in fiscal year 2005, legislation was enacted to reduce the level of UPL payments. These reductions are anticipated to remain in effect in future periods. The financial statements include enhanced payments for 2007 and 2006 of approximately \$1,648,000 and \$814,000, respectively.

17. Health Care Reform

In recent years, there has been increasing pressure on Congress and some state legislatures to control and reduce the cost of healthcare on the national or at the state level. If legislation is enacted, the healthcare providers could be faced with significant reductions in reimbursement from the various governmental programs such as Medicare and Medicaid. There can be no assurance that legislation adverse to the business of the Authority will not be enacted.

18. Regulatory Compliance

The healthcare industry has recently been subjected to increased scrutiny from governmental agencies at both the federal and state level with respect to compliance with regulations. Areas of noncompliance identified at the national level include Medicare and Medicaid, Internal Revenue Service, and other regulations governing the healthcare industry. The Authority has implemented a compliance plan focusing on such issues. There can be no assurance that the Authority will not be subjected to future investigations with accompanying monetary damages.

19. Indigent Care Trust Fund

Houston Medical Center qualified as a Medicaid disproportionate share hospital for 2007 and received increased payment adjustments reflected in net patient service revenue. It is uncertain if the payment adjustments will continue after fiscal year 2007. The financial statements include payment adjustments for 2007 of approximately \$1,719,000.

20. Subsequent Event

On November 15, 2006 the Authority Board authorized the issuance of up to \$75 million of revenue certificates for the purpose of constructing additions to the Hospital.

REQUIRED SUPPLEMENTARY INFORMATION

HOSPITAL AUTHORITY OF HOUSTON COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION

Analysis of Funding Progress for Pension Benefit Obligation

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Actuarial Value of Plan Assets as a Percentage of the AAL</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
03/01/03	\$13,311,021	\$17,519,481	\$4,208,460	76.0%	\$33,376,486	12.6%
03/01/04	16,169,752	17,830,937	1,661,185	90.7%	34,470,615	4.8%
03/01/05	18,139,439	19,700,421	1,560,982	92.1%	40,000,000	3.9%
03/01/06	21,969,900	24,018,450	2,048,550	91.5%	44,322,000	4.6%
03/01/07	25,992,115	30,065,756	4,073,641	86.5%	52,084,746	7.8%

Annual Pension Cost and Contributions

<u>FYE</u>	<u>Annual Pension Cost</u>	<u>Employer Contributions</u>	<u>Cost Contributed Percent of Annual Pension</u>	<u>Net Pension Obligation (Asset)</u>
02/28/02	\$1,318,430	\$1,050,000	79.6%	\$411,883
02/28/03	1,370,360	1,030,000	75.2%	752,243
02/29/04	1,350,448	1,255,000	92.9%	847,691
02/28/05	1,513,087	1,760,000	116.3%	600,778
02/28/06	1,888,207	2,500,000	132.4%	(11,015)
02/28/07	2,333,570	2,325,000	99.6%	(2,445)

See auditor's report.

SUPPLEMENTARY INFORMATION



HOSPITAL AUTHORITY OF HOUSTON COUNTY

CONSOLIDATING BALANCE SHEETS

February 28, 2007

<u>Assets</u>	Houston Medical Center	Perry Hospital	Houston Healthcare MSO	Houston Heart Institute	Houston Healthcare EMS	<u>Subtotal</u>	Net EJEs	Hospital Authority of Houston County
Current assets:								
Cash and cash equivalents	\$ 4,761,668	\$ 630	\$ 149,931	\$ 979,316	\$ 74,126	\$ 5,965,671	\$ -	\$ 5,965,671
Patient accounts receivable, net	25,289,039	479,672	124,746	-	223,320	26,116,777	-	26,116,777
Supplies and other assets	3,805,631	184,467	(529)	458,044	-	4,447,613	(452,811)	3,994,802
Due from related parties	<u>11,951,507</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,951,507</u>	<u>(11,951,507)</u>	<u>-</u>
Total current assets	<u>45,807,845</u>	<u>664,769</u>	<u>274,148</u>	<u>1,437,360</u>	<u>297,446</u>	<u>48,481,568</u>	<u>(12,404,318)</u>	<u>36,077,250</u>
Noncurrent cash and investments:								
Internally designated for capital acquisitions	72,591,237	-	-	17,534,512	-	90,125,749	-	90,125,749
Other long-term investments	<u>77,750</u>	<u>-</u>	<u>856,867</u>	<u>-</u>	<u>-</u>	<u>934,617</u>	<u>-</u>	<u>934,617</u>
Total noncurrent cash and investments	<u>72,668,987</u>	<u>-</u>	<u>856,867</u>	<u>17,534,512</u>	<u>-</u>	<u>91,060,366</u>	<u>-</u>	<u>91,060,366</u>
Land	11,729,807	176,440	-	10,000	-	11,916,247	-	11,916,247
Depreciable capital assets, net of accumulated depreciation	<u>37,650,833</u>	<u>6,265,765</u>	<u>6,851</u>	<u>1,855,213</u>	<u>218,446</u>	<u>45,997,108</u>	<u>-</u>	<u>45,997,108</u>
Total capital assets, net of accumulated depreciation	<u>49,380,640</u>	<u>6,442,205</u>	<u>6,851</u>	<u>1,865,213</u>	<u>218,446</u>	<u>57,913,355</u>	<u>-</u>	<u>57,913,355</u>
Other assets:								
Deferred financing costs	<u>113,212</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>113,212</u>	<u>-</u>	<u>113,212</u>
Total assets	<u>\$ 167,970,684</u>	<u>\$ 7,106,974</u>	<u>\$ 1,137,866</u>	<u>\$ 20,837,085</u>	<u>\$ 515,892</u>	<u>\$ 197,568,501</u>	<u>\$(12,404,318)</u>	<u>\$ 185,164,183</u>

See auditor's report.

HOSPITAL AUTHORITY OF HOUSTON COUNTY

CONSOLIDATING BALANCE SHEETS

February 28, 2007

<u>Liabilities and Net Assets</u>	Houston Medical Center	Perry Hospital	Houston Healthcare MSO	Houston Heart Institute	Houston Healthcare EMS	Subtotal	Net EJEs	Hospital Authority of Houston County
Current liabilities:								
Current maturities of long-term debt	\$ 850,000	\$ -	\$ -	\$ -	\$ -	\$ 850,000	\$ -	\$ 850,000
Accounts payable and accrued expenses	9,727,931	21,709	151	180,879	-	9,930,670	(452,811)	9,477,859
Accrued compensation and benefits	9,799,667	879,593	80,417	173,320	77,890	11,010,887	-	11,010,887
Due to related parties	-	4,048,694	6,068,774	508,904	1,325,135	11,951,507	(11,951,507)	-
Estimated third-party payor settlements	<u>2,643,385</u>	<u>618,883</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,262,268</u>	<u>-</u>	<u>3,262,268</u>
Total current liabilities	<u>23,020,983</u>	<u>5,568,879</u>	<u>6,149,342</u>	<u>863,103</u>	<u>1,403,025</u>	<u>37,005,332</u>	<u>(12,404,318)</u>	<u>24,601,014</u>
Long-term debt, excluding current installments	<u>6,724,861</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,724,861</u>	<u>-</u>	<u>6,724,861</u>
Total liabilities	29,745,844	5,568,879	6,149,342	863,103	1,403,025	43,730,193	(12,404,318)	31,325,875
Net assets	<u>138,224,840</u>	<u>1,538,095</u>	<u>(5,011,476)</u>	<u>19,973,982</u>	<u>(887,133)</u>	<u>153,838,308</u>	<u>-</u>	<u>153,838,308</u>
Total liabilities and net assets	\$ <u>167,970,684</u>	\$ <u>7,106,974</u>	\$ <u>1,137,866</u>	\$ <u>20,837,085</u>	\$ <u>515,892</u>	\$ <u>197,568,501</u>	\$ <u>(12,404,318)</u>	\$ <u>185,164,183</u>

See auditor's report.

HOSPITAL AUTHORITY OF HOUSTON COUNTY

CONSOLIDATING STATEMENTS OF REVENUES AND EXPENSES
for the year ended February 28, 2007

	Houston Medical Center	Perry Hospital	Houston Healthcare MSO	Houston Heart Institute	Houston Healthcare EMS	Subtotal	Net EJEs	Hospital Authority of Houston County
Operating revenues:								
Net patient service revenue	\$ 148,021,764	\$ 23,700,428	\$ 569,727	\$ 4,975,734	\$ 2,371,751	\$ 179,639,404	\$(4,975,734)	\$ 174,663,670
Other revenue	<u>840,871</u>	<u>355,172</u>	<u>-</u>	<u>85,740</u>	<u>175,740</u>	<u>1,457,523</u>	<u>-</u>	<u>1,457,523</u>
Total operating revenue	<u>148,862,635</u>	<u>24,055,600</u>	<u>569,727</u>	<u>5,061,474</u>	<u>2,547,491</u>	<u>181,096,927</u>	<u>(4,975,734)</u>	<u>176,121,193</u>
Operating expenses:								
Salaries and benefits	71,333,682	12,133,557	632,165	1,394,005	2,367,909	87,861,318	-	87,861,318
Medical and professional fees	10,820,852	1,485,822	380,785	2,039	-	12,689,498	(4,975,734)	7,713,764
Medical supplies and drugs	24,592,522	2,620,253	626	903,857	72,995	28,190,253	-	28,190,253
Insurance	3,336,603	347,161	19,358	188,921	77,740	3,969,783	-	3,969,783
Depreciation and amortization	6,235,773	1,353,973	1,774	409,097	85,421	8,086,038	-	8,086,038
Supplies and other expenses	<u>19,847,028</u>	<u>4,335,311</u>	<u>128,988</u>	<u>629,932</u>	<u>324,763</u>	<u>25,266,022</u>	<u>-</u>	<u>25,266,022</u>
Total operating expenses	<u>136,166,460</u>	<u>22,276,077</u>	<u>1,163,696</u>	<u>3,527,851</u>	<u>2,928,828</u>	<u>166,062,912</u>	<u>(4,975,734)</u>	<u>161,087,178</u>
Nonoperating revenues (expenses):								
Investment income	5,350,850	940,159	19,689	1,470,178	17,393	7,798,269	-	7,798,269
Interest expense	(305,292)	(41,630)	-	-	-	(346,922)	-	(346,922)
Noncapital grants, contributions and other	<u>55,567</u>	<u>96,810</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>152,377</u>	<u>-</u>	<u>152,377</u>
Total nonoperating revenues	<u>5,101,125</u>	<u>995,339</u>	<u>19,689</u>	<u>1,470,178</u>	<u>17,393</u>	<u>7,603,724</u>	<u>-</u>	<u>7,603,724</u>
Excess of revenues over expenses	\$ <u>17,797,300</u>	\$ <u>2,774,862</u>	\$ <u>(574,280)</u>	\$ <u>3,003,801</u>	\$ <u>(363,944)</u>	\$ <u>22,637,739</u>	\$ <u>-</u>	\$ <u>22,637,739</u>

See auditor's report.

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APPENDIX C

SUMMARY OF CERTAIN DOCUMENTS

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APPENDIX C

SUMMARY OF CERTAIN DOCUMENTS

The following are summaries of the Master Indenture, including any Supplemental Indentures, and the 2007 Indenture. The statements made herein relating to such documents are summaries and do not purport to be complete. A copy of the Master Indenture, any Supplemental Indentures and the 2007 Indenture are on file at the principal corporate trust office of the Master Trustee. The following summaries are qualified in their entirety by express reference to such documents. Reference is made to such documents for the full definition of all terms and for the definition of capitalized terms used herein but not defined herein.

THE MASTER INDENTURE

Definitions

The following is a summary of certain terms defined in the Master Indenture and used in this summary of the provisions thereof. Reference is hereby made to such actual documents for a complete recital of the definitions contained therein.

“Accountant” shall mean any Person who or which is appointed (i) by any member of the Combined Group for the purpose of examining and reporting on or passing on questions relating to the financial statements of such member or (ii) by the Obligated Group Agent for the purpose of examining and reporting on or passing on questions relating to the financial statements of two or more members of the Combined Group or the entire Combined Group, has all certifications necessary for the performance of such services, and, in the good faith opinion of the person making the appointment, has a favorable reputation for skill and experience in performing similar services in respect of entities of a comparable size and nature. If any Accountant’s report or opinion is required to be given with respect to matters partly within and partly without the expertise of such Accountant, such Accountant may rely upon the report or opinion of another Accountant, which other Accountant shall be reasonably satisfactory to the relying Accountant and the Obligated Group Agent. The parties hereto agree that Draffin & Tucker, LLP shall be an acceptable Accountant.

“Additional Indebtedness” shall mean any Indebtedness (including all Obligations, other than the Initial Obligation) incurred by any Obligated Issuer subsequent to its becoming an Obligated Issuer.

“Affiliate of any specified Person shall mean any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, (i) “control” when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the power to appoint and remove its directors, the ownership of voting securities, by contract, membership or otherwise; and (ii) the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Architect” shall mean a Person who or which is appointed by any member of the Combined Group for the purpose of passing on questions relating to the design and construction of Facilities, has all licenses and certifications necessary for the performance of such services, and, in the good faith opinion of the member making the appointment, has a favorable reputation for skill and experience in performing similar services in respect of Facilities of a comparable size and nature.

“Audited Financial Statements” shall mean the annual financial statements of the Obligated Issuers, or of the consolidated group of which the Obligated Issuers are members, delivered to the Master Trustee in accordance with the Master Indenture.

“Authority” shall mean The Hospital Authority of Houston County, a public body corporate and politic, and its successors and assigns.

“Balloon Indebtedness” shall mean:

(a) Long-Term Indebtedness as to which, when issued, 25% or more of the debt service thereon is due in a single year, whether by maturity or mandatory redemption, or

(b) Long-Term Indebtedness as to which, when issued, 25% or more of the original principal amount thereof may, at the option of the holder or registered owner thereof, be redeemed or repurchased at one time, which portion of the principal is not required by the documents pursuant to which such Indebtedness is issued to be amortized by redemption prior to such date, or

(c) Any Guaranty of Long-Term Indebtedness that is Balloon Indebtedness under subsections (a) or (b) of this definition.

“Bond Index” shall mean (i) in respect of any Outstanding Indebtedness, the average interest rate on such Indebtedness for the 12-month period ending on the last day of the month immediately preceding the last full month prior to such calculation, or if such Indebtedness shall have been Outstanding for less than a 12-month period, the interest rate (or average interest rate for variable rate Indebtedness) on such Indebtedness for such lesser period; and (ii) in respect of any proposed tax-exempt Indebtedness, the 30-year Revenue Bond Buyer Index; and (iii) with respect to any proposed taxable Indebtedness, an index similar to the 30-year Revenue Bond Buyer Index for taxable bonds selected by the Obligated Group Agent.

“Book Value”, when used in connection with particular property, shall mean the cost of such property, net of accumulated depreciation, calculated in conformity with generally accepted accounting principles, and when used in connection with property of the Obligated Issuers or the combined or consolidated group of which they are a part, shall mean the aggregate book value as shown in the Audited Financial Statements.

“Capitalization” shall mean, as of the date of measurement, the sum of the aggregate Long-Term Indebtedness, plus the aggregate unrestricted fund balance or the aggregate excess of assets over liabilities, if any, as shown in the Audited Financial Statements all as calculated in accordance with generally accepted accounting principles.

“Code” shall mean the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto and any regulations applicable thereto.

“Combined Group” shall mean the Obligated Group.

“Commitment Indebtedness” means the obligation of any Person to repay amounts disbursed pursuant to a Credit Facility issued to pay when due such Person’s obligations under Indebtedness incurred in accordance with the provisions of the Master Indenture.

“Completion Indebtedness” shall mean any Long-Term Indebtedness (i) incurred by any Person for the purpose of financing the completion of constructing or equipping property with respect to which Long-Term Indebtedness was theretofore incurred in accordance with the provisions hereof, and (ii) in a principal amount not in excess of the amount required (a) to provide a completed and equipped property of substantially the type and scope contemplated at the time such prior Long-Term Indebtedness was incurred, (b) to provide for capitalized interest during the period of construction, (c) to capitalize a reserve with respect to such Completion Indebtedness and (d) to pay the costs and expenses of issuing such Completion Indebtedness.

“Construction Index” shall mean the health care component of the implicit price deflator for the gross national product as most recently reported prior to the date in question by the United States Department of Commerce or its successor agency, or, if such index is no longer published, such other index which is certified to be comparable and appropriate by the Obligated Group Agent in an Officer’s Certificate delivered to the Master Trustee.

“Consultant” shall mean a Person who or which is appointed by the Obligated Group Agent for the purpose of passing on questions relating to the financial affairs, management or operations of one or more members of the Combined Group or the entire Combined Group and, in the good faith opinion of the Obligated Group Agent, has a

favorable reputation for skill and experience in performing similar services in respect of entities engaged in reasonably comparable endeavors. If any Consultant's report or opinion is required to be given with respect to matters partly within and partly without the expertise of such Consultant, such Consultant may rely upon the report or opinion of another Consultant, which other Consultant shall be reasonably satisfactory to the relying Consultant and the Obligated Group Agent.

"Counsel" shall mean a lawyer duly admitted to practice law before the highest court of any state in the United States of America or the District of Columbia, or any law firm, who or which, as the case may be, is not unsatisfactory to any recipient of the opinion required to be rendered by such Counsel.

"Credit Facility" means any letter of credit, line of credit, insurance policy, guaranty or other agreement constituting a credit enhancement or liquidity facility which is issued by a bank, trust company, savings and loan association or other institutional lender, insurance company or surety company for the benefit of the holder of any Indebtedness in order to provide a source of funds for the payment of all or any portion of an Obligated Issuer's payment obligations under such Indebtedness.

"Cross Guaranty" shall mean the obligations of each Obligated Issuer pursuant to Section 2.3 of the Master Indenture.

"Debt Service Requirement" of any Person shall mean, for any period of time, the amounts payable or the payments required to be made by such Person in respect of principal and interest on Outstanding Long-Term Indebtedness during such period (calculated in such a manner that no portion of Long-Term Indebtedness is included more than once), taking into account for purposes of calculating any projected debt service requirements (i) that any Indebtedness represented by a Guaranty shall be deemed payable on the dates and in the amounts contemplated in Section 4.3 of the Master Indenture (concerning the assumptions to be used in including debt service requirements of the guaranteed obligation), (ii) that any payments to be made in respect of Balloon Indebtedness and Variable Rate Indebtedness shall be calculated in accordance with the provisions of Section 4.4 of the Master Indenture, (iii) that, with respect to Indebtedness refunded or refinanced during such period, only an amount of principal and interest equal to the principal and interest not payable from the proceeds of Indebtedness shall be taken into account during such period, and (iv) any amounts payable from funds available under an Escrow Deposit (other than amounts so payable solely by reason of the obligor's failure to make payments from other sources), or funded from the proceeds of such Long-Term Indebtedness (i.e., accrued and capitalized interest), shall be excluded from the determination of the Debt Service Requirement.

"Depository" means the commercial bank or banks from time to time designated by the Obligated Group Agent to act as a depository for the Revenue Fund in accordance with the provisions of the Master Indenture and of the Depository Agreement.

"Depository Agreement" means any account control or depository agreement among the Master Trustee, the Obligated Group Agent or another member of the Obligated Group and the Depository, as amended, supplemented or modified from time to time, entered into in connection with the pledge of Gross Revenues under the Master Indenture.

"Escrow Deposit" shall mean a segregated escrow fund or other similar fund, account or deposit in trust, of cash in an amount (or Investment Securities the principal of and interest on which will be in an amount), and under terms, sufficient, without further reinvestment, to pay all or a portion of the principal of, and premium, if any, and interest on, the indebtedness secured by such escrow fund or other similar fund, account or deposit as the same shall become due or payable upon redemption.

"Event of Default" shall mean any event of default under the Master Indenture as defined in the Master Indenture.

"Facilities" shall mean all land, leasehold interests and buildings and all fixtures and equipment of a Person.

"Fair Value Net Worth" of a Person as of any date shall mean:

(i) the fair value or fair saleable value (as the case may be, determined in accordance with applicable federal and state laws affecting creditors' rights and governing determinations of insolvency of debtors) of such Person's assets (including such person's rights to contribution and subrogation under Sections 2.3(d) and (f) of the Master Indenture or in respect of any other guarantee) as of such date, minus

(ii) the amount of all liabilities of such Person (determined in accordance with such laws) as of such date, excluding (x) such Person's Cross Guaranty and (y) any liabilities subordinated in right of payment to such Cross Guaranty, minus

(iii) \$1.00.

"First Supplemental Master Indenture" shall mean the First Supplemental Master Trust Indenture, dated as of August 1, 2007, between the Authority and HHI, as the initial members of the Obligated Group, and the Master Trustee.

"Fiscal Year" shall mean a period of twelve consecutive months ending on February 28 or on such other date as may be specified in an Officer's Certificate of the Obligated Group Agent executed and delivered to the Master Trustee.

"Governing Body" shall mean, when used with respect to any Person, its board of directors, board of trustees, or other board, committee or group of individuals in which the powers of a board of directors or board of trustees is vested generally or for the specific matters under consideration.

"Government Issuer" shall mean any federal, state or municipal corporation or political subdivision thereof or any instrumentality of any of the foregoing empowered to issue obligations on behalf thereof.

"Government Obligations" shall mean direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, including evidences of a direct ownership interest in future interest or principal payments on obligations issued or guaranteed by the United States of America, which obligations are held in a custody account by a custodian pursuant to the terms of a custody agreement.

"Gross Revenues" means all revenues, income, receipts, accounts receivable and money derived from the operation of the Property or from the performance of management services, regardless of where such management services are performed, received in any period by any of the Obligated Issuers, including, but without limiting the generality of the foregoing, (a) proceeds derived from (i) insurance, except to the extent the use thereof is otherwise specifically required by any agreement or indenture, (ii) accounts receivable, (iii) securities and other investments, (iv) inventory and other tangible and intangible property, (v) hospital expense reimbursement or medical expense reimbursement for hospital functions or insurance programs or agreements, (vi) condemnation awards except to the extent that the use thereof is otherwise specifically required by any agreement or indenture, (vii) contract and other rights and assets now or hereafter owned or held or possessed by or on behalf of any Obligated Issuer; (b) amounts earned on amounts deposited into the funds and accounts created under the Depository Agreement and (c) the revenues of any surviving, resulting or transferee entity provided for in this Indenture; provided, however, there shall not be included in Gross Revenues (A) the proceeds of borrowing and interest earned thereon if and to the extent such interest is required to be excluded by the terms of the borrowing, (B) revenues, income, receipts and money received by any Obligated Issuer as agent for and on behalf of someone other than one of the Obligated Issuers and (C) donor restricted gifts, grants, bequests, donations or contributions to any of the Obligated Issuers for use in connection with the Property to the extent restricted by the donor thereof.

"Guaranty" shall mean any obligation of a Combined Group member guaranteeing any obligation of any other Person other than a Combined Group member, whether or not issued hereunder as a Guaranty, which obligation would, if such other Person were a member of the Combined Group, constitute Indebtedness hereunder.

"HHI" shall mean Houston Heart Institute, a Georgia non-profit corporation.

“Hedge Agreement” shall mean an interest rate swap, cap, collar, floor, forward, option, put, call or other agreement, arrangement or security, however denominated, entered into in order to hedge interest rate fluctuations on all or a portion of any Indebtedness or to change the payments to be made with respect to any Indebtedness from fixed to variable or from variable to fixed with the goal of achieving lower interest costs.

“Historical Debt Service Coverage Ratio” shall mean, for any period of time, the ratio determined by dividing Total Income Available For Debt Service for such period by the Debt Service Requirement of the Combined Group for such period.

“Historical Pro Forma Debt Service Coverage Ratio” shall mean for any period of time, the ratio determined by dividing Total Income Available for Debt Service for such period by the Maximum Annual Debt Service of the Combined Group for all Long-Term Indebtedness then Outstanding and the Long-Term Indebtedness then proposed to be issued.

“Holder” shall mean, as the context requires, the registered owner of any Note, the beneficiary of any Guaranty in whose name any Guaranty is issued or the holder or beneficiary of any other type of Obligation. In the case of an Obligation issued to a trustee or other fiduciary acting on behalf of the holders of any bonds, notes or other similar obligations which are secured by such Obligation, including any registered securities depository then in the business of holding (for the benefit of beneficial owners whose interests may be evidenced by book-entry registration) substantial amounts of obligations of types comprising the Obligations, the term Holder shall mean the trustee or other fiduciary or, if so provided in the Related Financing Documents, the holders of the Related Bonds in proportion to their respective interests therein, including any registered securities depository then in the business of holding (for the benefit of beneficial owners whose interests may be evidenced by book-entry registration) substantial amounts of obligations of types comprising the Obligations.

