

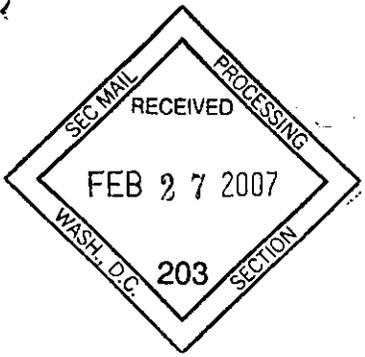
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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

SEC FILE NUMBER  
8-46677

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 1/01/06 AND ENDING 12/31/2006  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: SCA Development, Inc.

OFFICIAL USE ONLY  
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

One HealthSouth Parkway

(No. and Street)

Birmingham

Alabama

35243

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Lisa Byrd, President

(205) 970-5599

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Donaldson, Holman & West, P.C.

(Name - if individual, state last, first, middle name)

3500 Blue Lake Drive, Suite 325

Birmingham

Alabama

35243

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

**PROCESSED**

MAR 14 2007

**FOR OFFICIAL USE ONLY** THOMSON FINANCIAL

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

mm

OATH OR AFFIRMATION

I, Lisa Byrd, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of SCA Development, Inc., as of December 31, 20 06, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_

\_\_\_\_\_

Lisa Byrd  
Signature  
President  
Title

Vanna O. Zimmerman  
Notary Public 11/9/10

This report \*\* contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



**SCA DEVELOPMENT, INC.**

(A wholly owned subsidiary of HealthSouth Corporation)

Financial Statements  
and  
Supplementary Information  
Year ended December 31, 2006

**DH&W**

Donaldson, Holman & West, P.C.  
Certified Public Accountants

**SCA DEVELOPMENT, INC.**  
(A wholly owned subsidiary of HealthSouth Corporation)

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Donaldson, Holman & West, P.C.

Certified Public Accountants • Business and Financial Consultants

**INDEPENDENT AUDITORS' REPORT**

Board of Directors and Stockholder  
SCA Development, Inc.  
Birmingham, Alabama

We have audited the accompanying statement of the financial condition of SCA Development, Inc. (a wholly owned subsidiary of HealthSouth Corporation) (the "Company"), as of December 31, 2006, and the related statements of operations, changes in stockholder's equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company, as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule I is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in our 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.

February 12, 2007

**SCA DEVELOPMENT, INC.**

(A wholly owned subsidiary of HealthSouth Corporation)

**Statement of Financial Condition  
December 31, 2006****Assets**

Cash	\$810,630
Prepaid expenses	<u>32,410</u>
<b>Total assets</b>	<b><u><u>\$843,040</u></u></b>

**Liabilities and Stockholder's Equity****Liabilities**

Payable to HealthSouth Corporation	<u>\$199,079</u>
	<u>199,079</u>

Commitments and contingencies

**Stockholder's equity**

Common stock, \$.01 par value; 1,000 shares authorized, issued and outstanding	10
Additional paid-in capital	39,990
Retained earnings	<u>603,961</u>
	<u>643,961</u>

<b>Total liabilities and stockholder's equity</b>	<b><u><u>\$843,040</u></u></b>
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See accompanying notes to financial statements.

**SCA DEVELOPMENT, INC.**

(A wholly owned subsidiary of HealthSouth Corporation)

**Statement of Operations**  
**Year ended December 31, 2006**

<b>Revenues</b>	
Commissions	<u>\$546,587</u>
<b>Expenses</b>	
Salaries and benefits	178,322
Professional fees	138,181
Membership and filing fees	24,104
Insurance	98,079
Delivery expense	44,211
Other operating expenses	<u>688</u>
	<u>483,585</u>
Interest income	<u>(15,892)</u>
Income before provision for income taxes	78,894
Provision for income taxes (allocated from parent company)	<u>31,062</u>
Net income	<u><u>\$ 47,832</u></u>

See accompanying notes to financial statements.

**SCA DEVELOPMENT, INC.**  
(A wholly owned subsidiary of HealthSouth Corporation)

**Statement of Changes in Stockholder's Equity**  
**Year ended December 31, 2006**

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retaind Earnings</u>	<u>Total Stockholder's Equity</u>
Balance, beginning of year	\$ 10	\$ 39,990	\$556,129	\$ 596,129
Net income	<u>-</u>	<u>-</u>	<u>47,832</u>	<u>47,832</u>
Balance, end of year	<u>\$ 10</u>	<u>\$ 39,990</u>	<u>\$603,961</u>	<u>\$ 643,961</u>

See accompanying notes to financial statements.

