

Significant Index No. 0412.06-00

Significant Index No. 4971.02-00



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

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TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

AUG 10 2005

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Hospital =

Association =

This letter constitutes notice that waivers of the minimum funding standards for the Plan for the plan years ending June 30, 2003 and 2004, and for a waiver of the 100% excise tax under section 4971(b) of the Internal Revenue Code ("Code") for the plan year ending June 30, 2002, have been granted subject to the following conditions:

1. Within 120 days of the date of the ruling letter, collateral that is acceptable to the PBGC is provided to the Plan to secure the amount of the waived funding deficiencies.
2. By February 28, 2006, the Hospital will contribute to the Plan the amounts for which the conditional waivers have been granted.
3. At the end of each of the plan years ending [REDACTED], through [REDACTED] a credit balance will be maintained in the funding standard account for the Plan that is not less than the outstanding balance of the amortization bases with respect to the waived amounts that are established and maintained under section 412(b)(2) of the Code.

You agreed to these conditions in a letter dated July 15, 2005. If these conditions are not satisfied, the waivers are retroactively null and void.

The conditional waivers of the minimum funding standards have been granted in accordance with section 412(d) of the Code and section 303 of the Employee Retirement Income Security Act of 1974 ("ERISA"). The amounts for which the conditional waivers have been granted are the contributions that would otherwise be required to reduce the balance in the funding standard account to zero as of June 30, 2003 and 2004.

The waiver of the 100% excise tax has been granted in accordance with section 3002(b) of ERISA. The amount for which the excise tax waiver has been granted is equal to 100 percent of the accumulated funding deficiency in the funding standard account as of the end of the plan year ending June 30, 2002 to the extent such deficiency has not been corrected.

The Hospital is a private not-for-profit teaching hospital consisting of a 65-bed acute care facility, a 103-bed long-term care facility, and a home health program.

Many factors have lead to the Hospital's current financial situation: a decline in hospital reimbursements, poor management oversight, weak employee relations, uncontrolled costs and investment losses in the Plan, all of which were magnified significantly by a labor strike in 2003 of the entire hospital nursing staff, which virtually closed the acute care hospital for 13 weeks and left a large gap in accounts receivable. The reputation of the Hospital was damaged as patient care could not be provided to the community, further complicating the financial situation for the Hospital. The Hospital found it difficult to replace skilled labor that was lost as a result of the strike and the loss of employee confidence in the previous administration.

The Hospital has also been faced with significantly increased insurance expenses for worker's compensation coverage and property and casualty coverage. In the fiscal year ending January 31, 2003, the Hospital paid \$463,000 for worker's compensation insurance, while in the fiscal year ending January 31, 2004, it paid \$1,100,681, an increase of 238%. Insurance expenses for property and casualty coverage have likewise increased dramatically, primarily due to the events of September 11, 2001. Investment losses in the Plan have also contributed to the Hospital's financial situation. These losses have resulted in significantly increased required contributions for the plan years ending June 30, 2002, 2003, and 2004. As a result of these losses, the additional funding charge under section 412(l), which was zero for the plan year ending [REDACTED] was approximately \$1.7 million for the plan year ending [REDACTED] approximately \$800,000 for the plan year ending [REDACTED] and approximately \$900,000 for the plan year ending [REDACTED]

The Hospital has also experienced problems in recent years concerning its management. During the period 1999-2002, the Hospital had begun to lose money and the Board felt that its management firm was not adequately addressing the Hospital's problems. The Board was not made aware of the pension deficit problem in a timely

manner nor of the 2 ½ month deadline for filing for a waiver for the plan year ending June 30, 2002, until September of 2002 which resulted in \$97,000 in excise taxes being paid by the Hospital. This incident also led to problems with a bank loan that the Hospital had recently finalized at the time. The Hospital negotiated an early buy out of the existing management contract. In July of 2003, a new management firm was hired by the Hospital which the Board also experienced problems with. Ultimately the new management agreement was also terminated as the Board considered their performance to be material breaches of the agreement.