“Income Available For Debt Service” of a Person shall mean, with respect to any period of time, the excess of revenues which constitute Gross Revenues over expenses related thereto, or, in the case of for-profit entities, net income after tax, as determined in accordance with generally accepted accounting principles, to which shall be added, in either case, (i) depreciation, (ii) amortization, and (iii) interest expense on Indebtedness, and from which shall be excluded (a) any extraordinary items, (b) any gain or loss resulting from either the extinguishment of indebtedness or the sale, exchange or other disposition of assets not made in the ordinary course of business and (c) unrealized gains or losses on securities and realized or unrealized gains or losses on Interest Rate Swap Obligations or obligations under a Hedge Agreement.

“Indebtedness” of a Person shall mean (i) all Notes and Guaranties, (ii) all liabilities (exclusive of reserves) recorded as indebtedness on the audited financial statements of such Person as of the end of the most recent Fiscal Year for which financial statements reported upon by an Accountant are available, and (iii) all other obligations for borrowed money; provided that Indebtedness shall not include (1) Interest Rate Swap Obligations or obligations under Hedge Agreements (whether or not secured by a Note or Guaranty), (2) any other Indebtedness of any member of the Combined Group to any other member of the Combined Group, (3) rentals payable under leases which are not properly capitalized under generally accepted accounting principles or (4) any other obligation which does not constitute indebtedness under generally accepted accounting principles.

“Initial Obligated Group” shall mean the Authority and HHI.

“Initial Obligations” shall mean the Obligations denominated as the “2007 Master Note” and the “2002 Master Note” issued pursuant to the First Supplemental Master Indenture which is being executed and delivered by the members of the initial Obligated Group and the Master Trustee simultaneously with the execution and delivery of the Master Indenture.

“Insurance Consultant” shall mean a Person, who or which is appointed by any member of the Combined Group for the purpose of reviewing and recommending insurance coverages for the Facilities and operations of one or more members of the Combined Group or the entire Combined Group, is nationally recognized as being skilled and experienced in performing such services in respect of Facilities and operations of a comparable size and nature, and, in the good faith opinion of the member making the appointment, has a favorable reputation for skill and experience in performing such services in respect of Facilities and operations of a comparable size and nature. If

any Insurance Consultant's report or opinion is required to be given with respect to matters partly within and partly without the expertise of such Insurance Consultant, such Insurance Consultant may rely upon the report or opinion of another Insurance Consultant or other expert, which other Insurance Consultant or other expert shall be reasonably satisfactory to the relying Insurance Consultant and the Obligated Group Agent.

"Interest Rate Swap Obligations" shall mean obligations of any Person pursuant to any arrangement with any other Person whereby, directly or indirectly, such Person is entitled to receive from time-to-time periodic payments calculated by applying either a floating or a fixed rate of interest on a stated notional amount in exchange for periodic payments made by such other Person calculated by applying a fixed or a floating rate of interest on the same notional amount.

"Investment Securities" shall mean and include the following:

(a) Government Obligations;

(b) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

1. U.S. Export-Import Bank (Eximbank) Direct obligations or fully guaranteed certificates of beneficial ownership
2. Farmers Home Administration (FHA) Certificates of beneficial ownership
3. Federal Financing Bank
4. Federal Housing Administration Debentures (FHA)
5. General Services Administration Participation certificates
6. Government National Mortgage Association (GNMA or "Ginnie Mae") GNMA guaranteed mortgage-backed bonds GNU, guaranteed pass-through obligations
7. U.S. Maritime Administration Guaranty Title XI financing
8. U.S. Department of Housing and Urban Development (HUD) Project Notes Local Authority Bonds New Communities Debentures U.S. government guaranteed debentures U.S. Public Housing Notes and Bonds -U.S. government guaranteed public housing notes and bonds;

(c) bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System Senior debt obligations
2. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac") Participation Certificates Senior debt obligations
3. Federal National Mortgage Association (FNMA or "Fannie Mae) Mortgage-backed securities and senior debt obligations
4. Student Loan Marketing Association (SLMA or "Sallie Mae") Senior debt obligations

5. Resolution Funding Corp. (REFCORP) obligations;

(d) money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Standard & Poor's Corporation ("S&P") of AAAM-G; AAAM; or AAM.

(e) certificates of deposit secured at all times by collateral described in (a) or (b) above, issued by commercial banks, savings and loan associations or mutual savings banks, provided that the collateral must be held by a third party and the Master Trustee must have a perfected first security interest in the collateral;

(f) certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by the FDIC;

(g) investment agreements, including GICs;

(h) commercial paper rated, at the time of purchase, "Prime-1" by Moody's Investors Service, Inc. ("Moody's") or "A-1" or better by S&P;

(i) bonds or notes issued by any state or municipality which are rated by Moody's or S&P in one of the two highest rating categories assigned by such agencies;

(j) federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime-1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P;

(k) repurchase agreements (a "Repo") providing for the transfer of securities from a dealer bank or securities firm (seller/borrower) to the Master Trustee or member of the Combined Group, as the case may be (buyer/lender), and the transfer of cash from the Master Trustee or member of the Combined Group, as the case may be, to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the Master Trustee or member of the Combined Group, as the case may be, in exchange for the securities at a specified date provided that:

1. the repo must be between the Master Trustee or member of the Combined Group, as the case may be, and a dealer bank or securities firm which is either (a) a primary dealer on the Federal Reserve reporting dealer list which is rated "A" or better by S&P and Moody's, or (b) a bank rated "A" or above by S&P and Moody's; and

2. the repo must be in writing and must include the following: (a) securities which are acceptable for transfer which are: (1) direct U.S. governments, or (2) federal agencies backed by the full faith and credit of the U.S. government (and FNMA and FMAC); (b) the term of the repo may not exceed 30 days; (c) the collateral must be delivered to the member of the Combined Group, the Master Trustee (if such trustee is not supplying the collateral) or third party acting as agent for the Master Trustee (if such trustee is supplying the collateral) before or simultaneously with payment; and (d) the securities must be valued weekly, marked-to-market at current market price plus accrued interest and the value of collateral must be equal to 104% of the amount of cash transferred by the Master Trustee or member of the Combined Group, as the case may be, to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral is below 104% of the value of the cash transferred by the Master Trustee or member of the Combined Group, as the case may be, then additional cash or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FMAC, then the value of collateral must equal 105%;

(l) such other investments as permitted by Georgia law.

“Lien” shall mean any mortgage or pledge of, security interest in or lien or encumbrance on any Property of any member of the Combined Group in favor of, or which secures any Indebtedness or any other obligation of any member of the Combined Group to any Person other than another member of the Combined Group, but specifically excluding subordination arrangements among creditors.

“Limited Obligor” shall mean any Person, other than a member of the Combined Group, on whose account any Obligated Issuer has issued a Guaranty as consideration for such Person’s execution and delivery to such Obligated Issuer of a Pledged Note.

“Long-Term Indebtedness” shall mean (i) all Indebtedness which, at the time of incurrence or issuance, has a final maturity or term greater than one year or which is renewable at the option of the obligor thereof for a term greater than one year from the date of original incurrence or issuance; and (ii) Short-Term Indebtedness which is incurred as interim financing and which is intended to be repaid out of the proceeds of other Long-Term Indebtedness, provided that any one of the applicable conditions described in Section 4.2 of the Master Indenture are met with respect to such Short-Term Indebtedness on the date of incurrence, assuming for purposes of compliance therewith that such Short-Term Indebtedness is Long-Term Indebtedness characterized as Balloon Indebtedness for purposes of meeting any of the applicable conditions in Section 4.2 of the Master Indenture; provided, however, that Long-Term Indebtedness shall not include (a) Non-Recourse Indebtedness or Subordinated Indebtedness; (b) current obligations payable out of current revenues, including current payments for the funding of pension plans and contributions to self insurance programs; (c) obligations under contracts for supplies, services or pensions, allocated to the current operating expenses of future years in which the supplies are to be furnished, the services rendered or the pensions paid; and (d) rentals payable under leases which are not properly categorized as capital leases under generally accepted accounting principles.

“Maximum Annual Debt Service” of the Combined Group shall mean the highest annual Debt Service Requirement of the Combined Group for the current or any succeeding Fiscal Year during the remaining term of all Outstanding Obligations.

“Maximum Guaranty Liability” of a person as of any date shall mean the greater of either (i) or (ii) below:

(i) the greater of (A) or (B) as of such date:

(A) the outstanding amount of all Obligations issued by such Person, or

(B) the fair market value of all Property acquired, in whole or part, with the proceeds of such Obligations by such Person; or

(ii) the greatest of the Fair Value Net Worth of such person as of the latest of the fiscal year-end of such person, each fiscal quarter-end of such person thereafter occurring on or prior to the date of the determination of Maximum Guaranty Liability, the date on which enforcement of the pertinent Cross Guaranty is sought, and the date on which a case under the United States Bankruptcy Code is commenced with respect to any Obligated Issuer.

“Net Operating Revenues” of a Person shall mean, with respect to any period of time, operating revenues constituting Gross Revenues less free care, discounts and allowances for bad debts, and less contractual allowances, all determined in accordance with generally accepted accounting principles.

“Non-Recourse Indebtedness” shall mean any Indebtedness secured by a Lien on all or any portion of the Facilities of any Obligated Issuer, liability for which is effectively limited to such Facilities subject to such Lien, with no recourse, directly or indirectly, to any other Facilities of any Obligated Issuer.

“Note” shall mean any note issued under the Master Indenture by an Obligated Issuer to evidence Long-Term Indebtedness or Short-Term Indebtedness or any other obligation, such as Subordinated Indebtedness or a Hedge Agreement, incurred pursuant to the terms of the Master Indenture.

“Obligated Group” shall mean all Obligated Issuers.

“Obligated Issuer” shall mean (i) each member of the Initial Obligated Group and each other Person which becomes an Obligated Issuer in accordance with the provisions of the Master Indenture, whether or not such Person has issued any obligations hereunder, and which has not withdrawn from the Obligated Group pursuant to the Master Indenture, and (ii) when used in respect of any particular Obligation or other Indebtedness, shall mean the obligor thereunder.

“Obligations” shall mean all Notes and Guaranties issued hereunder, any lease, contractual agreement to pay money or other obligations of any Obligated Group Member issued under the Master Indenture and any additional forms of Obligations created pursuant to the Master Indenture.

“Officer’s Certificate” shall mean a certificate (i) signed, in the case of a corporation, by the Chairman, Vice Chairman, President or Chief Financial Officer or, in the case of a certificate delivered by any other Person, the chief executive or chief financial officer of such Person, in either case whose authority to execute such certificate shall be evidenced to the satisfaction of the Master Trustee and (ii) signed in the case of the Authority, by the Chairman of the Board, the Chief Executive Officer or the Chief Financial Officer of the Authority. When an Officer’s Certificate is required under the Master Indenture to set forth matters relating to one or more Obligated Issuers, such Officer’s Certificate may be given in reliance upon another certificate, or other certificates, and supporting materials, if any, provided by any duly authorized officer of the applicable Obligated Issuer.

“Opinion of Bond Counsel” shall mean an opinion in writing signed by an attorney or firm of attorneys experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds.

“Outstanding” (a) when used with reference to Notes, shall mean, as of any date of determination, all Notes theretofore issued or incurred and not paid and discharged other than (i) Notes theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (ii) Notes deemed paid and no longer Outstanding as provided in Article XI of the Master Indenture or for which an Escrow Deposit has been established, (iii) Notes in lieu of which other Notes have been authenticated and delivered or have been paid pursuant to the provisions of the Supplemental Indenture regarding mutilated, destroyed, lost or stolen Notes unless proof satisfactory to the Master Trustee has been received that any such Note is held by a bona fide purchaser for value without notice, and (iv) any Note held by any Obligated Issuer; or, (b) when referring to Indenture Guaranties, shall mean all Indenture Guaranties unless the Master Trustee has received from the Holder thereof a written release of all claims thereof against the Obligated Issuer thereunder and all other Obligated Issuers; or, (c) when referring to Indebtedness other than Notes and Indenture Guaranties, shall mean, as of any date of determination, all Indebtedness theretofore issued or incurred other than (i) Indebtedness which has been paid, (ii) Indebtedness for which an opinion of Counsel stating that such Indebtedness has been discharged has been provided to the Master Trustee, (iii) evidence of Indebtedness for which new evidence has been substituted in a manner analogous to clause (a)(iii) above and (iv) any evidence of Indebtedness held by any Obligated Issuer, provided that Obligations or evidences of Indebtedness held by any Obligated Issuer may be deemed by such Obligated Issuer to be continuously Outstanding if such Obligations or evidences of Indebtedness were acquired with an intent that they only be held temporarily in connection with an effort to remarket them to Persons other than the Obligated Issuer.

“Permitted Liens” shall mean this Master Indenture, all Related Financing Documents and, as of any particular time:

(i) Any lien from any member of the Combined Group to any other member of the Combined Group;

(ii) Any judgment lien or notice of pending action against any member of the Combined Group so long as such judgment or pending action is being contested and execution thereon has been stayed or the period for responsive pleading or appeal has not lapsed, and neither the pledge and security interest of this Indenture nor any Property of any member of the Combined Group will be materially impaired or subject to material loss or forfeiture;

(iii) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law affecting any Property, to (1) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not, in the opinion of the Obligated Group Agent, materially impair the use of such Property or materially and adversely affect the value thereof, or (2) purchase, condemn, appropriate or recapture, or designate a purchaser of, such Property; (B) any liens (or deposits to obtain the release of such liens) on any Property for taxes, assessments, levies, fees, water and sewer charges, (and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which in the opinion of the Obligated Group Agent, are not material in amount or which are not due and payable or which are not delinquent or which, the amount or validity of which, are being contested and execution thereon is stayed; (C) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property which do not, in the opinion of the Obligated Group Agent, materially impair the use of such Property or materially and adversely affect the value thereof; (D) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not, in the opinion of the Obligated Group Agent, materially impair the use of such Property or materially and adversely affect the value thereof; and (E) to the extent that it affects title to any Property, this Indenture;

(iv) Any lease which relates to Property of the Combined Group which is of a type that is customarily the subject of such leases, including but not limited to any leasehold interest required under any Related Financing Documents, leases with respect to office space for physicians and educational institutions, food service facilities, gift shops and radiology or other hospital-based specialty services, pharmacy and similar departments and statutory landlord's liens with respect to such leases;

(v) Any Lien securing Indebtedness provided such Lien also secures all Obligations (other than Obligations representing Subordinated Indebtedness or Non-Recourse Indebtedness) on a parity basis;

(vi) Any Lien arising by reason of good faith deposits in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any member of the Combined Group to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(vii) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any member of the Combined Group to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other similar social security plans, or to share in the privileges or benefits required for companies participating in such (arrangements);

(viii) Any Lien arising by reason of an Escrow Deposit;

(ix) (A) Any Lien in favor of a trustee or the Holder of a Note on the proceeds of Indebtedness or cash or investments deposited with such trustee and acquired with such proceeds prior to the application of such proceeds or cash or investments and (B) Liens in favor of a trustee, including the Master Trustee, to secure obligations to compensate, reimburse or indemnify such trustees;

(x) Any Lien on moneys deposited by patients or others with any member of the Combined Group as security for or as prepayment for the cost of patient care;

(xi) Any Lien on Property received by any member of the Combined Group through gifts, grants or bequests, such Lien being due to restrictions on such gifts, grants or bequests of property or the income thereon;

(xii) Statutory rights of the United States of America by reason of federal funds made available under 42 U.S.C. §§ 291 et seq. and similar rights under other federal and state statutes;

(xiii) Liens on Property of a Person at the time such Person engages in a merger, consolidation, sale or conveyance pursuant to the Master Indenture; provided that no such Lien (or the amount of Indebtedness secured thereby) may be increased or modified to apply to any Property of any Obligated Issuer not subject to such Lien on such date, unless such Lien following such increase or modification otherwise qualifies as a Permitted Lien under the Master Indenture; and provided further, that no such Lien shall have been incurred in anticipation of such merger, consolidation, sale or conveyance;

(xiv) A security interest in any funds or accounts established pursuant to the provisions of any Related Financing Documents;

(xv) Liens in the form of purchase money security interests in Property financed with the proceeds of Indebtedness secured thereby;

(xvi) Liens securing any Indebtedness permitted under the Master Indenture, provided that the Master Trustee shall have received an Officer's Certificate from the Obligated Group Agent to the effect that not more than 20% of the Value of all Property as shown in the Audited Financial Statements or 20% of Total Net Operating Revenues would be subject to a Lien, not including any lien created under the Master Indenture;

(xvii) Liens on accounts receivable arising as a result of sale of such accounts receivable with recourse, provided that the principal amount of indebtedness secured by any such Lien does not exceed the aggregate sales price of such accounts receivable received by the Obligated Issuer or selling the same;

(xviii) Options granted by any member of the Combined Group to others to purchase real property or other assets of such member;

(xix) Deposits of cash or cash equivalents to secure obligations under letters of credit incurred in the ordinary course of business of any member of the Combined Group and liens on any Related Bonds created under or in connection with any letter of credit or reimbursement agreement (such as liens under a pledge and security agreement) to secure repayment obligations under such letter of credit or reimbursement agreement for Related Bonds purchased with proceeds of a drawing thereon;

(xx) Liens relating to Indebtedness outstanding on the date of execution and delivery of the Master Indenture; and

(xxi) Liens on any Property securing payments (which may include, without limiting the foregoing, regularly scheduled or termination payments) payable under any Hedge Agreement, which Liens (a) shall be created in accordance with the terms of any such Hedge Agreement, (b) may be created as security solely for the swap provider counterparty (or its guarantor), and not as security for any other Obligation and (c) if requested by the Obligated Group Agent, and, notwithstanding any provision of this Indenture, made free and clear of any security interest or Lien granted hereby, by any future Supplemental Master Indenture or by any other instrument encumbering Property to secure payment of Obligations or the obligations of any member of the Obligated Group.

"Person" shall mean an individual, a corporation, a partnership, an association, a joint stock company, a limited liability company, a joint venture, a trust, an unincorporated organization, a governmental unit or an agency, political subdivision or instrumentality thereof or any other group or organization of individuals.

"Pledged Note" shall mean a promissory note executed by a Limited Obligor, as maker, in favor of an Obligated Issuer, as payee, evidencing a sum certain liability of such maker to such payee, which is assigned by such payee to the Master Trustee pursuant to Section 4.3 of the Master Indenture.

“Principal,” when used to refer to the amount of any Obligation, shall mean (i) the principal amount of any Obligation that constitutes Indebtedness; (ii) with respect to an Guaranty, the principal amount guaranteed; (iii) with respect to an Interest Rate Swap Obligation, the “notional amount” of the Interest Rate Swap Obligation to the party to the swap transaction that is not an Obligated Issuer; (iv) with respect to a Credit Facility, the amount disbursed by the issuer of the Credit Facility and not reimbursed on the date the principal amount is determined; and (v) with respect to any other type of Obligation, the amount specified in the Supplemental Indenture creating such Obligation.

“Projected Debt Service Coverage Ratio” shall mean for any future period of time, the ratio determined by dividing projected Total Income Available for Debt Service for such period as shown in the Audited Financial Statements by Maximum Annual Debt Service of the Combined Group.

“Property” shall mean any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible, including cash, and wherever situated.

“Rating Agency” shall mean severally or collectively, if applicable (i) Standard & Poor’s, a division of the McGraw-Hill Companies, Inc. (“S&P”), and any successor thereto, if it has assigned a rating to any Obligation issued and Outstanding hereunder or any Related Bonds issued and Outstanding pursuant to any Related Financing Documents, (ii) Moody’s Investors Service, Inc. (“Moody’s”), and any successor thereto, if it has assigned a rating to any Obligation issued and Outstanding hereunder or any Related Bonds issued and Outstanding pursuant to any Related Financing Documents, and (iii) Fitch’s Investors Service (“Fitch”) and any successor thereto, if it has assigned a rating to any Obligation issued and outstanding pursuant to any Related Financing Documents. If any such Rating Agency shall no longer perform the functions of a securities rating service for whatever reason, the term “Rating Agency” shall thereafter be deemed to refer to the others, but if both of the others shall no longer perform the functions of a securities rating service for whatever reason, the term “Rating Agency” shall thereafter be deemed to refer to any other nationally recognized rating service or services as shall be designated in writing by the Obligated Group Agent to the Master Trustee; provided that such designee shall not be unsatisfactory to the Master Trustee.

“Related Bond Indenture” shall mean any indenture, bond resolution or other comparable instrument pursuant to which a series of Related Bonds is issued.

“Related Bond Issuer” shall mean the Government Issuer of any issue of Related Bonds.

“Related Bond Trustee” shall mean the trustee and its successors in the trust created under any Related Bond Indenture, and if there is no such trustee, shall mean the Related Bond Issuer.

“Related Bonds” shall mean the revenue bonds, revenue anticipation certificates, notes, other evidences of indebtedness or any other obligations (including the Certificates of each Series) issued by a Government Issuer pursuant to a single Related Bond Indenture, the proceeds of which are loaned or otherwise made available to an Obligated Issuer in consideration of the execution, authentication and delivery of a Note to or for the order of such Government Issuer.

“Related Financing Documents” shall mean:

(a) in the case of any Note, (i) all documents, including any Related Bond Indenture, pursuant to which the proceeds of the Note are made available to an Obligated Issuer, the payment obligations evidenced by the Note are created and any security for the Note (if permitted under this Indenture) is granted, and (ii) all documents creating any additional payment or other obligations on the part of an Obligated Issuer which are executed in favor of the Holder in consideration of the Note proceeds being loaned or otherwise made available to the Obligated Issuer;

(b) in the case of any Guaranty, all documents creating the indebtedness being guaranteed pursuant to the Guaranty and providing for the loan or other disposition of the proceeds of the indebtedness and all documents pursuant to which any security for the Guaranty (if permitted hereunder) is granted; and

(c) in the case of Indebtedness other than Notes and Indenture Guaranties, all documents relating thereto which are of the same nature and for the same purpose as the documents described in clauses (a) and (b) above.

“Short-Term Indebtedness shall mean all Indebtedness other than Long-Term Indebtedness.

“Subordinated Indebtedness” shall mean any promissory note, guaranty, lease, contractual agreement to pay-money or other obligation of any Obligated Issuer which is expressly made subordinate and junior in right of payment of principal of, redemption premium, if any, and interest on, (a) all Obligations issued pursuant to this Indenture, and (b) all other obligations of the Obligated Group hereunder, on terms and conditions which substantially require that (i) no payment on account of principal of, redemption premium, if any, or interest on such Subordinated Indebtedness shall be made, nor shall any property or assets be applied to the purchase or other acquisition or retirement of such Subordinated Indebtedness, unless full payment of all amounts then due and payable upon maturity of Obligations issued under the Master Indenture have been made or duly provided for in accordance with the terms of such Obligations; (ii) no payment on account of principal of, redemption premium, if any, or interest on such Subordinated Indebtedness shall be made, nor shall any property or assets be applied to the purchase or other acquisition or retirement of such Subordinated Indebtedness if, at the time of such payment or application, or immediately after giving effect thereto, (1) there shall exist a default in the payment of the principal of, redemption premium, if any, or interest on any Obligations (whether at maturity or upon mandatory redemption), or (2) there shall have occurred an Event of Default with respect to any Obligations, as defined therein and in this Indenture, and such Event of Default shall not have been cured or waived or shall not have ceased to exist; and (iii) in the event that any Subordinated Indebtedness is declared or otherwise becomes due and payable because of the occurrence of an event of default with respect thereto, (1) the Holders at such time shall be entitled to receive payment in full thereon before the holders of the Subordinated Indebtedness shall be entitled to receive any payment on account of such Subordinated Indebtedness as a result of such event of default, and (2) no holder of Subordinated Indebtedness, or a trustee acting on such holder’s behalf, shall be entitled to exercise any control over proceedings to enforce the terms and conditions of the Master Indenture.

“Supplemental Indenture” shall mean an indenture supplemental to, and authorized and executed pursuant to, the terms of the Master Indenture.

“Total Income Available for Debt Service” shall mean, as to any period, (a) the aggregate of Income Available for Debt as shown in the Audited Financial Statements for such period, plus (b) the Income Available For Debt Service of, each Limited Obligor whose financial results are not included in the Audited Financial Statements up to an amount equal to the amount of such Limited Obligor’s Debt Service Requirement for such period with respect to the Indebtedness of such Limited Obligor guaranteed by a member of the Combined Group.

“Total Net Operating Revenues” shall mean, as to any period, the Net Operating Revenues for such period as shown in the Audited Financial Statements.

