2019 ANNUAL REPORT

Scale.

When micro-refinements are compounded, millions benefit.

SEE OUR PROGRESS →

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.

A Message from Joe

By working day in and day out to improve every aspect of all we do, the Palmetto GBA team drives scale that improves the lives of many. From a new Customer Experience (CX) initiative already enhancing provider satisfaction and driving new ideas to the seamless implementation of the Home Health Review Choices Demonstration (RCD) in Ohio, we strive for constant innovation.

A committed community partner, the Palmetto GBA team made impressive strides to expand our Community Impact initiatives in 2019. We significantly increased donated resources and volunteer hours to local charities, and we hope to give even more in 2020. On the business development front, we won eight contracts last year in areas ranging from health information technology, large scale innovation, and health care quality improvement. I'm proud to know we're routinely sought out by industry partners for our subject matter expertise.

As we maintain industry leadership, 2020 will see us focus our technical resources on innovation to streamline operations, improve performance and automate our processes. Our goal: retain, expand and diversify our business.

As always, I appreciate the hard work and dedication of the Palmetto GBA team. I'm proud to work beside you, as together we make a difference to so many.

Best regards,

Walter J. Johnson
President & COO

PALMETTO GBA®
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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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2019 FINANCIALS

Relentless Refinement

The accumulated effect of micro-improvements is profound. We know intentional innovation and advancement drive huge reward for millions of Americans. It's why we're committed to doing even small tasks better every day.

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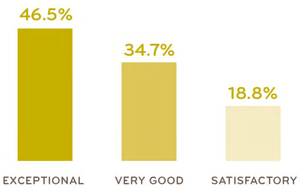
Striving for Excellence

CONTRACTOR PERFORMANCE SUMMARY



Palmetto GBA was rated *Very Good* or *Exceptional* by CMS on 35 out of 42 assessed elements.

2019 Scale

$68.7 bil BENEFITS PAID

1.3 mil INQUIRIES ANSWERED

193 mil CLAIMS PROCESSED

11.5 mil BENEFICIARIES SERVED

Fee-for-Service Contracts

JURISDICTION M A/B MAC

96.2 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, 2019

JURISDICTION M HOME HEALTH AND HOSPICE

10.5 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, 2019

JURISDICTION J A/B MAC

77.8 MILLION CLAIMS ANNUALLY SINCE 2017

AL/GA & TN

COMPETITIVE BIDDING IMPLEMENTATION CONTRACTOR

USA SINCE 2006

RAILROAD RETIREMENT BOARD SMAC

8.6 MILLION CLAIMS ANNUALLY SINCE 2000[1]

USA

[1] Including predecessor contracts

NATIONAL SUPPLIER CLEARINGHOUSE MAC

39,000 APPLICATIONS PROCESSED IN 2019

USA

PRICING, DATA ANALYSIS AND CODING

2,300 APPLICATIONS ANALYZED IN 2019

USA

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Driving Advancement

Competitive Bidding Implementation Contractor (CBIC)

Since its inception in 2006, Palmetto GBA has administered the Durable Medical Equipment, Prosthetics, Orthotics and Suppliers (DMEPOS) Competitive Bidding Program. The objective of the program is to set reasonable payment rates for select DMEPOS items, which saves money for beneficiaries, taxpayers and the Medicare trust fund, and limits fraud and abuse. In addition, the program works to ensure Medicare beneficiaries have access to quality items from qualified suppliers. It is a unique business model for the CMS; no competitive acquisition programs exist in any of the other fee-for-service benefits.

Bidding for the latest round, Round 2021, took place last year. Palmetto GBA's team of accountants and analysts objectively evaluated the bids utilizing our bid evaluation application. For the first time, bidders uploaded required documents to Palmetto GBA's portal, while we provided other communications to bidders through the portal. This secure interaction provided improvements for the bidder and the CBIC by reducing postal time and expense, eliminating arduous paper transactions, and mitigating potential errors. Contract offers will be extended to eligible bidders in the summer of 2020, and the round will be implemented on January 1, 2021, in 130 competitive bidding areas across the country.

