2018 ANNUAL REPORT

Details

Micro improvements drive massive scale. It is in the details that we achieve continuous performance.

SEE OUR PROGRESS →

A MESSAGE FROM JOE

Paying attention to every detail. It's what we do at Palmetto GBA, and how we're able to achieve year-end performance metrics of 98.9 percent. *We've built a culture that harnesses the power of human potential.* We start with doing one task well, then build more complicated systems and processes. By providing five-star service that makes our customers' jobs easier and remaining agile, we're able to maximize our strengths and drive explosive growth.

The award of a second Medicare Administrative Contractor (MAC) contract – Jurisdiction J (JJ) – provides an exceptional example. In 2018, we realized a strategic goal and increased our Medicare Administrative Contractor market share to 15.3 percent. The Palmetto GBA team spent much of 2018 implementing this significant contract and made the challenging transition look effortless. Our first performance evaluation from the CMS was excellent, with CMS commending us for exceptional work, flexibility and adaptability during the transition. Additionally, we won seven new contracts last year, increasing our workforce by 18 percent. We're now more than 2,000 employees strong.

We've hit the ground running in 2019 and will manage this growth seamlessly while taking our customer service to even greater heights. When you never lose sight of the details, unparalleled innovation is possible. I'm excited to watch it unfold.

Best regards,

Walter J. Johnson
President & COO

OUR PHILOSOPHY

We believe technical and administrative solutions have the power to enhance service and quality. And we are constantly striving to reach new heights of performance to improve the quality of life for our customers, employees and communities.

PALMETTO GBA®
A CELERIAN GROUP COMPANY

Palmetto GBA is a leading provider of high-volume claims and transaction processing, contact center operations and technology services to the federal government. Our core business is to provide support to the Centers for Medicare & Medicaid Services (CMS), Medicare beneficiaries and Medicare providers.

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2018 FINANCIALS

Unwavering Commitment to Particulars

We believe a single task can have a profound impact. And the most minute improvements have potential effect far beyond their function. It's how we achieve scale — by doing the smallest of tasks well, then watching the ripples drive exponential performance improvement.

ADVANCEMENTS

New opportunities to prove ourselves.

READ MORE →

METRICS

Constant refinement propels monumental scale.

READ MORE →

IMPACT

Efficiency and accuracy allow for performance excellence.

READ MORE →

GROWTH

Expansive growth through systematic innovations.

READ MORE →

INNOVATIONS

Adaptability drives advancement second to none.

READ MORE →

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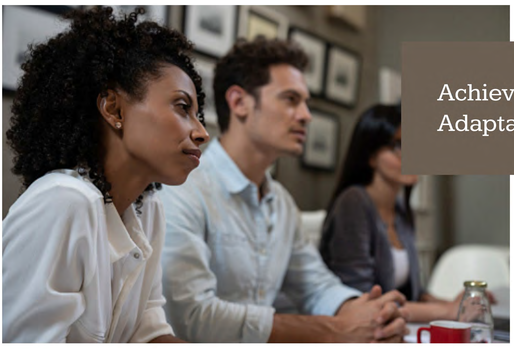
PROGRESS | ADVANCEMENTS



Achievement Through Adaptability

Great challenge is often found in periods of transition. So is opportunity.

The transition of the Centers for Medicare & Medicaid Services (CMS) Jurisdiction J (JJ) A/B Medicare Administrative Contractor (MAC) contract to Palmetto GBA afforded us a tremendous occasion to excel. Recognized by CMS for "exceptional problem-solving skills," as well as for its "excellent and collaborative relationship with CMS," Palmetto GBA was able to serve as "an important partner to CMS in determining effective solutions throughout the Base Year."[1]

Not only were we able to ensure there were no provider payment disruptions, but we also assumed operations successfully as of each segment cutover date without incident. And, we reduced a significant volume of backlog in nearly every operational area. Our success came from the flexibility and adaptability of everyone on the Palmetto GBA team.

HERE ARE A FEW HIGHLIGHTS

Working together, in 2018 we:

- Realigned each area's cutover strategy to accommodate for older-than-anticipated workload, proprietary file formats and late access to previous staff
- Implemented early interventions on interactive voice response and call routing changes to bring initial spike in average speed of answer (ASA) under control within two weeks (to average 38-second ASA)
- Investigated and handled an inventory of more than 100,000 pending work items and 41,000 Part B appeals unclassified work items
- Resolved large majority of more than 11,000 aged pending Part B Provider Enrollment applications
- Identified numerous claims processing issues, quantified errors and offered solutions for correction
- Expanded website portal features to enable providers to submit wage index and other audit and reimbursement documents electronically, as well as added a cost report look-up tool
- Participated in workgroups and established good relationships with other MACs, CMS and external stakeholders
- Worked with the National Association of Rural Health Clinics to identify education opportunities and establish an escalation process for its members, and worked with stakeholders to communicate specific Rural Health Clinic information for Medicare Advantage Plan overpayments
- Partnered with the Georgia Society of Clinical Oncology to educate providers on new claims processing protocols
- Established partnership to manage and respond to escalated beneficiary and provider constituent inquiries at the request of the Senate Health, Education, Labor & Pensions Committee

1. Taken from CMS award letter.

2018 Annual Numbers

$21 bil BENEFITS PAID

68.6 mil CLAIMS PROCESSED

6.9 mil BENEFICIARIES SERVED

832 THOUSAND CUSTOMER INQUIRIES

52.6 THOUSAND PHYSICIANS

424 HOSPITALS

614 EMPLOYEES

2 NEW OPERATING SITES FLORENCE, SC & BIRMINGHAM, AL

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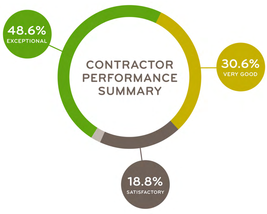
PROGRESS | METRICS

Promise of Excellence

Palmetto GBA's performance across all contract metrics in 2018 was 98.9 percent.

Palmetto GBA was rated Very Good or Exceptional by CMS on 30 out of 36 assessed elements.