“Value”, when used in connection with any property, shall mean either (a) Book Value, or (b) at the election of the Obligated Group Agent evidenced by an Officer’s Certificate delivered to the Master Trustee, the aggregate fair market value of such property, as reflected in the most recent written report of an appraiser selected by the Obligated Group Agent and, in the case of real property, who or which is a member of the American Institute of Real Estate Appraisers (MAI), delivered to the Master Trustee (which report shall be dated not more than three years prior to the date as of which value is to be calculated) (i) increased the cost of any property acquired, or decreased by the fair market value of any property disposed of, since the date of such report and (ii) increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such report to the date as of which value is to be calculated.

“Variable Rate Indebtedness” shall mean any portion of Indebtedness the interest rate on which fluctuates subsequent to the time of incurrence; provided, however, that any Indebtedness for which payment obligations does not fluctuate in the aggregate do not constitute Variable Rate Indebtedness.

Granting Clause and General Provisions

Granting Clause

Each Obligation will be issued pursuant to the Master Indenture and will entitle each holder thereof to the protection of the covenants, restrictions and other obligations imposed upon the Initial Obligated Group and each Obligated Issuer by the Master Indenture. Such Obligations will be secured equally and ratably by the assignment and pledge to the Master Trustee of a security interest in the Gross Revenues; all moneys and securities held by the Master Trustee or any other depositaries in any and all of the funds and accounts established under the Master Indenture; all property which is by the express provisions of the Master Indenture required to be subject to the lien created under the Master Indenture and any additional property that may, from time to time hereafter, by delivery by writing of any kind, be subjected to the lien created under the Master Indenture, by the Obligated Issuers or by anyone in their behalf, and the Master Trustee is hereby authorized to receive the same at any time as additional security under the Master Indenture.

Accounting Principles

Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation, combination or other accounting computation is required to be made for the purposes of the Master Indenture or any agreement, document or certificate executed and delivered in connection with or pursuant to the Master Indenture, such determination or computation shall be done in accordance with generally accepted accounting principles in effect on (i) the date of the delivery of the Master Indenture, or (ii) at the election of the Obligated Group Agent, as specified in an Officer's Certificate delivered to the Master Trustee, the date such determination or computation is made for any purpose of the Master Indenture, such accounting principles, to the extent applicable, consistently applied; provided that intercompany balances and liabilities among the Obligated Issuers shall be disregarded and that the requirements set forth herein shall prevail, if inconsistent with generally accepted accounting principles. In the event that the fiscal year of any Obligated Issuer ends on a date other than the last day of a Fiscal Year, the character or amount of any asset or liability or item of income or expense of such Obligated Issuer for its fiscal year ending within any Fiscal Year under consideration shall be deemed to be the character or amount of the appropriate asset or liability or item of income or expense for such Fiscal Year. For purposes of calculating Total Income Available for Debt Service and Total Net Operating Revenues for any period, if any Obligated Issuer shall have become a member of the Combined Group during such period, such calculations shall be made assuming that such Obligated Issuer became a member of the Combined Group at the beginning of such period.

Master Indenture Obligations

Issuance

Subject to the further conditions specified in the Master Indenture, each Obligated Issuer shall be permitted to issue one or more series of Obligations under the Master Indenture on which all Obligated Issuers will be jointly and severally liable pursuant to their Cross-Guaranties. The Obligations of each series shall be issued in substantially such forms as may be approved by the Obligated Issuer thereof and set forth in the Supplemental Indenture providing for the issuance thereof. The number and aggregate principal amount of Obligations shall not be limited, except as provided in any Supplemental Indenture. All Obligations shall be issued in fully registered form without coupons. Subject to the applicable provisions hereof, all Obligations shall be issued upon and contain such maturities, payment terms, interest rate provisions, redemption or prepayment features and other provisions as shall be set forth in the Supplemental Indenture providing for the issuance of such Obligations. Subject to the provisions of the Master Indenture which require or permit the issuance of Obligations which by their terms have a subordinate lien on the Trust Estate, all Obligations issued under the Master Indenture shall be ratably secured under the Master Indenture and payable solely from the Trust Estate. The principal of and interest on the Obligations issued under the Master Indenture are secured by an assignment and pledge of the Trust Estate out of which the same are payable and are further secured by the lien of the Master Indenture. Without limiting the foregoing, Notes may be issued under the Master Indenture to secure Interest Rate Swap Obligations or obligations under a Hedge Agreement.

Cross-Guaranties

Each Obligated Issuer, jointly and severally, unconditionally guarantees to the Holders of the Obligations and to the Master Trustee the due and punctual payment of the principal of and interest on the Obligations and all other amounts due and payable under the Master Indenture and the Obligations when and as the same shall become due and payable, whether at the stated maturity or by declaration of acceleration, call for redemption or otherwise, according to the terms of the Obligations. The parties to the Master Indenture intend that in no event shall any Obligated Issuer's obligations under its Cross Guaranty constitute or result in a violation of any applicable fraudulent conveyance or similar law of any relevant jurisdiction. In the event that any Cross Guaranty would, but for this sentence, constitute or result in such a violation, then the liability of an Obligated Issuer under such Cross Guaranty shall be reduced to the maximum amount permissible under the applicable fraudulent conveyance or similar law. Subject to the preceding limitation on liability, such Cross Guaranty constitutes a guarantee of payment in full when due and not merely a guarantee of collectibility.

Except as provided below, the obligations of each Obligated Issuer under the Master Indenture shall be as aforesaid absolute and unconditional, and shall not be impaired, modified, released or limited by any occurrence or condition whatsoever, including, without limitation, (i) any compromise, settlement, release, waiver, renewal, extension, indulgence or modification of, or any change in, any of the obligations and liabilities of any Obligated Issuer contained in the Obligations or the Master Indenture, (ii) any impairment, modification, release or limitation of the liability of any other Obligated Issuer or its estate, in bankruptcy, or any remedy or the enforcement thereof, resulting from the operation of any present or future provision of any applicable Bankruptcy Law, as amended, or other statute or from the decision of any court, (iii) the assertion or exercise by any Obligated Issuer or the Master Trustee of any rights or remedies under any of the Obligations or the Master Indenture or their delay in or failure to assert or exercise any such rights or remedies, (iv) the assignment or the purported assignment of any Property as security for any of the Obligations, including all or any part of the rights of the Obligated Issuers under the Master Indenture, (v) the extension of the time for payment by any Obligated Issuer of any payments or other sums or any part thereof owing or payable under any of the terms and provisions of any of the Obligations or the Master Indenture or of the time for performance by any Obligated Issuer of any other obligations under or arising out of any such terms and provisions or the extension or the renewal of any thereof, (vi) the modification or amendment (whether material or otherwise) of any duty, agreement or obligation of any Obligated Issuer set forth in the Master Indenture, (vii) the voluntary or involuntary liquidation, dissolution, sale or other disposition of all or substantially all of the assets, marshalling of assets and liabilities, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition or readjustment of, or other similar proceeding affecting any Obligated Issuer or any of their respective assets, or the disaffirmance of any Obligated Issuer's Cross Guaranty or the Obligations or the Master Indenture in any such proceeding, (viii) the release or discharge of any Obligated Issuer from the performance or observance of any agreement, covenant, term or condition contained in any of such instruments by operation of law, (ix) the unenforceability of any of the Obligations or the Master Indenture or any Obligated Issuer's Cross Guaranty or (x) any other circumstance which might otherwise constitute a legal or equitable discharge of a surety or guarantor.

Each Obligated Issuer (i) waives diligence, presentment, demand of payment, filing of claims with a court in the event of the merger, insolvency or bankruptcy of any other Obligated Issuer, any right to require a proceeding first against any other Obligated Issuer or to realize on any collateral, protest or notice with respect to the Obligations and all demands whatsoever, (ii) acknowledges that any agreement, instrument or document evidencing the Obligations may be transferred and that the benefit of its obligations hereunder shall extend to each holder of any agreement, instrument or document evidencing the Obligations without notice to them, and (iii) covenants that its Cross Guaranty will not be discharged except as discussed below, or by complete performance of the Obligations or its Cross Guaranty. Each Obligated Issuer further agrees that if at any time all or any part of any payment theretofore applied by any person to any Obligation is, or must be, rescinded or returned for any reason whatsoever, including, without limitation, the insolvency, bankruptcy or reorganization of any Obligated Issuer, such Obligation shall for the purposes of any Obligated Issuer's Cross Guaranty to the extent that such payment is or must be rescinded or returned, be deemed to have continued in existence notwithstanding such application, and such Obligated Issuer's Cross Guaranty shall continue to be effective or be reinstated, as the case may be, as to such Obligations as though such application had not been made.

Each Obligated Issuer shall be subrogated to all rights of the Holders of the Obligations and the Master Trustee against the other Obligated Issuers in respect of any amounts paid by said Obligated Issuer pursuant to the provisions of the Master Indenture; provided, however, that no Obligated Issuer shall be entitled to enforce or to receive any payments arising out of, or based upon, such right of subrogation until all Obligations shall have been paid in full or discharged.

If any Person which shall have been an Obligated Issuer shall cease to be an Obligated Issuer, thereupon, without any further act, such Person shall cease to be a “Cross Guarantor” under the Master Indenture, and its obligations hereunder as “Cross Guarantor” shall be terminated and released; provided, however, that the foregoing provision of this paragraph (e) shall be inapplicable (i) if such Person shall cease to be an Obligated Issuer as a result of a transaction which is prohibited by the terms of the Master Indenture or (ii) if, at the time that such Person would otherwise have been released under this paragraph (e), there shall have occurred and be continuing a default in the payment of principal or interest on any Obligation or any other default hereunder (in which event this clause (ii) shall cease to apply to such Person at such time as such default shall be cured).

In the event that any Obligated Issuer shall make (or be called upon to make) a payment under its Cross Guaranty (such Obligated Issuer being referred to herein as the “Funding Party”), each of the other Obligated Issuers (each, a “Contributor”) shall contribute to the Funding Party such Contributor’s pro rata share of the amount of such payment. For this purpose, each Contributor’s “pro rata share” with respect to a payment means the ratio of (i) such Contributor’s Maximum Guaranty Liability as of such date (without giving effect to such Contributor’s right to receive or obligation to make any contribution hereunder) to (ii) the aggregate Maximum Guaranty Liability of all Obligated Issuers (without giving effect to any Obligated Issuer’s right to receive or obligation to make any contribution hereunder), determined as of the date such payment is made (or to be made). The failure of a Contributor to discharge its obligations shall not affect the obligations of any Obligated Issuer under its Cross Guaranty. These obligations shall be unaffected by any of the events described above or any comparable events pertaining to the Funding Party, its Cross Guaranty, or the undertakings in this paragraph.

Gross Revenues as Security; Establishment of Funds and Investment of Fund Money

To secure the prompt payment of the principal of, premium, if any, and interest on the Obligations, the payment of all amounts due on the Interest Rate Swap Obligations and a Hedge Agreement, and the performance by the Obligated Group of its other obligations under the Master Indenture, the Obligated Group Agent is causing to be created and established a special trust fund (the “Revenue Fund”), into which fund the Gross Revenues shall be deposited and held in trust by one or more Depositories designated from time to time by the Obligated Group Agent. The Obligated Group Agent shall cause each banking institution to enter into a written depository agreement, which shall be satisfactory in form and substance to the Master Trustee, pursuant to which each such banking institution shall agree to hold any and all Gross Revenues from time to time on deposit with such banking institution as assets of a trust for the Holders of the Obligations and to transfer such Gross Revenues to the Master Trustee upon receipt from the Master Trustee of a notice stating that delivery of such Gross Revenues is required pursuant to the Master Indenture. Prior to its receipt of a request from the Master Trustee made pursuant to the Master Indenture, any Obligated Group member may transfer or expend all or any part of its Gross Revenues free of any security interest, subject, however, to the provisions of the Master Indenture. Deposits of Gross Revenues shall be made into the Revenue Fund on a daily basis, insofar as practicable, for the benefit of the Master Trustee and the Holders of the Obligations. Upon the request of the Obligated Group Agent, the Master Trustee will provide to such agent a written certification as to whether there is currently outstanding a request from the Master Trustee pursuant to the Master Indenture.

The Obligated Group Agent shall also execute and deliver to the Master Trustee from time to time such amendments or supplements to the Master Indenture as may be necessary or appropriate to include as security hereunder the Gross Revenues.

Each Obligated Issuer agrees that (except as may be otherwise provided in the Master Indenture) it will not pledge or grant a security interest in any of the Gross Revenues.

Each Obligated Issuer agrees that, if an Event of Default shall have occurred under the Master Indenture and be continuing, it will, upon request of the Master Trustee, deliver or direct to be delivered to the Master Trustee

all Gross Revenues until such Event of Default has been cured, such Gross Revenues to be applied in accordance with the applicable provisions of the Master Indenture.

The Master Trustee shall establish and maintain a revenue or similar debt service fund under the Master Indenture for the purpose of accumulating and paying amounts due on Outstanding Obligations (i) if the applicable Supplemental Indenture specifically provides for the making of deposits directly with the Master Trustee in respect of an Obligation, or (ii) upon the occurrence of an Event of Default described in the Master Indenture and the exercise of any remedies by the Master Trustee for the benefit of all Holders of Outstanding Obligations; provided, however, if neither (i) nor (ii) are at the time applicable, the Obligated Group Agent may deposit the Gross Revenues with a Depository or Depositories (other than the Master Trustee) and such revenues shall, upon the request and direction of the Obligated Group Agent, be invested in Investment Securities. In the case of (i) above, deposits to any such fund and payments therefrom shall be made in accordance with the applicable provisions of the Master Indenture. All money held at any time in any fund established hereunder in the case of (i) above, shall, upon written request and direction of the Obligated Group Agent, be invested in Investment Securities and any money realized by the Master Trustee in the case of (ii) above, shall be invested by the Master Trustee, without need of any further authorization or direction, only in Government Obligations having maturities not in excess of 90 days, unless the Master Trustee is otherwise directed by Holders in the manner provided in the Master Indenture. The Master Trustee shall not be liable or responsible for any loss resulting from any such investment.

The Master Trustee agrees and understands that any and all deposits held in any funds created pursuant to the Master Indenture and any Supplemental Indenture shall be held for the beneficial ownership of the Holders of Obligations issued under the Master Indenture and shall not be subject to claim by the Obligated Group in the event of bankruptcy.

Conditions to Issuance of Obligations

Simultaneously with or prior to the execution, authentication and delivery of Obligations pursuant to the Master Indenture:

(a) all requirements and conditions to the issuance of such Obligations, if any, set forth in the Master Indenture and in the Supplemental Indenture shall have been complied with and satisfied, as evidenced by an opinion of Counsel to the Obligated Group Agent or applicable Obligated Issuer to that effect delivered to the Master Trustee;

(b) the applicable Obligated Issuer or the Obligated Group Agent shall have delivered to the Master Trustee such opinions, certificates, proceedings, instruments and other documents as the Master Trustee or the Related Bond Issuer, if any, may reasonably request;

(c) the requirements of the Master Indenture with respect to the incurrence of Additional Indebtedness shall have been satisfied if such Obligations constitute Indebtedness; provided, however, that such requirements shall be deemed to have been satisfied with respect to the Initial Obligations;

(d) each Supplemental Indenture shall specify the purpose or purposes for which such Obligations are being issued, which may be any purpose within the corporate power of the applicable Obligated Issuer; and

(e) the Obligated Group Agent shall have delivered to the Master Trustee an opinion of Counsel to the Obligated Group Agent or the applicable Obligated Issuer to the effect that registration of such Obligations under the Securities Act of 1933, as amended, and qualification of the Master Indenture or the Supplemental Indenture under the Trust Indenture Act of 1939, as amended, are not required, or, if such registration or qualification is required, that the members of the Obligated Group have complied with all applicable provisions of such Acts.

Membership in and Withdrawal From the Obligated Group

Conditions for Membership

The Master Indenture permits Persons to become Obligated Issuers upon the satisfaction of certain conditions. The conditions include, but are not limited to, the following:

(a) such Person shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Obligated Group Agent, containing (i) the agreement of such Person to become an Obligated Issuer under the Master Indenture and thereby to become subject to compliance with all provisions of the Master Indenture pertaining to an Obligated Issuer, including the performance and observance of all covenants and obligations of an Obligated Issuer hereunder; (ii) the agreement of such Person to consult with each other member of the Obligated Group prior to incurring any Obligations; and (iii) such other restrictions on the ability of such Person to incur Obligations as shall be imposed by the Obligated Group;

(b) the Master Trustee shall have received an Officer's Certificate from the Obligated Group Agent to the effect that the Obligated Group Agent consents to such Person becoming an Obligated Issuer;

(c) the Master Trustee shall have received an opinion of Counsel to such proposed Obligated Issuer to the effect that (i) the conditions contained herein relating to such Person's membership in the Obligated Group have been satisfied; (ii) under then existing law, such Person becoming an Obligated Issuer will not subject any Obligation to the registration provisions of the Securities Act of 1933, as amended, or that any such Obligation has been so registered if registration is required or the qualification of the Master Indenture pursuant to the Trust Indenture Act of 1939, as amended, or that the Master Indenture has been so qualified if qualification is required; and (iii) that the instrument described in subparagraph (a) above has been duly authorized, executed and delivered by such Person and constitutes a legal, valid and binding agreement of such Person, enforceable in accordance with its terms, subject only to and limited by the then existing law relating to bankruptcy and insolvency and other standard and customary legal exceptions;

(d) if all amounts due or to become due on any Outstanding Related Bond which bears interest that is not includable in gross income for federal income tax purposes under the Code has not been paid to the Holder thereof (or provision for such payment has not been made in such manner as to have resulted in the defeasance of the Related Financing Documents), the Master Trustee shall have received an Opinion of Bond Counsel to the effect that under then existing law such Person becoming an Obligated Issuer would not, by itself, cause the interest payable on such Related Bond to become includable in gross income for federal income tax purposes under the Code; and

(e) there is delivered to the Master Trustee (i) an Officer's Certificate of the Obligated Group Agent to the effect that no Event of Default then exists hereunder, nor to such officer's knowledge, does there then exist any event which, with the passage of time or giving of notice or both, would become an Event of Default hereunder, and (ii) either (1) an Officer's Certificate of the Obligated Group Agent to the effect that if one dollar of Additional Indebtedness were incurred immediately following such Person's admission, the Combined Group would meet the test providing for the incurrence of Long-Term Indebtedness pursuant to the relevant provisions of the Master Indenture (assuming, for purposes of such certificate that the Income Available for Debt Service and Indebtedness of such Person were Income Available for Debt Service and Indebtedness of an Obligated Issuer), or (2) an Officer's Certificate of the Obligated Group Agent to the effect that such Person becoming a member of the Obligated Group will cure any Event of Default then in existence hereunder, or (3) a Consultants report to the effect that by reason of such membership, the Projected Debt Service Coverage Ratio for each of the two Fiscal Years following such entry into the Obligated Group will be greater than the Projected Debt Service Coverage Ratio for such Fiscal Years had such entry into the Obligated Group not occurred; and

(f) there is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Agent to the effect that the addition of such Obligated Issuer to the Obligated Group will not result in the fund balance of the Combined Group immediately after such addition being less than 80% of the fund balance of the Combined Group immediately prior to such addition.

Notwithstanding the foregoing, and without regard to the requirements set forth in subparagraphs (a) through (f) above, the Obligated Group Agent may add additional Persons to the Obligated Group and subject to the provisions herein relating to withdrawal from the Obligated Group described below may release one or more members of the Obligated Group as a part of a reorganization in which the Authority leases or otherwise transfers all or substantially all of the assets and operations of the Authority to a Person or a group of Persons some or all of which are described in section 501(c)(3) of the Code, and such Person or Persons possess immediately following such reorganization a leasehold or ownership interest in all or substantially all of the assets and operations of the Authority as they existed immediately prior to such reorganization; provided that the following conditions are met as a part of such reorganization:

(a) the Person or Persons to whom the Authority leases or otherwise transfers all or substantially all of the assets and operations of the Authority in such reorganization must become a member of members of the Obligated Group, and each such Person or Persons shall execute and deliver to the Master Trustee an appropriate instrument or instruments, satisfactory to the Master Trustee, containing the agreement of such Person or Persons to become an Obligated Issuer under the Master Indenture and thereby become subject to compliance with all provisions of the Master Indenture pertaining to an Obligated Issuer, including the performance and observation of all covenants and obligations of an Obligated Issuer hereunder;

(b) the Authority must provide the Master Trustee with an Officer's Certificate to the effect that there is no existing event of default under the Master Indenture immediately prior to such reorganization, nor to such officer's knowledge, does there then exist any event which, with the passage of time or giving of notice or both, would become an Event of Default hereunder;

(c) the Authority shall provide to the Master Trustee a copy of the executed lease and transfer agreement with each Person becoming a member of the Obligated Group, or other document evidencing a transfer of ownership interest, between the Authority and such Person or Persons;

(d) each Person becoming a member of the Obligated Group must deliver to the Master Trustee a copy of such Person's (i) articles of incorporation, (ii) by-laws and (iii) resolutions authorizing such Person to become a member of the Obligated Group;

(e) each Person becoming a member of the Obligated Group must deliver to the Master Trustee a depository agreement relating to its obligation to transfer such Person's Gross Revenues to the Master Trustee upon an Event of Default;

(f) the Master Trustee shall be provided an opinion of Counsel to such Person or Persons becoming members of the Obligated Group to the effect that (i) the conditions contained herein relating to such Person's or Persons' membership in the Obligated Group have been satisfied; (ii) that each such Person has been organized and is validly existing and has the power and authority to enter into the documents under which such lease or transfer occurs and under which it agrees to become a member of the Obligated Group, (iii) that the execution and delivery of the documents referred to in clause (ii) have been duly authorized, and that such documents have been executed and delivered, and (iv) that such documents and the Master Indenture constitute the legal, valid and binding agreement or agreements of such Person or Persons, enforceable in accordance with their terms, subject to and limited by standard and customary exceptions for such opinions; and

(g) the term of any lease agreement between the Authority and each Person becoming a member of the Obligated Group pursuant to such reorganization must extend at least through the final maturity of the Series 2007 Certificates.

Withdrawal from the Obligated Group

No Obligated Issuer may withdraw from the Obligated Group unless:

(a) If the Obligated Issuer is other than the Obligated Group Agent, the Obligated Group Agent consents to the withdrawal;

(b) If all amounts due on any Outstanding Related Bond which bears interest that is not includable in gross income under the Code have not been paid to the holder thereof (or provision for such payments has not been made in such manner as to have resulted in the defeasance of the Related Financing Documents), the Master Trustee shall have received an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law such issuer's withdrawal from the Obligated Group would not, by itself, cause the interest payable on such Related Bond to become includable in gross income for federal income tax purposes under the Code; (iii) The Master Trustee shall have received either (1) an Officer's Certificate from the Obligated Group Agent to the effect that either (A) after giving effect to such withdrawal, if one dollar of Additional Indebtedness were incurred, the Obligated Group would meet the test providing for the incurrence of Long-Term Indebtedness pursuant to Section 4.2(a)(i) or (ii) hereof, or (B) such Person's withdrawal from the Obligated Group will cure any Event of Default then in existence hereunder, or (2) a report of a Consultant to the effect that either (x)(A) by reason of such withdrawal, the Projected Debt Service Coverage Ratio for each of the two Fiscal Years immediately following withdrawal of such Obligated Issuer from the Obligated Group will be greater than the Projected Debt Service Coverage Ratio for such Fiscal Year had such withdrawal not occurred, and (B) the Projected Debt Service Coverage Ratio for such two Fiscal Years is not expected to be less than 75% of what it would have been had such withdrawal not taken place, or (y) the Historical Debt Service Coverage Ratio for the most recent Fiscal Year for which consolidated or combined financial statements reported upon by an independent certified public accountant are available would not, if such withdrawal had occurred at the beginning of such period, be reduced to less than 1.50;

(c) The Master Trustee shall have received an Officer's Certificate from the Obligated Group Agent to the effect that, immediately after the withdrawal of such Person from the Obligated Group, no Event of Default would then exist hereunder, nor to such officer's knowledge, would there then exist any event which, with the passage of time or giving of notice or both, would become an Event of Default; and

(d) The Obligated Group Agent shall have received an opinion of Counsel to such Person to the effect that following such Person's withdrawal from the Obligated Group no member of the Obligated Group will have any liability for the payment of any indebtedness of such Person; and

(e) The Master Trustee shall have received an Officer's Certificate of the Obligated Group Agent to the effect that the withdrawal of such Obligated Issuer to the Obligated Group will not result in the fund balance of the Combined Group immediately after such withdrawal being less than 80% of the fund balance of the Combined Group immediately prior to such withdrawal.

Notwithstanding the foregoing, and without regard to the requirements set forth in subparagraph (b) above, upon any reorganization of the Authority described in the Master Indenture such that the Authority leases or otherwise transfers all or substantially all of the assets and operations of the Authority to a Person or Persons becoming members of the Obligated Group, then upon such Person or Persons becoming members of the Obligated Group, the Authority may withdraw from the Obligated Group upon notice to the Master Trustee. The Master Trustee is authorized and directed to execute any and all instruments or certificates reasonably requested by the Authority to accomplish or evidence such withdrawal.

