

SHORE HEALTH SERVICES, INC. - ADMINISTRATIVE/COMPLIANCE

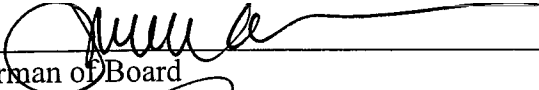
ORGANIZED HEALTH CARE ARRANGEMENT


✓ Shore Memorial Hospital ✓ Shore Rehab ✓ Shore Life Care ✓ Shore Health
Care at Home ✓ MMC ✓ Lingle/Goldstein Surgical Assoc.

Written: April 2003

Reviewed:

Revised:


Chairman of Board


President/ CEO


President of Medical Staff

Health Insurance Portability and Accountability Act (HIPAA)

The Health Insurance Portability and Accountability Act of 1996, Public Law 104-191, was enacted by Congress to address healthcare reform, administrative simplification and patient healthcare information privacy and security issues. On August 17, 2000 the Department of Health and Human Services ("DHHS") published in the Federal Register the standards for electronic business transactions for healthcare entities mandated by the Act. On December 28, 2000 the Department of Health and Human Services (DHHS) published its final rules regarding patient healthcare information privacy ("Privacy Regulations"). On August 14, 2002, DHHS published final modifications to the Privacy Rule which clarified certain requirements.

What HIPAA Means to Shore Memorial Hospital

Shore Memorial Hospital and the Medical Staff of Shore Memorial Hospital are interested in effectively preparing for the implementation challenges of the above standards.

This combined effort is authorized by a provision in the Privacy Regulation. Specifically, separate entities that meet the definition of an "organized healthcare arrangement" may realize many benefits by working together to effect compliance with the Privacy Regulation. According to C.F.R. 164.501 which defines an Organized Healthcare Arrangement as :

- I. A clinically integrated care setting in which individuals typically receive health care for more than one health care provider;

- II. An organized system of health care in which more than one covered entity participates, and in which the participating covered entities:
 - A. Hold themselves out to the public as participating in a joint arrangement; and
 - B. Participating in joint activities that include at least one of the following:
 - 1. Utilization review, in which health care decisions by participating covered entities are reviewed by other participating covered entities or by a third party on their behalf;
 - 2. Quality Assessment and improvement activities, in which treatment provided by participating covered entities is assessed by other participating covered entities or by a third party on their behalf.
 - 3. Payment activities, if the financial risk for delivering healthcare is shared, in part or in whole, by participating covered entities through the joint arrangement and if protected health information created or received by a covered entity is reviewed by other participating covered entities or by a third party on their behalf for the purpose of administering the sharing of financial risk.

We believe that, in accordance with this definition, Shore Memorial Hospital and the Members of the Medical Staff of Shore Memorial Hospital satisfy the requirements to be characterized as an "organized healthcare arrangement".