

Progress

Philanthropy

Leadership

Challenge becomes opportunity when we turn our aptitudes in new directions.



A MESSAGE FROM JOE

Never has a recent time necessitated more agility, flexibility and courage than did 2020. In a year we could have never imagined, the Palmetto GBA team faced the challenges with our heads up and shoulders back. Quite simply, we accomplished remarkable things.

With 95 percent of our employees working from home, we exceeded our



performance and customer service expectations. That's clearly demonstrated through our customer satisfaction scores, which increased for both of our MAC contracts, and our attainment of Capability Maturity Model Integration (CMMI) at Maturity Level 5. The highest level possible, this achievement confirms for our customers that our processes and technologies are of the highest caliber. Truly, Palmetto GBA delivered five-star service.

Despite the pandemic, new business growth in 2020 was exceptional. We won nine new contracts, ranging from providing services in data mining and analytics to technical assistance for current and future health reform legislation. We made a strategic acquisition of the DEX[™] software product to support our MolDX[®] program and drove significant savings for the Medicare Program through our Review Choice Demonstration. Philanthropically, we realized even greater impact on our communities through new focused quarterly initiatives that delivered care to foster children, food for 3,300 people and exceeded the previous year's United Way giving.

This team's perseverance and hard work fuel my confidence as we pursue many exciting new business opportunities. While the lessons learned from 2020 are incalculable, they validated the endless resiliency of this team. We have so much to be proud of from last year, and I look forward to all 2021 will bring.

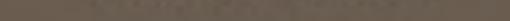
Best regards,

Wate J. Johnsen

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 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.