Upon compliance with the above conditions, the Master Trustee shall execute any documents reasonably requested by the withdrawing Obligated Issuer to evidence the termination of such Issuer's obligations under the Master Indenture, under any Supplemental Indenture and under all Obligations.

Limitations on Incurrence of Additional Indebtedness

Short Term Indebtedness

Each Obligated Issuer has agreed that it will not incur any Additional Indebtedness constituting Short-Term Indebtedness unless immediately after the incurrence of such Short-Term Indebtedness,

(a) (i) the principal amount of all Short-Term Indebtedness of the Combined Group then Outstanding does not exceed 20% of the Total Net Operating Revenues for the most recent Fiscal Year for which Audited Financial Statements are available, or

(ii) any such Short-Term Indebtedness could be incurred under the tests set forth in the relevant provisions of the Master Indenture treating such Short-Term Indebtedness as Long-Term Indebtedness, and

(b) For a period of not fewer than 10 consecutive days within each Fiscal Year, the Combined Group shall reduce the aggregate principal amount of all Outstanding Short-Term Indebtedness described in (a)(i) above to an amount not in excess of 5% of the Total Net Operating Revenues.

Long-Term Indebtedness

Each Obligated Issuer shall be permitted to incur Long-Term Indebtedness provided such Long-Term Indebtedness consists of one or more of the following:

(a) Long-Term Indebtedness of any member of the Combined Group, if prior to the incurrence thereof, there is delivered to the Master Trustee:

(i) an Officer's Certificate of the Obligated Group Agent certifying that the Historical Pro Forma Debt Service Coverage Ratio for the two most recent Fiscal Years preceding the delivery of such Officer's Certificate for which Audited Financial Statements are available, was not less than 1.25; or

(ii) (A) an Officer's Certificate of the Obligated Group Agent certifying that the Historical Debt Service Coverage Ratio for the two most recent Fiscal Years preceding the delivery of such Officer's Certificate for which Audited Financial Statements are available, was not less than 1.15, and (B) a Consultant's report (or, in lieu thereof, an Officer's Certificate of the Obligated Group Agent if the Projected Debt Service Coverage Ratio described in this subsection (B) is 1.75 or greater) to the effect that the Projected Debt Service Coverage Ratio, taking the proposed Additional Indebtedness into account, (x) in the case of Additional Indebtedness (other than a Guaranty) to finance capital improvements, for each of the two Fiscal Years succeeding the date on which such capital improvements are expected to be in operation, or (y) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, for each of the two Fiscal Years succeeding the date on which the Indebtedness or Guaranty is incurred, is not less than 1.30.

The requirements of (a)(ii)(A) and (B) above will be deemed satisfied if (i) a Consultant's report filed with the Master Trustee states that applicable laws or regulations have prevented or will prevent the achievement of such debt service coverage ratios, and (ii) the Combined Group has generated Total Income Available for Debt Service in an amount which, in the opinion of such Consultant, the Combined Group could reasonably have generated given such laws and regulations during the period affected thereby.

(b) Completion Indebtedness of any member of the Combined Group without limit if there is delivered to the Master Trustee: (i) an Officer's Certificate of the applicable member of the Combined Group stating that at the time the original Long-Term Indebtedness for the property to be completed was incurred, such Combined Group member had reason to believe that the proceeds of such Long-Term Indebtedness, together with other moneys then expected to be available, would provide sufficient moneys for the completion of such property; (ii) a statement of an Architect or an expert setting forth the amount estimated to be needed to complete the property; and (iii) an Officer's Certificate of such member of the Combined Group, stating that the proceeds of such Completion Indebtedness to be applied to the completion of the property, together with a reasonable estimate of investment income to be earned on such proceeds and the amount of moneys, if any, committed to such completion by such Combined Group member or through enumerated bank loans (including letters or lines of credit) or through federal or state grants, will be in an amount not less than the amount set forth in the statement of an Architect or other expert referred to in (ii).

(c) Commitment Indebtedness of any member of the Combined Group or any Guaranty of any Commitment Indebtedness of any member of the Obligated Group without limit.

(d) Long-Term Indebtedness of any member of the Combined Group incurred for the purpose of refunding, repurchasing (other than as Commitment Indebtedness) or refinancing (whether in advance or otherwise) any Outstanding Long-Term Indebtedness.

(e) The conversion without limit of Long-Term Indebtedness of any member of the Combined Group that is convertible from one interest or payment mode to another interest or payment mode (e.g., weekly to monthly or to a fixed rate) from one mode to another pursuant to the terms of the documentation authorizing such Long-Term Indebtedness.

(f) Subordinated Indebtedness without limit of any member of the Combined Group or Non-Recourse Indebtedness without limit of any member of the Combined Group.

(g) Indebtedness incurred in connection with a sale of accounts receivable with recourse by any member of the Combined Group consisting of an obligation to repurchase all or a portion of such accounts receivable upon certain conditions, provided that the principal amount of such Indebtedness permitted hereby shall not exceed 50% of the aggregate value of such accounts receivable based upon the values shown in the most recent Audited Financial Statements.

(h) Long-Term Indebtedness of any member of the Combined Group (including capitalized lease obligations), the principal amount of which at the time incurred, does not exceed 25% of the Total Net Operating Revenues for the most recent Fiscal Year for which Audited Financial Statements are available.

Notwithstanding anything in the Master Indenture to the contrary, the aggregate outstanding amount of (i) Long-Term Indebtedness incurred pursuant to Section (h) above, and (ii) Short-Term Indebtedness (other than Short-Term Indebtedness described in Section (a)(ii)) shall not exceed 25% of the Total Net Operating Revenues for the most recent Fiscal Year for which Audited Financial Statements are available.

Guaranties; Limited Obligors

(a) Each Obligated Issuer agrees that it will not enter into, or become liable in respect of any Guaranty dated after the date of the Master Indenture unless (i) such Guaranty is Indebtedness of another member of the Obligated Group or (ii) the principal amount of the indebtedness being guaranteed could then be incurred as Long-Term Indebtedness under the Master Indenture, taking into account the assumptions as to calculating the aggregate annual principal and interest payments on, and the principal amount of, the indebtedness being guaranteed, contained in subsection (b) below.

(b) In the case of Guaranties of indebtedness that would, if such indebtedness were incurred by a member of the Combined Group, constitute Long-Term Indebtedness, the aggregate annual principal and interest payments on, and the principal amount of, the Guaranty shall be deemed to be equal to 20% of the principal and interest payments which would be payable on the indebtedness being guaranteed as if such indebtedness were Long-Term Indebtedness of the Guarantor. If at any time the Guaranty becomes due and payable, the aggregate annual principal and interest payments on, and the principal amount of, the Guaranty shall, for purposes of this subsection (b), be deemed to equal 100% of the principal and interest payable on, and the principal amount of, the indebtedness being guaranteed for the Fiscal Year in which payment is made and for the next succeeding Fiscal Year.

(c) Any Person will become a Limited Obligor upon delivery to the Master Trustee of the following:

(i) an Officer's Certificate from the Obligated Group Agent to the effect that the Obligated Group Agent consents to such Person becoming a Limited Obligor;

(ii) an opinion of Counsel to the effect that the Pledged Note (1) has been duly authorized, executed and delivered by the Limited Obligor and (2) constitutes the legal, valid and binding obligation of the Limited Obligor, enforceable in accordance with its terms, subject only to and limited by the then existing law relating to bankruptcy and insolvency and other customary and standard legal exceptions, and an opinion of Counsel to the applicable Obligated Issuer to the effect that the Pledged Note has been validly assigned by the applicable Obligated Issuer to the Master Trustee; and

(iii) the duly executed Pledged Note made by such Person.

(d) Any Person shall be released from its obligations and status as a Limited Obligor only upon the following conditions:

(i) the Master Trustee shall have received an Officer's Certificate from the Obligated Group Agent consenting to the release of such Person from its status as a Limited Obligor and certifying that immediately after the release of such Person, no Event of Default would then exist hereunder, nor to such officer's knowledge, would there then exist any event which, with the passage of time or giving of notice or both, would or might become an Event of Default; and

(ii) the Master Trustee shall have received an Officer's Certificate from the Obligated Group Agent to the effect that either (i) after giving effect to such release, if one dollar of Additional Indebtedness were incurred, the Combined Group would meet the test providing for the incurrence of Long-Term Indebtedness pursuant to the Master Indenture, or (ii) by reason of such release, the Projected Debt Service Coverage Ratio for each of the two Fiscal Years immediately following such release will be greater than the Projected Debt Service Coverage Ratio for such Fiscal Years had such release not occurred, or (3) such Person has become a member of the Combined Group.

Upon compliance with the conditions contained in subparagraph (i) and (ii) above, the Master Trustee shall surrender the Pledged Note to the released Person, duly marked "cancelled" and shall execute such other documents reasonably requested by such Person to evidence the termination of such Person's status as a Limited Obligor.

Debt Service on Balloon Indebtedness and Variable Rate Indebtedness

For purposes of the covenants and computations required or permitted pursuant to the Master Indenture, it shall be assumed, at the discretion of the Obligated Group Agent, that (i) the interest rate on Variable Rate Indebtedness is equal to the greater of (x) the current Bond Index or (y) the average of the Bond Index for the 12 calendar months next preceding the date of determination and (ii) the principal of Balloon Indebtedness is amortized

(a) in the case of Balloon Indebtedness (A) containing no stated maturity date or (B) having a stated maturity date with a provision for the automatic extension thereof unless written notice of nonextension is given to the applicable Obligated Issuer prior to the stated maturity date thereof (after taking into account any previous extensions thereof), from the date of calculation thereof over a term of 30 years with level annual debt service payments at an assumed interest rate equal to the Bond Index; or

(b) in the case of Balloon Indebtedness having a stated maturity date and a sinking fund providing for the payment thereof, during the term to the maturity thereof by deposits made to a sinking fund therefor pursuant to the terms of such Balloon Indebtedness or in accordance with a sinking fund schedule established by resolution of the Governing Body of the applicable Obligated Issuer adopted at or subsequent to the time of incurrence of such Balloon Indebtedness, as certified in an Officer's Certificate, provided that, at the time of such calculation, all deposits required to have been made prior to such date shall have been made; or

(c) in the case of Balloon Indebtedness having a stated maturity date and no provision for the automatic extension thereof as described in subsection (a) above, the principal of Balloon Indebtedness is due and payable on the specified due date or due dates thereof; or

(d) with respect to Balloon Indebtedness for which there exists a Credit Facility, the principal of such Balloon Indebtedness is due and payable in the amounts and at the times specified in the Credit Facility, determined with regard to the relevant provisions of the Master Indenture.

Insurance

Required Insurance Coverage

Each Obligated Issuer agrees that, except as provided otherwise in the Master Indenture, it will maintain, or cause to be maintained insurance covering such risks and in such amount as, in its reasonable judgment, is adequate to protect it and its Property and operations, including (to the extent that such Obligated Issuer is a health care institution) professional liability or medical malpractice insurance. The Obligated Group Agent shall retain an Insurance Consultant once every two years, commencing with Fiscal Year ending February 28, 2009 who shall prepare and file with the Master Trustee (as soon as practicable but in no event later than five months after the end of such Fiscal Year) a report on the adequacy of such insurance. Each Obligated Issuer, respectively, agrees that it will follow any recommendations of the Insurance Consultant to the extent feasible in the opinion of the Obligated Group Agent.

Self-Insurance

In lieu of maintaining the insurance policies required by the Master Indenture, the Combined Group or any member thereof may self-insure any of the required coverages (or a portion thereof) other than coverages with respect to property, plant and equipment provided the Master Trustee receives (as soon as practicable but in no event later than five months after the end of each Fiscal Year) a report of an Insurance Consultant to the effect that such self-insurance is consistent with proper management and insurance practices. With respect to property, plant and equipment coverages, the Combined Group, or any member thereof, may maintain deductibles with respect to the coverages required in an amount not greater than the greater of (i) \$5,000,000 or (ii) 5% of the value of the property, plant and equipment insured. If any member of the Combined Group elects to self-insure in lieu of maintaining medical liability and malpractice insurance, a report of an Insurance Consultant shall be filed with the Master Trustee annually stating that such Insurance Consultant has reviewed the self-insurance program and that the self-insured Combined Group member has available the estimated amount required for the payment of claims and associated claims expenses with respect to such Fiscal Year.

Recovery of Insurance Proceeds

In the event of damage to or destruction of all or any part of the Property of the Combined Group with a Value in excess of 5% of the Value of all Property of the Combined Group, the affected Combined Group member or the Obligated Group Agent shall exercise its best efforts to recover any applicable insurance and cause such proceeds to be paid to the Obligated Group Agent. From such proceeds, the Obligated Group Agent shall provide for the payment or reimbursement of reasonable expenses of obtaining the recovery. The Obligated Group Agent shall then give notice to the Master Trustee of such expenses and of the amount of the remaining proceeds (herein called the "Net Proceeds").

Use of Net Proceeds

Subject to the provisions of any Related Financing Document pertaining to a Permitted Lien, the affected Combined Group member shall apply the Net Proceeds for any lawful corporate purpose as such Combined Group member determines, if the Obligated Group Agent shall first have delivered to the Master Trustee an Officer's Certificate stating that the Projected Debt Service Coverage Ratio for each of the next two full succeeding Fiscal Years immediately following the date of such certificate(s), taking into account such damage or destruction and the proposed use of the Net Proceeds is at least 1.25. If the Obligated Group Agent is unable to deliver the foregoing Officer's Certificate, the affected Combined Group member shall apply the Net Proceeds, or so much thereof as may be needed, to the repair, replacement, restoration or reconstruction of the affected Property or, at the option of the applicable Combined Group member, to any other capital project of equivalent value and utility, to the acquisition of any property or to the repayment in whole or in part of any Outstanding Obligations in such order of maturity or maturities or proportions as the Obligated Group Agent shall determine.

Balance of Net Proceeds

Any Net Proceeds remaining after compliance by the affected Combined Group member and the Obligated Group Agent with Section 5.4 shall be transferred by the Obligated Group Agent to the Master Trustee and applied to the redemption or defeasance of the Outstanding Obligations in such order of maturity or maturities or proportions as the Obligated Group Agent shall determine.

Eminent Domain

In the event of a taking by eminent domain of all or any part of the Property of the Combined Group with a Value in excess of 5% of the Value of all Property of the Combined Group, the affected Combined Group member or the Obligated Group Agent shall exercise its best efforts to recover any applicable proceeds and cause such proceeds to be paid to the Obligated Group Agent. The Obligated Group Agent shall make appropriate deductions from such proceeds as in the case of insurance proceeds and shall give notice to the Master Trustee of such deductions and of the amount of the remaining proceeds (also, "Net Proceeds"). The Net Proceeds shall be applied in the same manner as insurance proceeds are applied pursuant to the preceding paragraphs.

General Covenants of Each Obligated Issuer

Covenants as to Corporate Existence, Maintenance of Properties, Etc.

Each Obligated Issuer has covenanted to comply with the following covenants:

(a) Except as otherwise expressly provided in the Master Indenture, to preserve its corporate or other separate legal existence and to be qualified to do business and conduct its affairs in each jurisdiction where its ownership of Property or the conduct of its business or affairs requires such qualification;

(b) At all times to cause its Facilities to be maintained, preserved and kept in good repair, working order and condition, ordinary wear and tear excepted, and all needful and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing contained in this subsection (b) shall be construed (i) to prevent it from ceasing to operate any portion of its Facilities, or (ii) to obligate it to retain, preserve, repair, renew or replace any Facilities, rights, privileges or licenses that are no longer used or, in the judgment of its Governing Body, useful in the conduct of its business;

(c) To do all things reasonably necessary to conduct its affairs and to carry on its business and operations in such manner as to comply with any and all applicable laws of the United States and the several states thereof and to duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Property; provided, nevertheless, that nothing herein contained shall require it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof or the applicability thereof to it shall be contested in good faith; provided, however, that it need not comply with this provision if and to the extent that its Governing Body shall have determined, as evidenced by an Officer's Certificate, that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its Indebtedness when due;

(d) To pay promptly all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Property; provided, however, that it shall have the right to contest in good faith any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof;

(e) To comply at all times with all material terms, covenants and provisions of any material Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness: provided, however, that it need not comply with this provision if and to the extent that its Governing Body shall have determined, as evidenced by an Officer's Certificate, that such compliance is not in its best interests and that lack of such compliance would not materially impair the pledge of Gross Revenues or its ability to pay its Indebtedness when due; and

(f) To procure and maintain all necessary and material licenses and permits and to maintain accreditation of its health care facilities and operations (other than those of a type for which accreditation is not available) by a recognized accrediting body, when and as available, and its status as a provider of health care services eligible for reimbursement under the Medicare, Medicaid, Blue Cross and comparable programs, including future governmental programs; provided,, however, that it need not comply with this provision if and to the extent that its Governing Body shall have determined, as evidenced by an Officer's Certificate, that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its Indebtedness when due.

Limitation on Creation of Liens

Each Obligated Issuer agrees that it will not create or suffer to be created or exist any Lien upon the Trust Estate or upon any Property, including, without limitation, all proceeds thereof, whether cash or non-cash, now owned or hereafter acquired by it, other than (i) Permitted Liens or (ii) liens on any Property if, at the time such lien or liens are incurred, an Obligated Issuer would be permitted to sell, lease or dispose of the Property to be subject to such lien under the relevant provisions of the Master Indenture.

Sale, Lease or Other Disposition of Property

Each Obligated Issuer has agreed that it will not sell, lease or otherwise dispose of any Property, except for sales, leases or other disposition of Property which qualify under one or more of the following:

- (a) to another member of the Obligated Group;
- (b) to any Person if prior to the sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Agent stating that, in the judgment of the officer executing such certificate, such Property has become, or within the next succeeding 12 calendar months is reasonably expected to become, inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease, removal or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property;
- (c) to any Person provided that prior to the sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Agent certifying that Property transferred pursuant to the Master Indenture in the then-current Fiscal Year by all Obligated Issuers does not exceed 10% of the Value of all Property as shown in the most recent available Audited Financial Statements;
- (d) to any Person provided that prior to the sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Agent, to the effect that immediately after the transfer in question either (1) if one dollar of Additional Indebtedness were incurred, the Combined Group would meet the test providing for the incurrence of Long-Term Indebtedness pursuant to the Master Indenture, or (2) such disposition will increase the Projected Debt Service Coverage Ratio in the Fiscal Year immediately following such disposition over what such ratio would have been in such Fiscal Year had such disposition not occurred;
- (e) as part of a merger, consolidation, sale or conveyance permitted by the Master Indenture (including any merger or consolidation with, or a sale or conveyance to another member of the Combined Group);
- (f) in the ordinary course of business;
- (g) to any Person in connection with an operating lease of Property to such Person;
- (h) to any Person in connection with establishing, creating or perfecting a lien which is a Permitted lien under the Master Indenture;
- (i) upon fair and reasonable terms no less favorable than would be obtained in a comparable arm's-length transaction; or

(j) to any Person if the transfer involves any Property received as restricted gifts, grants, bequests or other similar sums or the income thereon to the extent that such sums may not be pledged or applied to the payment of any Debt Service Requirement or operating expenses generally as a result of restrictions or designations imposed by the donor or maker of the gift, grant, bequest or other sums in question.

Consolidation, Merger, Sale or Conveyance

(a) Each Obligated Issuer covenants that it will not merge or consolidate with any other Person not a member of the Combined Group or sell or convey all or substantially all of its assets or all or substantially all of its Property to any Person not a member of the Combined Group unless:

(i) either it will be the surviving corporation, or the successor corporation (if other than an Obligated Issuer) shall be a Person organized and existing under the laws of the United States of America or a state thereof and such Person shall become an Obligated Issuer and expressly assume the due and punctual payment of the principal of and premium, if any, and interest on all Outstanding Obligations issued under the Master Indenture according to their tenor, and the due and punctual performance and observance of all the covenants and conditions of the Master Indenture by a Supplemental Indenture satisfactory to the Master Trustee, executed and delivered to the Master Trustee by such Person;

(ii) if all amounts due or to become due on any Outstanding Related Bonds which bear interest that is not includable in gross income for federal income tax purposes under the Code have not been fully paid to the holders thereof (or provision for such payment has not been made in such manner as will result in the defeasance of the Related Financing Documents), the Master Trustee shall have received an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then-existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on the date of the delivery of any such Related Bonds, would not, by itself, cause the interest payable on such Related Bonds to become includable in gross income for federal income tax purposes under the Code; and

(iii) there is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Agent to the effect that immediately following such transaction no Event of Default would then exist nor, to such officer's knowledge, would there exist any event which, with the passage of time or the giving of notice or both, would or might become an Event of Default hereunder.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation and in the case of a merger or consolidation by an Obligated Issuer with a member of the Combined Group or the sale or conveyance of all or substantially all of an Obligated Issuer's assets or Property to a member of the Combined Group, such successor corporation shall succeed to and be substituted for its predecessor hereunder.

(c) In case of any such consolidation, merger, sale or conveyance and in the case of a merger or consolidation by an Obligated Issuer with a member of the Combined Group or the sale or conveyance of all or substantially all of an Obligated Issuer's assets or Property to a member of the Combined Group, such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued as may be appropriate to reflect such consolidation, merger, sale or conveyance.

Rates and Charges

The Obligated Issuers agree that they will fix, charge and collect, or cause to be fixed, charged and collected, subject to applicable requirements or restrictions imposed by law, rates, fees and charges for the use of and for the services furnished or to be furnished by the Obligated Issuers which will be sufficient in each Fiscal Year (a) to produce Total Income Available for Debt Service equal to at least 110% of Maximum Annual Debt Service for such and any subsequent Fiscal Year, after deducting any interest to be paid from proceeds of any Indebtedness, and (b) together with any other moneys that shall be available to the Obligated Issuers, to enable the Obligated Issuers to discharge their obligations as they shall become due and payable for such and any subsequent Fiscal Year.

The Obligated Issuers further agree that, from time to time and as often as shall be necessary, they will revise, or cause to be revised, subject to applicable requirements or restrictions imposed by law upon the Institution and upon health care providers similar to the Institution, the rates, fees and charges as may be necessary or proper in order to comply with the requirements of the first paragraph of this Section. The Obligated Issuers further agree that if in any Fiscal Year the Total Income Available for Debt Service shall be less than the amount required by the first paragraph of this Section, they will immediately employ a Consultant to examine the rates, fees and charges of the Obligated Issuers and the methods of the operation of the Property and to make, within 90 days after being so retained, such recommendations as to rates, fees and charges as the Consultant believes are appropriate to enable the Obligated Issuers to produce the Total Income Available for Debt Service as are required by this Section. If in the judgment of the Consultant it is not possible for the Obligated Issuers to meet the requirement that the Total Income Available for Debt Service shall be at least equal to 110% of Maximum Annual Debt Service for such Fiscal Year and any subsequent Fiscal Year, the report of the Consultant shall so indicate and shall further indicate the projected ratio of Total Income Available for Debt Service to the Maximum Annual Debt Service anticipated if the recommendations of the Consultant are followed. The recommendations of the Consultant shall be filed with the Master Trustee.

The Obligated Issuers agree that promptly upon the receipt of such recommendations, subject to applicable requirements or restrictions imposed by law upon the Institution and upon health care providers similar to the Institution, they shall revise their rates, fees and charges as shall be in conformity with such recommendations. If the Obligated Issuers comply with the provisions of the second paragraph of this Section, they shall for the Fiscal Year in which such Consultant is employed and for the subsequent Fiscal Year, be excused from compliance with the requirements of the first paragraph of this Section with respect to the amount of Total Income Available for Debt Service, or if the report of the Consultant projects a ratio of Total Income Available for Debt Service to Maximum Annual Debt Service of less than 110% but at least 100%, they shall be excused from compliance with the requirements of the first paragraph of this Section that the Total Income Available for Debt Service be equal to at least 110% of Maximum Annual Debt Service for such Fiscal Year and any subsequent Fiscal Year so long as such ratios shall equal or exceed that which is projected; but this paragraph shall not be construed as in any way excusing the Obligated Issuers from taking any action or performing any duty required under any other Section or be construed as constituting a waiver of any other Event of Default or be construed as excusing the Obligated Issuers from so fixing their rates, fees and charges which together with any other moneys that shall be available to the Obligated Issuers shall be sufficient to enable the Obligated Issuers to discharge their obligations as they shall become due and payable.