2018 Scale

$65.3 bil
BENEFITS PAID

11.5 mil
BENEFICIARIES SERVED

184 mil
CLAIMS PROCESSED

2.9 mil
INQUIRIES ANSWERED

Fee-for-Service Contracts

JURISDICTION M A/B MAC

95.7
MILLION CLAIMS*
SINCE 2010[1]

NC/SC/VA & WV

[1] Portions of the jurisdiction served since 1967 under predecessor contracts
*Calendar year ended December 31, 2018

JURISDICTION M HOME HEALTH AND HOSPICE

10.7
MILLION CLAIMS*
SINCE 2010[1]

AL/AR/FL/GA/IL/IN/KY/LA/MS/NM/NC/OH/OK/SC/TN & TX

[1] Portions of the jurisdiction served since 1967 under predecessor contracts
*Calendar year ended December 31, 2018

JURISDICTION J A/B MAC

103
MILLION CLAIMS ANNUALLY
SINCE 2017

AL/GA & TN

COMPETITIVE BIDDING IMPLEMENTATION CONTRACTOR

USA
SINCE 2006

RAILROAD RETIREMENT BOARD SMAC

8.5
MILLION CLAIMS ANNUALLY
SINCE 2000[1]

USA

[1] Including predecessor contracts

NATIONAL SUPPLIER CLEARINGHOUSE MAC

40,000
APPLICATIONS PROCESSED ANNUALLY

USA

PRICING, DATA ANALYSIS AND CODING

4,000
APPLICATIONS ANALYZED ANNUALLY

USA

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PROGRESS | IMPACT

Meticulous Solutions

Medicare Administrative Contractor for Jurisdiction J

On February 26, 2018, Palmetto GBA successfully implemented the Centers for Medicare & Medicaid Services (CMS) Jurisdiction J A/B (JJ) Medicare Administrative Contractor (MAC), which covers the states of Alabama, Georgia and Tennessee. JJ MAC represents 6.9 percent of the national claim-volume workload. The CMS recognized Palmetto GBA for its exceptional and successful efforts related to this Contract Performance Assessment Reporting (CPAR) for the JJ MAC Implementation period of September 9, 2017, to January 28, 2018.

MORE DETAILS →

Medicare Integrity Program

Our program safeguard activities resulted in significant savings for Medicare.

	JM A/B MAC	JJ A/B MAC	RRB
Benefits Integrity	n/a	n/a	$2,109,358
Medicare Secondary Payer	$595,480,401	$409,049,393	$5,522,363
Medical Review	$434,314,503	$419,999,868	$9,111,154
Medical Review Ambulance Prior Authorization	$7,253,310	n/a	n/a
Total	$1,037,048,214	$829,049,261	$16,742,875

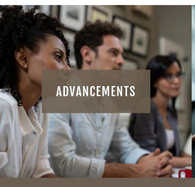
$1.9 bil
2018 MEDICARE PROGRAM SAFEGUARD SAVINGS

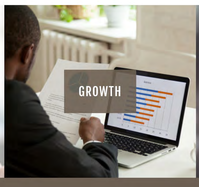
Request for Advance Payment Suppression Process

Palmetto GBA's innovative Request for Advance Payment (RAP) suppression process continues to produce savings for the Medicare program year after year. In 2018, this improvement created suppression of more than 11,000 RAPs for which final claims were never submitted. Using an average RAP of $362, the RAP suppression process resulted in $3.8 million in savings for the Medicare program.

Palmetto GBA has worked with CMS since April 2013 to implement a process to monitor home health RAPs. Based on the solution created by Palmetto GBA in collaboration with CMS, CMS issued instructions to all home health MACs in late June 2018 to implement a RAP suppression process.

$3.8 mil
2018 SAVINGS





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PROGRESS | GROWTH

Strides Forward

Growth Initiative

ACHIEVEMENTS AT THE HIGHEST LEVELS – CMMI LEVEL 4

As a part of Palmetto GBA's strategic focus on process re-engineering and improvement, we pursued Capability Maturity Model Integration (CMMI) Maturity Level 4 in 2018. Over the project life cycle, our team developed complex statistical models to improve productivity and quality throughout the organization. In July, Palmetto GBA achieved the Level 4 rating, distinguishing the organization from competitors and positioning us to deliver even greater value to customers.

The CMMI Institute is the global leader in advancement of best practices in people, process and technology. The CMMI models were developed by The Software Engineering Institute at Carnegie Mellon University and industry and government representatives. A Maturity Level 4 appraisal means Palmetto GBA demonstrates the ability to manage and quantitatively predict the performance of processes, enabling our team to proactively identify potential corrective actions.

To receive a Maturity Level 4 assessment, Palmetto GBA had to demonstrate statistical and quantitative use of metrics, shift to proactive and predictive measures, and demonstrate upward of 98 percent accuracy for productivity and quality. The CMMI Level 4 achievement is extremely difficult to obtain; only a small number of software development organizations achieve the distinction.

New Business

REPETITIVE SCHEDULED NON-EMERGENT AMBULANCE TRANSPORT (RSNAT)

Palmetto GBA was awarded the Repetitive Scheduled Non-Emergent Ambulance Transport (RSNAT) contract. Its purpose is to identify alternate transportation resources for beneficiaries who do not receive approval for RSNAT; communicate with the affected beneficiaries; and track and report required information to the Centers for Medicare & Medicaid Services (CMS). Registered nurses and licensed social workers take calls directly from Medicare beneficiaries and/or their authorized representatives. This interaction includes a discussion of the denied decision to determine if the request is appropriate. Beneficiaries are either referred back to their ambulance supplier or provided assistance to help secure other methods of transportation.

PRICING, DATA ANALYSIS AND CODING

Palmetto GBA is contracted by CMS to assist suppliers and manufacturers in the proper use of the Healthcare Common Procedure Coding System (HCPCS) through the Pricing, Data Analysis and Coding (PDAC). The HCPCS is used to identify items of Durable Medical Equipment, Prosthetics, Orthotics, and Supplies (DMEPOS) for purposes of Medicare billing. The PDAC's contract operations support the Durable Medical Equipment (DME) Medicare Administrative Contractors (MACs), Unified Program Integrity Contractors (UPICs), CMS, federal law enforcement agencies, and the National Supplier Clearinghouse.