**SCA DEVELOPMENT, INC.**

(A wholly owned subsidiary of HealthSouth Corporation)

**Statement of Cash Flows**  
**Year ended December 31, 2006****Cash flows from operating activities**

Net income	<u>\$ 47,832</u>
Adjustments to reconcile net income to net cash provided by operating activities:	
Increase in operating assets:	
Prepaid expenses	(4,194)
Decrease in operating liabilities:	
Accounts payable and accrued expenses	<u>(746)</u>
Total adjustments	<u>(4,940)</u>
<b>Net cash provided by operating activities</b>	<u>42,892</u>

**Cash flows used in financing activities**

Decrease in payable to HealthSouth Corporation	<u>(27,000)</u>
<b>Net cash used in financing activities</b>	<u>(27,000)</u>

**Net increase in cash** 15,892

## Cash

Beginning of year	<u>794,738</u>
End of year	<u><u>\$810,630</u></u>

See accompanying notes to financial statements.

**SCA DEVELOPMENT, INC.**  
(A wholly owned subsidiary of HealthSouth Corporation)

Notes to Financial Statements  
December 31, 2006

**Note 1—Description of business and significant accounting policies**

**Nature of business**

SCA Development, Inc. (the “Company”) was incorporated under the laws of Tennessee in June 1993 to sell direct participation programs, primarily limited partnership interests in outpatient health care facilities located throughout the United States of America, to practicing physicians. The Company is authorized to act as a broker or dealer in securities pursuant to Section 15(b) of the Securities Exchange Act of 1934 and is a member of the National Association of Securities Dealers, Inc. The Company carries no customer funds or securities and therefore is exempt from Rule 15c3-3 of the United States Securities and Exchange Commission (the “SEC”). The Company is a wholly owned subsidiary of HealthSouth Corporation (“HealthSouth”) and is included in the consolidated financial statements of HealthSouth. The Company operates from HealthSouth’s corporate headquarters located in Birmingham, Alabama.

**Basis of presentation**

The accompanying financial statements of the Company have been prepared under the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

**Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

**Risks and uncertainties**

HealthSouth operates in a highly regulated industry and is required to comply with extensive and complex laws and regulations at the federal, state, and local government levels. These laws and regulations relate to, among other things:

- Licensure, certification, and accreditation,
- Coding and billing for services,
- Relationships with physicians and other referral sources, including physician self-referral and anti-kickback laws,
- Quality of medical care,

**SCA DEVELOPMENT, INC.**  
(A wholly owned subsidiary of HealthSouth Corporation)

Notes to Financial Statements  
December 31, 2006

- Use and maintenance of medical supplies and equipment,
- Maintenance and security of medical records,
- Acquisition and dispensing of pharmaceuticals and controlled substances, and
- Disposal of medical and hazardous waste.

Many of these laws and regulations are expansive, and HealthSouth does not have the benefit of significant regulatory or judicial interpretation of them. In the future, different interpretations or enforcement of these laws and regulations could subject HealthSouth's current or past practices to allegations of impropriety or illegality or could require HealthSouth to make changes in its investment structure, facilities, equipment, personnel, services, capital expenditure programs, operating procedures, and contractual arrangements.

If HealthSouth is deemed to have failed to comply with applicable laws and regulations, it could be subjected to liabilities, including (1) criminal penalties, (2) civil penalties, including monetary penalties and the loss of its licenses to operate one or more of its facilities, and (3) exclusion or suspension of one or more of its facilities from participation in the Medicare, Medicaid, and other federal and state health care programs.

HealthSouth is a party to a number of lawsuits. HealthSouth cannot predict the outcome of any litigation. Substantial damages or other monetary remedies assessed against HealthSouth could have a material adverse effect on HealthSouth and the Company's business, financial position, results of operations, and cash flows. In addition, given the nature of HealthSouth's business, they are subject from time to time to various other lawsuits which, depending on their outcome, may have a negative effect on HealthSouth and, in turn, the Company.

### **Revenue recognition**

Revenues, which consist of commissions from the sale of limited partnership units sold by the Company, are recognized at the transaction closing date as long as there are no contingencies related to the sale. When contingencies are present, recognition of commissions are postponed until all such contingencies have been removed from the sales transaction.

### **Cash flows**

For purposes of reporting cash flows, the Company considers all liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents as of December 31, 2006.

### **Salaries and benefits**

The Company does not have any full-time employees. Salaries and benefits are based on the actual number of hours spent working on Company business by HealthSouth employees.

**SCA DEVELOPMENT, INC.**  
(A wholly owned subsidiary of HealthSouth Corporation)

Notes to Financial Statements  
December 31, 2006

**Income taxes**

The Company provides for income taxes using the asset and liability method as required by Financial Accounting Standards Board ("FASB") Statement No. 109, *Accounting for Income Taxes*. This approach recognizes the amount of federal, state, and local taxes payable or refundable for the current year, as well as deferred tax assets and liabilities for the future tax consequence of events recognized in the financial statements and income tax returns. Deferred income tax assets and liabilities are adjusted to recognize the effects of changes in tax laws or enacted tax rates. Under FASB Statement No. 109, a valuation allowance is required when it is more likely than not that some portion of the deferred tax assets will not be realized. Realization is dependent on generating sufficient future taxable income. The Company does not have any deferred tax assets or liabilities as of December 31, 2006.

