

HEALTH SAVINGS ACCOUNT DISCLOSURE STATEMENT

OVERVIEW AND ELIGIBILITY REQUIREMENTS

A health savings account (“HSA”) is a tax-exempt trust or custodial account created for the purpose of saving and paying for qualified medical expenses in connection with an “high deductible health plan.” To establish an HSA, you must be covered under a high deductible health plan.

A “high-deductible health plan” is a health plan that: (1) has an annual deductible of at least \$1,000 for individual (self-only) coverage or (2) has an annual deductible of at least \$2,000 for family (coverage of more than one individual). In addition, the annual out-of-pocket expenses required to be paid under the plan cannot exceed \$5,100 for individual coverage and \$10,200 for family coverage. Out-of-pocket expenses included deductibles, co-payments, and other amount the participant must pay for covered benefits, but do not include premiums. These dollar amounts will be indexed for inflation.

A plan can still be treated as a high deductible health plan even if it does not have a deductible (or has a small deductible) for preventive care (care that is not intended to treat an existing illness, injury or condition). Preventive care includes things like routine examinations such as annual physicals, prenatal and well-child care, child and adult immunizations, tobacco cessation programs, obesity weight loss programs, and certain screening services.

Generally, you are not eligible for an HSA if you are covered under another health plan (whether as an individual, spouse or dependent) in addition to your qualified high deductible health plan. However, you remain eligible for an HSA if, in addition to a high deductible health plan, you have any one or more of the following:

- insurance under which substantially all of the coverage relates to liabilities from workers’ compensation laws, torts, or ownership or use of property (such as automobile insurance),
- insurance for a specified disease or illness;
- insurance paying a fixed amount per day (or other period) of hospitalization; or
- coverage (whether through insurance or otherwise) for accidents, disability, dental care, vision care, or long-term care.

ESTABLISHING AN HSA

If you are eligible for an HSA, you can establish an HSA with a qualified HSA trustee or custodian. No permission or authorization from the Internal Revenue Service (“IRS”) is

necessary. The trustee or custodian will require you to complete a written HSA custodial or trust agreement. Any insurance company or any bank can be an HSA trustee or custodian. In addition, any other persons already approved by the IRS to be trustees or custodians of IRAs or Archer MSAs are automatically approved to be HSA trustees or custodians.

CONTRIBUTIONS TO HSAs

Any eligible individual can contribute to an HSA. For an HSA established by an employee, the employee, the employee's employer or both may contribute to the employee's HSA. Family members may also make contributions to an HSA on behalf of another family member as long as the other family member is an eligible individual.

Contributions to an HSA must be made in cash. The custodian of your HSA will accept contributions by check, money order or electronic funds transfer. The custodian will also accept rollovers or transfers of assets from another HSA or an MSA, in accordance with the requirements of the Internal Revenue Code.

The maximum amount that may be contributed to an HSA for any year is 100% of the high deductible health plan's annual deductible or \$2,650 for individual or \$5,250 for family whichever is less. The same annual contribution limit applies regardless of whether the contributions are made by an employee, and employer, or both.

If you are between age 55 and 65, the HSA contribution limit is increased by \$500 in 2004. This catch up amount will increase in \$100 increments annually until the amount reaches \$1,000 in 2009. As with the annual contribution limit, the catch up contribution limit is also computed on a monthly basis. Once you attain age 65 (the Medicare eligibility age), contributions cannot be made to your HSA.

In the case of individuals who are married to each other, if either spouse has family coverage, both are treated as having family coverage. If each spouse has family coverage under a separate high deductible health plan, both spouses are treated as covered under the plan with the lowest deductible. The contribution limit for the spouses is the lowest deductible amount, divided equally between the spouses unless they agree on a different division. The family coverage limit is reduced further by any contribution to an Archer MSA. However, both spouses may make the catch-up contributions for individuals age 55 or over without exceeding the family coverage limit.

For any year in which you are eligible for an HSA during some months of the year but are not eligible during the other months, the annual contribution amount must be prorated. In computing the prorated contribution amount, you may count only those months during which you (or your spouse) were covered by a high deductible health plan for the entire month. You determine your monthly limit by calculating your annual limit as if you were eligible for the entire year and then dividing by 12.

You may make HSA contributions for a particular year no later than the deadline, without extensions, for filing your federal income tax return for that year. For calendar year

taxpayers, this is generally April 15 following the year for which the contributions were made. However, the custodian will treat any contribution made between January 1 and April 15 as a contribution for the current taxable year unless you provide written notice to the custodian at the time of such contribution that the contribution is for the preceding taxable year.

When you make an eligible contribution to an HSA, the amount of your contribution (up to the maximum contribution limit) is deductible in computing your adjusted gross income. This means that your contributions are deductible whether or not you itemize deductions. In addition, any person who may be claimed as a dependent on another taxpayer's return may not claim a deduction for a contribution to an HSA.

If your employer makes a contribution to an HSA for you, you are not allowed to deduct that contribution on your income tax return. Your employer, however, will be able to deduct the contribution up to your maximum contribution limit for that year. Although you cannot deduct your employer's HSA contribution, the contribution is not taxable to you or subject to income tax withholding or other employment taxes if it does not exceed your maximum contribution limit for that year.

A contribution made by you or your employer to an HSA that exceeds the amount allowed by law, or which is made during any year when you are not eligible to contribute, is called an "excess contribution." Excess contributions are not deductible by you or your employer and are included in your gross income if made on your behalf by your employer. In addition, excess contributions are subject to a 6% excise tax for each year they remain in your HSA. However, you may avoid this excise tax if the excess contribution is not deducted and if you remove the excess contribution from your HSA, together with any net income attributable to the excess contribution, before the due date for filing your federal income tax return, including extensions, for the year for which the excess contribution was made. In that case, the net income attributable to the excess contribution would be taxable as income for the year in which the distribution is made, but, the removed excess contribution would not be taxable as income to you. Rollover contributions do not count in determining whether an excess contribution has been made.

You are responsible for determining your eligibility for an HSA and the amount of eligible contributions during any year. You are encouraged to speak with your tax advisor about these matters. The custodian has no responsibility for determining or advising you whether any contribution complies with the requirements and limitations of the Code.

ROLLOVERS AND TRANSFERS

You may withdraw any portion or all of the funds from one HSA or MSA and roll them to an HSA account with another custodian or trustee. However, you are required to roll the funds into a new HSA within 60 calendar days of your receipt of the funds. Another rule provides that you are only allowed to make one HSA rollover in a 12-month period. The 12-month period begins on the date you receive the distribution, not on the date you

roll it to another HSA. In addition, you may transfer your MSA or HSA funds directly from one HSA custodian or trustee to another without ever having direct control or custody of the funds. Rollover and transfer contributions are not deductible and do not count against the annual contribution limits discussed earlier in this Disclosure Statement.

TAX TREATMENT OF HSAs

An HSA is generally exempt from tax (like an IRA), unless it ceases to be an HSA. Earnings on amounts in an HSA are not includible in gross income while held in the HSA (i.e., inside build up is not taxable). The custodian does not provide tax advice concerning your HSA. The tax consequences of your HSA, including all contributions to and distributions from your HSA, are your sole responsibility. You are encouraged to discuss any questions with your own tax advisor.

DISTRIBUTIONS FROM HSAs

You can take a distribution from your HSA at any time. Depending on the option you selected in your Application, you may take distributions from your HSA by check, debit card or any other method permitted from time to time by the custodian.

Distributions from an HSA used exclusively to pay for qualified medical expenses for yourself, your spouse or your dependents are excludable from gross income. In general, amounts in an HSA can be used for qualified medical expenses and will be excludable from gross income even if you are not currently eligible to make contributions to the HSA.

However, any amount of the distribution not used exclusively to pay for qualified medical expenses of you, your spouse or your dependents is includable in your gross income and is subject to an additional 10% tax on the amount includable, except for distributions made after your death, disability or attainment of age 65.

The term “qualified medical expenses” means amounts paid for the medical care, as defined in Section 213(d) of the Code, of yourself, your spouse, or your dependents, but only to the extent such amounts are not compensated by insurance or otherwise. This includes amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body, as well as for transportation primarily for and essential to such care. It also includes non-prescription drugs. Qualified medical expenses do not include insurance premiums other than premiums for long-term care insurance, premiums on a health plan during any period of continuation coverage required by Federal law (e.g. “COBRA” coverage), or premiums for health care coverage while an individual receives unemployment compensation. In addition, if you are over age 65, premiums for Medicare Part A or B, Medicare HMO, and the employee share of premiums for employer-sponsored health insurance can be paid from an HSA. Premiums for Medigap policies are not qualified medical expenses.

The custodian has no responsibility for determining whether distributions from your HSA are used for qualified medical expenses. It is your sole responsibility to determine the tax consequences of any distributions, for maintaining adequate records for tax purposes, and for paying any taxes and penalties arising as a result of any such distribution. You are encouraged to consult with your legal or tax advisor concerning any questions you may have.

DEATH OF HSA ACCOUNT HOLDER

You have the right at any time to designate one or more beneficiaries to whom distribution of your HSA will be made upon your death. You also have the right to revoke a prior beneficiary designation and, if desired, designate different individuals as beneficiaries. To be valid, any such beneficiary designation must be delivered to the custodian prior to your death on a form provided by or acceptable to the custodian. In the absence of a valid beneficiary designation, the custodian will distribute the assets comprising your HSA upon your death to your estate.

If your spouse is the named beneficiary of your HSA, your HSA becomes your spouse's HSA upon your death, subject to the completion of applicable documents as required by the custodian. Your surviving spouse is not required to include any amount in gross income for tax purposes as a result of your death, and he or she is subject to income tax only on those distributions which are not made for qualified medical expenses. If, at your death, your HSA passes to a named beneficiary other than your surviving spouse, the HSA ceases to be an HSA as of the date of your death, and the beneficiary is required to include the fair market value of the HSA assets as of the date of death in his or her gross income for the taxable year that includes the date of death. The includible amount is reduced by the amount in the HSA used, within one year of your death, to pay your qualified medical expenses incurred prior to death. If there is no named beneficiary of your HSA, the HSA ceases to be an HSA as of the date of your death, and the fair market value of the HSA assets as of the date of death is includible in your gross income for the year of death.

INVESTMENTS

Currently, the custodian offers only interest-bearing deposit accounts of Community State Bank. HSA funds held in an interest-bearing deposit account are insured by the Federal Deposit Insurance Corporation to the maximum permitted by law. The custodian in its sole discretion may change the available investment options at any time.

To the extent more than one investment option is offered, the custodian will invest your HSA funds only at your direction. All such investment directions must be in a written form acceptable to the custodian and will be deemed to be continuing until revoked or modified by a subsequent direction delivered to the custodian. The custodian has no duty to provide investment advice in connection with your HSA or to review or monitor the investments held in the HSA. The custodian has no liability or responsibility for any investment decisions you make.

By placing HSA funds in an interest-bearing deposit account of Community State Bank, and by taking HSA distributions by either check or debit card against such account, you agree to Community State Bank's Deposit Account Terms and Conditions governing such deposit account agreement governing use of such debit card, but only to the extent that such terms and conditions and debit card agreement do not conflict with the Health Savings Account Custodial Agreement or any provisions of the Internal Revenue Code or applicable regulations governing the Custodial Agreement. In the event of a conflict, the terms of the Health Savings Account Custodial Agreement and/or applicable provisions of the Internal Revenue Code or regulations shall be deemed to prevail. By signing the Application, you understand that you will receive a copy of said terms and conditions and that you will receive a debit card agreement if your application for such card is accepted by Community State Bank. Subject to the limitations of applicable law and regulations, you also agree to indemnify and hold Community State Bank harmless from and against any liability in connection with any debit card transactions or checks drawn against any such deposit account.

You should understand that:

- Community State Bank has no obligation to pay any check presented to it for payment at a time when there are insufficient funds in your deposit account;
- the issuance of a debit card is contingent upon a credit check;
- the use of a debit card in connection with your HSA may be limited to VISA®-eligible merchants that provide, among other things, health care-related goods and services; and
- if additional debit cards are issued at your request, you have the sole responsibility for any transactions initiated by any other such card holder(s).

FEES

Community State Bank will receive fees for serving as custodian of your HSA in amounts set forth in its written Schedule of Fees in effect from time to time. Such fees may include, but are not limited to, administration fees, transaction fees, and distribution fees. Fees may also be collected from your account to be paid over to affiliates or agents of Community State Bank or to others providing services on your HSA pursuant to a separate agreement with you. Community State Bank may change its fee schedule upon giving you 30 days' written notice. Community State Bank or one or more of its affiliates or agents shall also be entitled to payment from the custodial account for all expenses and costs reasonably incurred in the administration of your HSA, including but not limited to reimbursement for the cost of debit cards and checks, unless such expenses and costs are paid directly by you.

Community State Bank may deduct the fees associated with your HSA from the HSA custodial account or may, in its discretion, allow you to pay such fees directly.

STATEMENTS AND FILING REQUIREMENTS

Community State Bank will, at least quarterly, provide you a statement showing the activity in your HSA custodial account. As custodian, Community State Bank will send each year to the IRS and to you a form, showing a valuation of your HSA as of December 31 of the prior year, and a report of the contributions to your HSA for the prior year. Unless Community State Bank receives either a certification from your employer that contributions were made by the employer, or a notification from you that a contribution is a rollover contribution, all contributions will be reported as tax-deductible contributions made by you. Distributions will be reported by Community State Bank on Form 1099. Unless you provide written notice to the contrary, Community State Bank will conclusively assume that any distribution, whether by check, debit card, or otherwise, is a “normal distribution” for purposes of tax reporting. Normal distributions include distributions for qualified medical expenses, and expressly exclude the following: return of excess contributions, distributions following your disability, distributions following your death, and prohibited transactions. If a distribution falls within one of these exceptions, you must provide written notification to Community State Bank within seven (7) days following such distribution.

MISCELLANEOUS

In addition to the legal requirements discussed elsewhere in this Disclosure Statement, your HSA is subject to the following rules:

- None of the funds of your HSA may be invested in life insurance contracts.
- With the exception of investments in a common trust fund or common investment fund, no assets of your HSA may be commingled.
- Your interest in the balance of the HSA custodial account is nonforfeitable.

You and HSA Solutions, LLC (“HSA Solutions”) have agreed that HSA Solutions may provide certain administrative services to you in connection with your HSA. For this purpose, administrative services include, but are not limited to, assistance in establishing your HSA and information in connection with:

- the appropriate procedures and documentation for making contributions to and distributions from your HSA;
- the requirements relating to the establishment and use of HSAs; and
- the tax implications arising from the establishment and use of HSAs.

All administrative services are provided to you directly by HSA Solutions and not by Community State Bank. HSA Solutions is solely responsible for Administrative Services and is not acting as a subcontractor, agent or representative of Community State Bank in

providing such Administrative Services. Community State Bank has no control over, or any obligation or liability with respect to HSA Solutions or any administrative services offered by HSA Solutions. Community State Bank shall have no duty to act upon any instructions or requests submitted by HSA Solutions as your agent or in any other capacity. HSA Solutions is compensated for providing Administrative Services from the fees you have agreed to pay. By signing the Application, you consent to the sharing of financial and other information between HSA Solutions and Community State Bank and among Community State Bank's various affiliates.

Your HSA has been designed to comply with Section 223 of the Code. However, at the time this document was printed, there was no process for obtaining IRS approval for an HSA custodial agreement. You should understand that this form may need to be amended if and when the IRS releases a model form or additional guidance concerning this form's requirements.

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