As the PDAC, Palmetto GBA performs the following activities:

- Supports the integrity of the Medicare DMEPOS benefit
- Advises manufacturers and suppliers on the appropriate HCPCS for billing DMEPOS items
- Receives, evaluates and processes coding verification applications for DMEPOS
- Establishes, maintains and updates all coding verification decisions on the Product Classification List housed within the Durable Medical Equipment Coding System (DMECS)
- Establishes, maintains and distributes the National Drug Codes (NDC)/HCPCS Crosswalk and Oral Anti-Cancer Drugs (OACD) pricing files
- Conducts DMEPOS statistical analysis and reporting: www.dmepdac.com

FISS CODE EDITOR SUPPORT CONTRACT

StrategyGen is contracted with CMS to provide a variety of coding support services. Because of our business relationship, proven performance and demonstrated expertise, StrategyGen awarded a subcontract to Palmetto GBA on the Fiscal Intermediary Standard System (Medicare) FISS Code Editor Support Contract. Palmetto GBA provides expertise regarding the code editing modules used by the standard claims processing systems. We support StrategyGen's efforts to identify recommendations for revision or deletions to the code editing modules, as well as analysis regarding the downstream impact of potential coding changes.

VA PROGRAM MANAGEMENT SUPPORT SERVICES (PMSS)

As a subcontractor to Tista Tech, Palmetto GBA will provide Agile Development Support for the VA Program Management Support Services. This contract delivers program management support for the VA Financial Service Center, which is a franchise fund operation providing payroll processing, data analysis and other administrative services for the VA and other federal agencies.

NATIONAL INSTITUTE OF DIABETES AND DIGESTIVE AND KIDNEY DISEASE CLEARINGHOUSE

Palmetto GBA's Celerian Group partner, JBS International, was awarded the National Institute of Diabetes and Digestive and Kidney Diseases (NIDDK) Clearinghouse contract for the National Institutes of Health (NIH). Palmetto GBA's role in this contract is to provide clinical consultation.

CIO-SP3

NIH Information Technology Acquisition and Assessment Center (NITAAC) was designated a federal Executive Agent, authorized by the Office of Management and Budget (OMB) to administer three Government-Wide Acquisition Contracts (GWACs) for information technology procurement: CIO-SP3, CIO-SP3 Small Business and CIO-CS.

These GWACs can be used by any federal civilian or Department of Defense (DoD) agency to acquire information technology products, services and solutions.

Palmetto GBA currently holds a CIO-SP3 GWAC as a subcontractor to Stinger Ghaffararian Technologies, Inc. In 2018, we sought additional CIO-SP3 contracts. Palmetto GBA participated on several CIO-SP3 teams, and as a sub-contractor, our teams were awarded two CIO-SP3 contracts for small business on ramp. The CIO-SP3 Small Business GWAC is a 10-year Indefinite Delivery/Indefinite Quantity (IDIQ) contract intended to provide information technology (IT) solutions and services for health and biomedical operations that include meeting scientific, health, administrative, operational, managerial and information management requirements. These partnerships open up significant business development opportunities for Palmetto GBA.

CIO-SP3 contract holders go through a rigorous source selection process prior to award, ensuring the pool of contractors is the best-of-the-best, resulting in significant time, money and resource savings.

Demonstration Project

The Home Health Pre-Claim Review (HH PCR) was re-implemented by CMS as the Review Choice Demonstration (RCD) with issuance of a Jurisdiction M contract modification in early June. This official action by CMS resulted from Palmetto GBA's dedication to the demonstration and the presentation of persuasive data illustrating the significant value of the demonstration to the CMS trust fund. Production for the demonstration is expected to launch in spring 2019.

PROGRESS | INNOVATIONS

A Foundation of Ingenuity

Refined Innovations

SUITE OF ESERVICES

Palmetto GBA continues to develop new self-service tools for our industry-leading provider portal, eServices. In 2018, the Palmetto GBA team made updates to the portal, making it available for JJ MAC providers. These enhancements lessened users' registration burden and allowed access to JJ MAC source data.

Additionally, Palmetto GBA rolled out the new Medicare Beneficiary Identifier (MBI) Look-up tool to all users. This tool allows providers to crosswalk a beneficiary's Social Security Number (SSN)-based Health Insurance Claim Number (HICN) to their new MBI. In the event the beneficiary did not bring their MBI card to their appointment, this tool can be used to look up that information.

Click here for details on the MBI Lookup Tool.

Security enhancements remain in the forefront while we continue to implement improvements related to the provider's experience. Focus groups with providers remain a vital approach for a better understanding of how our portal can enhance the efficiency of their operations.

DEBT MANAGEMENT SYSTEM (DMS)

Palmetto GBA seeks to modernize Medicare debt management activities. In 2018, we continued to implement enhancements to DMS, addressing system performance, audit trail management and request management. A significant enhancement was implemented to allow DMS to generate and manage notification letters to the provider community. Utilizing integration with print/mail services and eServices, DMS now sends Appeal New Notification letters to providers upon receipt of a confirmed Appeal Request. Letters are sent systematically via hard copy or greenmail, which is managed by the provider through its eServices account. Finally, updates were made to implement the JJ MAC lines of business into the DMS. The implementation of the new JJ MAC into the DMS was virtually seamless, with both lines of business fully operational in DMS on the go-live date.

INTELLIGENT DOCUMENT/DATA AUTOMATION (IDA)

We continue to develop our ability to collect and process clinical data (in an electronic and automated format) that we receive from the provider community in support of medical review documentation requests, appeals support and prior authorization requests. iDA includes the tools to augment and automate the adjudication of these records. This project also includes expanding the communication routes with providers that facilitate direct data exchanges with their EHR systems (i.e., Direct Secure Messaging [DM], Fast HealthCare Interoperability Resources [FHIR] APIs). Both of these pathways are active elements of our current iDA projects.

iDA also includes the implementation of Natural Language Processing (NLP) and Artificial Intelligence (AI) to assist a reviewer in making a clinical decision. We are currently reviewing and piloting several AI-based products that support clinical decision-making.