This secure interaction provided improvements for the bidder and the CBIC by reducing postal time and expense, eliminating arduous paper transactions, and mitigating potential errors.

Medicare Integrity Program

Our program safeguard activities resulted in significant savings for the Medicare program.

Hover over acronyms to reveal full names	JM A/B MAC	JJ A/B MAC	RRB
BI	N/A	N/A	$1,126,717
MSP	$552,399,223	$513,184,323	$5,226,946
MR	$73,906,977	$77,091,076	$7,869,000
MR Ambulance Prior Auth	$8,354,231	N/A	N/A
Total	$634,660,431	$590,275,399	$14,222,663

$1.24 bil

2019 MEDICARE PROGRAM SAFEGUARD SAVINGS

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New Horizons

Pricing, Data Analysis and Coding (PDAC)

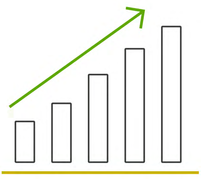
Palmetto GBA completed implementation of the Pricing, Data Analysis and Coding (PDAC) contract and began operation on January 14, 2019. As the PDAC, Palmetto GBA is contracted by the CMS to advise manufacturers and suppliers on the appropriate Healthcare Common Procedure Coding System (HCPCS) codes for billing Medicare for Durable Medical Equipment, Prosthetics, Orthotics, and Supplies (DMEPOS). The PDAC conducts data analytics for CMS, maintains DME product catalogs, and manages various pricing files used nationally.

In this role, Palmetto GBA performs code verification reviews for DMEPOS products submitted by manufacturers or distributors. These clinical reviews include:

- Conduct demonstration days for manufacturers to present products for education and coding advice
- Review applications for HCPCS code assignment for new DMEPOS products
- Interact with DME MAC medical directors to assist with local coverage determination development and correct coding guidelines and articles
- Support the CMS and the Alpha Numeric workgroup with establishment of new Level II HCPCS codes

The PDAC also maintains processed claims data for DMEPOS and produces standard and ad hoc reports. We provide data analysis and decision support to the Zone Program Integrity Contractors, Unified Program Integrity Contractors, DME Medicare Administrative Contractors (MACS), the National Supplier Clearinghouse and law enforcement. These data analysis and decision-support activities facilitate the identification of over-utilization, potential fraud and abuse; policy development related to DMEPOS; medical review activities; enrollment of DMEPOS suppliers; and other related activities.

In addition, as the PDAC, Palmetto GBA updates and maintains a file that converts National Drug Codes submitted on Medicare claims to HCPCS Level II codes for claims processing purposes. We also update and maintain pricing files for certain oral anti-cancer drugs for distribution to the DME MACs for use in processing claims.



Growth Initiative

In 2019, Palmetto GBA moved forward with our strategic initiative to diversify our customer base into new markets. By leveraging relationships with Celerian Group partners and expanding our capabilities, we've built relationships with new customers including the Centers for Disease Control and Prevention, U.S. Food and Drug Administration, and Health Resources & Service Administration. Palmetto GBA also won new contracting vehicles with the U.S. Department of Commerce and General Service Administration, expanding our competitive reach into new federal organizations. We continued to build robust technical capabilities by achieving Capability Maturity Model Integration (CMMI) Level 4 and investing in emerging technologies to meet evolving government needs.

Palmetto GBA's aggressive marketing efforts are yielding results as new business partners and customers proactively seek our participation in their procurement efforts.

New Business

Department of the Navy's Seaport-e Next Generation (NexGen)

As a subcontractor to Modulant, Inc., Palmetto GBA was awarded the Department of Navy's Seaport-e Next Generation (NexGen) contract. This Indefinite Delivery/Indefinite Quantity (IDIQ) contract for the Department of Navy includes information technology and engineering services.