The Obligated Issuers may permit the rendering of service by, or the use of, the Property free of charge or at discounted or reduced rates (except as and incident to prepayment programs) to the extent necessary for retaining their eligibility for grants, loans, subsidies or payments from the United States of America or any instrumentality thereof or from the State of Georgia or any instrumentality thereof, or in compliance with any recommendation for free or discounted services that may be made by a Consultant, or to such further extent as may be consistent with the public charitable purposes of the Obligated Issuers and shall not prevent the Obligated Issuers from complying with the terms and provisions of the Master Indenture.

Remedies of the Master Trustee and Holders in Event of Default

Events of Default

The following events are “Events of Default” under the Master Indenture:

(a) if any Obligated Issuer shall fail to make any payment of principal, redemption price or interest when due under the terms of any Obligation and such failure continues to exist upon the expiration of any applicable grace period; or

(b) if any Obligated Issuer shall fail to observe or perform any covenant or agreement contained in the Master Indenture or any Related Financing Documents for any Obligations (other than a failure to pay as specified in (a) above) for a period of 30 days after written notice of such failure, requiring the same to be remedied, shall have been given by the Master Trustee to each of the Obligated Issuers; provided, however, that if such observance

or performance requires work to be done, actions to be taken, or conditions to be remedied, which by their nature cannot reasonably be done, taken or remedied within such 30-day period, no Event of Default shall be deemed to have occurred or to exist if, and so long as, the defaulting Obligated Issuer shall commence such observance or performance within such 30-day period and shall diligently and continuously prosecute the same to completion; or

(c) if (1) any Obligated Issuer shall default in the payment of any Indebtedness (other than Obligations issued and Outstanding hereunder) the principal amount of which in the aggregate exceeds 5% of the Book Value of all Property as shown in the Audited Financial Statements for the most recent Fiscal Year for which such Audited Financial Statements are available, whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired, or (2) an event of default as defined in any Related Financing Documents under which any Indebtedness may be issued, secured or evidenced shall occur, which default in payment or event of default, in the case of either (1) or (2), shall result in such Indebtedness becoming or being declared due and payable prior to the date on which it would otherwise become due and payable; provided, however, that such default shall not constitute an Event of Default if within the time allowed for service of a responsive pleading in any proceeding to enforce payment of the Indebtedness under the laws governing such proceeding (A) the Obligated Issuers commence proceedings to contest the existence or payment of such Indebtedness, and (B) in the absence of such contest, neither the pledge and security interest in Gross Revenues created under the Master Indenture nor any Property of the Combined Group will be materially impaired or subject to material loss or forfeiture; or

(d) if a decree or order by a court having jurisdiction shall have been entered adjudging any Obligated Issuer as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization or arrangement of any Obligated Issuer under Title 11 of the United States Code, as amended from time to time, or any other similar applicable federal or state law, and such decree or order of a court having jurisdiction in the premises for the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of the Obligated Issuer or of its property, or for the winding-up or liquidation of its affairs, shall have been entered, and such decree or order shall have remained in force undischarged and unstayed for a period of 180 days;

(e) if any Obligated Issuer shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the institution of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or arrangement under Title 11 of the United States Code, as amended from time to time, or any other similar applicable federal or state law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of it or of its Property, or shall make assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or corporate action shall be taken by any Obligated Issuer in furtherance of any of the aforesaid purposes; or

The Master Trustee may, at any time that an Event of Default exists, (i) by prompt written notice to the Depository in which any funds in the Revenue Fund are deposited, direct that such funds be immediately transferred to the Master Trustee, and upon such receipt of such funds the same shall be held in trust by the Master Trustee and disposed of as provided in the Master Indenture, and (ii) by written notice to the Obligated Issuers direct that all subsequent, deposits into the Revenue Fund be made with the Master Trustee as the depository thereof as provided in the Master Indenture. During the continuance of an Event of Default, all moneys received by the Master Trustee under the Master Indenture from the Obligated Issuers or from any other source shall be applied by the Master Trustee as set forth in the Master Indenture.

Acceleration

(a) Upon the occurrence of an Event of Default, then and in each and every such case, the Master Trustee may, by notice in writing to the Obligated Issuers, declare the principal of all (but not less than all) Outstanding Obligations to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Master Indenture or in such Outstanding Obligations contained to the contrary notwithstanding; provided that the Master Trustee shall be required to make such a declaration (i) if an Event of Default has occurred, (ii) if an Event of Default has occurred under subsection (a)(ii) above as a result of a default under the Related Financing Documents for any Obligations, if the Related Financing Documents permit the Holders of such Obligations to declare (or to request the Master Trustee to declare) such

Obligations to be immediately due and payable and if the Master Trustee is requested to make such a declaration by the Holders of not less than 25% in aggregate principal amount of such Obligations then Outstanding or such greater percentage as may be required under the Related Financing Documents, or (iii) if the Master Trustee is requested to make such a declaration by the Holders of not less than 25% in aggregate principal amount of all Outstanding Obligations.

(b) Any declaration of acceleration pursuant to (a) above shall be subject to the condition that if, at any time after the principal of all Outstanding Obligations shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided: (i) one or more Obligated Issuers shall deposit with the Master Trustee an aggregate sum sufficient to pay (A) all matured installments of interest upon all Outstanding Notes and the principal and premium, if any, of all such Outstanding Notes that shall have become due otherwise than by acceleration (with interest on overdue installments of interest, to the extent permitted by law and on such principal and premium, if any, at the respective rates borne by such Notes to the date of such deposit) and any other amounts required to be paid pursuant to such Notes, (B) all amounts due under any Guaranty other than by reason of acceleration, (C) all sums due under any Obligations other than Notes and Guaranties, other than by reason of acceleration, and (D) the expenses and fees of the Master Trustee; and (ii) any and all Events of Default under the Master Indenture, other than the nonpayment of principal of and accrued interest on Outstanding Obligations that shall have become due by acceleration, shall have been remedied, then and in every such case, the Master Trustee shall, if requested by the Holders of 25% in aggregate principal amount of all Obligations then Outstanding, waive all Events of Default and rescind and annul such declaration and its consequences, but no such waiver or rescission and annulment shall extend to or affect any subsequent Event of Default.

Payment of Obligations on Default

Upon the occurrence of an Event of Default as described in the Master Indenture and upon demand of the Master Trustee, each Obligated Issuer will pay to the Master Trustee, for the benefit of the Holders of all Obligations then Outstanding, (a) the whole amount that then shall have become due and payable on all such Obligations for principal or interest, or both, and such other amounts as may be required to be paid on all such Obligations, with interest upon the overdue principal and installments of interest (to the extent permitted by law) at the respective rates of interest borne by such Obligations or as provided in the applicable Supplemental Indenture, and (b) such further amounts as shall be sufficient to cover the costs and expenses of collection, including a reasonable compensation to the Master Trustee, its agents, attorneys and counsel, and any expenses incurred by the Master Trustee other than as a result of its gross negligence or bad faith.

Suit for Moneys Due

In case any Obligated Issuer shall fail forthwith to pay the amounts due under the Master Indenture upon such demand, the Master Trustee, in its own name and as trustee of an express trust, shall be entitled and empowered to institute any actions or proceedings at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceedings to judgment or final decree, and may enforce any such judgment or final decree against each Obligated Issuer, and collect in the manner provided by law out of the Property of the Obligated Group wherever situated the moneys adjudged or decreed to be payable. The Master Trustee, upon the bringing of any action or proceeding at law or in equity under the Master Indenture, as a matter of right, without notice and without giving bond to any Obligated Issuer, may, to the extent permitted by law, have a receiver appointed of all of the Property of the Obligated Group pending such action or proceeding, with such powers as the court making such appointment shall confer.

Proceedings in Bankruptcy

In case there shall be pending proceedings for the bankruptcy or for the reorganization or arrangement of any Obligated Issuer under the United States Bankruptcy Code or any other applicable law, or in case a receiver or trustee shall have been appointed for its property, the Master Trustee, irrespective of whether the principal of Obligations of any series shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Master Trustee shall have made any demand pursuant to the provisions of the Master Indenture, shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a

claim or claims for the whole amount of principal, premium, if any, interest and any other amounts owing and unpaid in respect of Obligations of all series, and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Master Trustee and of the Holders of the Obligations allowed in such judicial proceedings relative to such member of the Obligated Group, its creditors or its property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute the same after the deduction of its charges and expenses; and any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized by each of such Holders to make such payments to the Master Trustee, and, in the event that the Master Trustee shall consent to the making of such payments directly to such Holders, to pay to the Master Trustee any amount due it for compensation and expenses, including counsel fees incurred by it up to the date of such distribution. To the extent that such payment of reasonable compensation, expenses and counsel fees out of the estate in any such proceedings shall be denied for any reason, payment of the same shall be secured by a first and prior lien on, and shall be paid out of, any and all distributions, dividends, moneys, securities and other property which the Holders of the Obligations may be entitled to receive in such proceedings, whether in liquidation or under any plan of reorganization or arrangement or otherwise.

Suit by Master Trustee

All rights of action and rights to assert claims under any Obligation may be enforced by the Master Trustee without the possession of such Obligation on any trial or other proceedings instituted by the Master Trustee. In any proceedings brought by the Master Trustee (and also any proceedings involving the interpretation of any provision of the Master Indenture to which the Master Trustee shall be a party) the Master Trustee shall be held to represent all the Holders of Obligations, and it shall not be necessary to make any Holders of Obligations parties to such proceedings.

Application of Moneys Collected

Any amounts collected by the Master Trustee pursuant to the Master Indenture and all money and Investment Securities on deposit in any funds which the Master Trustee may establish hereunder from time to time shall be applied for the equal and ratable benefit of the Holders of Obligations in the following order at the date or dates fixed by the Master Trustee for the distribution of such moneys, upon presentation of such Obligations, and stamping thereon the payment, if only partially paid, and upon surrender thereof if fully paid:

(a) to the payment of costs and expenses of collection, including fees and expenses of Counsel and reasonable compensation to the Master Trustee; and, thereafter,

(b) whether or not the principal of all Outstanding Obligations shall have become or have been declared due and payable, to Holders of the Outstanding Obligations for amounts due and unpaid on the Obligations, ratably, without preference or priority of any kind, according to the amounts due and payable on the Obligations; provided that for the purpose of determining the unpaid amount of any Obligation, there shall be deducted the amount, if any, which has been realized by the Holder by exercise of its rights as a secured party with respect to any Liens permitted pursuant to the Master Indenture or is on deposit in any fund established pursuant to any Related Financing Documents for such Obligations (other than amounts consisting of payments of principal and interest previously made and credited against the payments due under such Obligations) as of the date of payment by the Master Trustee pursuant to this subsection (b), all as certified to the Master Trustee by the Holder;

(c) to the payment of the remainder, if any, to the Obligated Group Agent, its successors or assigns, or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

Actions by Holders

No Holder of an Obligation will have any right by virtue of or by availing of any provision of the Master Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to the Master Indenture or for the appointment of a receiver or trustee, or any other remedy, unless (i) the Holders of not less than 25% in aggregate principal amount of Obligations then Outstanding shall have made written request upon the Master Trustee to institute such action, suit or proceeding in its own name as Master Trustee and shall have offered

to the Master Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities which may be incurred therein or thereby, (ii) and the Master Trustee, for 30 days after its receipt of such notice, request and offer of indemnity, shall have neglected or refused to institute any such action, suit or proceeding and no direction inconsistent with such written request shall have been given to the Master Trustee. No one or more Holders of Obligations shall have any right in or any manner whatever by virtue of or by availing of any provision of the Master Indenture to affect, disturb prejudice the rights of any other Holder of an Obligation or to obtain or seek to obtain priority over or preference to any other such Holder, or to enforce any right under the Master Indenture, except in the manner therein provided and for the equal, ratable and common benefit of all Holders of Obligations. For the protection and enforcement of these provisions, each and every Holder of an Obligation and the Master Trustee shall be entitled to such relief as can be given either at law or in equity.

The Holder of an Obligation instituting a suit, action or proceeding in compliance with the provisions outlined herein and more fully set forth in the Master Indenture shall be entitled in such suit, action or proceeding to such amounts as shall be sufficient to cover the costs and expenses of collection, including to the extent permitted by applicable law, a reasonable compensation to its Counsel.

Notwithstanding any other provision of the Master Indenture, the right of a Holder of an Obligation to receive payment of the principal of and interest on any Obligation and any other amounts payable thereunder, on or after the respective due dates expressed in such Obligation, or to institute suit for the enforcement of any such payment on or after such respective dates, will not be impaired or affected without the consent of such Holder, provided that any moneys collected through the exercise of right and remedies of any Holder against any Obligated Issuer pursuant to the Related Financing Documents for an Obligation (other than rights and remedies relating to Liens permitted pursuant to the Master indenture or to funds and accounts established under such Related Financing Documents) shall be paid over to the Master Trustee or, with the consent of the Holder, collected directly by the Master Trustee.

Notice of Default

The Master Trustee will, within 10 days after the occurrence of an Event of Default known to the Master Trustee, mail to all Holders of Obligations, as the names and addresses of such Holders appear upon the books maintained by the Master Trustee, notice of such Event of Default under the Master Indenture known to the Master Trustee, unless such Event of Default shall have been cured before the giving of such notice; provided that, except in the case of an Event of Default caused by the nonpayment of principal, redemption price or interest when due, the Master Trustee shall be protected in withholding such notice if and so long as the Master Trustee in good faith determines that the withholding of such notice is in the interest of the Holders of the Obligations. For purposes of the Master Indenture, matters shall not be considered to be known to the Master Trustee unless an officer of its corporate trust department located at its principal corporate trust office has actual knowledge thereof.

Concerning the Master Trustee

Duties and Liabilities of Master Trustee

(a) The Master Trustee, prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Master Indenture. In case an Event of Default has occurred (which has not been cured or waived) the Master Trustee shall exercise such of the rights and powers vested in it by the Master Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(b) No provision of the Master Indenture shall be construed to relieve the Master Trustee from liability for its own grossly negligent action, its own grossly negligent failure to act, or its own willful misconduct; provided, however, that:

(i) the Master Trustee shall not be liable for any error of judgment made in good faith by a responsible officer or officers of the Master Trustee, unless it shall be proved that the Master Trustee was

grossly negligent in ascertaining the pertinent facts (other than facts which the Master Trustee is not required to investigate pursuant to the Master Indenture); and

(ii) the Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in aggregate principal amount of Obligations then Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred upon the Master Trustee, under the Master Indenture.

(c) None of the provisions contained in the Master Indenture will require the Master Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers.

(d) The Master Trustee shall not be required to take notice or be deemed to have notice of any default hereunder except for defaults in payments as described in the Master Indenture unless the Master Trustee shall be specifically notified in writing of such default by the Obligated Issuers, the Master Trustee or the Owners of at least twenty-five percent (25%) in aggregate principal amount of all Obligations then Outstanding. All notices or other instruments required by the Master Indenture to be delivered to the Master Trustee must, in order to be effective, be in writing and delivered to the principal corporate trust office of the Master Trustee, and in the absence of such notice so delivered to the Master Trustee may conclusively assume there is no default except as aforesaid.

(e) All moneys received by the Master Trustee or any paying agent shall, until used or applied or invested as herein provided, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required by law or by the Master Indenture. Neither the Master Trustee nor any paying agent shall be under any liability for interest on any moneys received hereunder except such as may be agreed upon in writing.

(f) The Master Trustee may construe any provision hereof insofar as such may appear to it to be ambiguous or inconsistent with any other provision hereof, and any construction of any such provision by the Master Trustee shall be binding upon the holders of the Obligations and the Obligated Issuers.

(g) In the event the Master Trustee receives inconsistent or conflicting requests and indemnity from two or more groups of holders of the Obligations, each representing less than a majority in aggregate principal amount of the Obligations Outstanding, the Master Trustee, in its sole discretion, may determine what action, if any, shall be taken.

(h) The Master Trustee shall have no responsibility for any information in any offering memorandum or other disclosure material distributed with respect to the Obligations, and the Master Trustee shall have no responsibility for compliance with any state or federal securities laws in connection with the Obligations.

(i) The Master Trustee shall have no responsibility for any registration, filing, recording, re-registration or re-recording of the Master Indenture or any other document or instrument executed in connection with the Master Indenture and the issuance and sale of the Obligations including, without limitation, any financing statements or continuation statements with respect thereto.

Notwithstanding anything to the contrary herein provided, except for receiving the various certificates contemplated hereby, upon which the Master Trustee shall be entitled to rely conclusively and without further inquiry, the Trustee shall have no duty or obligation to verify the compliance by the Obligated Issuers with any financial covenant or restriction set forth herein (including but not limited to any duty to review or verify any calculations set forth in certificates provided to the Trustee hereunder or the methodology applied in the preparation of any such certificates).

Reliance on Documents, Etc.

Except as otherwise provided in the Master Indenture:

(a) The Master Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, note, bond, debenture or other paper or document (including any statement by or on behalf of any Holder relating to the amount of principal outstanding or interest due on any Obligation) believed by it to be genuine and to have been signed or presented by the proper party or parties. Any action taken by the Master Trustee pursuant to the Master Indenture on the request or authority or consent of any Holder shall be conclusive and binding on all future Holders of the same Certificates and on Obligations issued in exchange therefor or in place thereof.

(b) Any request, direction, order or demand of any Obligated Issuer mentioned in the Master Indenture shall be sufficiently evidenced by an Officer's Certificate (unless other evidence in respect thereof is herein specifically prescribed); and any resolution of the Governing Body of any Obligated Issuer may be evidenced to the Master Trustee by a copy thereof certified by the Secretary or an Assistant Secretary of such Obligated Issuer.

(c) The Master Trustee may consult with Counsel and the advice of such Counsel shall be full and complete authorization and protection and the Master Trustee shall be relieved of liability to the Holders of Obligations and to the Obligated Issuers in respect of any action taken, suffered or omitted by it hereunder in good faith and in accordance with such advice.

(d) Prior to the occurrence of an Event of Default under the Master Indenture and after the curing of all Events of Default, the Master Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, note, bond, debenture, or other paper or document, unless requested in writing to do so by the Holders of a majority in aggregate principal amount of Obligations then Outstanding; provided, however, that if the payment within a reasonable time to the Master Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Master Trustee, not reasonably assured to the Master Trustee by the security afforded to it by the terms of the Master Indenture, the Master Trustee may require indemnity, reasonably satisfactory to the Master Trustee, with respect to such additional compensation as the Master Trustee may require for complying with such request and against such costs, expenses (including, without limitation, fees of Counsel) or liabilities as a condition to so proceeding. The reasonable expense of every such examination shall be paid by the members of the Obligated Group or, if paid by the Master Trustee, shall be repaid by the members of the Obligated Group upon demand.

(e) The Master Trustee may execute any of the trusts or powers under the Master Indenture or perform any duties hereunder either directly or by or through agents or attorneys.

(f) The Master Trustee shall be under no responsibility for the approval by it in good faith of any expert or other skilled person for any of the purposes expressed in the Master Indenture.

Responsibility for Recitals, Validity of Indenture, Proceeds of Notes

The recitals contained in the Master Indenture and in the Obligations (other than the certificate of authentication on such Obligations) shall be taken as the statements of the Obligated Issuers, and the Master Trustee assumes no responsibility for the correctness of the same. The Master Trustee makes no representations as to the validity or sufficiency of the Master Indenture or the liens or security created hereby or of the Obligations. The Master Trustee shall not be accountable for the use or application by any Obligated Issuer of any of the Notes or of the proceeds of such Obligations, or for the use or application of any moneys paid over by the Master Trustee in accordance with any provision of the Master Indenture, or for use or application of any moneys received by any paying agent other than the Master Trustee.

Master Trustee May Own Notes

The Master Trustee, in its individual or any other capacity, may become the owner or pledgee of Obligations with the same rights it would have if it were not Master Trustee under the Master Indenture. Any provision to the contrary in the Master Indenture notwithstanding, no provision of the Master Indenture shall prohibit the Master Trustee from serving as trustee under any Related Financing Documents or from maintaining a banking relationship with any Obligated Issuer; provided that if the Master Trustee determines that any such service

as trustee or such relationship is in conflict with its duties under the Master Indenture, it shall eliminate the conflict or resign as Master Trustee.

Compensation and Expenses of Master Trustee

Each Obligated Issuer will pay, and will be jointly and severally liable to pay, to the Master Trustee from time to time, and the Master Trustee will be entitled to, reasonable compensation, and each Obligated Issuer will pay, and will be jointly and severally liable to pay, or reimburse the Master Trustee promptly upon its request for all reasonable expenses, disbursements and advances incurred or made by the Master Trustee in connection with the acceptance or administration of its trusts under the Master Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its gross negligence or willful misconduct. Each Obligated Issuer will indemnify, defend and will be jointly and severally liable to indemnify, the Master Trustee and its officers, directors, employees and agents for, and to hold them harmless against, any loss, liability or expense (including, without limitation, a reasonable compensation to its counsel through all investigations, suits and appeals) incurred without gross negligence or willful misconduct on the part of the Master Trustee and arising out of or in connection with the acceptance or administration of such trusts, including the costs and expenses of defending itself against any claim of liability in the premises. The respective joint and several obligations of each Obligated Issuer under the Master Indenture to compensate the Master Trustee, to pay or reimburse the Master Trustee for expenses, disbursements and advances and to indemnify, defend and hold harmless the Master Trustee will survive the satisfaction and discharge of the Master Indenture and the resignation, removal and succession of the Master Trustee. As security for the payment of all such obligations, the Master Trustee shall have an express first and prior lien on any moneys and Investment Securities on deposit in any funds which the Master Trustee may establish hereunder from time to time.

Officer's Certificate as Evidence, Etc.

(a) Except as otherwise provided in the Master Indenture, whenever in the administration of the provisions of the Master Indenture the Master Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering or omitting any action under the Master Indenture, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by an Officer's Certificate delivered to the Master Trustee. In the absence of bad faith on the part of the Master Trustee, any such Officer's Certificate shall be full ratification of any action taken, suffered or omitted by the Master Trustee under the provisions of the Master Indenture upon the faith thereof, and the Master Trustee shall not be obligated to make any investigation into the facts stated therein.

(b) The permissive right of the Master Trustee to do things enumerated in the Master Indenture shall not be construed as a duty and the Master Trustee shall not be answerable other than for its gross negligence or willful misconduct.

(c) The Master Trustee will not be personally liable for any debts contracted or for damages to persons or to personal property injured or damaged, or for salaries or nonfulfillment of contracts during any period in which it may be in the possession of or managing the real and tangible personal property as in the Master Indenture provided, provided it is acting at the time with due regard for the standard provided in the Master Indenture, which shall be fully applicable to Master Trustee and its actions or failure to act while in possession of or managing such real or personal property.

(d) The Master Trustee will not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(e) Notwithstanding anything contained in the Master Indenture, the Master Trustee will have the right, but will not be required, to demand, in respect of the authentication of any Obligations, the withdrawal of any cash, the release of any property, or any reasonable action whatsoever within the purview of the Master Indenture, any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, in addition to that by the terms hereof required as a condition of such action by the Master Trustee deemed desirable

for the purpose of establishing the right of the Obligated Group to the authentication of any Obligations, the withdrawal of any cash, the release of any property, or the taking of any other action by the Master Trustee.

(f) All moneys received by the Master Trustee will, until used or applied or invested as provided in the Master Indenture, be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required herein or by law. The Master Trustee will not be under any liability for interest on any moneys received hereunder except such as may be agreed upon.

(g) Prior to the occurrence of an Event of Default under the Master Indenture, the Master Trustee is authorized to respond in writing to all written inquiries from Holders and persons identifying themselves as prospective Holders for information concerning the status of funds and accounts held under the Master Indenture and for other information concerning the Obligated Issuers and the Obligations and similar matters otherwise within the knowledge of the Master Trustee, and the Master Trustee shall not be liable to any Holder or any Obligated Issuer by reason of its disclosures of such information to only those requesting it.

Resignation, Removal and Succession of Master Trustee

The Master Trustee may resign at any time without cause by giving at least 30 days prior written notice to the Obligated Group Agent and by publishing notice of such resignation in such newspapers as may be specified in any Supplemental Indentures and by mailing notice of such resignation to each Holder of an Obligation then Outstanding, as the names and addresses of such Holders appear on the registers maintained by the Master Trustee, such resignation to be effective upon the acceptance of such Master Trusteeship by a successor. In addition, the Master Trustee may be removed with cause at the direction of the Holders of not less than 66-2/3% in aggregate principal amount of Obligations then Outstanding, delivered to the Obligated Group and the Master Trustee, any such removal to be effective upon the acceptance of the Master Trusteeship by a successor. The Master Trustee shall promptly give notice of any removal pursuant to the previous sentence in writing to each Holder of an Obligation then Outstanding as provided above. In the case of the resignation or removal of the Master Trustee, a successor Master Trustee may be appointed by the Obligated Group as evidenced by an Officer's Certificate from a designated representative of the Obligated Group Agent designating the successor, unless an Event of Default exists hereunder. If an Event of Default exists hereunder or if the Obligated Group otherwise fails to appoint a successor within 30 days after any notice of resignation or direction to remove the Master Trustee is given, a successor may be appointed at the direction of the Holders of not less than 66-2/3% in aggregate principal amount of Obligations then Outstanding. If a successor Master Trustee shall not have been appointed within 45 days after such notice of resignation or removal, the Master Trustee, the Obligated Group Agent or any Holder of an Obligation then Outstanding may apply to any court of competent jurisdiction to appoint a successor to act until such time, if any, as a successor shall have been appointed as above provided. The successor so appointed by such court shall immediately and without further act be superseded by any successor appointed as above provided.