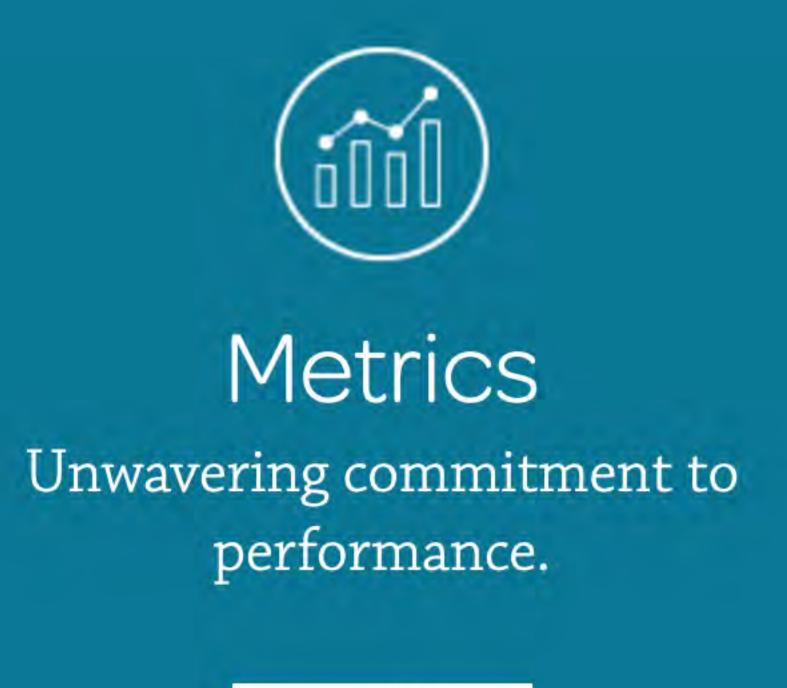




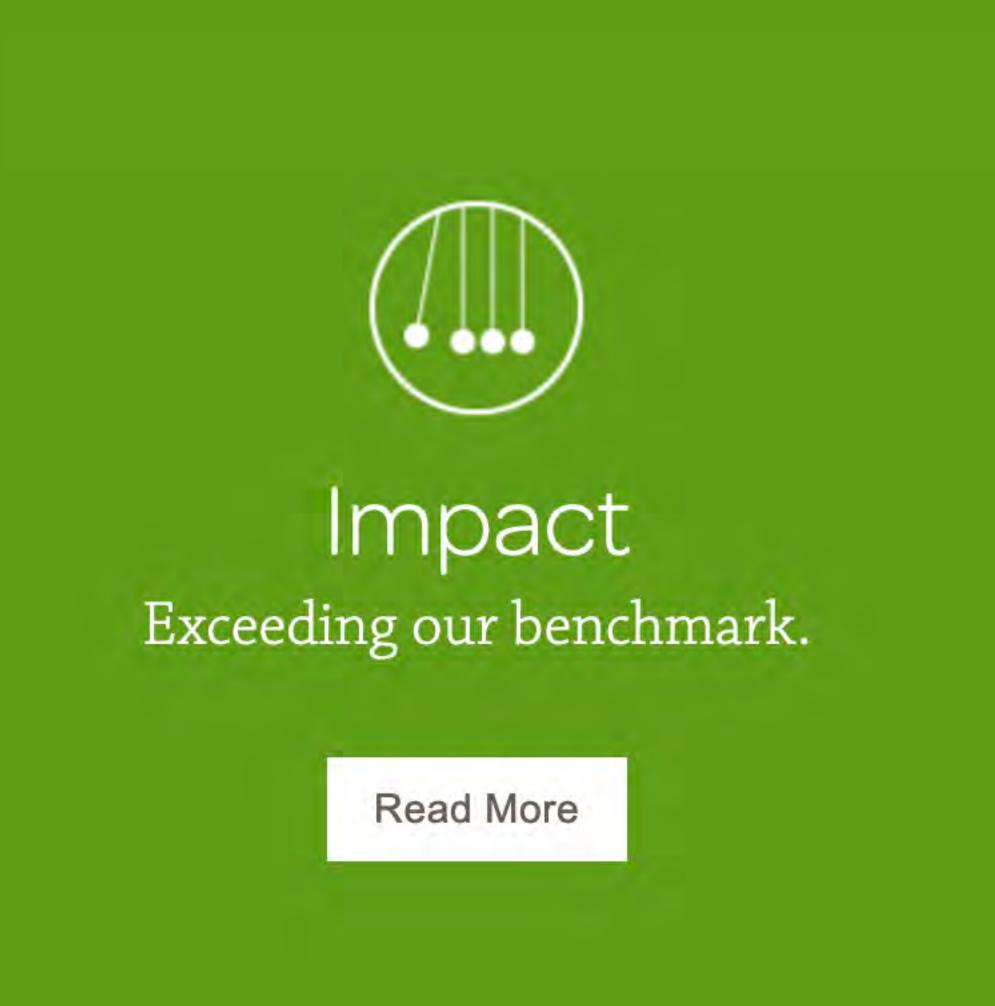
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Ready and Resolute

Continuing to serve the federal government in 2020 involved many rapid shifts. We faced the challenge with a steadfast commitment to upholding standards and to the continuous process improvements that are our hallmark.



Read More





People Harnessing the power of human potential.

Read More



Read More



Innovations Looking ahead with clear vision.

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PALMETTO GBA.

A CELERIAN GROUP COMPANY

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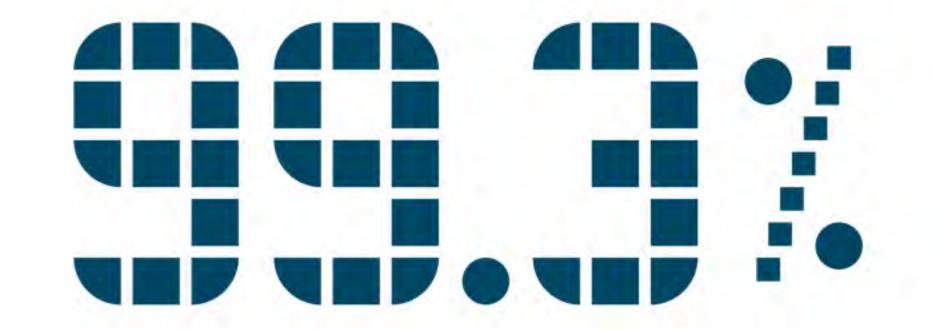
2020 Financials

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Progress > Metrics

Upholding Standards



Palmetto GBA's performance across all contract metrics in 2020 was 99.3 percent.

