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

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

T:EP:RA:T:A2

July 21, 2003

In re:

Hospital =
Nursing Home =

Dear

This letter constitutes notice that a conditional waiver of the minimum funding standard has been granted for the above-named pension plan for the plan year beginning .

The conditional waiver has been granted in accordance with section 412(d) of the Internal Revenue Code (Code) and section 303 of the Employee Retirement Income Security Act of 1974 (ERISA). The amount for which the waiver has been granted is the contribution that would otherwise be required to reduce the balance in the funding standard account of the plan to zero as of the end of the plan year for which the waiver has been granted.

The Hospital, is a private, not-for-profit section 501(c)(3) corporation. The Hospital is a general, with less than serving a rural population. The Nursing Home, established adjacent to the Hospital in , has , and also operates as a not-for-profit entity. A common Board of Directors governs the Hospital and Nursing Home.

The Hospital, the primary employer for the Plan, has experienced temporary substantial business hardship as evidenced by operating and net losses for the past six years, from These losses are caused by several factors including:

- A shift in services being provided on an inpatient basis to an outpatient setting that is paid at a lower rate;

- Inadequate rate increases from the state and HMOs; and
- The costs associated with the recruitment of new physicians as older physicians retire.

    - Because the Hospital has a small patient volume, and is located in a rural community where reimbursement rates for physicians and hospitals are the lowest in the state, the Hospital has found it necessary to guarantee and subsidize physicians' income.

The Hospital's major cash and investment assets are either Board restricted funds, which are pledged as collateral on short-term loans used to finance hospital renovations and equipment purchases, or are donor restricted endowment funds that cannot be used. The Hospital is in the process of obtaining additional long-term financing. Long-term financing has been difficult to obtain because of the Hospital's history and the current tight lending practices of banks and other lending institutions.

The Nursing Home has also been experiencing financial hardship over the past six years, with minimal gains experienced in two of the years and losses experienced in two of the years. A large loss for 2000 was due primarily to cost incurred under a self-insured workers compensation plan, and a lesser net gain in 2001 resulted from receiving Medicaid rate adjustments for prior years. The gain for 2002 was minimal. The Nursing Home reimburses the Hospital for services provided to the Nursing Home, but is currently unable to generate a cash flow large enough to reduce its current reimbursement liability.

As a result of efforts taken to effect recovery, the Hospital expects to have a net gain for 2003, and the Hospital's losses have been declining in the prior four years. The Hospital reduced its staff by thirty full-time employees during 2002, and has negotiated new and more favorable reimbursement agreements with its HMOs for 2003 and 2004. Supply expenses for drugs and medical supplies will decrease in 2003 with the recent signing of new group purchasing agreements. The Hospital has been actively recruiting new physicians, which will result in higher revenues for the Hospital, and has lowered its recruitment costs by partnerships with local physician groups. The Hospital has a pending application with the state's Department of Health to convert [illegible] into an [illegible], which will improve the Hospital's financial performance.

As of [illegible] the only group still accruing benefits under the Plan consists of the registered nurses (RNs) working in the Hospital and Nursing Home. Benefits were frozen for management, department heads and other non-union employees ([illegible] with four-year degrees) on [illegible]. On [illegible] benefits were frozen for employees who are members of

, which covers most departments in the Hospital and Nursing Home, and these members joined the Union pension plan on As of , the ratio of the market value of assets of the Plan to current liabilities under the Plan is

This waiver has been granted subject to the following condition, which you have agreed to:

> The Hospital and Nursing Home will make sufficient contributions to the Plan by $ to timely satisfy the minimum funding standard for the Plan for the plan year beginning (including the amortization payment for the waiver).

If the Company fails to meet the above condition, this waiver is retroactively null and void.

Your attention is called to section 412(f) of the Code and section 304 of ERISA which describes the consequences which result in the event the plan is amended to increase benefits, to change the rate in the accrual of benefits, or to change the rate of vesting while any portion of the waived amount remains unamortized.

This ruling is directed only to the organization 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 beginning , the date of this letter should be entered on Schedule B (Actuarial Information). We have sent a copy of this letter to the and to your authorized representatives (Form 2848) on file with this office.

If you have any questions concerning this letter, please contact In any correspondence relating to this letter, please refer to T:EP:RA:T:A2 as well.

Sincerely,

for Martin L. Pippins, Manager
Employee Plans Actuarial Group 2