Acceptance by Successor Master Trustee

Any successor Master Trustee, however appointed, shall execute and deliver to its predecessor and to the members of the Obligated Group an instrument accepting such appointment, and thereupon such successor, without further act, shall become vested with all the estates, properties, rights, powers and duties of its predecessor hereunder in the trusts under the Master Indenture applicable to it with like effect as if originally named the Master Trustee; but, nevertheless, upon the written request of such successor Master Trustee, its predecessor shall execute and deliver an instrument transferring to such successor Master Trustee, upon the trusts herein expressed applicable to it, all the estates, properties, rights and powers of such predecessor under the Master Indenture, and such predecessor shall duly assign, transfer, deliver and pay over to such successor Master Trustee all moneys or other property then held by such predecessor under the Master Indenture.

Qualifications of Successor Master Trustee

Any successor Master Trustee, however appointed, shall be a bank or trust company having together with its Affiliates a combined capital and surplus on a consolidated basis of at least \$75,000,000, if there be such an institution willing, able and legally qualified to perform the duties of the Master Trustee under the Master Indenture upon reasonable or customary terms.

Successor by Merger

Any corporation into which the Master Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Master Trustee shall be a party, or any corporation to which substantially all the business of the Master Trustee may be transferred, shall, subject to the terms of the Master Indenture, be the Master Trustee under the Master Indenture without further act.

Co-Master Trustees

(a) At any time, for the purpose of meeting the legal requirements of any applicable jurisdiction, the Master Trustee shall have power to appoint one or more Persons not unsatisfactory to the Obligated Group Agent to act as Co-Master Trustee under the Master Indenture, with such powers as may be provided in the instrument of appointment and to vest in such Person or Persons any property, title, right or power deemed necessary or desirable, subject to the provisions of the Master Indenture.

(b) Each Co-Master Trustee shall, to the extent permitted by applicable law, be appointed subject to the following terms:

(i) The rights, powers, duties and obligations conferred or imposed upon any such Co-Master Trustee shall not be greater than those conferred or imposed upon the Master Trustee, and such rights and powers shall be exercisable only jointly with the Master Trustee, except to the extent that, under any law of any jurisdiction in which any particular act or acts are to be performed, the Master Trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights and powers shall be exercised by such Co-Master Trustee subject to the provisions of the Master Indenture

(ii) The Master Trustee may at any time, by an instrument in writing executed by it, accept the resignation of or remove any Co-Master Trustee appointed under the Master Indenture.

(iii) No Co-Master Trustee under the Master Indenture shall be liable by reason of any act or omission of the Master Trustee or any other Co-Master Trustee appointed under the Master Indenture.

No power given to such Co-Master Trustee shall be separately exercised hereunder by such Co-Master Trustee except with the consent in writing of the Master Trustee, anything contained in the Master Indenture to the contrary notwithstanding.

Supplements and Amendments

Supplemental Indentures Without Consent

(a) Each Obligated Issuer, when authorized by a resolution of its Governing Body, and the Master Trustee, may from time to time and at any time enter into a Supplemental Indenture for one or more of the following purposes:

(i) to provide for the issuance of any Obligations under the Master Indenture;

(ii) to evidence the addition of an Obligated Issuer or the succession of another corporation to any Obligated Issuer, or successive successions, and the assumption by the new Obligated Issuer or successor corporation of the covenants, agreements and obligations of an Obligated Issuer under the Master Indenture;

(iii) to add to the covenants of any Obligated Issuer such further covenants, restrictions or conditions as its Governing Body and the Master Trustee shall consider to be for the protection of the Holders of Obligations issued under the Master Indenture, and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants, restrictions or conditions an Event of

Default permitting the enforcement of all or any of the several remedies provided in the Master Indenture as herein set forth; provided, however, that in respect of any such additional covenant, restriction or condition, such Supplemental Indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Master Trustee upon such default;

(iv) to cure any ambiguity or to correct or supplement any provision contained herein or in any Supplemental Indenture which may be defective or inconsistent with any other provision contained herein or in any Supplemental Indenture, or to make such other provisions in regard to matters or questions arising under the Master Indenture or any Supplemental Indenture and shall not impair the security of the Master Indenture or adversely affect the interests of the Holders of any particular Obligations or series of Obligations issued hereunder;

(v) to modify or supplement the Master Indenture in such manner as may be necessary or appropriate to qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or under any similar federal statute hereafter enacted, including provisions whereby the Master Trustee accepts such powers, duties, conditions and restrictions hereunder and each Obligated Issuer undertakes such covenants, conditions or restrictions additional to those contained in the Master Indenture as would be necessary or appropriate so to qualify the Master Indenture;

(vi) to provide for the establishment of funds and accounts under the Master Indenture and for the proper administration of and transfers of moneys between any such funds and accounts, provided that, except as otherwise provided otherwise in the Master Indenture, all such funds and accounts shall be established for the equal and ratable benefit of the Holders of all Outstanding Obligations;

(vii) to permit the issuance of additional forms of Obligations, provided that such Obligations are equally and ratably secured with all other Obligations issued under the Master Indenture (except as otherwise provided herein);

(viii) to reflect a change in applicable law;

(ix) to amend the provisions set forth in Sections 12.10 hereof relating to the elections of a successor Obligated Group Agent.

(b) The Master Trustee is authorized to join with each Obligated Issuer in the execution of any such Supplemental Indenture, to make any further appropriate agreements and stipulations which may be therein contained and to accept the conveyance, transfer, mortgage, pledge or assignment of any property thereunder, but the Master Trustee will not be obligated to enter into any such Supplemental Indenture that affects the Master Trustee's rights, duties, indemnities or immunities under the Master Indenture or otherwise or which in the sole judgment of the Master Trustee might expose it to greater liability.

(c) Any Supplemental Indenture authorized under the section providing for supplements without consent may, without the consent of or notice to the Holders of then Outstanding Obligations issued hereunder, be executed by each Obligated Issuer and the Master Trustee.

(d) With respect to any Supplemental Indenture authorized by the relevant provisions of the Master Indenture, it shall only be necessary for such Supplemental Indenture to be executed by the Obligated Issuer of the related Obligation, the Obligated Group Agent and the Master Trustee.

Modification With Consent

(a) With the consent of the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding, each Obligated Issuer, when authorized by its Governing Body, and the Master Trustee, may from time to time and at any time enter into a Supplemental Indenture hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Master Indenture or of any

Supplemental Indenture or of modifying in any manner the rights of the Holders of Obligations; provided, however, that (i) without the consent of the Holders of all Obligations whose Obligations are proposed to be modified, no such Supplemental Indenture shall effect a change in the times, amounts or currency of payment of the principal of, premium, if any, or interest on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon or permit the preference or priority of any Obligation over any other Obligation, and (ii) without the consent of the Holders of all Obligations then Outstanding, no such Supplemental Indenture shall reduce the aforesaid percentage or affected class of Obligations, the Holders of which are required to consent to any such Supplemental Indenture.

(b) Upon the request of each Obligated Issuer, accompanied by a copy of a resolution of its Governing Body, and upon the filing with the Master Trustee of evidence of the consent of Holders as aforesaid, the Master Trustee shall join with each Obligated Issuer in the execution of such Supplemental Indenture unless such Supplemental Indenture affects the Master Trustee's own rights, duties or immunities under the Master Indenture or otherwise, in which case the Master Trustee may, in its discretion, but shall not be obligated to, enter into such Supplemental Indenture.

(c) It shall not be necessary for the consent of the Holders under the Master Indenture to approve the particular form of any proposed Supplemental Indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Effect of Supplemental Indenture

(a) Upon the execution of any Supplemental Indenture pursuant to the relevant provisions of the Master Indenture, the Master Indenture shall, with respect to each series of Obligations issued hereunder, be and be deemed to be modified and amended in accordance therewith and the respective rights, limitation of rights, obligations, duties and immunities under the Master Indenture of the Master Trustee, each Obligated Issuer and the Holders of Obligations issued hereunder shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such Supplemental Indenture shall be and be deemed to be part of the terms and conditions of the Master Indenture.

(b) The Master Trustee, subject to the relevant provisions of the Master Indenture, may receive and rely on an opinion of Counsel as conclusive evidence that any such Supplemental Indenture complies with the relevant provisions of the Master Indenture.

Immunity of Incorporators, Members, Officers and Members of Governing Body

No recourse under or upon any obligation, covenant or agreement of the Master Indenture, or of any Obligations issued under the Master Indenture, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, member, officer or member of the Governing Body, as such, past, present or future, of any Obligated Issuer or of any successor corporation, either directly or through such Obligated Issuer, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that the Master Indenture and the Obligations issued thereunder are solely corporate obligations, and that no personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, members, officers or members of the Governing Body, as such, of any Obligated Issuer or any successor corporation, or any of them, because of the creation of the Indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in the Master Indenture or in any Obligations issued hereunder or implied therefrom; and that any and all such personal liability of every name and nature, either at common law or in equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, member, officer or trustee, as such, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in the Master Indenture or in any Obligations issued hereunder or implied therefrom are hereby expressly waived and released as a condition of, and as consideration for, the execution of the Master Indenture and the issuance of such Obligations.

Satisfaction and Discharge of Certificate Indenture

If the Master Trustee receives: (a) an amount which is (i) in the form of (A) cash or (B) Government Obligations, and (ii) in a principal amount sufficient, together with the interest thereon and any fund on deposit under the Master Indenture and available for such purpose, to provide for the payment of the principal of and premium, if any, and interest on all Outstanding Obligations to and including the maturity date or prior redemption or prepayment date thereof; (b) irrevocable instructions to redeem an Obligations to be redeemed prior to maturity and to notify the Holders of each such redemption; and (c) an amount sufficient to pay or provide for the payment of all other sums payable under the Master Indenture by the Obligated Issuers or any thereof, then the Master Indenture shall cease to be of further effect, and the Master Trustee, on demand of the Obligated Group Agent, shall execute all such instruments acknowledging satisfaction of and discharging the Master Indenture as requested by the Obligated Group Agent.

Similarly, the Obligated Issuer of any particular Obligation may provide for the payment thereof at or prior to maturity, and the Obligation so provided for shall thereupon cease to be Outstanding under the Master Indenture.

In lieu of the foregoing, the Obligated Issuer of any particular Obligation may deliver to the Holder thereof the amount required under the Related Financing Documents to provide for the payment of the principal, premium, if any, and interest due or to become due in respect to such Obligation and such Obligation shall, upon surrender to the Master Trustee for cancellation, no longer be deemed Outstanding under the Master Indenture.

THE 2007 INDENTURE

Definitions

The following is a summary of certain terms defined in the Indenture and used in this summary of the provisions thereof. Reference is hereby made to such actual documents for a complete recital of the definitions contained therein.

“Act” shall mean the Hospital Authorities Law (O.C.G.A. Section 31-7-70, et seq.), as amended.

“Authorized Issuer Representative” shall mean the Chairman, the Vice Chairman or any other individual designated from time to time to the Trustee by a certificate signed by the Chairman or Vice Chairman of the Issuer to represent the Issuer, which certificate shall set forth the specimen signature of such person or persons.

“Beneficial Owner” shall mean, when the Series 2007 Certificates are in Book-Entry Form, any person who acquires a beneficial ownership in Series 2007 Certificates held by the Depository.

“Bond Counsel” shall mean an attorney or firm of attorneys selected by the Issuer and who (or which) in the view of the Issuer, is experienced in the field of municipal bonds.

“Book-Entry Form” or “Book-Entry System” shall mean a book-entry system established and operated for the recordation of Beneficial Owners of the Series 2007 Certificates pursuant to the Indenture.

“Certificate Fund” shall mean the fund created under the Indenture.

“Certificateholder” or “holder of the Certificates” or “owner of the Certificates” shall mean the registered owner of any Certificate as shown on the Certificate registration books kept by the Trustee, as certificate registrar.

“Certificates” shall mean the Series 2007 Certificates issued by the Issuer under the Indenture and any Certificates issued under the Indenture to replace mutilated, lost, stolen or destroyed Certificates and Certificates issued hereunder in exchange for Certificates issued under the Indenture.

“Certificate Year” shall mean the period commencing on October 2 of any year and ending on October 1 of the following calendar year.

“Code” shall mean shall mean the Internal Revenue Code of 1986, as amended, and any temporary, final or proposed Treasury Regulations relating thereto as may be applicable to the Series 2007 Certificates.

“Counsel” shall mean an attorney duly admitted to practice law before the highest court of any state in the United States of America or the District of Columbia or a firm of such attorneys.

“County” shall mean Houston County, Georgia, its successors and assigns.

“Debt Service Reserve Fund” means the fund created pursuant to the Indenture.

“Depository” shall mean DTC until a successor Depository shall have become such pursuant to the applicable provisions of the Indenture and, thereafter, “Depository” shall mean the successor Depository. Any Depository shall be a securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise a Book-Entry System to record ownership of beneficial interest in any Certificates, and to effect transfers of Certificates in Book-Entry Form.

“DTC” means The Depository Trust Company, a limited purpose trust company organized under the laws of the State of New York, and its successors and assigns.

“DTC Participant” means those broker-dealers, banks and other financial institutions reflected on the books of DTC.

“Event of Default” shall mean an Event of Default as described in the Indenture.

“Extraordinary Services” and “Extraordinary Expenses” shall mean all services rendered and all expenses (including Counsel fees) incurred by the Trustee under the Indenture other than Ordinary Services and Ordinary Expenses.

“Government Obligations” shall mean (a) direct obligations of the United States of America for the payment of which the full faith and credit of the United States of America is pledged, (b) obligations issued by a person controlled or supervised by and acting as an instrumentality of the United States of America, the payment of the principal of and interest on which is fully and unconditionally guaranteed as a full faith and credit obligation of the United States of America (including any securities described in (a) and (b) issued or held in book-entry form in the name of the Trustee only on the books of the Department of Treasury of the United States of America), which obligations, in either case, are not subject to redemption prior to maturity by anyone other than the holder, or (c) any certificates or any other evidences of an ownership interest in obligations or specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in (a) or (b).

“Indenture” shall mean the Trust Indenture, dated as of August 1, 2007, between the Issuer and the Trustee, pursuant to which the Series 2007 Certificates are being issued, including any amendments or supplements thereto.

“Indirect Participant” means a broker-dealer, bank or other financial institution for which the Depository holds bonds as a securities depository through a DTC Participant.

“Issuer” shall mean the Hospital Authority of Houston County, Georgia, its successors and assigns.

“Interest Payment Date” shall mean, with respect to the Series 2007 Certificates, each April 1 and October 1, commencing October 1, 2007.

“Investment Securities” shall mean and include any of the following:

(a) direct obligations of the United States of America, including obligations the principal and interest of which are unconditionally guaranteed, and trust receipts evidencing a direct ownership interest in such obligations;

(b) direct obligations of any United States government agency or instrumentality (whether or not such obligations are guaranteed or backed by the faith and credit of the United States);

(c) obligations issued by any state of the United States of America, or any political subdivision thereof, rated by at least two nationally recognized rating agencies in one of the three highest rating categories (without regard to gradations such as “+” or “-“ or “1” or “2”), and obligations fully secured by and payable solely from an escrow fund held by a trustee consisting of cash or obligations described in clause (a) above;

(d) (1) debt obligations of any United States corporation or trust, which obligations are rated by at least two nationally recognized rating agencies in one of the three highest rating categories (without regard to gradations such as “+” or “-“ or “1” or “2”), or (2) commercial paper of any United States corporation or trust rated by at least two nationally recognized rating agencies in the highest rating category (without regard to gradations such as “+” or “-“ or “1” or “2”);

(e) certificates of deposit or time deposits of any bank, trust company or savings and loan which deposits are fully insured by a federally sponsored deposit insurance program;

(f) bankers acceptances of any bank which bank or its parent holding company’s debt meets the following rating requirements: (1) debt obligations of any United States corporation or trust, which obligations are rated by at least two nationally recognized rating agencies in one of the three highest rating categories (without regard to gradations such as “+” or “-“ or “1” or “2”), or (2) commercial paper of any

United States corporation or trust rated by at least two nationally recognized rating agencies in the highest rating category (without regard to gradations such as “+” or “-“ or “1” or “2”);

(g) repurchase agreements of obligations listed in (a) or (b) above, delivered versus payment to the Trustee and continuously collateralized at 102% or greater, with counterparties having debt rated in conformance with the following rating requirements: (1) debt obligations of any United States corporation or trust, which obligations are rated by at least two nationally recognized rating agencies in one of the three highest rating categories (without regard to gradations such as “+” or “-“ or “1” or “2”), or (2) commercial paper of any United States corporation or trust rated by at least two nationally recognized rating agencies in the highest rating category (without regard to gradations such as “+” or “-“ or “1” or “2”);

(h) investment agreements of any corporation which agreements or the corporation’s long term debt is rated by at least two nationally recognized rating agencies in one of the three highest rating categories (without regard to gradations such as “+” or “-“ or “1” or “2”);

(i) shares of a money market fund or commingled trust which fund or trust’s investments are restricted to investments described in clauses (a) - (h);

(j) such other investments as permitted by Georgia law.

“Master Indenture” shall mean the Master Trustee Indenture, dated as of August 1, 2007, between the Obligated Group and U.S. Bank National Association, as master trustee, as supplemented from time to time, including by the First Supplemental Master Indenture, dated as of August 1, 2007, between the Initial Obligated Group and the Master Trustee.

“2007 Master Note” shall mean the obligation issued pursuant to the Master Indenture and pledged to the payment of the Series 2007 Certificates under this Indenture.

“Ordinary Services” and “Ordinary Expenses” shall mean those services normally rendered and those expenses (including counsel fees) normally incurred by a trustee under instruments similar to the Indenture.

The terms “outstanding” or “Certificates outstanding” shall mean, as of the date of determination, all Certificates which have been authenticated and delivered by the Trustee under this Indenture, except:

(i) Certificates canceled because of payment at, or purchase or redemption prior to, maturity;

(ii) Certificates for the payment or redemption of which cash funds (or Government Obligations to the extent permitted in Section 1002 hereof) shall have been theretofore deposited with the Trustee (whether upon or prior to the maturity or redemption date of any such Certificates); provided that if such Certificates are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Trustee shall have been filed with the Trustee;

(iii) Certificates in lieu of which others have been authenticated under Section 306 hereof, unless proof satisfactory to the Trustee and the Issuer is presented that any such Certificate is held by a bona fide holder in due course; and

(iv) For purposes of any consent or other action to be taken by the holders of a specified percentage of outstanding Certificates hereunder, all Certificates held by or for the Issuer unless all Certificates are so held.

“Participant” shall mean one of the entities which is a member of the Depository and deposits securities, directly or indirectly, in the Book-Entry System.

“Payment in Full of the Certificates” shall specifically encompass the situations described in Sections 1001 and 1002 of the Indenture.

“Person” shall mean any natural person, corporation, limited liability company, cooperative, partnership, trust or unincorporated organization, government or governmental body or agency, political subdivision or other legal entity as in the context may be appropriate.

“Project” shall mean the acquisition, construction and equipping of certain additions, extension and improvements to certain medical facilities located in the County.

“Project Fund” shall mean the fund created pursuant to the Indenture.

“Record Date” shall mean the 15th day of the calendar month next preceding any Interest Payment Date.

“Representation Letter” means the Blanket Issuer Letter of Representations, dated September 23, 2002, filed with DTC by the Issuer.

“Reserve Requirement” shall mean the maximum annual debt service on the Series 2007 Certificates.

“Series 2007 Certificates” shall mean the Certificates authorized under the Indenture and authenticated and delivered in accordance with the Indenture.

“Supplemental Indenture” shall mean any indenture of the Issuer supplementing the Indenture in accordance with the terms hereof.

“Trustee” shall mean U.S. Bank National Association, and any successor trustee under the Indenture.

Trust Estate; Funds

Trust Estate

The Issuer has pledged the Trust Estate to the Trustee as security for the payment of the principal of and interest on the Certificates. The Trust Estate includes:

(a) All right, title and interest of the Issuer in and to the 2007 Master Note, including, but not limited to, the present and continuing right to make claim for, collect, receive and receipt for any of the sums, amounts, income, revenues, issues and profits and any other sums of money payable or receivable under the 2007 Master Note, to bring actions and proceedings thereunder or for the enforcement thereof, and to do any and all things which the Issuer is or may become entitled to do under the 2007 Master Note;

(b) All moneys and securities held by the Trustee in any and all funds and accounts established from time to time under the 2007 Indenture; and

(c) Any and all other property of every name and nature from time to time hereafter by delivery or by writing of any kind, given, granted, pledged and assigned as and for additional security under the 2007 Indenture, by the Issuer or by anyone in its behalf or with its written consent, to the Trustee, which is authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms of the 2007 Indenture.

Certificate Fund

There is created and established with the Trustee a trust fund of the Issuer to be designated “Hospital Authority of Houston County, Georgia Revenue Anticipation Certificates (Houston Healthcare Project), Certificate Fund,” which shall be used to pay the principal of and interest on the Certificates.

Project Fund

There is created and established with the Trustee a trust fund in the name of the Issuer to be designated “Hospital Authority of Houston County, Georgia Revenue Anticipation Certificates (Houston Healthcare Project),

Project Fund,” which shall be expended to pay costs of the Project in accordance with the provisions of the 2007 Indenture.

There shall be deposited into the Project Fund (a) the proceeds from the issuance and delivery of the Certificates, other than the portion of such proceeds required to be deposited into the Certificate Fund, and (b) all other moneys received by the Trustee when accompanied by directions that such moneys are to be paid into the Project Fund.

Debt Service Reserve Fund

(a) There is created and established with the Trustee a trust fund to be designated “Hospital Authority of Houston County, Georgia Revenue Anticipation Certificates (Houston Healthcare Project), Debt Service Reserve Fund.” The Debt Service Reserve Fund shall be maintained in an amount equal to the Reserve Requirement. The Reserve Requirement may be satisfied by the deposit into the Debt Service Reserve Fund of (i) cash or (ii) a surety bond, letter of credit or any other similar instrument.

Moneys in the Debt Service Reserve Fund shall only be applied to the payment of principal of and interest on the Certificates, except as otherwise described. If, on any date on which payment of the principal of or interest on the Certificates is due, whether at maturity, upon redemption prior to maturity, upon acceleration, or otherwise, and the amount on deposit in the Certificate Fund is insufficient to make such payment, the Trustee shall transfer without any further instruction or direction from the Debt Service Reserve Fund to the Certificate Fund amounts sufficient to pay any such deficiency. The Trustee shall notify the Issuer of any such transfer.

Moneys in the Debt Service Reserve Fund may be invested as provided in the 2007 Indenture. Any earnings or other income from the investment of moneys in the Debt Service Reserve Fund shall be deposited in the Debt Service Reserve Fund, unless such deposit shall cause the moneys and the value of investments in the Debt Service Reserve Fund to exceed the Reserve Requirement, in which case such interest or other income shall be deposited in the Certificate Fund except as provided below. The moneys and investments in the Debt Service Reserve Fund shall be valued each April 1 and October 1, commencing the first April or October after the funding of the Debt Service Reserve Fund, at their fair market value. In the event that on any such April 1 or October 1 the moneys and the value of investments in the Debt Service Reserve Fund shall exceed the Reserve Requirement, the Trustee shall transfer to the Certificate Fund the amount of any such excess.

In the event there is a shortfall in the Debt Service Reserve Fund as a result of a transfer of amounts from the Debt Service Reserve Fund to the Certificate Fund to pay principal of and interest on the Certificates, the Issuer shall make deposits in the Debt Service Reserve Fund in twelve equal monthly installments, or upon the valuation thereof within 30 days, such that the amounts so deposited, when added to the amounts already on deposit in the Debt Service Fund, will equal the Reserve Requirement. In addition, in connection with any redemption or defeasance, in whole or in part, of the Certificates, if, on the date of such redemption or defeasance, the moneys and value of investments in the Debt Service Reserve Fund exceeds the Reserve Requirement (taking into account such redemption or defeasance), such excess shall be transferred on the date of such redemption or defeasance at the direction of the Issuer for any purpose for which the Issuer shall have delivered to the Trustee a Favorable Opinion of Bond Counsel. Upon an acceleration of the Certificates, the Trustee is authorized and directed to transfer all moneys in the Debt Service Reserve Fund to the Certificate Fund. The Trustee is authorized, without any further direction or instruction from the Issuer, to liquidate investments in the Debt Service Reserve Fund to the extent required to make disbursements therefrom.