CONTRACTOR PERFORMANCE SUMMARY



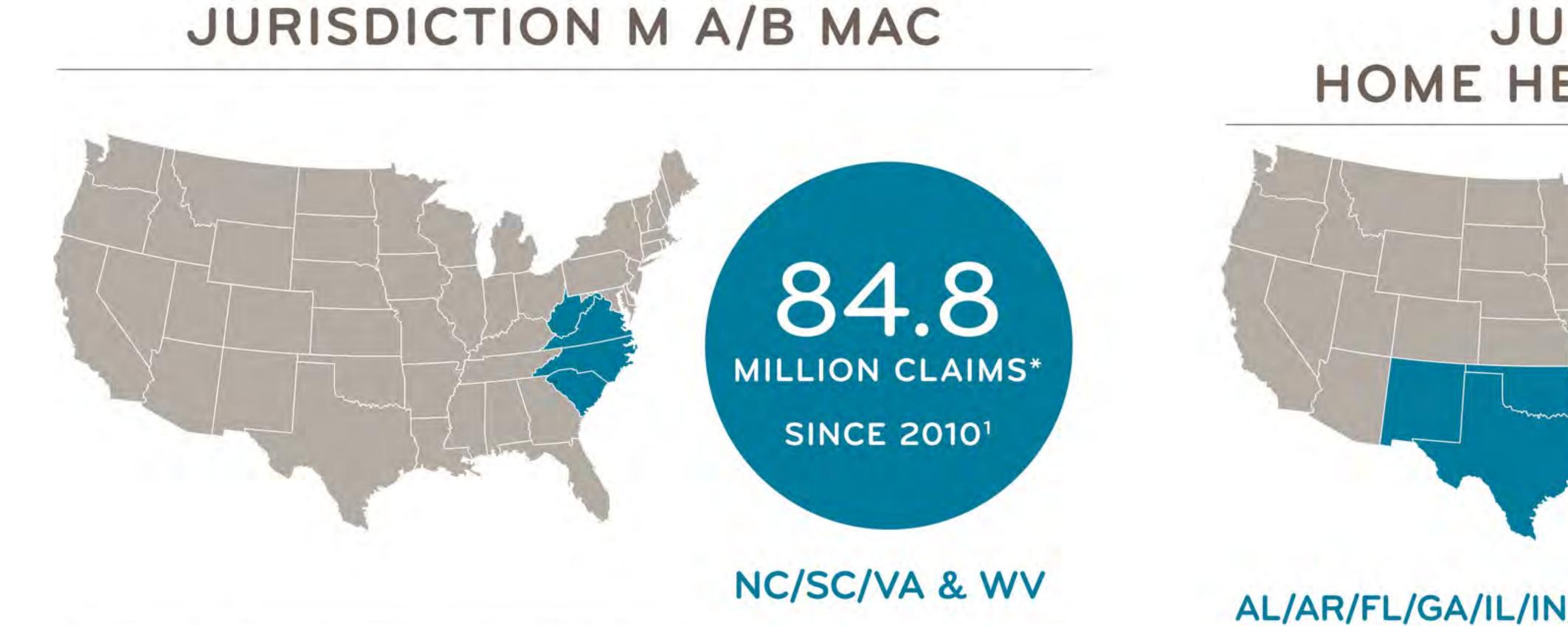
Palmetto GBA was rated Very Good or Exceptional by CMS on 25 out of 37 assessed elements.