The Company's results of operations are included in HealthSouth's consolidated federal income tax return. For state income tax purposes, the Company's results of operations are reported on separately filed Missouri and Tennessee income tax returns. The Company does not have a formal tax sharing agreement in place with HealthSouth; however, the Company is responsible for its allocated portion of federal and state income taxes, pursuant to §1552(a)(1) of the Internal Revenue Code of 1986, as Amended.

The Company's allocated portion of these taxes is accounted for as an intercompany transaction. Income tax expense in the Company's financial statements has been calculated on a separate tax return basis. The deferred tax provision is determined under the liability method. Deferred tax assets and liabilities are recognized based on differences between the book and tax bases of assets and liabilities using currently enacted tax rates. The provision for income taxes is the sum of the amount of income tax paid or payable for the year as determined by applying the provisions of enacted tax laws to the taxable income for that year and the net change during the year in the Company's deferred tax assets and liabilities.

**Note 2—Concentrations of credit risk**

The Company maintains cash in a bank account at a high credit quality financial institution. Throughout the year ended December 31, 2006, the Company had cash on deposit with the financial institution in excess of federal depository insurance limits. The Company has not experienced and does not anticipate any credit losses on these deposits.

**Note 3—Related party transactions**

Due to the nature of the Company's business, all of its transactions are with related parties. The related parties consist of various HealthSouth outpatient health care facilities, which buy and sell limited partnership interests during the year. All commissions are derived from transactions with these facilities. Additionally, HealthSouth pays all of the Company's expenses and is reimbursed

**SCA DEVELOPMENT, INC.**  
(A wholly owned subsidiary of HealthSouth Corporation)

Notes to Financial Statements  
December 31, 2006

by the Company. The net amount owed to HealthSouth is shown on the statement of financial condition under the caption *Payable to HealthSouth Corporation*. The amount payable at December 31, 2006, is considered due on demand and bears no interest.

The financial position and results of operations of the Company, as reported, are not necessarily indicative of the results that would have been reported had the Company operated completely independent.

**Note 4—Contingencies**

HealthSouth operates in a highly regulated and litigious industry. As a result, various lawsuits, claims, and legal and regulatory proceedings, some of which could directly impact the Company, have been and can be expected to be instituted or asserted against HealthSouth. The resolution of any such lawsuits, claims, or legal and regulatory proceedings could materially and adversely affect the Company's results of operations and financial position in a given period.

**Note 5—Net capital requirements**

The Company is subject to the SEC's Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. The rule also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2006, the Company had net capital of \$611,551, which was \$598,279 in excess of its required net capital of \$13,272. The Company's net capital ratio was .33 to 1.

**SCA DEVELOPMENT, INC.**  
(A wholly owned subsidiary of HealthSouth Corporation)

**Computation of Net Capital and Aggregate Indebtedness Under Rule 15c3-1  
of the Securities and Exchange Commission  
As of December 31, 2006**

**Computation of net capital**

Total stockholder's equity qualified for net capital \$643,961

**Deduct non-allowable assets:**

Prepaid expenses 32,410

Net capital \$611,551

**Aggregate indebtedness**

Total aggregate indebtedness from statement of financial condition \$199,079

**Computation of basic net capital requirement**

Minimum net capital required (6-2/3 percent of aggregate indebtedness) \$ 13,272

Minimum dollar net capital requirement \$ 5,000

Net capital requirement \$ 13,272

Excess net capital \$598,279

Excess net capital at 1,000 percent (net capital less 10 percent  
of aggregate indebtedness) \$591,643

Ratio: aggregate indebtedness to net capital .33 to 1

**Reconciliation with the Company's computation**

Net capital, as reported in Company's Part IIA (unaudited) FOCUS report \$595,325

Adjustment for income taxes 16,226

Net capital per calculation above \$611,551

See accompanying notes to financial statements.



Donaldson, Holman & West, P.C.

Certified Public Accountants • Business and Financial Consultants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
REQUIRED BY SEC RULE 17A-5 FOR BROKER-DEALER CLAIMING EXEMPTION  
FROM SEC RULE 15c3-3**

Board of Directors and Stockholder  
SCA Development, Inc.  
Birmingham, Alabama

In planning and performing our audit of the financial statements and supplemental schedule of SCA Development, Inc. (a wholly owned subsidiary of HealthSouth Corporation) (the "Company"), for the year ended December 31, 2006, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by rule 17a-13
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System
3. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial

statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. In addition, projection of any evaluation of effectiveness of internal controls to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2006, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, the SEC, and other regulatory agencies, which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be used by anyone other than these specified parties.

*Donaldson, Halman & West, PC*