Enhanced Security Systems

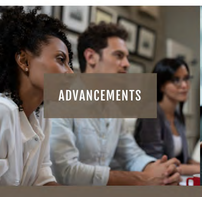
The Centers for Medicare & Medicaid Services (CMS) increased its focus on systems security and heightened its number of security requirements, including a 20 percent increase in controls in 2018. To meet — and exceed — these expectations, Palmetto GBA remains committed to improved overall system security.

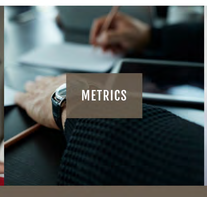
In the last year, Palmetto GBA made more than 25 enhancements to the Security Manager Application, including the ability to process the new Jurisdiction J (JJ) A/B Medicare Administrative Contractor (MAC) information. Continued automation has reduced audit issues, errors and costs associated with the controls, and we are planning further developments in 2019.

Palmetto GBA continues to focus on the overall compliance of our systems security program. Year two of the Federal Information Security Management Act (FISMA) testing was completed in May 2018 with our best results ever. This is an accomplishment in light of the increased number of controls tested and the number of prior controls that had been modified.

The IP-360 System Security score provides CMS with a viable and base metric for measuring information technology risk on our Medicare network. Maintaining an "A" is a strong indicator that Palmetto GBA's patch and configuration management programs are working well, even considering the major challenges presented by Meltdown and Spectre.

IP-360 System Security maintained an "A" rating for 71 consecutive months.





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2018 FINANCIALS

A Culture of Giving Back

It's what we do at Palmetto GBA. Individual associates, teams and entire divisions are committed to having a positive impact on the communities in which we live and work.

In every city where our associates work, we look beyond the office walls to respond to the needs of our neighbors. Our commitment begins with corporate community service efforts that collectively respond to crises and clothe and feed those in need.

Giving. Helping. Serving.

Community Impact Program

Last year, Palmetto GBA launched a program to highlight employees' efforts to help those outside our organization. The team created a system to track community service activities within Palmetto GBA and provide awareness of those efforts across the company as well as to our external constituents.

As part of the program, the team produced a community impact video showing our associates participating in community service activities and sharing their passion for — and Palmetto GBA's commitment to — Giving. Helping. Serving.

See how Palmetto GBA is making a difference in our communities.

Visit our Corporate Community Impact Page

In 2018, the Palmetto GBA team collectively donated more than $240,000 to the United Way. We also made a difference to more than 25 other organizations. We met a variety of needs by collecting items for the homeless, volunteering our time, and donating our resources to organizations and events like Ronald McDonald House Charities, Palmetto Place Children's Shelter, Richland School District Two, American Cancer Society's Relay for Life, Stuff the Bus and American Heart Association Heart Walk.

- 1,200+ students provided with school supplies and mentoring
- $17,000+ donated to local organizations where we work and live
- 14 families adopted during the holidays
- 25 unique philanthropic initiatives

2018 Best of Philanthropy Awards

To honor and recognize associates' admirable commitment to community service, Palmetto GBA developed two awards — Gifts of Time & Talent and Gifts of Treasure — allowing winners to grant $3,000 to the charities of their choice.

The **2018 Best of Philanthropy Award Gift of Time & Talent** winner is the Division 54 **Congaree Elementary School Past Due Lunch Balance Program**. Many of the 466 children at this school receive free lunch, but many of those who don't still struggle to pay lunch fees. Although children with past due accounts receive a bagged lunch, they do not get a hot lunch. Division 54 stepped in at the beginning of the school year and raised $2,500 to erase all past due balances and ensure that children started the year with hot lunches. Division 54 continued their support of children by donating their grant money to My First Books South Carolina charity.

The **2018 Best of Philanthropy Award Gift of Treasure** winner is the Division 05/29 **Shoes that Fit - Backpack Drive**. The Ohio Claims staff, along with associates from Appeals, participated in a drive for two local schools. Shoes and school supplies were collected and distributed to 1,200 students. By donating grant money award to Shoes that Fit the team continued their support of this important children's charity.

AWARD CRITERIA

- Understanding Community Needs
- Creativity in Meeting Community Needs
- Community Collaboration
- Team Participation/ Collaboration
- Volunteer Engagement
- Ongoing Support

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CHAIRMAN, BOARD OF DIRECTORS

Palmetto GBA, LLC

PRESIDENT & CEO

BlueCross BlueShield of South Carolina

M. Edward Sellers
CHAIRMAN, BOARD OF DIRECTORS

BlueCross BlueShield of South Carolina

Joseph Sullivan
CHAIRMAN EMERITUS, BOARD OF DIRECTORS

BlueCross BlueShield of South Carolina

Bruce W. Hughes
PRESIDENT & COO

Celerian Group, BlueCross BlueShield of South Carolina

Joe Johnson
PRESIDENT & COO

Palmetto GBA, LLC

Brian Rubin
RETIRED

Department of Defense TRICARE Management Activity

Tom Grissom
RETIRED

Former Director, Center for Medicare Management, Centers for Medicare & Medicaid Services

Elizabeth Cusick
INDEPENDENT CONSULTANT

Former Deputy Director, Center for Medicare Management, Centers for Medicare & Medicaid Services

Harvey Yampolsky
RETIRED PARTNER, ARENT FOX

Former Chief Counsel to the Inspector General, Department of Health and Human Services

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CORPORATE OFFICERS

Joe Johnson
PRESIDENT & COO

Nella Bishop
CIO & VICE PRESIDENT
Systems & Support

Neal Burkhead
VICE PRESIDENT
Shared Services

Debbie Dickson
VICE PRESIDENT
Jurisdiction J A/B MAC Operations

Robin Free
ASSISTANT VICE PRESIDENT
Pricing, Data Analysis and Coding Program Director