Network of Quality Improvement and Innovation Contractors (NQIIC)

In a subcontracting partnership with Arch Systems, Inc., Palmetto GBA was awarded the Network of Quality Improvement and Innovation Contractors (NQIIC). This is a multiple award IDIQ contract under which individual task orders will be awarded to procure expert healthcare quality improvement services for the NQIIC. NQIICs are defined as a set of quality improvement contractors with the capability to achieve large-scale improvement results using effective and innovative quality improvement strategies that are data driven; transparent; and empower patients, families and clinicians to make decisions about their healthcare.

National Institutes of Standards and Technology (NIST) Blanket Purchase Agreement (BPA) Open Innovation Opportunities (OIO)

In a subcontracting relationship with Sensis, Palmetto GBA was awarded the National Institutes of Standards and Technology (NIST) Blanket Purchase Agreement (BPA) Open Innovation Opportunities (OIO) contract. This contract makes available a portal and platform to support competitions for improvement ideas for first responder actions. The contract will provide a means for managing the competition for the government and hosting the information collected.

Health Resources & Services Administration (HRSA) Technical Assistance

As a subcontractor to Celerian Group's JBS International, Palmetto GBA was awarded the Health Resources & Services Administration (HRSA) Technical Assistance contract. HRSA is the primary federal agency for improving healthcare to people who are geographically isolated, economically or medically vulnerable. The contract provides technical assistance to support HRSA's programs.

Customer Service Front End Systems (CSFES)

Palmetto GBA was awarded the Customer Service Front End Systems (CSFES) contract. The purpose of this contract is to collect and process encounter, risk adjustment, Prescription Drug Event, National Council for Prescription Drug Program and Medicaid data from Medicare Advantage Organizations (MAO), Prescription Drug Plans, and Medicare Medicaid Plans. Palmetto GBA also provides Medicare knowledgeable staff capable of responding for CMS as subject matter experts in communications with the MAO Plans and their third-party submitters and CMS internal staff.

General Services Administration Federal Acquisition Service

Palmetto GBA was awarded the General Services Administration (GSA), Federal Acquisition Service (FAS) on-ramp requirement for the One Acquisition Solution for Integrated Services (OASIS) Unrestricted Pool 2 procurement vehicle. This IDIQ contract provides complex, integrated professional services and ancillary services and products focusing on financial services and research.

World Trade Center Provider Enrollment

In a supporting role to Celerian Group's Karna, Palmetto GBA was awarded the World Trade Center Provider Enrollment contract. This contract for the Centers for Disease Control and Prevention (CDC), National Institute for Occupational Safety and Health (NIOSH) enrolls providers in the network that will serve 9/11 first responders and affected citizens.

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Pioneering the Way

Home Health Review Choice Demonstration

Last June, the Palmetto GBA team successfully launched the Review Choice Demonstration (RCD) into production for Home Health Agencies in Illinois. Originally placed on hold by the CMS, reimplementation of the project resulted from our dedication to the demonstration and the presentation of persuasive data illustrating the significant value to the CMS trust fund. As the sole provider conducting the demonstration, in September Palmetto GBA added the second state, Ohio, to the project. By December 2019, the team conducted an average of 1,200 review requests daily.

Results have demonstrated:

- an increase in provider compliance with documentation and billing guidelines
- data supporting the substantial value of the demonstration to the Medicare trust fund

The three remaining states in the demonstration – Texas, North Carolina and Florida – will launch in the spring of 2020.

CX WEEK
2019

Award Recipients

Shontavia Bladen
Bonnie Brown
Portese Hollingsworth
Daniel Johnson
Lorie Peters
Martha Roberts
Shamecca Toney

Customer Experience (CX)

We strive always to improve providers' experience with Palmetto GBA. It takes constant refinement and an unwavering commitment to outstanding customer service. To that end, early last year we launched a customer experience initiative after gathering feedback from provider surveys on the Jurisdiction M A/B MAC contract. The goal is to re-evaluate our approach to customer service and recognize that provider satisfaction is the responsibility of every employee. And efforts are already underway to improve providers' experience with us. For instance, the implementation of ePass has made the authentication process much more efficient for providers. It allows them to bypass additional authentication after their first call to the Provider Contact Center each business day, ensuring they only need to use one code throughout that day.