(b) In lieu of depositing moneys in the Debt Service Reserve Fund, or in substitution for moneys previously deposited in the Debt Service Reserve Fund, the Issuer may provide the Trustee with a surety bond, a letter of credit or any other similar instrument (a “Reserve Fund Credit Facility”). Any such Reserve Fund Credit Facility shall be in an amount equal to the Reserve Requirement and shall be payable or available to be drawn upon, as the case may be (upon the giving of notice as required thereunder), on any interest payment date or other payment date on the Certificates (whether upon maturity, redemption prior to maturity, acceleration or otherwise) on which a deficiency exists in the moneys held in the Certificate Fund and available for payment. Any such Reserve Fund Credit Facility shall have a term not less than the final maturity date of the Certificates, or may be drawn upon in full upon its expiration date if a substitute letter of credit or surety bond is not in place 15 days prior to its expiration

date. In the event that the Reserve Fund Credit Facility has a term less than the final maturity of the Certificates and a substitute letter of creditor surety bond is not in place 15 days prior to its expiration date, the Trustee shall draw upon the Reserve Fund Credit Facility prior to its expiration date in accordance with the terms.

In connection with furnishing any Reserve Fund Credit Facility to the Trustee, at the time of furnishing such Reserve Fund Credit Facility to the Trustee, the Issuer shall also furnish to the Trustee (i) an opinion of counsel to the issuer of such Reserve Fund Credit Facility to the effect that such Reserve Fund Credit Facility is a valid and binding obligation of the issuer thereof, enforceable in accordance with its terms, subject to usual bankruptcy exceptions, and (ii) if such Reserve Fund Credit Facility is issued by a banking institution other than a domestic commercial bank, an opinion of counsel to the issuer of such Reserve Fund Credit Facility to the effect that no registration of such Reserve Fund Credit Facility is required under the Securities Act of 1933, as amended. Upon receipt of such Reserve Fund Credit Facility and the other items required by this Section, the Trustee shall, to the extent that moneys had previously been deposited with the Trustee in the Debt Service Reserve Fund, transfer such moneys (or any investments held therein) to or upon the order of the Issuer, as the Issuer shall direct; provided, however, the Trustee shall be provided an opinion of Bond Counsel to the effect that such transfer of moneys is authorized or permitted under the terms of the Act and will not, by itself, result in the interest on the Series 2007 Certificates becoming includable in gross income for federal income tax purposes.

Security for Deposits; Investments

Security for Deposits

Any and all moneys received by the Issuer under the provisions of the 2007 Indenture shall be deposited as received by the Trustee and shall be trust funds under the terms hereof and shall not be subject to any lien or attachment by any creditor of the Issuer.

Investments

Subject to the provisions of any law then in effect to the contrary, the Trustee shall invest to the extent reasonably possible all moneys on deposit in the funds and accounts created and established under the 2007 Indenture and held by it in Investment Securities specified from time to time by written direction from an Authorized Issuer Representative. Such investments shall be made so as to mature or be subject to redemption (without penalty) at the option of the owner thereof on or prior to the date or dates that moneys therefrom will be required. The Trustee may trade with itself or its affiliates in the purchase and sale of such Investment Securities and the Trustee shall not be liable or responsible for any loss resulting from any such investment. Such Investment Securities shall be registered in the name of the Trustee except as may be otherwise contemplated by any other provision of the 2007 Indenture. The Trustee may invest in Investment Securities through its own trust department or bond department and moneys may be deposited in time deposits of, or certificates of deposit issued by, the Trustee or its affiliates if such deposits or certificates of deposit otherwise qualify as Investment Securities. The Trustee shall not be responsible for any loss on any investment of moneys pursuant to the 2007 Indenture.

The Trustee shall, without further direction from the Issuer, sell such Investment Securities as and when required to make any payment for the purpose for which such investments are held. Each investment shall be credited to the fund or account for which it is held, subject to any other provision of the 2007 Indenture directing some other credit or disposition thereof, and the income, profits and revenues on such Investment Securities shall be credited to the fund or account for which such investment was made unless otherwise provided in the 2007 Indenture.

The Trustee shall not be responsible for monitoring or determining the yield on any investment, or the payment of any amount that might be required to be paid to the United States with respect to the Certificates under Section 148 of the Code, and may rely conclusively upon the Issuer as to any such determination.

Particular Covenants

Payment of Principal and Interest

The Issuer has covenanted to promptly pay, or cause to be paid, the principal of and the interest on the Certificates at the places, on the dates and in the manner provided in the 2007 Indenture and in the Certificates, according to the true intent and meaning thereof, but only from the Trust Estate. The Issuer further covenants that it will faithfully perform at all times all of its covenants, undertakings and agreements contained in the 2007 Indenture, the Certificates or in any proceedings of the Issuer pertaining thereto. The Issuer represents and warrants that it is duly authorized under the Constitution and laws of the State of Georgia, particularly the Act, to issue the Certificates authorized hereby and to enter into the 2007 Indenture and to pledge the Trust Estate in the manner and to the extent herein set forth; that all action on its part for the issuance of the Certificates initially issued hereunder and the adoption of the 2007 Indenture has been duly and effectively taken; and that the Certificates initially issued hereunder in the hands of the registered owners thereof are and will be valid and enforceable limited obligations of the Issuer according to their terms.

The Certificates do not constitute an indebtedness or a general obligation of the State of Georgia or any political subdivision thereof. The Certificates are payable by the Issuer solely from the Trust Estate pledged to the payment thereof under the 2007 Indenture. No owner of any Certificates shall ever have the right to compel the exercise of the taxing power of the State of Georgia or any political subdivision thereof, INCLUDING Houston County, Georgia, to pay the principal of any Certificate or the interest thereon or any other cost relating thereto or to enforce payment thereof against any property of the State of Georgia or any political subdivision thereof.

Covenant Against Encumbrances

The Issuer has covenanted that it will not voluntarily create any lien, encumbrance or charge upon the Trust Estate, except the lien created under the 2007 Indenture.

Recording and Filing

The Trustee has covenanted that upon reasonable written notice at the specific request of the Issuer, provided sufficient funds are provided by the Obligated Group or the Issuer to pay all costs and expenses, if any, reasonably incurred by the Trustee in connection therewith, it will cause any financing statements furnished by the Issuer to be kept recorded and filed by the Trustee in such manner and in such places as the Issuer shall direct in order fully to preserve and protect the security of the owners of the Certificates and the rights of the Trustee hereunder.

Further Instruments and Actions

The Issuer has covenanted that, at the request of the Trustee, it will execute and deliver such further instruments or take such further actions as may be required to preserve the lien on the Trust Estate.

Tax Covenants

(a) The Issuer has covenanted that it will not take (or fail to take) any action or permit (or fail to permit) any action to be taken on its behalf, or cause or permit any circumstance within its control to arise or continue, if such action or circumstance, or its reasonable expectation on the date of issuance of the Certificates, would cause the interest on the Certificates to be includable in the gross income of owners thereof for federal income tax purposes.

(b) Without limiting the foregoing, the Issuer has covenanted further that, notwithstanding any other provision of the 2007 Indenture or any other instrument, it will neither make nor cause to be made, or permit any investment or other use of the proceeds of the Certificates or any property or investment property financed or refinanced thereby, which use would cause any of the Certificates to be an "arbitrage bond" under Section 148(a) of the Code, bonds described in paragraph (3) or (4) of Section 149(d) of the Code relating to restrictions on advance refundings, or "hedge bonds" under Section 149(g) of the Code. The Issuer has agreed that it will not make or

permit any use of the proceeds of the Certificates or the investment proceeds thereof, or the facilities refinanced thereby, which would cause the interest on the Certificates to become includable in the gross income of the owners of the Certificates.

(c) Without limiting the generality of the foregoing, the Issuer has further agreed for the benefit of the owners of the Certificates as follows:

(i) that, while the 2007 Indenture is in effect, and for such period thereafter as may be required by applicable law, the Issuer will fully comply with all effective rules, rulings and regulations promulgated by the Department of the Treasury or the Internal Revenue Service which are applicable to the Certificates;

(ii) that the Issuer shall take all action required from time to time to comply with the rebate requirements of Section 148(f) of the Code. The Issuer agrees to provide the Trustee with a copy of any reports or returns filed with the Internal Revenue Service or the Department of the Treasury pursuant to Section 148(f) of the Code upon request;

(iii) all property acquired with the proceeds of the Certificates or any income from the investment thereof will be owned by a 501(c)(3) organization as defined in Section 150(a)(4) of the Code or any "governmental unit" within the meaning of Section 150(a)(2) of the Code;

(iv) the proceeds of the Certificates and the income from the investment thereof will be applied such that the Certificates would not be "private activity bonds" within the meaning of Section 141 of the Code if (A) organizations described in Section 501(c)(3) of the Code were treated as governmental units with respect to their activities which do not constitute unrelated trades or business, determined by applying Section 513(a) of the Code, and (B) paragraphs (1) and (2) of Section 141(b) of the Code were applied by substituting five percent for ten percent each place it appears and substituting "net proceeds" for "proceeds" each place it appears;

(v) the amount of the costs of issuance of the Certificates financed from proceeds of the Certificates will not exceed two percent of the sale proceeds of the Certificates;

(vi) the proceeds of the Certificates will be applied to the payment of the cost of the Project so that the average maturity of the Certificates will not exceed 120% of the average reasonably expected economic life of the facilities financed or refinanced with the proceeds of the Certificates (determined in the manner provided in Section 147(b) of the Code);

(vii) none of the proceeds of the Certificates will be used to provide any airplane, skybox or other private luxury box, facility primarily used for gambling or store the principal business of which is the sale of alcoholic beverages for consumption off-premises; and

(viii) the Issuer will not enter into, or permit any other entity to enter into any lease, management agreement, use agreement, hospital-based physician contract or other similar agreement relating to any facilities refinanced with the proceeds of the Series 2007 Certificates unless (i) such agreement complies with the terms of Rev. Proc. 97-14 as supplemented, modified or replaced from time to time, or (ii) the Issuer receives an opinion of counsel experienced in matters relating to Section 103 of the Code to the effect that entering into such agreement will not, by itself, adversely affect the exclusion from gross income of interest on the Certificates for federal income tax purposes.

Trustee Compensation

The Issuer has covenanted to pay the Trustee from time to time, and the Trustee shall be entitled to, reasonable compensation for all services rendered by it in the execution of the trusts hereby created and in the exercise and performance of any of the powers and duties hereunder of the Trustee, which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust, and the Issuer hereby covenants to pay or reimburse the Trustee upon its request for all expenses, disbursements and advances incurred

without limitation or made by or on behalf of the Trustee in accordance with any of the provisions of the 2007 Indenture, including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ, except any such expense, disbursement or advance as may arise from its negligence or misconduct. The Trustee, if and to the extent authorized by a receivership, bankruptcy or other court of competent jurisdiction, shall be entitled (but not obligated) to make advances for the purpose of preserving property the Trust Estate.

Limitation of Liability of Members of Issuer

No covenant, agreement or obligation contained in the 2007 Indenture shall be deemed to be a covenant, agreement or obligation of any member, officer, employee or agent of Issuer in his or her individual capacity, and neither the members of the Issuer nor any officer thereof executing the Certificates shall be liable personally on the Certificates or be subject to any personal liability or accountability by reason of the issuance thereof. No member, officer, employee or agent of Issuer shall incur any personal liability with respect to any other action taken by him or her pursuant to the 2007 Indenture, provided such member, officer, employee or agent acts in good faith.

Financial Statements

The Issuer has covenanted that it will, as soon as practicable but in no event later than 45 days after the end of each fiscal quarter, file or cause to be filed with the Trustee, and to each rating agency then currently rating the Certificates, (i) an internally prepared consolidated revenue and expense statement of the Issuer for such fiscal quarter and (ii) an internally prepared consolidated balance sheet of the Issuer for such fiscal quarter, each accompanied by a certificate signed by an Authorized Issuer Representative to the effect that such financial statements fairly present the financial position of the Issuer as of the end of such fiscal quarter and the Issuer's results of operations for such fiscal quarter.

Defaults and Remedies

Events of Default

If any one or more of the following events occurs, it is defined as and declared to be and to constitute an Event of Default:

- (a) failure to pay any installment of interest on any Certificate when the same shall become due and payable;
- (b) failure to pay the principal of any Certificate when the same shall become due and payable, whether at the stated maturity thereof, or upon proceedings for redemption thereof (including mandatory sinking fund redemption), or upon maturity thereof by declaration or otherwise;
- (c) failure to perform or observe any other of the covenants, agreements or conditions on the part of the Issuer contained in the 2007 Indenture or in the Certificates which default shall continue for the period after notice specified in the 2007 Indenture;
- (d) failure by the Issuer to pay any payment required to be paid hereunder or under the 2007 Master Note on or before the date on which such payment is due and payable;
- (e) failure by the Issuer to observe and perform any covenant, condition or agreement on its part to be observed or performed under the 2007 Indenture other than the failure referred to in (d) hereof for a period of 30 days after written notice specifying such failure and requesting that it be remedied, is given to the Issuer by the Trustee, unless the Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in the notice is correctable but cannot be corrected within the applicable period, the Trustee will not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the Issuer within the applicable period and diligently pursued until such failure is corrected;

(f) a default under the Master Indenture shall have occurred, which default results in the acceleration of the Obligations (as defined therein) issued thereunder.

The foregoing provision (e) is subject to the following limitation: if by reason of force majeure, the Issuer is unable in whole or in part to carry out the agreements on its part herein contained, the Issuer shall not be deemed in default during the continuance of such inability. The term "force majeure" as used herein shall mean, without limitation, the following: acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders or restraints of any kind of the government of the United States of America or of the State or any of their departments, agencies or officials, or any civil or military authority; insurrections; riots; landslides; earthquakes; fires; storms; droughts; floods; explosions; or breakage or accident to machinery, transmission pipes or canals.

Acceleration

Upon the occurrence and continuation of an Event of Default, the Trustee may, and upon the request of the owners of not less than a majority in aggregate principal amount of Certificates then outstanding shall, by notice in writing given to the Issuer, declare the principal amount of all Certificates then outstanding and the interest accrued thereon to be immediately due and payable.

If, at any time after the principal of the Certificates has been so declared to be due and payable but before the Certificates shall have matured by their terms, all overdue installments of principal and interest on the Certificates, together with interest on such overdue installments of principal and (to the extent permitted by law) interest at the highest rate per annum borne by the Certificates and all other sums payable under the 2007 Indenture (except the principal of, and interest accrued since the next preceding interest payment date on the Certificates which have become due and payable solely by virtue of such declaration) are paid by the Issuer, and if the Issuer also pays the reasonable charges of the Trustee in connection with such Event of Default, including attorney's fees actually and reasonably incurred, then, and in every such case, the Trustee may, and upon the request of the holders of not less than 50% in aggregate principal amount of Certificates then outstanding shall, by notice in writing given to the Issuer, rescind such declaration of acceleration and its consequences, and give notices thereof to the Issuer and such rescission shall be binding upon all holders of the Certificates.

Upon rescission of any declaration of acceleration of the Certificates by the Trustee in accordance with this Section, the Issuer, the Trustee and the Certificateholders shall be restored to their former positions and rights hereunder respectively, but no such rescission shall extend to any subsequent or other default or Event of Default, or impair any right consequent thereon.

Legal Proceedings by Trustee

Upon the occurrence and continuation of an Event of Default, the Trustee may, and upon the written request of the holders of not less than 25% in aggregate principal amount of all Certificates then outstanding and receipt of indemnity satisfactory to it shall, in its own name and as the trustee of an express trust:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Certificateholders, including the rights to require the Issuer to enforce any rights under and to carry out any agreements with or for the benefit of the Certificateholders and to perform its duties under the 2007 Indenture;

(b) bring suit upon the Certificates;

(c) by action or suit in equity require the Issuer to account as if it were the trustee of an express trust for the Certificateholders; and

(d) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Certificateholders.

No Remedy Exclusive

No remedy herein conferred upon or reserved to the Trustee or to the Certificateholders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the 2007 Indenture or now or hereafter existing at law or in equity or by statute.

Delay or Omission; No Waiver

No delay or omission of the Trustee or of any Certificateholder to execute any right or power accruing upon any Event of Default shall exhaust or impair any such right or power or shall be construed to be a waiver of any such Event of Default, or acquiescence therein; and every power and remedy given by the 2007 Indenture may be exercised from time to time and as often as may be deemed expedient.

No Waiver of One Default to Affect Another

No waiver of any default under the 2007 Indenture, whether by the Trustee or by the Certificateholders, shall extend to or shall affect any subsequent or other Event of Default, or impair any rights or remedies consequent thereon.

Right of Certificate holders to Direct Proceedings

Subject to certain provisions of the 2007 Indenture, and to the provisions of the Master Trust Indenture, the holders of a majority in principal amount of Certificates shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the 2007 Indenture; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the 2007 Indenture.

Rights and Remedies Vested in Trustee

All rights and remedies (including the right to file proof of claims) under the 2007 Indenture or under any of the Certificates may be enforced by the Trustee without the possession of any of the Certificates or the production thereof in any trial or other proceedings relating thereto; and any such suit or proceeding instituted by the Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any holders of the Certificates; and any recovery of judgment shall be for the equal benefit of the holders of the outstanding Certificates.

Rights and Remedies of Certificateholders

No holder of any Certificate shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the 2007 Indenture, for the execution of any trust thereof or for the enforcement of any other right or remedy hereunder, unless (a) a default has occurred of which the Trustee has been notified as provided in Section 1201(h) hereof, or of which by said subsection it is deemed to have notice, (b) such default shall have become an Event of Default and the holders of not less than 25% in aggregate principal amount of Certificates shall have made written request to the Trustee and shall have offered reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, (c) such Certificateholders have offered to the Trustee indemnity as provided in the 2007 Indenture, and (d) the Trustee shall thereafter fail or refuse to exercise the powers before granted in the 2007 Indenture, or to institute such action, suit or proceeding in its, his or their own name or names. Such notification, request and offer of indemnity are hereby declared in every case at the option of the Trustee to be conditions precedent to the execution of the powers and trusts of the 2007 Indenture, and to any action or cause of action for the enforcement of the 2007 Indenture or for any other right or remedy hereunder. No one or more holders of the Certificates shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the 2007 Indenture by its, his or their action or to enforce any right or remedy hereunder except in the manner herein provided, and all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal benefit of the holders of all Certificates. Nothing in the 2007 Indenture contained shall, however, affect or impair the right of any

Certificateholder to enforce the payment of the principal of and interest on any Certificate at and after the maturity thereof.

Application of Moneys

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the 2007 Indenture remaining after payment of the costs and expenses of the proceedings resulting in the collection of such moneys, the expenses, liabilities and advances incurred or made by the Trustee in connection with such proceedings and the outstanding fees and expenses of the Trustee incurred under the 2007 Indenture shall be deposited in the Certificate Fund and all moneys so deposited in the Certificate Fund during the continuance of an Event of Default (except moneys held in the special account in the Certificate Fund) shall be applied as follows:

First - To the payment to the persons entitled thereto of all installments of interest then due on the Certificates, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

Second - To the payment to the persons entitled thereto of the unpaid principal of any of the Certificates which shall have become due (other than Certificates matured or called for redemption for the payment of which moneys are held pursuant to the provisions of the 2007 Indenture), in the order of their due dates, with interest on such Certificates from the respective dates upon which they become due and, if the amount available shall not be sufficient to pay in full the Certificates due on any particular date, together with such interest, then to the payment ratably, according to the amounts of principal due on such date, to the persons entitled thereto without any discrimination or preference.

Whenever moneys are to be applied pursuant to the provisions of the foregoing, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an interest payment date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the holder of any unpaid Certificate until such Certificate shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever all Certificates and the interest thereon have been paid under the provisions of the foregoing and all expenses and charges of the Trustee have been paid, any balance remaining in the general account in the Certificate Fund shall be paid to the Issuer.

Termination of Proceedings

In case the Trustee shall have proceeded to enforce any right or remedy under the 2007 Indenture and such proceedings shall have been determined adversely, then and in every such case the Issuer and the Trustee shall be restored to their former positions and rights hereunder with respect to the Trust Estate, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

Notice of Defaults; Opportunity of the Issuer to Cure Defaults

No default specified in (c) above under "Events of Default" shall constitute an Event of Default under the 2007 Indenture until notice of such default by registered or certified mail shall be given by the Trustee to the Issuer, and the Issuer shall have had 60 days after receipt of such notice to correct such default or cause said default to be corrected, and shall not have corrected said default or caused such default to be corrected within the applicable period; provided, further, that if a default specified in said subsection (c) be such that it can be corrected but not within the period specified, it shall not constitute the basis of an Event of Default under the 2007 Indenture (i) if corrective action capable of remedying such default is instituted by the Issuer within the applicable period and

diligently pursued until the default is corrected, and (ii) if the Issuer shall within the applicable period furnish to the Trustee a certificate certifying that said default is such that it can be corrected but not within the applicable period and that corrective action capable of remedying such default has been instituted and is being diligently pursued and will be diligently pursued until the default is corrected. The Issuer shall notify the Trustee by certificate executed as above when such default has been corrected. The Trustee shall be entitled to conclusively rely upon any such certificate given pursuant to the foregoing.

With regard to any default concerning which notice is given to the Issuer under the provisions of the foregoing, the Issuer hereby grants to the Obligated Group full authority to perform any obligation the performance of which by the Issuer is alleged in said notice to be in default, such performance by the Obligated Group to be in the name and stead of the Issuer with full power to do any and all things and acts to the same extent that the Issuer could do and perform any such things and acts and with power of substitution.

Discharge of Indenture

Discharge of Indenture

If the Issuer shall pay or cause to be paid the principal of and interest on all of the Certificates at the time and in the manner stipulated therein and in the 2007 Indenture, and if the Issuer shall keep, perform and observe all and singular the covenants and agreements in the Certificates and in the 2007 Indenture expressed as to be kept, performed and observed by it or on its part, and if provision for payment of all Trustee's and paying agents' fees and expenses due or to become due in connection with the payment of the Certificates has been made in a manner satisfactory to the Trustee and such paying agents, then these presents and the Trust Estate shall cease, terminate and be discharged and satisfied, and thereupon the Trustee shall cancel and discharge the 2007 Indenture, and reconvey to the Issuer such instruments in writing as shall be required to cancel and discharge the 2007 Indenture, and reconvey to the Issuer so much of the Trust Estate as may be in its possession or subject to its control, except moneys or Governmental Obligations deposited with the Trustee pursuant to the paragraph below, moneys required to be paid to the Issuer pursuant to the paragraph below, certain other moneys required to be paid to the Issuer pursuant to the 2007 Indenture and moneys held by the Trustee in the special account in the Certificate Fund for the payment of principal of and interest on the Certificates not yet presented for payment.

Provisions for Payment of Certificates

The Certificates of any series or any maturity or maturities of any series shall be deemed to have been paid within the meaning of the 2007 Indenture and shall cease to be entitled to the lien of the 2007 Indenture if the Issuer, or the Obligated Group, acting on behalf of the Issuer, shall (i) deposit irrevocably with the Trustee either moneys in an amount which shall be sufficient, or Government Obligations the principal of and interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited in connection therewith, shall be sufficient, to pay when due the principal of and interest on, such Certificates due and to become due on and prior to the redemption date or maturity date thereof and to pay all Trustee's and paying agents' fees and expenses due hereunder (unless provision for such payment satisfactory to the Trustee and any paying agents shall have been made); (ii) deliver to the Trustee an opinion of nationally recognized bond counsel satisfactory to, and addressed to the Issuer and the Trustee, to the effect that the pledge of Government Obligations to the payment of the Certificates will not, by itself, result in the interest on any Certificates becoming includable in gross income for federal income tax purposes under the Code and the Certificates are no longer outstanding under the 2007 Indenture; (iii) deliver to the Trustee a report of an independent firm of nationally recognized certified public accountants or such other accountants as shall be determined by the Issuer verifying the sufficiency of the amount deposited in (i) above to pay the Certificates in full on the maturity date or the redemption date; and (iv) make adequate provision for any redemption of such Certificates and for the giving at the proper time of the proper notice of any such redemption as in the 2007 Indenture provided. Neither the Government Obligations nor the moneys deposited with the Trustee pursuant to this Section nor the principal or interest payments on such Government Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of and interest on, such Certificates; provided that any cash receipts from such principal or interest payments on such Government Obligations deposited with the Trustee, (i) to the extent that such cash will not be required at any time for the purpose of paying the principal of and interest on, such Certificates, shall be paid over to the Issuer as received by the Trustee, at the written direction of the Authorized Issuer Representative, free

and clear of any trust, lien or pledge, and (ii) to the extent such cash will be required for the payment of such principal and interest at a later date, shall, to the extent practicable, be reinvested in Government Obligations at the written direction of the Authorized Issuer Representative maturing at times and in amounts sufficient to pay when due the principal of and interest on, such Certificates on and prior to such redemption date or maturity date thereof, as the case may be, and the interest earned from such reinvestment which is not required for such payments shall be paid over to the Issuer as received by the Trustee, free and clear of any trust, lien or pledge.