Elaine Garrick
VICE PRESIDENT
Support Operations

Ken Lewis
VICE PRESIDENT & CFO

Tim Masheck
VICE PRESIDENT
Information Technology Services

Lee McElveen
VICE PRESIDENT
Compliance & Privacy

Margaret Price
VICE PRESIDENT & CTO

Ed Sanchez
VICE PRESIDENT
Jurisdiction M A/B MAC Operations

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PALMETTO GBA®
A CELERIAN GROUP COMPANY

2018 Financial Report

01 Independent Auditor's Report
02 Balance Sheets
03 Statements of Operations
03 Statements of Comprehensive Income
03 Statements of Changes in Member's Equity
04 Statements of Cash Flows
05 Notes to Financials Statements

Details

2018 ANNUAL REPORT

INDEPENDENT AUDITOR'S REPORT

BOARD OF DIRECTORS
PALMETTO GBA, LLC

MAULDIN & JENKINS

Report on the Financial Statements

We have audited the accompanying financial statements of Palmetto GBA, LLC which comprise the balance sheet as of December 31, 2018 and 2017, and the related statements of operations, comprehensive income, changes in member's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palmetto GBA, LLC at December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of Matter

As discussed in Note 1 to the 2018 financial statements, Palmetto GBA, LLC changed its presentation of the financial statements as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Updates No. 2015-17, *Balance Sheet Classification of Deferred Taxes and No. 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* Our opinion is not modified with respect to this matter.

Mauldin & Jenkins, LLC

Columbia, South Carolina
March 3, 2019

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BALANCE SHEETS (IN THOUSANDS)

	December 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 59,467	$ 43,682
Restricted Medicare funds	2,961	4,320
Accounts receivable	33,567	26,864
Accounts receivable from affiliates	730	1,568
Accrued revenue	45,440	39,710
Prepaid expenses	551	385
Deferred income taxes	–	1,880
Total current assets	142,716	118,409
Long-term assets:		
Equipment and Leasehold Improvements, net of accumulated depreciation of $31,295 and $31,242 in 2018 and 2017, respectively	3,303	3,405
Investments - available for sale	–	15,091
Investments - held-to maturity	31,312	24,085
Investments in affiliates	492	524
Deferred income taxes	2,267	4
Total long-term assets	37,374	43,109
Total assets	**$ 180,090**	**$ 161,518**
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities:		
Accrued payroll, taxes and benefits	$ 22,315	$ 17,236
Payable to affiliates	10,425	7,219
Restricted Medicare funds	2,961	4,320
Other liabilities	8,576	10,036
Deferred income taxes	–	69
Total current liabilities	44,277	38,880
Long-term liabilities:		
Deferred income taxes	776	649
Total long-term liabilities	776	649
Member's equity:		
Contributed capital	34,961	34,961
Retained earnings	100,076	87,040
Accumulated other comprehensive income (loss)	–	(12)
Total member's equity	135,037	121,989
Total liabilities and member's equity	**$ 180,090**	**$ 161,518**

PALMETTO GBA, LLC (a single-member, limited liability company owned by BlueCross BlueShield of South Carolina)

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF OPERATIONS (IN THOUSANDS)

	Years ended December 31, 2018	2017
REVENUES		
Total revenues	266,017	221,434
EXPENSES		
Total expenses	250,664	206,638
Operating income	15,353	14,796
Investment income	1,126	336
Income before income taxes	16,479	15,132
Provision for income taxes	3,445	6,165
NET INCOME	**$ 13,034**	**$ 8,967**

STATEMENTS OF COMPREHENSIVE INCOME (IN THOUSANDS)

	Years ended December 31, 2018	2017
NET INCOME	**$ 13,034**	**$ 8,967**
Other comprehensive income (loss)		
Unrealized (loss) on investments:		
Unrealized holding losses arising during period, net of income tax (benefit) of ($0) and ($7) in 2018 and 2017	–	(12)
Less: reclassification adjustment for OCI included in net income, net of income tax expense of $4 and $35 in 2018 and 2017	14	65
Total other comprehensive income	14	53
COMPREHENSIVE INCOME	**$ 13,048**	**$ 9,020**

STATEMENTS OF CHANGES IN MEMBER'S EQUITY (IN THOUSANDS)

	Contributed Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total
Balance January 1, 2017	$ 34,961	$ 78,073	$ (65)	$ 112,969
Net income	–	8,967	–	8,967
Other comprehensive income	–	–	53	53
Balance December 31, 2017	34,961	87,040	(12)	121,989
Net income	–	13,034	–	13,034
Other comprehensive income	–	–	14	14
Stranded tax effect	–	2	(2)	–
Balance December 31, 2018	**$ 34,961**	**$ 100,076**	**$ –**	**$ 135,037**

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STATEMENTS OF CASH FLOWS (IN THOUSANDS)

	Years ended December 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 13,034	$ 8,967
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	471	425
Amortization on bonds	128	620
Loss on equipment and leasehold improvements disposals	22	4
Realized loss on investments	35	49
Unrealized (gain) on investments	(19)	(80)
Other comprehensive income adjustment to retained earnings	2	–
Change in other comprehensive gain	12	53
Equity in income of affiliates	32	1,347
Deferred income tax provision	(325)	1,108
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable and accrued revenue	(12,433)	7,754
Decrease (increase) in receivables from affiliates	838	(461)
(Increase) decrease in prepaid expense	(166)	300
Increase in accrued payroll, taxes and benefits	5,079	1,294
Increase (decrease) in payable to affiliates	3,206	(1,804)
(Decrease) in other liabilities	(1,460)	(2,282)
Net cash provided by operating activities	8,456	17,294
CASH FLOWS FROM INVESTING ACTIVITIES		
Equipment and leasehold improvements purchased	(391)	(207)
Investments redeemed - held-to-maturity	2,092	4,348
Investments sold - available-for-sale	15,066	5,085
Investments purchased - held-to-maturity	(9,438)	(5,547)
Investments purchased - available-for-sale	–	(15,118)
Net cash provided by (used in) investing activities	7,329	(11,439)
Net increase in cash and cash equivalents	15,785	5,855
Cash, cash equivalents, and restricted cash beginning of year	43,682	37,827
Cash, cash equivalents, and restricted cash end of year	**$ 59,467**	**$ 43,682**
Supplemental disclosures of cash paid during the year for:		
Income taxes	$ 4,341	$ 6,352

PALMETTO GBA, LLC (a single-member, limited liability company owned by BlueCross BlueShield of South Carolina)

The accompanying notes are an integral part of these financial statements.