The CX team also created its own satisfaction survey to increase the frequency of provider feedback. This feedback is analyzed and shared throughout the company on a weekly basis. Associates who demonstrate an exceptional commitment to the customer service experience are recognized semi-annually with CX awards. Each recipient has a proven record of exceeding performance metrics, going above and beyond to ensure customer issues are resolved, and receiving positive customer feedback.

Our renewed commitment to ensuring providers receive outstanding customer service has resulted in a marked improvement in provider satisfaction survey results. Palmetto GBA will analyze the remainder of the 2019 results and will refresh the project plan in 2020 to maintain forward momentum with the CX initiative.

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Giving back is in our corporate DNA.

2019 Community Impact

At Palmetto GBA we know this: work that impacts an individual can also advance a community. Its why we put our heart and soul into meeting the needs of our neighbors in communities where we live and work. We're proud of our collective response last year and the impact our associates had on so many across the country.

2019

Giving. Helping. Serving.

Palmetto GBA associates give from the heart and help a wide range of charitable organizations, schools, animal shelters and medical facilities.

43 CHARITY PROJECTS

383 PARTICIPANTS

7,602 ITEMS DONATED

$23,776 DONATED

461 HOURS VOLUNTEERED

2019 UNITED WAY CAMPAIGN RESULTS

1,150 PARTICIPANTS

$324,807 RAISED

"Our associates play a leading role in supporting our communities. Their generosity is at work in schools, food pantries, social services, hospitals, arts centers and research facilities."

Elaine Garrick
Vice President of Support Operations & Community Impact Leader

Last year, our projects ranged from collecting school supplies, food and household items for senior citizens to providing Christmas gifts to families. Through Sacks of Love — an organization providing meals to students in need — we donated nearly 600 food items for more than 400 children in Kershaw County, South Carolina, over the holidays when needs increase.

Money was raised for organizations assisting a wide range of people, including the nonprofit Hidden Wounds. Associates donated to this organization that provides interim and emergency psychological treatment for active-duty, veteran and retired military service members.

Many of us got moving for causes we're passionate about by biking to raise funds for cancer research, or by walking and running to raise money for scleroderma and heart disease. Employees participated in Wreaths Across America, an initiative to place holiday wreaths on the graves of military veterans to honor their service. And Palmetto GBA team members volunteered with Table Talkers by mentoring fifth-grade students at Joseph Keels Elementary School.

It was a banner year for giving at Palmetto GBA, and we're honored to make a difference in our communities.

Leadership

Board of Directors

David Pankau

CHAIRMAN, BOARD OF DIRECTORS

Palmetto GBA, LLC

PRESIDENT & CEO

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

Mike Mizeur

EXECUTIVE VICE PRESIDENT, TREASURY & CFO

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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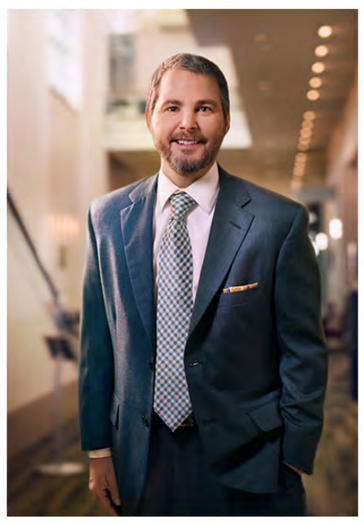
Leadership

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
Home Health Review Choice Demonstration

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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2019

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 Financial Statements

2019 ANNUAL REPORT

Scale.

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 sheets as of December 31, 2019 and 2018, 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 audit 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, 2019 and 2018, 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.