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2020 SCALE

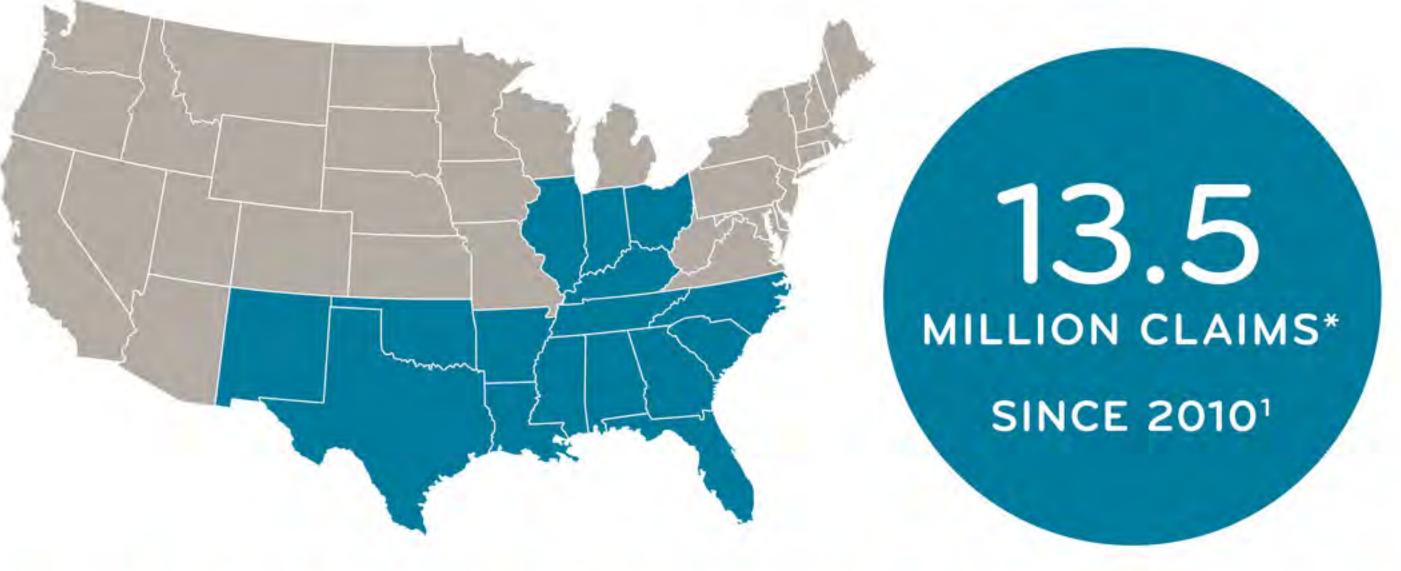


Fee-for-Service Contracts



¹Portions of the jurisdiction served since 1967 under predecessor contracts *Calendar year ended December 31, 2020

JURISDICTION M HOME HEALTH AND HOSPICE



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

¹Portions of the jurisdiction served since 1967 under predecessor contracts *Calendar year ended December 31, 2020

COMPETITIVE BIDDING IMPLEMENTATION CONTRACTOR



JURISDICTION J A/B MAC



RAILROAD RETIREMENT BOARD SMAC





¹Including predecessor contracts

PRICING, DATA ANALYSIS AND CODING





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Philanthropy Progress

Leadership

Progress > Impact

Crystal-Clear Purpose

Competitive Bidding Implementation Contractor (CBIC)

Palmetto GBA has administered the Durable Medical Equipment, Prosthetics, Orthotics and Supplies (DMEPOS) Competitive Bidding Program for CMS since its launch in 2006. It has proven to be an essential tool to help CMS set appropriate payment rates for DMEPOS items, save money for beneficiaries and taxpayers, and limit fraud and abuse, while ensuring Medicare beneficiary access to quality items from qualified suppliers.

CMS did not award contracts for the 13 previously competed product categories as the bid payment amounts did not achieve expected savings. However, OTS back and knee braces were awarded. The new payment amounts for these two categories were effective January 1, 2021, and CMS expects to save \$600 million for the Medicare program and its beneficiaries over a three-year contract period. CMS plans to further evaluate the results of Round 2021 and will go through notice and comment rulemaking when proposing changes that will further improve the DMEPOS Competitive Bidding Program.

Here's how the program works. Palmetto GBA conducts a competition among suppliers operating in a particular competitive bidding area, requiring them to submit a bid for selected products. The bids are electronically uploaded through our web-based application portal, then we evaluate them on the supplier's eligibility and financial stability and the bid price.

In the fall of 2020, Palmetto GBA completed its evaluation of more than 49,000 bids for 15 product categories in 130 competitive bidding areas for competitive bidding Round 2021. Thirteen of these 15 categories were included in previous rounds of the program, while two categories, off-the shelf (OTS) back and knee braces, were competed for the first time.