NOTE 1

BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Palmetto GBA, LLC (the Company) is a single-member limited liability company organized on January 1, 1998. The Company's sole member is Blue Cross and Blue Shield of South Carolina (BCBSSC). The Company is engaged in the business of providing Medicare Administrative Contractor (MAC) and Specialty Medicare Administrative Contractor (SMAC) services in various states. These services include health insurance claims processing and payment, customer service for health care providers, and payment safeguard functions designed to detect and prevent fraud and abuse in the Medicare program. The Company provides services to Medicare beneficiaries residing in various states and territories. The Company's major customer is the Centers for Medicare and Medicaid Services (CMS), the federal agency with fiduciary responsibility for the Medicare program.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant accounting policies and the methods of applying those policies are summarized below:

Cash, cash equivalents and credit risk

Restricted cash and the related restricted cash liability includes funds held for processing Medicare benefits paid to providers and beneficiaries of $2,961,000 and $4,320,000 at December 31, 2018 and 2017, respectively.

Cash equivalents represent certificates of deposit that have maturities of less than three months at date of purchase and money market fund investments. Market risk for cash and cash equivalents is limited to any one institution when deposits exceed federally insured limits. The Company had cash deposits in excess of federally insured limits in the approximate amount of $67,352,000 and $46,873,000 at December 31, 2018 and 2017, respectively. The Company has not experienced any losses on these accounts and management considers this to be a normal risk.

Financial instruments

The Company holds certain financial instruments including cash and accounts receivable. Management believes that the carrying values of financial instruments approximate fair value as required by Financial Accounting Standards Board (FASB) rules.

Subsequent events

Subsequent events have been evaluated through March 3, 2019, which is the date the financial statements were available to be issued. No events have occurred through that date that would require recognition or disclosure in the financial statements.

Equipment and leasehold improvements

Equipment and leasehold improvements are stated at amortized cost. Depreciation on new assets purchased is computed using the straight-line method over the estimated useful lives of the respective assets: four to eight years for furniture and fixtures, three to five years for data processing equipment and software, and four years for automobiles. Leasehold improvements are depreciated over the lesser of the remaining lease term or estimated useful life of the asset. Depreciation on used assets purchased is computed by using the straight-line method over the estimated remaining useful lives at the time of purchase of the respective assets.

Investment in affiliates

The Company has a 25% interest in TriCenturion, Inc. and a 49% interest in Fed Pro Services, LLC that are accounted for using the equity method. The Company's proportionate share of earnings or losses of these affiliates are reflected in income as earned and dividends or distributions are credited against investment in affiliate when received. The Company has not received any dividends as of December 31, 2018 and 2017.

There were no significant assets, liabilities, or net loss for Fed Pro Services, LLC. Assets, liabilities and results of operations for TriCenturion, Inc. were as follows (in thousands):

	Years ended December 31,	
	2018	2017
Assets	$ 7,365	$ 7,489
Liabilities	$ 5,407	$ 5,406
Net Income	$ (125)	$ (425)

Investments

Investments are comprised of bonds and United States Government mortgage-backed securities. These assets are accounted for in accordance with FASB guidance which requires that fixed maturities are to be classified as either "held to maturity", "available for sale", or "trading".

Management determines the appropriate classification of its fixed maturity securities at the time of purchase and reevaluates such designation as of each balance sheet date. Fixed maturity securities are classified as held to maturity as the Company has the positive intent and ability to hold them to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization as well as interest earned is included in investment income.

Fixed maturity and equity securities not classified as held-to-maturity are classified as available for sale. Available-for-sale securities are carried at fair value based on published prices, with the unrealized gains and losses reported in retained earnings. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and interest earned is included in investment income. The cost of securities sold is based on the specific identification method.

Revenue recognition policies

The Company recognizes revenue on the Jurisdiction M A/B MAC, Jurisdiction J A/B MAC, Railroad Retirement Board SMAC, Data Computer Corporation of America (DCCA), National Supplier Clearinghouse (NSC) MAC, Durable Medical Equipment (DME) Appeals Demo by IMPAQ and contracts on cost plus a fixed fee basis. Award fees, if applicable, for these contracts are recognized based upon historical performance or management estimates if no historical data is available.

The Company recognizes revenue on the Competitive Bidding Implementation Contractor (CBIC), Customer Support and Front End System (CSFES), Continuing Education (CE) Support and Medicare Learning Network (MLN) Product Development and various other contracts when services are performed and billable.

Income taxes

Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates which are anticipated to be in effect when these differences reverse. The deferred tax provision is the result of the net change in the deferred tax assets to amounts expected to be realized. Valuation allowances are provided against deferred tax assets when the Company determines it is more likely than not that the deferred tax asset will not be realized.

The Company uses a security-by-security, or specific identification method, to account for deferred taxes associated with unrealized gains and losses recorded in retained earnings. Any stranded tax effects arising from the recognition of changes in tax laws or rates on deferred tax assets or liabilities related to available- for-sale securities are released upon the disposal of the related security.

The Company is required to determine whether the tax positions taken on its returns are more-likely-than- not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than fifty percent likely to be realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Management is not aware of any material uncertain tax positions and no liability has been recognized at December 31, 2018. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of income as they occur.

The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by federal and state jurisdictions, where applicable. As of December 31, 2018, the tax years 2015 forward remain subject to examination by the federal tax jurisdiction under the statute of limitations.

The Tax Cuts and Jobs Act of 2017 (TCJA) was signed into law on December 22, 2017. The law includes significant changes to the U.S. corporate income tax system, including a federal corporate rate reduction from 35% to 21%, limitations on the deductibility of interest expense and executive compensation, and the transition of U.S. international taxation from a worldwide tax system to a territorial tax system.

