Significant Index No. 0412.06-00
Third-party contact – participant inquiry

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

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

MAR 10 2006

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In re:

("Hospital")
("Health System")
("Nursing Home")
("Child Care Facility")

Dear [redacted]

This letter is to inform you that (A) the waiver of the minimum funding standard for the Plan for the plan year ending December 31, , which was granted in our ruling letter dated April 18, 2003, has been modified to remove the conditions outlined in that letter and replace them with the conditions below, and (B) waivers of the minimum funding standard for the Plan for the plan years ending December 31, , and , have been granted, subject to the following conditions:

(1) Collateral acceptable to the PBGC is provided to the Plan for the full amount of the waiver by the later of (a) 120 days from the date of the ruling letter or (b) the earlier of (i) the date the PBGC notifies the Service in writing that this condition has not been met or (ii) 360 days from the date of the ruling letter. It is anticipated that the PBGC will take a second position until the expiration of the liens currently held by HUD, at which time the PBGC's security will automatically be moved to the first position. Furthermore, it is expected that the security agreement will require that the PBGC will be notified in advance of any disposition of Hospital assets or merger of the Hospital with another organization, and that the PBGC will be given an opportunity to protect its financial interests in the Hospital.

(2) The Hospital makes contributions to the Plan of at least per plan year (including contributions paid directly to Plan participants in the form of benefit payments), beginning with the plan year ending December 31, . Any amount needed to bring the total contribution for the plan year to $ will be paid by September 15, . For plan years ending December 31, and later, contributions of at least $ will be paid by each due date for required quarterly contributions under section 412(m) of the Internal Revenue Code ("Code"), beginning April 15, . Such contributions will continue until the enrolled actuary certifies that the Plan is fully funded according to the provisions of section 404 of the Code. Proof of such contributions must be provided within 15 days after each contribution is due.

(3) The Hospital timely files Form 5330, and pays the 10% excise tax under section 4971(a) of the Code, on the amount of any funding deficiency existing as of the end of any plan year while the Plan is subject to a waiver of the minimum funding standard. Furthermore, for each plan year that a deficiency exists in the funding standard account of the Plan, the Hospital requests a waiver of the 100% excise tax under section 4971(b) of the Code, according to the procedures and timing specified in applicable guidance published by the Service.

(4) For each year during which any of the funding waivers is in effect or until any deficiency in the funding standard account is eliminated, if later, the Hospital provides the following information:

(i) Copy of the annual actuarial valuation report, Form 5500 (including attachments) and December 31 statement of Plan assets, to be provided within 15 days after the Form 5500 is filed, beginning with the information filed for the plan year.

(ii) Copies of consolidating and consolidated quarterly financial results including balance sheet, income and expense statement and cash flow information for the Hospital, Care Center and Care Center, to be provided within 45 days after the end of each quarter beginning with the quarter ending March 31, .

(iii) Copy of audited annual report including consolidated and consolidating statements for the Hospital, Care Center and Child Care Center, to be provided by April 15 after the end of each fiscal year, beginning with the fiscal year ending December 31, .

(iv) Copy of document outlining the Hospital's long-term strategic plan and financial forecast, to be provided by December 15 of each year beginning with December 15, ____.

(5) For the period during which any of the funding waivers is in effect or in which a deficiency exists, if later, the Hospital does not establish a new defined benefit or defined contribution plan, nor does it increase the benefits payable under the existing plans. Based on information provided by the Company, accrued benefits under the only defined benefit plan were frozen as of April 15, , and the only defined contribution plan is a 403(b) plan providing employer matching contributions of 50% of employee contributions up to 3% of compensation.

Please note that the Hospital has received three funding waivers, beginning with the plan year ending December 31, . Section 412(d) of the Code limits the number of funding waivers to three in any fifteen-year period; therefore, the Hospital will not be able to request any additional funding waivers until the plan year ending December 31, .

The information required in the above conditions must be provided to both the Service and to the PBGC using the addresses or fax numbers below:

Internal Revenue Service

Pension Benefit Guaranty Corporation

You agreed to these conditions in a letter dated February 21, 2006. If any one of these conditions is not satisfied, all three waivers are retroactively null and void.

These conditional waivers have been granted in accordance with section 412(d) of the Internal Revenue Code and section 303 of the Employee Retirement Income Security Act of 1974 ("ERISA"). The amount for which each conditional waiver has been granted is the contribution that would otherwise be required to reduce the balance in the funding standard account to zero as of the last day of the applicable plan year. However, the amount of any funding waiver will not include any portion of the funding standard account charges which represent the amounts necessary to amortize any funding waiver under section 412(b)(2)(C) of the Code.

The Hospital is a small independent facility located in . It is a general short-term acute care hospital, and is part of the Health System along with the Nursing Home and Child Care Facility.

The Hospital experienced a significant decrease in operating cash flow beginning in , primarily due to decreased patient volume and the loss of one of its general surgeons and, later, the loss of its entire and groups. The

Hospital was able to replace both groups and return surgical volumes to their previous levels by the end of . However, the Hospital and the Health System as a whole continue to face cash flow difficulties.

The Hospital has taken a number of steps to address its financial difficulties, including the review of referral patterns and employed physician contracts, the identification of cost-saving opportunities, the recruitment of surgical specialties in order to increase patient volume and revenue, and the renegotiation of HMO contracts in order to gain better reimbursement terms. In addition, the Hospital froze the pension plan effective April 15, , to eliminate the cost of continuing benefit accruals.

Despite the Health System's financial difficulties, they continued to make contributions to the Plan for the plan years ending December 31, and , and have funded $ of the approximately $ contributions required for those plan years. Hence, the waiver of the minimum funding standard for the Plan for the plan year ending December 31, , has been modified, and waivers of the minimum funding standard for the Plan for the plan years ending December 31, , and have been granted, subject to the conditions listed 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 that increases the liabilities of a profit sharing plan or any other retirement plans (covering employees covered by this plan) maintained by the Company 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. In addition, any such amendments would violate the above conditions upon which the waivers are granted.

We also wish to remind you that our review of the Hospital's Schedule Bs (Form 5500) showed inconsistencies (1) between the plan assets reported on Schedule B and those reported on Schedule H of Form 5500, and (2) between the unfunded accrued liability and remaining amortization balances, beginning with the plan year. Your actuary has agreed to correct these inconsistencies when he updates the Schedule Bs to reflect the appropriate waiver amounts.

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 years ending December 31, , and , the date of this letter should be entered on Schedule B (Actuarial Information).

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We have sent a copy of this letter to the Manager, EP Classification in , to the Manager, EP Compliance Unit in and to your authorized representative pursuant to a power of attorney on file in this office.

If you require further assistance in this matter, please contact

Sincerely yours,

Joseph H. Grant
FOR CAROL GOLD

Carol Gold
Director, Employee Plans