Mauldin & Jenkins, LLC

Columbia, South Carolina
March 6, 2020

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BALANCE SHEETS (IN THOUSANDS)

	December 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 42,728	$ 59,467
Restricted Medicare cash	121,276	2,961
Accounts receivable	28,112	33,567
Accounts receivable from affiliates	406	730
Accrued revenue	49,990	45,440
Prepaid expenses	1,136	551
Total current assets	243,648	142,716
Long-term assets:		
Equipment and leasehold improvements, net of accumulated depreciation of $30,008 and $31,295 in 2019 and 2018, respectively	3,732	3,303
Investments – held-to maturity	64,031	31,312
Investments in affiliates	414	492
Deferred income taxes	2,439	2,267
Total long-term assets	70,616	37,374
Total assets	**$ 314,264**	**$ 180,090**
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities:		
Accrued payroll, taxes and benefits	$ 21,834	$ 22,315
Payable to affiliates	10,288	10,425
Restricted Medicare cash	121,276	2,961
Other liabilities	9,393	8,576
Total current liabilities	162,791	44,277
Long-term liabilities:		
Deferred income taxes	975	776
Total long-term liabilities	975	776
Member's equity:		
Contributed capital	34,961	34,961
Retained earnings	115,537	100,076
Total member's equity	150,498	135,037
Total liabilities and member's equity	**$ 314,264**	**$ 180,090**

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, 2019	2018
REVENUES		
Total revenues	$ 293,712	$ 266,017
EXPENSES		
Total expenses	276,198	250,664
Operating income	17,514	15,353
OTHER INCOME		
Investment income	2,092	1,126
Total other income	2,092	1,126
Income before income taxes	19,606	16,479
Provision for income taxes	4,145	3,445
Net Income	**$ 15,461**	**$ 13,034**

STATEMENTS OF COMPREHENSIVE INCOME (IN THOUSANDS)

	Years ended December 31, 2019	2018
Net income	$ 15,461	$ 13,034
Other comprehensive income		
Reclassification adjustment for OCI included in net income, net of income tax expense of $0 and $4 in 2019 and 2018	–	14
Total other comprehensive income	–	14
Comprehensive income	**$ 15,461**	**$ 13,048**

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

	Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance January 1, 2018	$ 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
Net income	–	15,461	–	15,461
Balance December 31, 2019	**$ 34,961**	**$ 115,537**	**$ –**	**$ 150,498**

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

STATEMENTS OF CASH FLOWS (IN THOUSANDS)

	Years ended December 31, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 15,461	$ 13,034
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	320	471
Amortization on bonds	149	128
Loss on equipment and leasehold improvements disposals	212	22
Realized (gain) loss on investments	(128)	35
Unrealized (gain) on investments	–	(19)
Other comprehensive income adjustment to retained earnings	–	2
Change in other comprehensive gain	–	12
Equity in income of affiliates	78	32
Deferred income tax provision	27	(328)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable and accrued revenue	905	(12,430)
Decrease in receivables from affiliates	324	838
(Increase) in prepaid expense	(585)	(166)
(Decrease) increase in accrued payroll, taxes and benefits	(481)	5,079
(Decrease) increase in payable to affiliates	(137)	3,206
Increase (decrease) in other liabilities	119,132	(2,819)
Net cash provided by operating activities	135,277	7,097
CASH FLOWS FROM INVESTING ACTIVITIES		
Equipment and leasehold improvements purchased	(961)	(391)
Investments redeemed — held-to-maturity	6,601	2,092
Investments sold — available-for-sale	–	15,066
Investments purchased — held-to-maturity	(39,341)	(9,438)
Net cash (used in) provided by investing activities	(33,701)	7,329
Net increase in cash, cash equivalents, and restricted cash	101,576	14,426
Cash, cash equivalents, and restricted cash beginning of year	62,428	48,002
Cash, cash equivalents, and restricted cash end of year	**$ 164,004**	**$ 62,428**
Supplemental disclosures of cash paid during the year for:		
Income taxes	$ 5,051	$ 4,341

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 BlueCross and BlueShield 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, restricted cash and credit risk

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 $163,654,000 and $67,352,000 at December 31, 2019 and 2018, respectively. The Company has not experienced any losses on these accounts and management considers this to be a normal risk.

In November 2016, the Financial Accounting Standards Board (FASB) clarified the presentation and disclosure requirements of restricted cash. Accounting Standards Update 2016-18; *Statement of Cash Flows (Topic 820): Restricted Cash* (a consensus of the FASB Emerging Issues Task Force) requires entities to include restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling beginning-of-period and end-of-period total cash. The amendments apply to all entities with restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230, including not-for-profit (NFP) entities. The Company adopted the new standard effective January 1, 2019, with no impact to the statements of cash flows for the years ended December 31, 2019 and 2018.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the balance sheets that sum to the total of the same such amounts shown in the statements of cash flows.

	Years ended December 31, (in thousands) 2019	2018
Cash and cash equivalents	$ 42,728	$ 59,467
Restricted cash and cash equivalents	$ 121,276	$ 2,961
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	**$ 164,004**	**$ 62,428**

Restricted cash and the related restricted cash liability includes funds held for processing Medicare benefits paid to providers and beneficiaries of $121,276,000 and $2,961,000 at December 31, 2019 and 2018, respectively.

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 FASB rules.

Subsequent events

Subsequent events have been evaluated through March 6, 2020, 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, 2019 and 2018.

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,	
	2019	2018
Assets	$ 7,051	$ 7,365
Liabilities	$ 5,408	$ 5,407
Net Income	$ (314)	$ (125)

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 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 member's equity. 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

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), Front End System (FES), Continuing Education Support and Medicare Learning Network (CEMLN) Product Development and various other contracts when services are performed and billable.

In May 2014, the FASB issued new accounting guidance related to revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that principle, the entity applies the following steps: identify the contract(s) with the customer, identify the performance obligations in the contract(s), determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when (or as) the entity satisfies a performance obligation.

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted the new standard effective January 1, 2019, with no impact to the financial statements for the years ended December 31, 2019 and 2018.

The Company adopted the new guidance effective January 1, 2019, using the modified retrospective method, which applies the new guidance beginning in the year of adoption, with the cumulative effect of initially applying the guidance recognized as an adjustment to retained earnings at January 1, 2019. The Company elected to apply the modified retrospective method to contracts that are not completed. The comparative financial information included herein has not been restated and continues to be reported under the legacy accounting standards that were in effect for those periods.

As part of the adoption of the new accounting guidance, the Company elected the transition practical expedient of applying the standard only to contracts that are not completed at the initial date of application. The adoption did not have an impact to the financial statements for the period ending December 31, 2018.

The Company derives the majority of its revenues from contracts with the U.S. Government, subcontracts, and interdivisional work authorization (IDWA) contracts. The Company provides products and services under cost-reimbursable, fixed-priced, time & materials and IDWA contracts as noted in the chart below (in thousands):

	Years ended December 31,	
	2019	2018
CONTRACT TYPE		
Cost plus		
Cost reimbursement	$ 236,958	$ 211,804
Award fee	3,798	2,306
Base/fixed fee	3,073	3,128
Total cost plus revenue	$ 243,829	$ 217,238
Fixed price	21,784	19,875
Time and materials	14,968	16,520
Interdivisional work authorization	13,112	12,372
Total contract revenue	**$ 293,693**	**$ 266,005**

Cost-reimbursable contracts provide for the payment of allowable costs incurred during performance of the contract plus a fee up to a ceiling based on the amount that has been funded. Typically, the Company enters into two types of cost-reimbursable contracts: cost-plus-award-fee and cost-plus-fixed-fee. Cost-plus-award-fee contracts provide for an award fee that varies within specified limits based on the customer's assessment of performance against a predetermined set of criteria, such as targets based on cost, quality, technical and schedule criteria. The fixed-fee in a cost-plus-fixed-fee contract is negotiated at the inception of the contract and that fixed-fee does not vary with actual costs. For performance obligations to provide services to the customer, revenue is recognized over time based on costs incurred. The Company recognizes award fee revenue by evaluating the specific criteria anticipated to be met along with looking at historical award fee earned percentages. Any difference in the award fee earned versus the award fee accrued is recorded in the current year revenue.

Under fixed-price contracts, the Company agrees to perform the specified work for a pre-determined price. To the extent actual costs vary from the estimates upon which the price was negotiated, the Company will generate more or less profit or could incur a loss. For performance obligations to provide services to the customer, revenue is recognized over time based on the right to invoice method (in situations where the value transferred matches billing rights) as the customer receives and consumes the benefits.