New accounting policies

In February 2018, FASB issued Accounting Standards Update 2018-02 allowing a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The update is effective for fiscal years beginning after December 15, 2018; however, early adoption is permitted. The Company has elected early adoption of this amendment and will apply it on a prospective basis. The Company does not hold any available-for-sale securities at the end of the year, and as a result, has no remaining stranded tax effects at December 31, 2018.

In November 2015, FASB issued Accounting Standards Update 2015-17 requiring non-public entities to classify all deferred tax assets and liabilities as non-current for annual periods beginning after December 15, 2017. The Company has chosen to adopt this standard on a prospective basis. All deferred tax assets and liabilities are reported as non-current for the year ended December 31, 2018, and prior periods have not been retrospectively adjusted.

In May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers, which is expected to improve consistency and comparability of revenue recognition practices within financial statements. ASU 2014-09 was originally effective for fiscal periods beginning after December 15, 2017. In August 2015, FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, making amendments to defer the effective date of ASU 2014-09. The amendments in ASU 2015-14 defer the effective date to fiscal periods beginning after December 15, 2018. The Company is currently evaluating ASU 2014-09 and ASU 2015-14 but does not expect it will have a material impact on the Company's results of operations, cash flows or financial position.

Fair value measurements

The Company adopted the provision of Accounting Standards Codification (ASC) 820 effective 2009. ASC 820 establishes a framework for measuring the fair value of assets and liabilities recognized in the financial statements in periods subsequent to initial recognition.

NOTE 2

EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements consist of the following (in thousands):

	Years ended December 31, 2018	2017
Leasehold improvements	$ 156	$ 232
Equipment, furniture & fixtures	25,134	25,284
Software	9,308	9,131
	34,598	34,647
Accumulated depreciation	(31,295)	(31,242)
	$ 3,303	$ 3,405

Depreciation expense was $471,000 and $425,000 for the years ended December 31, 2018 and 2017, respectively.

NOTE 3

INVESTMENTS

Investments consist of the following (in thousands):

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2018				
Held-to-maturity securities:				
Corporate bonds	$ 24,241	$ 30	$ 559	$ 23,712
Mortgage-backed securities	7,071	10	312	6,769
Total held-to-maturity securities	31,312	40	871	30,481
Total investments	**$ 31,312**	**$ 40**	**$ 871**	**$ 30,481**

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2017				
Held-to-maturity securities:				
Corporate bonds	$ 16,713	$ 247	$ 191	$ 16,769
Mortgage-backed securities	7,372	37	122	7,287
Total held-to-maturity securities	24,085	284	313	24,056
Available-for-sale securities:				
Mutual funds	15,110	37	56	15,091
Total investments	**$ 39,195**	**$ 321**	**$ 369**	**$ 39,147**

The Company monitors investment securities for other than temporary declines in fair value. In determining whether a decline in fair value is other than temporary, consideration is given to the extent of the decline, the length of time fair value has been below cost, and other relevant factors including estimated future cash flows. None of the unrealized losses at December 31, 2018 or 2017 were considered other than temporary.

The amortized cost and estimated fair values of held-to-maturity debt securities, by contractual maturity, at December 31, 2018, are as follows (in thousands):

	Amortized Cost or Cost Value	Fair Value
Held-to-maturity securities:		
Due in one year or less	$ 470	$ 468
Due in one year through five years	7,674	7,592
Due in five years through ten years	17,663	17,241
Due in ten years or more	5,505	5,180
Total held-to-maturity	**$ 31,312**	**$ 30,481**

There were gross realized gains of $392,000 and $7,000 for the years ended December 31, 2018 and 2017, respectively, that were included in net investment income. There were gross realized losses of $427,000 and $56,000 for the years ended December 31, 2018 and 2017, respectively, that were included in net investment income. Gross unrealized holding gains and losses on securities classified as available-for-sale are reported in accumulated other comprehensive income in the accompanying balance sheets. No cash or assets are pledged or restricted for any purpose.

The Company held no available-for-sale investments at December 31, 2018. For available-for-sale investments in an unrealized loss position at December 31, 2017, the aggregate amount of unrealized loss that had been in an unrealized loss position for less than twelve months was $56,000 and the aggregate estimated fair value was $7,482,000. There were no available-for-sale investments in an unrealized loss position for more than twelve months at December 31, 2017.

For held-to-maturity investments in an unrealized loss position at December 31, 2018, the aggregate amount of unrealized loss that had been in an unrealized loss position for less than twelve months was $163,000 and the aggregate estimated fair value was $8,992,000. For investments that had been in an unrealized loss position for more than twelve months, the aggregate amount of unrealized loss was $708,000 and the aggregate estimated fair value was $13,070,000. For held-to-maturity investments in an unrealized loss position at December 31, 2017, the aggregate amount of unrealized loss that had been in an unrealized loss position for less than twelve months was $127,000 and the aggregate estimated fair value was $6,261,000. For investments that had been in an unrealized loss position for more than twelve months, the aggregate amount of unrealized loss was $186,000 and the aggregate estimated fair value was $6,061,000.

FAIR VALUE MEASUREMENTS

The Company's financial assets carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by FASB. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). The levels of the fair value hierarchy are as follows:

Level 1 Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

There were no assets or liabilities measured at fair value on a recurring basis at December 31, 2018.
Fair value of assets and liabilities measured on a recurring basis are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
DECEMBER 31, 2017				
Mutual funds				
Publicly traded equities	$ 15,091	$ –	$ –	$ 15,091
Total Mutual funds	15,091	–	–	15,091
Total investments	**$ 15,091**	**$ –**	**$ –**	**$ 15,091**

NOTE 4

INCOME TAXES

The Company's operations are included in the consolidated federal income tax return of BCBSSC. Under a written tax-sharing agreement, BCBSSC allocates the tax provision to each company within the consolidated group based upon the company's proportionate share of the consolidated federal income tax liability computed on a stand-alone basis, multiplied by the total consolidated federal income tax return liability.

The Company had income tax payables to BCBSSC of $1,904,000 and $1,674,000 at December 31, 2018 and 2017, respectively, which are included in net receivables and payables to the parent. The Company made payments to BCBSSC for income taxes of $4,341,000 and $6,352,000 during the years ended December 31, 2018 and 2017, respectively.