The geographic location of the Hospital should benefit the Hospital in their recovery efforts. The Hospital is the only hospital to serve the local community. With almost 60 years of history in the local community, community support for the Hospital should be strong. The labor dispute with the nurses has been resolved and the nursing staff is near pre-strike levels. Net patient revenue had declined after the strike but has since stabilized.

The Hospital has taken several steps to address its financial problems. The Hospital has engaged a consultant to identify areas of revenue enhancement and expense reduction. Hospital management is instituting expense reductions where appropriate, utilizing benchmark statistics from best-practice institutions. Productivity targets are being established for each department based on these benchmarks. Each hospital service is being evaluated to determine its profitability versus the hospital's mission and current financial situation. The Hospital is also examining its entire revenue cycle process to ensure capture of all appropriate revenues which may be due and not recognized in the past. This includes updating patient record coding reviews for accuracy, modification of patient registration processes and more cohesive billing, collections and follow-up activities. Additionally, the Hospital has recently hired a new Chief Executive Officer and Chief Financial Officer. Combined, these two individuals have over 45 years experience working in various capacities in the health care industry.

In addition, the Hospital has taken steps to restructure its debt to help them recover from this hardship. The Hospital has engaged the services of an investment banking firm to help them with restructuring its debt. The financing plan for the Hospital is being addressed in three separate steps

- The first financing will provide approximately \$3 million that is needed for capital improvements for the existing hospital facility. This is anticipated to be accomplished within 90-days.
- The second financing is a 30-year amortization debt structure. This is anticipated to take approximately 9 months to arrange. This financing would be under the federal government guarantee program called "232/223F" ("HUD"). The proceeds would be used to retire a \$7.2 million

debt due to the Bank in November of 2005, plus some required renovation necessary to satisfy HUD.

- The final financing is to provide payment of the balance of the waived minimum funding requirements for the plan years ending June 30, 2003 and 2004. It is anticipated that this will be a five year interest only bond. It is anticipated that this could be completed by the end of 2005.

Benefit accruals to the Plan ceased as of July 1, 2004. As of June 30, 2004, the Plan was 62.9% funded on a current liability basis. Financial information submitted by the Hospital shows that the Hospital's financial situation is improving. The year-to-date profit for the Association of approximately \$416,000 through December 31, 2004, is an improvement over recent years. This includes a year-to-date profit of \$308,000 for the Hospital, approximately \$325,000 higher than what they were projecting through December 31, 2004, on revenues of approximately \$19.1 million, approximately \$1.4 million higher than year-to-date projections. The long term debt restructuring, once completed, will be a huge step in the road to recovery. Hence, it has been determined that it is in the best interest of plan participants that the waivers be granted subject to the conditions stated above.

Your attention is called to section 412(f) of the Code and section 304(b) of ERISA which describe the consequences that would result in the event the plan is amended to increase benefits, change the rate in the accrual of benefits or to change the rate of vesting, while any portion of the waived funding deficiency remains unamortized. Please note that any amendment to a profit sharing plan or any other retirement plans (covering employees covered by this plan) maintained by the Company, to increase the liabilities of those plans would be considered an amendment for purposes of section 412(f) of the Code and section 304(b) of ERISA. Similarly, the establishment of a new profit sharing plan or any other retirement plan by the Company (covering employees covered by this plan) would be considered an amendment for purposes of section 412(f) of the Code and section 304(b) of ERISA.

This ruling is directed only to the taxpayer that requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited by others as precedent.

When filing Form 5500 for the plan year ending [REDACTED] the date of this letter should be entered on Schedule B (Actuarial Information). For this reason, we suggest that you furnish a copy of this letter to the enrolled actuary who is responsible for the completion of the Schedules B.

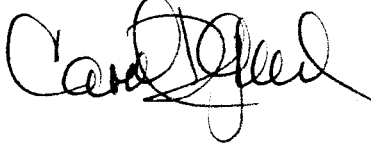
We have sent a copy of this letter to the Manager, EP Classification in
and to the Manager, EP Compliance Unit in

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If you have any questions concerning this matter, please contact

Sincerely,

A handwritten signature in black ink, appearing to read "Carol D. Gold". The signature is fluid and cursive, with the first name "Carol" being more legible than the last name "Gold".

Carol D. Gold
Director, Employee Plans