The Time & Materials contracts are based on fixed hourly rates, as determined in the contract, for providing support services. Revenue and profit are recognized in the month the work is performed and performance obligations are met.

The IDWA are contracts with BCBSSC and its subsidiaries. Revenue is recognized in the month the work is performed and performance obligations are met. There is typically no profit or fee earned by the Company on these arrangements.

Substantially all revenue is recognized over time as the Company performs under the contract, because control of the work in process transfers continuously to the customer.

The Company accounts for a contract after it has been approved by all parties to the arrangement, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. The Company assesses each contract at its inception to determine whether it should be combined with other contracts. When making this determination, the Company considers factors such as whether two or more contracts were negotiated and executed at or near the same time or were negotiated with an overall profit objective. If combined, the Company treats the combined contracts as a single contract for revenue recognition purposes. The Company evaluates the services promised in each contract at inception to determine whether the contract should be accounted for as having one or more performance obligations. The services in the contracts are typically not distinct from one another due to their complex relationships and the significant contract management functions required to perform under the contract. Accordingly, the contracts are typically accounted for as one performance obligation. Significant judgment is required in determining performance obligations, and these decisions could change the amount of revenue and profit recorded in a given period. The Company determines the transaction price for each contract based on the consideration it expects to receive for the services being provided under the contract. For contracts where a portion of the price may vary the Company estimates variable consideration at the most likely amount, which is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur. The Company analyzes the risk of a significant revenue reversal and if necessary constrain the amount of variable consideration recognized in order to mitigate this risk.

At the inception of a contract, the Company estimates the transaction price based on current rights and do not contemplate future modifications (including unexercised options) or follow-on contracts until they become legally enforceable. Contracts are often subsequently modified to include changes in specifications, requirements or price, which may create new or change existing enforceable rights and obligations. Depending on the nature of the modification, the Company considers whether to account for the modification as an adjustment to the existing contract or as a separate contract. Generally, modifications to contracts are not distinct from the existing contract due to the significant integration and interrelated tasks provided in the context of the contract. Therefore, such modifications are accounted for as if they were part of the existing contract and recognized as a cumulative adjustment to revenue.

Amounts billed and due from customers under all contract types are classified as receivables on the balance sheet.

Accrued revenue represents revenue recognized on contracts less associated advances and progress billings but not yet billed to the customer. These unbilled receivables will be billed in accordance with the contractual terms. Receivables and accrued revenue consisted of the following (in thousands):

	Years ended December 31,	
	2019	2018
Accounts receivable	$ 28,112	$ 33,567
Accrued revenue	$ 49,990	$ 45,440
Total accrued revenue and accounts receivable	$ 78,102	$ 79,007

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 member's equity. 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, 2019. 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, 2019, the tax years 2016 forward remain subject to examination by the federal tax jurisdiction under the statute of limitations.

New accounting policies

In January 2016, FASB issued ASU 2016-01, *Financial Instruments - Overall (Topic 825) - Recognition and Measurement of Financial Assets and Financial Liabilities*. The update addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The Company has implemented ASU 2016-01 with no impact to the financial statements.

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.

There were no assets or liabilities measured at fair value on a recurring basis at December 31, 2019 and 2018.

NOTE 2

EQUIPMENT AND LEASEHOLD IMPROVEMENTS

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

	December 31, 2019	December 31, 2018
Leasehold improvements	$ 84	$ 156
Equipment, furniture and fixtures	24,274	25,134
Software	9,382	9,308
	33,740	34,598
Accumulated depreciation	(30,008)	(31,295)
	$ 3,732	**$ 3,303**

Depreciation expense was $320,000 and $471,000 for the years ended December 31, 2019 and 2018, 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, 2019				
Held-to-maturity securities:				
Corporate bonds	$ 35,370	$ 1,251	$ 15	$ 36,606
Mortgage-backed securities	16,191	23	184	16,030
US Government agency bonds	12,470	188	–	12,658
Total held-to-maturity securities	64,031	1,462	199	65,294
Total investments	**$ 64,031**	**$ 1,462**	**$ 199**	**$ 65,294**

	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**

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, 2019 or 2018 were considered other than temporary.