The Company recognized a provision for income taxes as follows (in thousands):

	Year ended December 31,	
	2018	2017
Current	$ 3,773	$ 5,086
Deferred	(328)	1,079
Total income taxes incurred	**$ 3,445**	**$ 6,165**

Unrealized gains on investments credited directly to retained earnings have been reduced by income tax expense of $4,000 and $28,000 for the years ended December 31, 2018 and 2017, respectively.

The provision for income taxes differs from the amount computed by applying the federal statutory tax rate of 21% to income before income taxes primarily due to investment in subsidiaries, the dividends received deduction allowed for tax purposes, and the effect of reduced statutory rates as a result of the Tax Cuts and Jobs Act of 2017 ("TCJA"). A deferred tax benefit of $11,000 and a deferred tax expense of $778,000 have been recorded for the years ended December 31, 2018 and 2017, respectively, due to the re-measurement of deferred tax assets and liabilities resulting from the change in enacted corporate tax rates for years beginning after December 31, 2017. The temporary differences that give rise to the deferred tax assets and liabilities are primarily related to accrued expenses, fixed assets, investments, and prepaid expenses. There was no valuation allowance at December 31, 2018 and 2017.

Deferred tax assets and liabilities of the Company are as follows (in thousands):

	December 31,	
	2018	2017
Deferred tax assets:		
Current	$ –	$ 1,880
Long-term	2,267	4
	$ 2,267	**1,884**
Deferred tax liabilities:		
Current	$ –	$ 69
Long-term	776	649
	$ 776	**$ 718**
Net deferred tax asset	**$ 1,491**	**$ 1,166**

NOTE 5

EMPLOYEE BENEFIT PLANS

The Company's employees are part of the 401(k) plan sponsored by BCBSSC. Eligible employees may defer up to 50% of their salary and the Company matched 50% of the first 6% deferred in 2018 and 2017. For employees hired after January 1, 2003, there is a 2-year cliff-vesting schedule on the match contribution. Employees hired after April 1, 2014, are not covered by the BCBSSC defined benefit pension plan. For those employees, the Company makes a discretionary contribution to the 401(k) plan which is 50% vested for employees with one year of service and fully vested for employees with two years of service. Employees must be employed on the last day of the year to be eligible for the discretionary contribution, unless terminated during the year due to retirement (age 55 and 5 years of service), death or disability. The discretionary Enhanced 401(k) contribution was 4% of salary for both years ended December 31, 2018 and 2017.

The cost of providing the 401(k) contribution was $3,928,000 and $3,160,000 for the years ended December 31, 2018 and 2017, respectively. The pension expense allocated to the Company under the BCBSSC defined benefit pension plan was $1,054,000 and $0 for the years ended December 31, 2018 and 2017, respectively.

NOTE 6

COMMITMENTS AND CONTINGENCIES

A financial guarantee has been issued by BCBSSC, which equals the Company's estimated annual net operating expenses multiplied by 8.33%, less current capitalization. This guarantee is estimated to be $0 at December 31, 2018. BCBSSC has also executed an indemnification agreement, pursuant to minimum reserve and other requirements established by the Blue Cross and Blue Shield Association (BCBSA). BCBSSC is, therefore, liable to the Company to the extent of its financial guarantee and to the BCBSA to the full extent of its assets for any claims asserted against the BCBSA resulting from the contractual and financial obligations of the Company arising out of its Medicare Part A subcontract with the BCBSA.

In consideration of the novation of the fiscal intermediary and carrier contracts from BCBSSC to the Company, BCBSSC has issued a financial guarantee which equals 20% of the administrative costs of the contracts contained in the Notice of Budget Approval, less current capitalization. This guarantee is estimated to be $0 at December 31, 2018. The financial guarantee agreement remains in effect until both the contracts and intermediary agreement expire, are non-renewed or are terminated, and closing agreements are executed.

In addition, BCBSSC has executed a statutorily required financial guarantee of $75,000 on behalf of the Company in order for the Company to obtain a Third Party Administrator's license pursuant to the South Carolina insurance laws.

The Company recorded an estimated contingent liability for potential repayments of costs claimed on its contracts with CMS. The liability was $4,514,000 and $4,334,000 at December 31, 2018 and 2017, respectively.

In the ordinary course of business, there are various legal proceedings pending against the Company. Management believes the aggregate liabilities, if any, arising from legal actions would not have a material adverse effect on the financial position of the Company.

NOTE 7

OPERATING LEASES

Lease expense under the operating leases was approximately $782,000 for the years ended December 31, 2018 and 2017, respectively. Future annual minimum lease payments as of December 31, 2018, under non- cancelable operating building leases, expiring in 2019, are as follows (in thousands):

Year ended	Amount
2019	522
Total	**$ 522**

NOTE 8

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Restricted cash and cash equivalents and restricted cash liability decreased by $1,359,000 in 2018 and increased by $671,000 in 2017.

NOTE 9

RELATED PARTIES

The Company is a single-member limited liability company owned by BCBSSC. Certain offices, other facilities and services are provided by BCBSSC pursuant to an administrative services agreement. Expenses associated with the administrative services agreement allocated from BCBSSC to the Company totaled $76,380,000 and $66,526,000 for the years ended December 31, 2018 and 2017, respectively. The Company paid $80,742,000 and $66,593,000 during the years ended December 31, 2018 and 2017, respectively, to BCBSSC for expenses paid on behalf of the Company.

There are certain administrative services provided by the Company to BCBSSC and its subsidiaries. The Company received $12,343,000 and $16,971,000 for these services during the years ended December 31, 2018 and 2017, respectively.

The Company pays Companion Data Services (CDS, a wholly owned subsidiary of BCBSSC) fees for data analysis and data storage functions through usage of the Enterprise Data Center. The Company paid $2,458,000 and $2,200,000 for these services during the years ended December 31, 2018 and 2017, respectively.

The Company paid CGS Administrators (a wholly owned subsidiary of BCBSSC) fees for assistance with the JM MAC and JJ MAC contracts. The Company paid $559,000 and $0 for these services during the years ended December 31, 2018 and 2017, respectively.