Limitations elsewhere specified in the 2007 Indenture regarding the investment of moneys held by the Trustee in the special account in the Certificate Fund shall not be construed to prevent the depositing and holding in said special account of the Government Obligations described in the preceding paragraph for the purpose of discharging the lien of the 2007 Indenture as to Certificates which have not yet become due and payable.

Supplemental Indentures

Supplemental Indentures Not Requiring Consent of Certificateholders

The Issuer and the Trustee may without the consent of, or notice to, any of the Certificateholders, enter into such Supplemental Indentures as shall not be inconsistent with the terms and provisions hereof for any one or more of the following purposes:

- (a) to cure any ambiguity or formal defect or omission in the 2007 Indenture;
- (b) to grant to or confer upon the Trustee for the benefit of the Certificateholders any additional rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Certificateholders or the Trustee or either of them;
- (c) to subject to the pledge of the 2007 Indenture additional revenues, properties or collateral;
- (d) to issue Additional Certificates;
- (e) to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended, or any similar federal statute hereafter in effect, in either case lawfully made applicable to the 2007 Indenture;
- (f) in connection with any other change therein which, in the sole opinion of the Trustee, is not contrary to or inconsistent with the 2007 Indenture and is not to the prejudice of the interests of the Trustee or the Certificateholders; or
- (g) in connection with any change in the membership of the Obligated Group pursuant to the Master Indenture, in order to modify, clarify, grant to or confer upon the Issuer or the Person or group of Person becoming members of the Obligated Group the rights, remedies, powers, authorities or obligations on the part of the Issuer or such Person or Persons becoming members of the Obligated Group under the 2007 Indenture, the Master Indenture or any related Obligation issued hereunder or thereunder.

Supplemental Indentures Requiring Consent of Certificateholders

Exclusive of Supplemental Indentures covered by the previous section and subject to the terms and provisions contained in this section, and not otherwise, the holders of not less than a majority in aggregate principal amount of the Certificates shall have the right, from time to time, anything contained in the 2007 Indenture to the contrary notwithstanding, to consent to and approve of the execution by the Issuer and the Trustee of such Supplemental Indentures as shall be deemed necessary or desirable by the Issuer for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the 2007 Indenture or in any Supplemental Indenture; provided, however, that nothing shall permit, or be construed as permitting (a) an extension of the maturity date or mandatory sinking fund redemption date on which the principal of or the interest on any Certificate is, or is to become, due and payable, (b) a reduction in the principal amount of any Certificate or the rate of interest thereon, (c) a preference or priority of any outstanding Certificate or

Certificates over any other outstanding Certificate or Certificates or (e) a reduction in the principal amount of the Certificates required for consent to any such Supplemental Indenture.

If the Issuer shall request the Trustee to enter into any such Supplemental Indenture for any of the purposes of this section, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such Supplemental Indenture to be by first class mail, postage prepaid, to the registered owners of all Certificates. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that copies thereof are on file at the principal office of the Trustee for inspection by all Certificateholders at the expense of the Issuer. If, within sixty (60) days or such longer period as shall be prescribed by the Issuer following the mailing of such notice, the holders of not less than a majority in aggregate principal amount of the Certificates shall have consented to and approved the execution of such Supplemental Indenture as herein provided, no holder of any Certificate shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Issuer from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such Supplemental Indenture as in this Section permitted and provided, the 2007 Indenture shall be modified and amended in accordance therewith.

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APPENDIX D

FORM OF OPINION OF BOND COUNSEL

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1897-1905

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1963-1967

JOSEPH M. OLIVER
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1918-1984

JULIAN R. FRIEDMAN (GA & SC)
OF COUNSEL

[Date of Issuance]

Hospital Authority of Houston County
Warner Robins, Georgia

[Draft]

U.S. Bank National Association, as Trustee
Atlanta, Georgia

Re: \$_____ Hospital Authority of Houston County, Georgia Revenue
Anticipation Certificates (Houston Healthcare Project), Series 2007 (the "Series 2007
Certificates")

To the Addressees:

We have acted as bond counsel in connection with the issuance by the Hospital Authority of Houston County (the "Authority") of its revenue anticipation certificates, described as Hospital Authority of Houston County, Georgia Revenue Anticipation Certificates (Houston Healthcare Project), Series 2007 (the "Series 2007 Certificates").

The Series 2007 Certificates are being issued for the purpose of financing the acquisition, construction, installation and equipping of certain additions and improvements to Houston Medical Center and related facilities ("Houston Healthcare"), which is owned by the Authority, and paying all or a portion of the costs of issuance of the Series 2007 Certificates.

The Series 2007 Certificates are being issued pursuant to the Hospital Authorities Law of the State of Georgia, codified in the Official Code of Georgia Annotated O.C.G.A. § 31-7-70 et seq. (the "Act"), a resolution of the Authority adopted on July 25, 2007 (the "Resolution"), and a Trust Indenture, relating to the Series 2007 Certificates, dated as of August 1, 2007 (the "2007 Indenture"), between the Authority and U.S. Bank National Association, in its capacity as trustee for the Series 2007 Certificates (the "2007 Trustee"). The Series 2007 Certificates are being sold to Wachovia Bank, National Association (the "Underwriter") pursuant to a Certificate Purchase Agreement, dated August __, 2007 (the "Purchase Agreement"), among the Authority, Houston Heart Institute ("HHI"), a Georgia non-profit corporation, and the Underwriter.

The Authority and HHI, as the initial members of an obligated group (the "Obligated Group") have executed and delivered a Master Note relating to the Series 2007 Certificates, dated the date of this opinion (the "2007 Master Note"), under which the Obligated Group has agreed to make

payments sufficient to provide for the payment of the principal of, redemption premium (if any) and interest on the Series 2007 Certificates as the same become due and payable.

The 2007 Master Note is secured under the Master Trust Indenture, dated as of August 1, 2007 (the “Original Master Indenture”) between and among the Obligated Group and U.S. Bank National Association, as master trustee (in such capacity, the “Master Trustee”), as supplemented by the First Supplemental Master Trust Indenture, dated as of August 1, 2007 between the initial members of the Obligated Group and the Master Trustee (the Original Master Indenture, as so supplemented and amended, the “Master Indenture”). The Master Indenture permits additional entities to become members of the Obligated Group under the Master Indenture under certain circumstances, and permits withdrawals from the Obligated Group under certain circumstances. Under the Master Indenture, each member of the Obligated Group has agreed, among other things to guarantee the obligations of each other member of the Obligated Group secured under the Master Indenture, subject to the “Maximum Guaranty Liability” (as defined therein). In addition, the Obligated Group has pledged to the Master Trustee to secure Obligations (as defined in the Master Indenture) issued from time to time under the Master Indenture the trust estate created thereunder, including the Gross Revenues (as defined in the Master Indenture) of the members of the Obligated Group. Under the terms of the Master Indenture, additional Obligations may be issued and secured thereunder from time to time in accordance with the terms of the Master Indenture which rank on a parity as to the lien on the trust estate created thereunder with the lien thereon created in favor of the 2007 Master Note. Other Obligations are presently secured under the Master Indenture by a master note (the “2002 Master Note”) in favor of Wachovia Bank, National Association (“Wachovia”), as issuer of a letter of credit securing payment of principal and interest due on the Authority’s Tax-Exempt Adjustable Mode Revenue Bonds, Series 2002 (the “Series 2002 Certificates”) which are presently outstanding in the aggregate principal amount of \$7,610,000. The 2002 Master Note provides for payments to Wachovia to reimburse Wachovia for payments made under its letter of credit to pay amounts due on the Series 2002 Certificates.

The 2002 Master Note and the 2007 Master Note are secured on a parity with each other under the Master Indenture to share, together with any future Obligations issued under the Master Indenture, a lien on the Gross Revenues of the Obligated Group.

Under the 2007 Indenture, the Authority has assigned to the 2007 Trustee and pledged to the payment of the Series 2007 Certificates the trust estate (the “Trust Estate” as to the Series 2007 Certificates”) which includes (i) all right, title and interest of the Authority in and to the 2007 Master Note, (ii) all right, title and interest of the Authority in and to all moneys and securities held by the Trustee in any and all funds established from time to time under the 2007 Indenture, and (iii) any and all other property of every name and nature from time to time hereafter by delivery or by writing of any kind, given, granted, pledged and assigned as and for additional security under the 2007 Indenture, by the Authority or by anyone in its behalf or with its written consent, to the Trustee, which is authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms of the 2007 Indenture.

The Series 2007 Certificates are subject to registration of transfer and exchange and to optional and mandatory sinking fund redemption at the times, in the manner and on the terms

specified in the 2007 Indenture. The Series 2007 Certificates are being issued by means of a book-entry system and interest is payable on the Series 2007 Certificates on April 1 and October 1 of each year, beginning October 1, 2007.

As to questions of fact material to our opinion, we have relied upon (i) representations of the Obligated Group, (ii) certified proceedings and other certifications of public officials furnished to us, (iii) certifications by officials of the Obligated Group relating to, among other things, the use of the proceeds of the Series 2007 Certificates.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement, dated August ____, 2007 (the "Official Statement") relating to the Series 2007 Certificates or any other offering material relating to the Series 2007 Certificates, and we express no opinion relating thereto. We express no opinion as to compliance by the Authority or the Underwriter with any federal or state statute, rule or regulation which may be applicable to the offer or sale of the Series 2007 Certificates.

We express no opinion as to (i) the existence, corporate status or good standing of HHI, (ii) the corporate authority of HHI to enter into the Master Indenture or any other agreement executed by HHI in connection with the issuance or sale of the Series 2007 Certificates (the "Obligated Group Documents"), (iii) the authorization, execution or delivery by, or the enforceability against, HHI of the Obligated Group Documents, (iv) the validity or priority of the lien created under the Master Indenture on the trust estate created thereunder as it relates to HHI, or (v) the status of HHI as entity described in Section 501(c)(3) of the Internal Revenue Code of 1986 as amended (the "Code"). As to such matters, we refer you to the opinion of Walker, Hulbert, Gray & Byrd, LLC, dated the date of this opinion.

Based upon our examination, we are of the opinion, as of the date hereof and under existing law as follows:

1. The Authority is a public body corporate and politic of the State of Georgia with full power and authority to issue and sell the Series 2007 Certificates and to execute, deliver and perform its obligations under the Master Indenture and the 2007 Indenture.
2. The Master Indenture and the 2007 Indenture have been duly authorized, executed and delivered by the Authority and constitute valid and binding obligations of the Authority enforceable upon the Authority. The 2007 Indenture creates a valid security interest or lien on the Trust Estate pledged to the payment of the Series 2007 Certificates.
3. The Series 2007 Certificates have been duly authorized, executed and delivered by the Authority and are valid and binding limited obligations of the Authority, secured by the 2007 Indenture and payable by the Authority from the Trust Estate pledged to the payment thereof.
4. Under existing statutes, rulings and court decisions, and under applicable regulations and proposed regulations, the interest on the Series 2007 Certificates is not includable in gross income for federal income tax purposes and is not an item of tax preference for purposes of the

federal alternative minimum tax imposed on individuals and corporations; however, with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on such corporations. We express no opinion regarding any other federal tax consequences caused by the receipt or accrual of interest on, or ownership of, the Series 2007 Certificates. In rendering this opinion, we have assumed continuing compliance by the Obligated Group with their covenants regarding certain requirements of the Code that must be satisfied subsequent to the issuance of the Series 2007 Certificates in order that the interest on the Series 2007 Certificates be, and continue to be, excluded from gross income for federal income tax purposes. Failure to comply with such covenants could cause interest on the Series 2007 Certificates to be included in federal gross income retroactive to the date of issuance of the Series 2007 Certificates.

5. Under existing statutes, the interest on the Series 2007 Certificates is exempt from all present State of Georgia income taxation.

The rights of the owners of the Series 2007 Certificates and the enforceability of the Series 2007 Certificates, the Master Indenture, and the 2007 Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditor's rights generally and principles of equity applicable to the availability of specific performance or other equitable relief. We have not undertaken to notify any addressee of this opinion or any other person of any change in law or fact after the date of this opinion which might affect any of the opinions expressed herein.

Respectfully submitted,

OLIVER MANER & GRAY LLP

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “Disclosure Agreement”), dated August 8, 2007, is executed and delivered by the HOSPITAL AUTHORITY OF HOUSTON COUNTY, GEORGIA, a public body corporate and politic (the “Authority”), in connection with the issuance of the \$72,055,000 Hospital Authority of Houston County, Georgia Revenue Anticipation Certificates (Houston Medical Center Project), Series 2007 (the “Series 2007 Certificates”). The Series 2007 Certificates are being issued pursuant to and secured pursuant to a Master Trust Indenture, dated as of August 1, 2007, between the Authority and U.S. Bank National Association (the “Master Trustee”), as supplemented by various supplemental trust indentures, including a First Supplemental Trust Indenture, dated as of August 1, 2007 (as so supplemented, the “Indenture”). The parties hereto covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the parties hereto for the benefit of the Certificateholders and in order to assist the Participating Underwriter in complying with the Rule (defined below).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined herein, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Authority pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Dissemination Agent” shall mean any person or persons as the Authority shall designate from time to time pursuant to Section 7 herein.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board, or any successor thereto. Currently, the MSRB’s address is:

Municipal Securities Rulemaking Board
1150 18th Street, N.W.
Suite 400
Washington, DC 20036
Attn: Disclosure

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories:

Bloomberg Municipal Repositories
100 Business Park Drive
Skillman, New Jersey 08558
Telephone: (609) 279-3225
Facsimile: (609) 279-5962
Email: Munis @ Bloomberg.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street
45th Floor
New York, New York 10041
Telephone: (212) 438-4595
Facsimile: (212) 438-3975
Email: nrmsir_repository@sandp.com

DPC Data, Inc.
One Executive Drive
Fort Lee, New Jersey 07024
Telephone: (201) 346-0701
Facsimile: (201) 947-0107
Email: nrmsir@dpcdata.com

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, New York 10038
Telephone: (212) 771-6999
Facsimile: (212) 771-7390
Email: NRMSIR@FTID.com

“Participating Underwriter” shall mean Wachovia Bank, National Association, as underwriter for the Series 2007 Certificates.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of Georgia, which is the state where the Authority is located.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The Authority shall, or shall cause the Dissemination Agent (if any) to, not later than one hundred twenty days after the end of each fiscal year of the Authority, commencing on February 28, 2008, provide to each Repository an Annual Report. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement. The Authority shall furnish audited financial statements as part of the Annual Report; provided, however, if audited financial statements are unavailable, unaudited financial statements may be submitted together with a statement indicating the date on which the audited financial statements will be submitted, as long as such audited financial statements are furnished when such audited financial statements become available.

(b) The Authority, or the Dissemination Agent (if any), shall:

(i) determine each year prior to the date for providing the Annual Reports the name and address of each National Repository and each State Repository, if any and the MSRB; and

(ii) if any of the Annual Reports (or the audited financial statements which were to be submitted separately) are not submitted by the Authority by the date required in subsection (a), send a notice to each Repository and the MSRB in substantially the form attached as Exhibit A;

SECTION 4. Content of Annual Reports. The Authority’s Annual Report shall contain or incorporate by reference the following:

(a) If audited financial statements are not yet available, the unaudited consolidated financial statements of the Authority and when audited financial statements are available, the consolidated financial statements of the Authority, both such types of financial statements to be prepared in conformity with generally accepted accounting principles, as in effect from time to time. Such financial statements shall be accompanied by an

audit report resulting from an audit conducted by an independent certified public accountant or firm of independent certified public accountants in conformity with generally accepted auditing standards.

(b) If the accounting principles changed from the previous fiscal year and if such changes are material, a description of the impact of the change as required by Section 8 of this Disclosure Certificate.

(c) A statement indicating that the fiscal year has not changed, or, if the fiscal year has changed, a statement indicating the new fiscal year.

(d) The information set forth in the Official Statement under the heading “Historical Debt Service Coverage of Maximum Annual Debt Service” and in Appendix A of the Official Statement under the headings “Utilization Data,” “Sources of Patient Revenues,” “Historical Summary of Revenues and Expenses” and “Historical Summary of Balance Sheet Items.”

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Authority is an “obligated person” (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Authority shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related default;
- (iii) unscheduled draws on the debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) modifications to rights of security holders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the securities; or
- (xi) rating changes.

(b) Whenever the Authority obtains knowledge of the occurrence of a Listed Event, the Authority shall, within five Business Days, determine if such event would constitute material information for holders of Series 2007 Certificates.

(c) If the Authority determines that knowledge of the occurrence of a Listed Event would be material, the Authority, or the Dissemination Agent (if any), shall, within five Business Days, file a notice of such occurrence with each Repository or the MSRB and the State Depository, if any. Notice of Listed Events described in subsections (a)(viii) and (ix) shall be disseminated automatically, and such notice need not be given under this

subsection any earlier than the notice (if any) of the underlying event is given to the registered owners of affected Series 2007 Certificates pursuant to the Indenture.

(d) The content of any notice of the occurrence of a Listed Event shall be determined by the Authority and shall be in substantially the form attached as Exhibit B or Exhibit C, as applicable.

SECTION 6. Termination of Reporting Obligation. The Authority's obligations under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Series 2007 Certificates. If the Authority's obligations are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Authority, and the Authority shall have no further responsibility hereunder.

SECTION 7. Dissemination Agent. The Authority may, from time to time, appoint a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and the Authority may, from time to time, discharge the Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not a designated Dissemination Agent, the Authority shall be the Dissemination Agent.

SECTION 8. Amendment; Waiver. This Disclosure Agreement may not be amended unless:

(a) The amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature, or status of the obligated person, or type of business conducted; and

(b) The amendment does not materially impair the interests of the holders of the Series 2007 Certificates, as determined by the Authority, or the holders of a majority in aggregate principal amount of the outstanding Series 2007 Certificates approve the amendment.

In the event that this Disclosure Agreement is amended, the notice of a Listed Event pursuant to Section 5(a)(vii) hereof shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided in the applicable Annual Report. If an amendment is made in this Disclosure Agreement which allows for a change in the accounting principles to be used in preparing financial statements, the applicable Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and impact of the change in the accounting principles on the presentation of the financial information. A notice of the change in the accounting principles shall be deemed to be material and shall be sent to each Repository or to the MSRB and the State Repository, if any.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Authority shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Any filing under this Disclosure Agreement may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at www.disclosureusa.org unless the United States Securities and Exchange Commissioner has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

SECTION 10. Default. In the event of a failure of any party to comply with any provision of this Disclosure Agreement, the Participating Underwriter or any holder of Series 2007 Certificates may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Authority

to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture or Series 2007 Certificates, and the sole remedy under this Disclosure Agreement in the event of any failure of any party to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent (if any) shall not be responsible for the preparation or contents of any Annual Report or the contents of any notice of the occurrence of a Listed Event (other than a Listed Event described in subsections (a)(viii) or (a)(ix) of Section 5 hereof) or any additional information furnished pursuant to Section 9 hereof. The Dissemination Agent (if any) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Authority agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or wilful misconduct. The Dissemination Agent may consult with legal counsel (who may, but need not, be legal counsel for any party hereto, the Authority), and the opinion of such legal counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such legal counsel. The obligations of the Authority under this Section shall survive resignation or removal of any Dissemination Agent and payment of the Series 2007 Certificates.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Participating Underwriter and the holders from time to time of the Series 2007 Certificates, and shall create no rights in any other person or entity.

SECTION 13. Intermediaries; Expenses. The Dissemination Agent (if any) is hereby authorized to employ intermediaries to carry out its obligations hereunder. The Dissemination Agent shall be reimbursed immediately for all such reasonable expenses and any other reasonable expense incurred hereunder (including, but not limited to, attorney's fees).

Notwithstanding anything else herein contained, none of the provisions of this Agreement shall require any Dissemination Agent to expend or risk their own funds or otherwise incur financial liability in the performance of any of their respective duties or obligations, or the exercise of any of their respective rights or powers, hereunder.

SECTION 14. Effective Date. The terms of this Disclosure Agreement shall be effective upon the issuance of the Series 2007 Certificates.

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 16. Governing Law. This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of Georgia.

SECTION 17. Severability. In case any one or more of the provisions of this Disclosure Agreement shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Disclosure Agreement, but this Disclosure Agreement shall be construed and enforced as if such illegal or invalid provision had not been contained herein.

HOSPITAL AUTHORITY OF
HOUSTON COUNTY, GEORGIA

(SEAL)

By: _____
Chairman

Attest:

By: _____
Secretary

EXHIBIT A

NOTICE TO REPOSITORIES AND MSRB
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Hospital Authority of Houston County, Georgia
Name of Issue: \$_____ Hospital Authority of Houston County, Georgia
Revenue Anticipation Certificates (Houston Medical Center Project), Series 2007
CUSIP Number¹ _____
Date of Issuance: _____, 2007

NOTICE IS HEREBY GIVEN that the Hospital Authority of Houston County, Georgia (the “Authority”) has not provided an Annual Report due with respect to the above-named Series 2007 Certificates as required by Section 3 of the Continuing Disclosure Agreement, dated as of August __, 2007, by the Authority. [The Authority anticipates that the Annual Report will be filed by _____.]

This notice is based on the best information available at the time of dissemination. Any questions regarding this notice should be directed to _____.

Dated: _____

Hospital Authority of Houston County, Georgia

¹ No representation is made as to the correctness of the CUSIP number either as printed on the Series 2007 Certificates or as contained herein, and reliance may only be placed on other Series 2007 Certificate identification contained herein.

EXHIBIT B

NOTICE TO REPOSITORIES [AND MSRB]
OF THE OCCURRENCE OF [INSERT THE LISTED EVENT]

Relating to

\$ _____
HOSPITAL AUTHORITY OF HOUSTON COUNTY, GEORGIA
REVENUE ANTICIPATION CERTIFICATES
(HOUSTON MEDICAL CENTER PROJECT),
SERIES 2007

DATE OF ISSUANCE: _____, 2007

CUSIP NUMBERS¹ _____

Notice is hereby given that [insert the Listed Event] has occurred. [Describe circumstances leading up to the event, action being taken and anticipated impact.]

This notice is based on the best information available at the time of dissemination and is not guaranteed as to accuracy or completeness. Any questions regarding this notice should be directed to [insert instructions for presenting securities, if applicable].

[Notice of the Listed Events described in Section 5(a)(ix) shall include the following:

The Authority hereby expressly reserves the right to redeem such refunded or defeased certificates prior to their stated maturity date in accordance with the optional/extraordinary redemption provisions of said defeased certificates.

OR

The Authority hereby covenants not to exercise any optional or extraordinary redemption provisions under the Indenture; however, the sinking fund provision will survive the defeasance.

AND

The Series 2007 Certificates have been defeased to [maturity/the first call date, which is _____]. This notice does not constitute a notice of redemption and no Series 2007 Certificates should be delivered to the Trustee as a result of this mailing. A Notice of Redemption instructing you where to submit your certificates for payment will be mailed _____ to _____ days prior to the redemption date.]

Dated: _____

Hospital Authority of Houston County, Georgia

¹ No representation is made as to the correctness of the CUSIP number either as printed on the Series 2007 Certificates or as contained herein, and reliance may only be placed on other Series 2007 Certificate identification contained herein.

EXHIBIT C

NOTICE TO REPOSITORIES [AND MSRB]
OF THE OCCURRENCE OF [INSERT THE LISTED EVENT]

Relating to

\$ _____
HOSPITAL AUTHORITY OF HOUSTON COUNTY, GEORGIA
REVENUE ANTICIPATION CERTIFICATES
(HOUSTON MEDICAL CENTER PROJECT),
SERIES 2007

DATE OF ISSUANCE: _____, 2007

CUSIP NUMBERS¹ _____

Notice is hereby given that [insert the Listed Event] has occurred. [Describe circumstances leading up to the event, action being taken and anticipated impact.]

This notice is based on the best information available at the time of dissemination and is not guaranteed as to accuracy or completeness. Any questions regarding this notice should be directed to [insert instructions for presenting securities, if applicable].

Dated: _____

Hospital Authority of Houston County, Georgia

¹ No representation is made as to the correctness of the CUSIP number either as printed on the Series 2007 Certificates or as contained herein, and reliance may only be placed on other Series 2007 Certificate identification contained herein.

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HOUSTON HEALTHCARE
Houston Medical Center • Perry Hospital