The amortized cost and estimated fair values of held-to-maturity debt securities, by contractual maturity, at December 31, 2019, are as follows (in thousands):

	Amortized Cost or Cost Value	Fair Value
Held-to-maturity securities:		
Due in one year or less	$ 554	$ 555
Due in one year through five years	15,219	15,424
Due in five years through ten years	32,067	33,285
Due in ten years or more	16,191	16,030
Total held-to-maturity	**$ 64,031**	**$ 65,294**

There were gross realized gains of $132,000 and $392,000 for the years ended December 31, 2019 and 2018, respectively, that were included in net investment income. There were gross realized losses of $4,000 and $427,000 for the years ended December 31, 2019 and 2018, respectively, that were included in net investment income.

For held-to-maturity investments in an unrealized loss position at December 31, 2019, the aggregate amount of unrealized loss that had been in an unrealized loss position for less than twelve months was $36,000 and the aggregate estimated fair value was $7,890,000. For investments that had been in an unrealized loss position for more than twelve months, the aggregate amount of unrealized loss was $163,000 and the aggregate estimated fair value was $3,390,000. 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.

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 $1,957,000 and $1,904,000 at December 31, 2019 and 2018, respectively, which are included in net receivables and payables to the parent. The Company made payments to BCBSSC for income taxes of $5,051,000 and $4,341,000 during the years ended December 31, 2019 and 2018, respectively.

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

	Years ended December 31,	
	2019	2018
Current	$ 4,118	$ 3,773
Deferred	27	(328)
Total income taxes incurred	**$ 4,145**	**$ 3,445**

Unrealized gains on investments credited directly to equity have been reduced by income tax expense of $0 and $4,000 for the year ended December 31, 2019 and 2018, 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 dividend 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 was recorded for the year ended December 31, 2018, 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, 2019 and 2018.

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

	December 31,	
	2019	2018
Deferred tax assets:		
Long-term	$ 2,439	$ 2,267
	$ 2,439	2,267
Deferred tax liabilities:		
Long-term	$ 975	$ 776
	$ 975	$ 776
Net deferred tax asset	**$ 1,464**	**$ 1,491**

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 2019 and 2018. 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, 2019 and 2018.

The cost of providing the 401(k) contribution was $5,068,000 and $3,928,000 for the years ended December 31, 2019 and 2018, respectively. The pension expense allocated to the Company under the BCBSSC defined benefit pension plan was $1,808,000 and $1,054,000 for the years ended December 31, 2019 and 2018, 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, 2019. 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, 2019. 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 $4,694,000 and $4,514,000 at December 31, 2019 and 2018, 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 $0 and $782,000 for the years ended December 31, 2019 and 2018, respectively. The lease has been renewed by the parent company.

NOTE 8

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 $85,015,000 and $76,380,000 for the years ended December 31, 2019 and 2018, respectively. The Company paid $92,989,000 and $80,742,000 during the years ended December 31, 2019 and 2018, 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 $10,776,000 and $12,343,000 for these services during the years ended December 31, 2019 and 2018, respectively.

The Company pays Companion Data Services (a wholly owned subsidiary of BCBSSC) for data analysis and data storage functions through usage of the Enterprise Data Center. The Company paid $1,819,000 and $2,458,000 for these services during the years ended December 31, 2019 and 2018, respectively.

The Company paid CGS Administrators (a wholly owned subsidiary of BCBSSC) for assistance with the JM MAC and JJ MAC contracts. The Company paid $19,000 and $559,000 for these services during the years ended December 31, 2019 and 2018, respectively.

The Company paid PGBA (a wholly owned subsidiary of BCBSSC) for assistance with the JM Review Choice Demonstration contract. The Company paid $892,000 and $0 for these services during the years ended December 31, 2019 and 2018, respectively.