



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

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

JUL 02 2012

T!EP:RA:A2

Re:

EIN: :

Hospital =

Region =

Dear

This letter constitutes notice that your requests for waivers of the minimum funding standard for the Plan for the plan years ending April 30, 20 , and 20 , have been granted subject to the following conditions:

- (1) starting with the quarterly contribution due on May 15, 2012, the Hospital will make the required quarterly payments to the Plan in a timely fashion while the Plan is subject to the waivers of the minimum funding standard; and
- (2) the Hospital makes the minimum required contributions to the Plan for the plan years ending April 30, 20 , and 20 , by January 15, 2013 and 2014, respectively (without applying for a waiver of the minimum funding standard).

Your authorized representative agreed to these conditions in a letter dated May 21, 2012. If any one of these conditions is not met, the waivers of the minimum funding standard granted for the Plan for the plan years ending April 30, 20 , and 20 , are retroactively null and void.

The conditional waivers granted for the Plan for the plan years ending April 30, 20 , and 20 , have been granted in accordance with section 412(d) of the Internal Revenue Code ("Code") and section 303 of Employee Retirement Income Security Act of 1974 ("ERISA"), both as in effect prior to the Pension Protection Act of 2006 ("PPA '06"). The amount for which this waiver has been granted is equal to the contributions that would otherwise be required to reduce the balance in the funding standard account of the Plan to zero as of April 30, 2007, and 2008.

The Hospital is a section 503(c)(3) tax-exempt, not-for-profit critical access hospital providing inpatient, outpatient and emergency care services for residents of the Region. The Hospital was previously licensed to operate an 82-bed acute care facility, a 12-bed behavioral health services unit, a home health agency, and a hospice. In 2005, the Hospital was designated as a "critical access hospital" by Medicare and is limited to 25 acute beds and 10 behavioral health beds. A substantial portion of the Hospital's income derives from Medicare and commercial insurer reimbursements (and conversely, the Hospital is likewise subject to financial risk arising from uninsured patients).

The current financial hardship was brought on by the financial effects of several key factors:

- (1) changes in the population of the community serviced by the Hospital, and
- (2) reductions in reimbursement payments from Medicare and commercial insurers.

Due to these factors, the Hospital incurred losses of \$ over a four-year period, materially reducing its liquid assets and significantly threatening its ability to remain current with its liabilities. It is clear from the financial information provided by the Hospital that it has experienced a substantial business hardship. For the four fiscal years ending in June 2007, total expenses exceeded unrestricted revenues by \$, resulting in a material decrease in unrestricted net assets.

In response to its business hardship, the Hospital has adopted a detailed action plan focused toward revenue enhancement and recovery of its financial footing, including the following steps:

- (1) the hospital was converted to Critical Access designation, under which Medicare reimbursements are made at cost plus 1%,
- (2) all contracts with third party payers are being reviewed and renegotiated,
- (3) internal revenue cycle procedures have been reviewed and materially improved,
- (4) additional physicians required for serving the community have been recruited, improving the hospital's ability to bring in additional revenue, and
- (5) significant specific actions, including freezing the pension plan, have been taken to reduce and control expenses.

The Hospital's action plan is specific, detailed, and comprehensive, and results since implementation showing clear indications of reversing the Hospital's business hardship. These steps have already shown clear signs of financial reversal, from an annual loss of approximately \$2.01 million for the FYE 2006 to a loss of approximately \$522 thousand

in FYE 2011. Furthermore, net unrestricted assets have improved by 85%, total assets have improved by 300%, and cash and cash equivalents have improved by 450%. Indeed, financial information submitted by the Hospital indicates a significant improvement in the Hospital's profitability since the action plan was put into effect. Moreover, the pension plan has been frozen, so that further increases in plan liabilities have been constrained.

Based on the Schedule SB's for the plan years ending April 30, 20 , April 30, 20 , and April 30, 20 , the Hospital has made all the minimum required contributions assuming that the 2007 and 2008 waivers are granted. Furthermore, the Hospital's authorized representative has indicated that the Hospital is up to date with all the required quarterly contributions for the plan year ending April 30, 20 .

Based on this information, it appears that the Hospital's action plan to improve its financial position has been successful. Accordingly, the Hospital's business hardship appears temporary. Accordingly, the Hospital's requests for waivers of the minimum funding standard for the Plan for the plan years ending April 30, 20 , and 20 , have been granted subject to the conditions enumerated above.

Your attention is called to section 412(c)(7) of the Code and section 304(b) of ERISA, both in effect prior to PPA '06, which describe the consequences that would result in the event either 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 deficiencies remain unamortized. Please note that any amendment to a profit sharing plan or any other retirement plans (covering employees covered by the Plan) maintained by the Company, to increase the liabilities of those plans would be considered an amendment for purposes of section 412(c)(7) 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 the Plan) would be considered an amendment for purposes of section 412(c)(7) 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.

We have sent a copy of this letter to the Manager, EP Classification in Baltimore, Maryland, to the Manager, EP Compliance Unit in Chicago, Illinois, and to your authorized representative pursuant to a power of attorney on file in this office. We suggest that you furnish a copy of this letter to the enrolled actuary who is responsible for the completion of the Schedule B.

If you require further assistance in this matter, please contact () D#) at

Sincerely yours,

David M. Ziegler, Manager
Employee Plans Actuarial Group 2

Cc: