TOWN OF FALMOUTH
MEDICAL REIMBURSEMENT PLAN

(Plan No. 502)

Effective January 1, 2013

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Article 1. Introduction.

This Plan establishes the Town of Falmouth Medical Reimbursement Plan, effective January 1, 2013. This Plan is intended to qualify as a medical reimbursement plan under §105(b) of the Internal Revenue Code of 1986, as amended, and is to be interpreted in a manner consistent with all relevant provisions of the Code, as amended. The purpose of this Plan is to provide Participants with reimbursements of Qualifying Medical Care Expenses that are excludable from the Participant's gross income under §105(b) of the Code.

Article 2. Definitions.

Wherever used in this plan, the singular includes the plural and the following terms have the following meanings, unless a different meaning is clearly required by the context:

2.1. "Administrator" means the Town or such other person or committee as may be appointed from time to time by the Town to supervise the administration of the Plan.

2.2. "Benefit Eligible Employee" means a full-time or part-time Employee who is regularly scheduled to work at least 20 hours per week and whose contract year runs from January 1 through December 31. The term Benefit Eligible Employee does not include any individual who is employed in a division, department, unit, or job classification designated by an Employer as not eligible for benefits, regardless of the individual's work schedule or number of hours worked.

2.3. "Code" means the Internal Revenue Code of 1986, as amended from time to time. Reference to any section or subsection of the Code includes reference to any comparable or succeeding provisions of any legislation which amends, supplements or replaces such section or subsection.

2.4. "Coverage Amount" means the amount of medical reimbursement coverage elected by the Participant for the Plan Year in accordance with Section 4.2.

2.5. "Dependent" means (1) a dependent as defined in Code § 152, determined without regard to subsections (b)(1), (b)(2), and (d)(1)(B) thereof, (2) any child (as defined in Code § 152(f)(1)) of the Participant who as of the end of the taxable year has not attained age 27, and (3) any child of the Participant to whom the IRS Revenue Procedure 2008-48 applies (regarding certain children of divorced or separated parents who receive more than half of their support for the calendar year from one or both parents and are in the custody of one or both parents for more than half of the calendar year).

2.6. "Effective Date" means January 1, 2013.

2.7. "Employee" means any individual who is employed by an Employer.

2.8. “Employer” means the Town and each subsidiary or affiliated employer that adopts the Plan with the consent of the Administrator. A subsidiary or affiliated employer will become an Employer as of the date agreed upon pursuant to such adoption and consent.

2.9. “ERISA” means the Employee Retirement Income Security Act of 1974, as from time to time amended. Reference to any section or subsection of ERISA includes reference to any comparable or succeeding provisions of any legislation which amends, supplements or replaces such section or subsection. Please note this plan is sponsored by a governmental employer and is exempt from ERISA.

2.10. “Flexible Benefits Plan” means the Town of Falmouth Flexible Benefits Plan, as amended from time to time.

2.11. “Grace Period” means the two-and-one-half ($2^1/_2$) month period commencing January 1 and ending March 15, immediately following each Plan Year. Qualifying Medical Care Expenses incurred during the Grace Period may be reimbursed from any balance remaining under the Participant's Medical Reimbursement Account at the end of such immediately preceding Plan Year if the Participant applies for reimbursement of such expenses in accordance with the reasonable procedures prescribed by the Administrator on or before March 31st following the close of the Grace Period. The reimbursement of Qualifying Medical Care Expenses incurred during the Grace Period shall be made in accordance with IRS Notice 2005-42, 2005-53 I.R.B. 1204, and any subsequent guidance issued by the IRS with respect to such reimbursements.

2.12. “Health Care Spending Account” means the account described in Article 5.

2.13. “Participant” means each Employee who participates in the Plan in accordance with Article 3.

2.14. “Plan” means Town of Falmouth Medical Reimbursement Plan (Plan No. 502) as set forth herein, together with any and all amendments and supplements hereto. Please note this Plan is sponsored by a governmental employer and is exempt from ERISA.

2.15. “Plan Year” means the one year period for January 1 to December 31.

2.16. “Qualifying Health Care Expense” means expenses incurred by a Participant or his or her Spouse or Dependents for medical care, as defined in Code §213(d), but only to the extent that the expense has not been reimbursed through insurance or otherwise. If only a portion of a health care expense has been reimbursed elsewhere (e.g., because the Medical Plan imposes co-payment or deductible limitations), then the Plan can reimburse the remaining portion of such expense if it otherwise meets the requirements of a Qualifying Health Care Expense under this Plan. Notwithstanding the foregoing, the term Qualifying Health Care Expense does not include:

(a) premium payments for other health coverage, including but not limited to health insurance premiums for any other plan (whether or not sponsored by the Employer);

(b) medicines or drugs, unless the medicine or drug is a prescribed drug (determined without regard to whether the medicine or drug is available without a prescription) or is insulin (for this purpose, the Plan Administrator shall have sole discretion to determine, on a uniform and consistent basis, whether a particular item is a medicine or drug and whether the requirement of a prescription has been satisfied);

(c) cosmetic surgery or other similar procedures, unless the surgery or procedure is necessary to ameliorate a deformity arising from, or directly related to, a congenital abnormality, a personal injury resulting from an accident or trauma, or a disfiguring disease (for this purpose, "cosmetic surgery" means any procedure that is directed at improving the patient's appearance and does not meaningfully promote the proper function of the body or prevent or treat illness or disease); or

(d) any other expense determined to be ineligible by the Administrator for reimbursement from this Plan under the Code, the Treasury Regulations or other guidance issued by the Internal Revenue Service.

2.17. "Required Premium" means the Participant's Coverage Amount for the Plan Year divided by 12 (or, if greater than 12, the number of regular compensation payments, if any, expected to be received by the Participant during the Plan Year). In the case of an Employee who first becomes a Participant in the middle of the Plan Year, the Required Premium shall be the Participant's Coverage Amount divided by the number of regular compensation payments remaining in the Plan Year. If the Participant changes his or her election under the Flexible Benefits Plan to increase or decrease his or her Coverage Amount during the Plan Year, the Required Premium shall likewise be increased or decreased by the amount of such change divided by the number of regular compensation payments remaining in the Plan Year.

2.18. "Spouse" means an individual who is legally married to a Participant as determined under applicable state law and who is treated as a spouse under the Internal Revenue Code.

2.19. "Town" means Town of Falmouth and any successor to all or a major portion of its assets or business that assumes the obligations of Town of Falmouth under the Plan.

Article 3. Participation.

3.1. Commencement of Participation. Each Benefit Eligible Employee will become a Participant upon the effective date of an election under the Flexible Benefits Plan to receive health care expense reimbursements under this Plan.

3.2. Termination of Participation. A Participant will cease to be a Participant as of the earliest of:

(a) the date on which the Plan terminates,

(b) the date on which the Participant ceases to be a Benefit Eligible Employee (subject to Section 7.2 hereof), or

(c) the date on which a Participant's election or deemed election to receive benefits under this Plan otherwise expires or is terminated under the Flexible Benefits Plan.

3.3. Reinstatement of Former Participant. If a former Participant who is eligible under Section 3.1 elects again under the Flexible Benefits Plan to receive health care expense reimbursements under this Plan, he or she will again become a Participant in this Plan on the effective date of such election.

3.4. Participation of Spouses or Dependents. If and to the extent required by law, coverage under this Plan shall be made available to the Spouse or a Dependent of a Participant or former Participant in lieu of (or in addition to) the Participant, such Spouse or Dependent shall be treated as a Participant under this Plan, but only to such extent and for such period as the law requires. No salary reduction agreement shall be required for such a Spouse or Dependent. Required Premiums must be paid to the Employer by or on behalf of such Spouse or Dependent on a monthly basis (or within such other time limit as may be provided for by law), and coverage under the Plan shall cease upon nonpayment of any such Required Premium.

Article 4. Election to Receive Health Care Reimbursements.

4.1. Election Procedure. In accordance with applicable collective bargaining agreements, individual employment contracts or employment policies, a Participant may elect under this Plan to receive payments or reimbursements of his or her Qualifying Health Care Expenses for any Plan Year or associated Grace Period by executing an election and salary reduction agreement in accordance with the procedures established under the Flexible Benefits Plan. An election to receive payments or reimbursements of Qualifying Health Care Expenses shall be irrevocable by the Participant during the Plan Year, except as provided in the Flexible Benefits Plan. However, such an election may automatically terminate, or may be terminated or modified by action of the Administrator of the Flexible Benefits Plan, in accordance with the terms of the Flexible Benefits Plan.

4.2. Coverage Amount. In accordance with applicable collective bargaining agreements, individual employment contracts or employment policies, a Participant may elect to receive payments or reimbursements of Qualifying Health Care Expenses incurred in a Plan Year or associated Grace Period up to any dollar amount duly elected under the Plan by the Participant, provided that such amount is not more than $2,500 for any Plan Year.

4.3. Coordination with FMLA. Notwithstanding any other provision of this Plan, the Administrator may (a) permit a Participant to revoke (and subsequently reinstate) his or her election to receive reimbursements of Qualifying Health Care Expenses during the Plan Year, and (b) adjust a Participant's Coverage Amount and Required Premium as a result of a revocation or reinstatement to the extent the Administrator deems necessary or appropriate to assure the

Plan's compliance with the provisions of the Family and Medical Leave Act of 1993 and any regulations pertaining thereto.

Article 5. Health Care Spending Accounts.

5.1. Establishment of Accounts. The Town will cause to be established and maintained a Health Care Spending Account for each Plan Year with respect to each Participant who has elected to receive reimbursements of Qualifying Health Care Expenses incurred during the Plan Year or associated Grace Period.

5.2. Crediting of Accounts. There shall be credited to a Participant's Health Care Spending Account for each Plan Year, as of the beginning of such Plan Year, an amount equal to the Participant's Coverage Amount for such Plan Year. Except as otherwise required by law, the amount credited for each Plan Year to each such Health Care Spending Account shall be the property of the Town until paid out pursuant to Article 6.

5.3. Debiting of Accounts. A Participant's Health Care Spending Account for each Plan Year shall be debited from time to time in the amount of any payment under Article 6 to or for the benefit of the Participant for Qualifying Health Care Expenses incurred during such Plan Year or associated Grace Period.

5.4. Forfeiture of Accounts. The amount credited to a Participant's Health Care Spending Account for any Plan Year shall be used only to reimburse the Participant for Qualifying Health Care Expenses incurred during such Plan Year or associated Grace Period while the Employee was a Participant, and only if the Participant applies for reimbursement on or before the March 31st following the close of the Plan Year (or, if March 31st falls on a Saturday, Sunday or holiday, the next following business day). If any balance remains in the Participant's Health Care Spending Account for a Plan Year after all reimbursements hereunder, such balance shall not be carried over to reimburse any Participant for Qualifying Health Care Expense incurred during a subsequent Plan Year (except to the extent such expense is incurred during the Grace Period for the immediately preceding Plan Year and reimbursed hereunder), and shall not be available to the Participant in any other form or manner. Such balance shall remain the property of the Town to the extent permitted by law, and the Participant shall forfeit all rights with respect to such balance.

Article 6. Payment of Health Care Expense Reimbursements.

6.1. Claims for Reimbursement. A Participant who has elected to receive health care reimbursements for a Plan Year may apply to the Administrator for reimbursement of Qualifying Health Care Expenses incurred by the Participant while he or she was a Participant during the Plan Year or associated Grace Period by submitting a statement in writing to the Administrator, in such form as the Administrator may prescribe, setting forth:

(a) the amount, date and nature of each expense with respect to which a benefit is requested;

(b) the name of the person, organization or entity to which the expense was or is to be paid;

(c) the name of the person for whom the expense was incurred and, if such person is not the Participant requesting the benefit, the relationship of such person to the Participant;

(d) the amount recovered or expected to be recovered, under any insurance arrangement or other plan, with respect to the expense; and

(e) a statement that the expense (or the portion thereof for which reimbursement is sought under the Plan) has not been reimbursed and is not reimbursable under any other health plan coverage.

Such application shall be accompanied by a written statement from an independent third party, stating that the expense has been incurred and the amount of the expense, and by such other bills, invoices, receipts, canceled checks or other statements or documents that the Administrator may request. Such application may be made before or after the Participant has paid such expense, but not before the Participant has incurred such expense.

6.2. Reimbursement or Payment of Expenses. The Administrator shall reimburse the Participant from the Participant's Health Care Spending Account, at such time and in such manner as the Administrator may prescribe, for Qualifying Health Care Expenses incurred during the Plan Year or associated Grace Period for which the Participant makes written application and provides documentation in accordance with Section 6.1. The Administrator may, at its option, pay any such Qualifying Health Care Expenses directly to the person providing or supplying medical care in lieu of reimbursing the Participant. No reimbursement or payment under this Section 6.2 shall be made if the claim submitted by the Participant is for an amount less than the minimum reimbursable amount established by the Administrator. The amount of any Qualifying Health Care Expenses not reimbursed or paid as a result of the minimum reimbursable amount shall be carried over and reimbursed or paid only if and when the Participant's unreimbursed claims equal or exceed such minimum. Notwithstanding the preceding sentence, claims for expenses incurred during a Plan Year that are submitted for reimbursement after the last day of the Plan Year and on or before the March 31 following the close of the Plan Year shall be paid regardless of whether they equal or exceed the minimum reimbursable amount.

6.3. Limitation on Reimbursements or Payments With Respect to Certain Participants. Notwithstanding any other provision of this Plan, the Administrator may limit the amounts reimbursed or paid with respect to any Participant who is a highly compensated individual (within the meaning of Code §105(h)(5) or §125(e)) to the extent that the Administrator deems such limitation to be advisable to assure compliance with any nondiscrimination provision of the Code. Such limitation may be imposed whether or not it results in a forfeiture under Section 5.4.

6.4. Fees. Notwithstanding any other language in this plan, the Town shall be responsible for paying first-term set up fees, presentation fees authorized by the Town, and reasonable annual renewal fees while all monthly administration fees shall be paid by the Participants, provided any such fees are to be paid in such manner according to the applicable collective bargaining agreement, individual employment contract, or employment policy. In all cases, fees shall be paid as directed by the applicable collective bargaining agreement, individual employment contract or employment policy.

Article 7. Termination of Coverage.

7.1. Cessation of Participation. In the event that a Participant ceases to be a Participant in this Plan for any reason during a Plan Year, the Participant's salary reduction agreement relating to this Plan shall terminate. Except as provided in Section 7.2, the Participant shall be entitled to reimbursement only for Qualifying Health Care Expenses incurred within the same Plan Year and associated Grace Period and before he or she ceased to be a Participant.

7.2. Continuation of Coverage. If and to the extent required by law, in the event that a Participant ceases to be an Employee and undertakes to pay Required Premiums to the Administrator on a monthly basis (or within such other time limit as may be provided for by law), coverage under the Plan shall continue so long as such Required Premiums are paid, but not beyond the end of the period for which such coverage is required by law. In addition, the former Participant shall be treated as a Participant under the Plan to such extent as is required by law, and shall be entitled to reimbursement for Qualifying Health Care Expenses incurred during such period of continued coverage, subject to Section 7.3.

7.3. Limits on Time and Amount of Reimbursements. Reimbursements shall be made for any Plan Year under this Article 7 only if the Participant applies for such reimbursement in accordance with Section 6.1 on or before the March 31 following the close of the Plan Year (or, if March 31 falls on a Saturday, Sunday or holiday, the next following business day). In the event of the Participant's death, the Participant's Spouse (or, if none, the Participant's executor or administrator) may apply on the Participant's behalf for reimbursements permitted under this Article 7. No reimbursement under this Article 7 shall exceed the remaining balance, if any, in the Participant's Health Care Spending Account for the Plan Year in which the expenses were incurred.

Article 8. Administration.

8.1. Plan Administrator. The administration of the Plan shall be under the supervision of the Administrator. It shall be a principal duty of the Administrator to see that the Plan is carried out, in accordance with its terms, for the exclusive benefit of persons entitled to participate in the Plan without discrimination among them. The Administrator will have full power and discretion to administer the Plan in all of its details. For this purpose, the Administrator's discretionary powers will include, but will not be limited to, the following authority, in addition to all other powers provided by this Plan:

(a) To make and enforce such rules and regulations as it deems necessary or proper for the efficient administration of the Plan;

(b) To interpret the Plan;

(c) To decide all questions concerning the Plan and the eligibility of any person to participate in the Plan;

(d) To compute the amount of benefits which will be payable to any Participant or other person in accordance with the provisions of the Plan, and to determine the person or persons to whom such benefits will be paid;

(e) To authorize the payment of benefits;

(f) To appoint such agents, counsel, accountants, consultants and other persons as may be required to assist in administering the Plan; and

(g) To delegate its responsibilities under the Plan and to designate other persons to carry out any of its responsibilities under the Plan, any such delegation or designation to be by written instrument.

Any determination by the Administrator, or any authorized delegate, shall be final and conclusive on all persons, in the absence of clear and convincing evidence that the Administrator or delegate acted arbitrarily and capriciously.

8.2. Examination of Records. The Administrator will make available to each Participant such of its records under the Plan as pertain to the Participant, for examination at reasonable times during normal business hours; *provided, however*, the Administrator shall have no obligation to disclose any records or information which the Administrator, in its sole discretion, determines to be of a privileged or confidential nature.

8.3. Reliance on Tables, etc. In administering the Plan, the Administrator will be entitled, to the extent permitted by law, to rely conclusively on all tables, valuations, certificates, opinions and reports which are furnished by any accountant, counsel or other expert who is employed or engaged by the Administrator.

8.4. Claims and Review Procedures. Any claim for benefits under the Plan shall be filed in accordance with the provisions of Article 6 hereof and such other claim procedures as may be established by the Administrator from time to time. Notice of the decision on such claim and any appeal will be provided by the Administrator, or its authorized delegate, in accordance with the provisions of the Plan.

8.5. Nondiscriminatory Exercise of Authority. Whenever, in the administration of the Plan, any discretionary action by the Administrator is required, the Administrator shall exercise its

authority in a nondiscriminatory manner so that all persons similarly situated will receive substantially the same treatment.

8.6. Indemnification of Administrator. The Town agrees to indemnify and to defend to the fullest extent permitted by law any Employee serving as the Administrator or as a member of a committee designated as Administrator or acting for the Administrator in connection with the Plan, including any Employee or former Employee who formerly served or acted in such a capacity, against all liabilities, damages, costs and expenses (including attorneys' fees and amounts paid in settlement of any claims approved by the Town) occasioned by any act or omission to act in connection with the Plan, if such act or omission is or was in good faith.

Article 9. Amendment or Termination of Plan.

9.1. Amendment of Plan. The Town reserves the power to amend the provisions of the Plan at any time or times, to any extent that it may deem advisable. Any amendment to the Plan shall be effected by a written instrument signed by an officer of the Town, or his or her authorized delegate, and delivered to the Administrator. Unless otherwise provided, any such amendment will be effective for all Participants, whether or not employed by an Employer.

9.2. Termination of Plan. The Town has established the Plan with the bona fide intention and expectation that it will be continued indefinitely, but has no obligation whatsoever to maintain the Plan for any given length of time. The Town may discontinue or terminate the Plan at any time without liability, by a written instrument signed by an officer of the Town, or his or her authorized delegate, and delivered to the Administrator. Upon termination or discontinuance of the Plan, all elections and reductions in compensation relating to the Plan shall terminate, and reimbursements shall be made only in accordance with Article 7.

Article 10. Miscellaneous.

10.1. Communication to Employees. Promptly after the Plan is adopted, each Employer will notify its Employees of the availability and terms of the Plan.

10.2. Limitation of Rights. Neither the establishment of the Plan nor any amendment thereof will be construed as giving to any Participant or other person any legal or equitable right against the Administrator or any Employer, except as expressly provided herein, and in no event will the terms of employment or service of any Participant be modified or in any way be affected hereby.

10.3. Benefits Solely From General Assets. The benefits provided hereunder will be paid solely from the general assets of the Town. Nothing herein will be construed to require the Town or the Administrator to maintain any fund or segregate any amount for the benefit of any Participant, and no Participant or other person shall have any claim against, right to, or security or other interest in any fund, account or asset of the Town from which any payment under the Plan may be made.

10.4. Nonassignability of Rights. The right of any Participant to receive any reimbursement under the Plan shall not be alienable by the Participant by assignment or any other method, and will not be subject to be taken by his or her creditors by any process whatsoever, and any attempt to cause such right to be so subjected will not be recognized, except to such extent as may be required by law.

10.5. No Guarantee of Tax Consequences. Neither the Administrator nor the Employers make any commitment or guarantee that any amounts paid to or for the benefit of a Participant under this Plan will be excludable from the Participant's gross income for federal or state income tax or Social Security tax purposes, or that any other federal or state tax or Social Security tax treatment will apply to or be available to any Participant. It shall be the obligation of each Participant to determine whether each payment under the Plan is excludable from the Participant's gross income for federal and state income tax and Social Security tax purposes, and to notify his or her Employer if the Participant has reason to believe that any such payment is not so excludable.

10.6. Indemnification of the Employers by Participants. If any Participant receives one or more payments or reimbursements under the Plan that are not for Qualifying Health Care Expenses, such Participant shall indemnify and reimburse his or her Employer for any liability it may incur for failure to withhold federal or state income tax or Social Security tax from such payments or reimbursements. However, such indemnification and reimbursement shall not exceed the amount of additional federal and state income tax that the Participant would have owed if the payments or reimbursements had been made to the Participant as regular cash compensation, plus the Participant's share of any Social Security tax that would have been paid on such compensation, less any such additional income and Social Security tax actually paid by the Participant.

10.7. Governing Law. To the extent not preempted by federal statutes or regulations, this Plan will be construed, administered and enforced according to the laws of the State of Maine. Please note that as a plan sponsored by a governmental entity, this plan is exempt from ERISA.

IN WITNESS WHEREOF, the Town has caused this Plan to be executed in its name and on its behalf by an officer or a duly authorized delegate:

TOWN OF FALMOUTH

By: _____
Title: Nathan A. Poore, Town Manager

Date: _____