CMS expects to save \$600 million for the Medicare program and its beneficiaries over a three-year contract period.

Acquisition of DEX[™] Software

In 2020, we made a strategic acquisition of the DEX™ Diagnostics Exchange. DEX™ is a molecular diagnostic (MDx) test identification and policy management solution. DEX helps reduce costs, increase efficiency and improve quality of care.

The DEX Diagnostics Exchange connects commercial and government payers by accurately identifying MDx tests and better managing policy determination. It assigns DEX Z-Code[™] Identifiers – unique and proprietary 5-character alpha-numeric codes – to every advanced diagnostics test. When combined into the DEX Diagnostics Exchange workflow, this information enables Palmetto GBA to transparently identify, track, measure and evaluate tests and determine coverage policies. And we've made our test registry catalog available for reference and review by other stakeholders in the healthcare system.

Medicare Integrity Program

Our program safeguard activities continue to result in significant savings for the Medicare program.

	Jurisdiction M A/B Medicare Administrative Contractor	Jurisdiction J A/B Medicare Administrative Contractor	Railroad Board Specialty Medicare Administrative Contractor	
Benefits Integrity	N/A	N/A	\$1,547,795	
Medicare Secondary Payer	\$558,018,732	\$466,730,188	\$4,668,780	BILLION
Medical Review	\$228,283,277	\$226,120,880	\$3,321,375	2020 MEDICARE PROGRAM
Medical Review Ambulance Prior Authorization	\$21,523,561	N/A	N/A	SAFEGUARD SAVINGS
Medical Review Outpatient Department Prior Authorization	\$9,369,175	\$5,480,984	N/A	
Total	\$817,194,745	\$698,332,052	\$9,537,950	





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Progress > People

Our Greatest Measure of Success

At its core, Palmetto GBA is all about people. Each of our micro-refinements and technology innovations and process improvements are with one goal – to improve the lives of millions of Americans. It's at the heart of everything we do. And it starts with the Palmetto GBA team, the true driver of our every success.

Prepared and Resilient

While we could never have anticipated a year like 2020, with its worldwide pandemic, the Palmetto GBA team showed its ability to pivot like never before. We were all hands-on deck to transition to an almost 100 percent work-from-home environment. Of Palmetto GBA's more than 2,300 employees, 42 percent worked at home prior to the outbreak of COVID-19. By the last week of March, just a few short weeks into the pandemic, more than 1,200 additional employees were working at home.

Our efforts required comprehensive business continuity plans, already in place, and a customized, three-phase approach to enable the maximum



number of people to work at home in the shortest amount of time possible. We preserved the necessary security measures required to work with the government and acquired the equipment to establish and maintain connections to our network. Palmetto GBA provided aroundthe-clock support to employees, kept our providers informed of CMS changes to processing and coding, and fielded questions from front-line healthcare providers. We even established a hotline to initiate temporary provisional Medicare billing privileges, all while implementing stringent health and safety protocols for the remaining in-office employees.

Incredibly, all this was accomplished with no gap in service delivery, and while meeting the highest of security and customer service standards and exceeding performance metrics from the year prior. Without a doubt, our most inspiring success of 2020 is the Palmetto GBA team itself.

Building Strength from Within

This we know: our future leaders are already a part of the Palmetto GBA team. It's just one reason we're investing in our employees and working to grow from within. Palmetto GBA launched Aspiring Leaders last year, a formalized leadership development program to foster leadership skills in employees who passed the ASSET management readiness assessment and expressed interest in pursuing supervisory and front-line management roles within Palmetto GBA. It's a unique opportunity for a new group of employees each year to expand their knowledge and gain valuable skills to help achieve high-performing professional goals.

Each program participant receives a personalized curriculum that recognizes individual strengths and addresses areas for growth. A one-onone mentorship program provides continuous feedback and support. And the learning model has three parts – education (instructor-led/online classes), experiential (hands-on/on-the-job-learning) and exposure (sociallearning). The combination of courses and individualized development opportunities expose participants to the challenges of front-line leaders and provide a next-level leadership path forward.

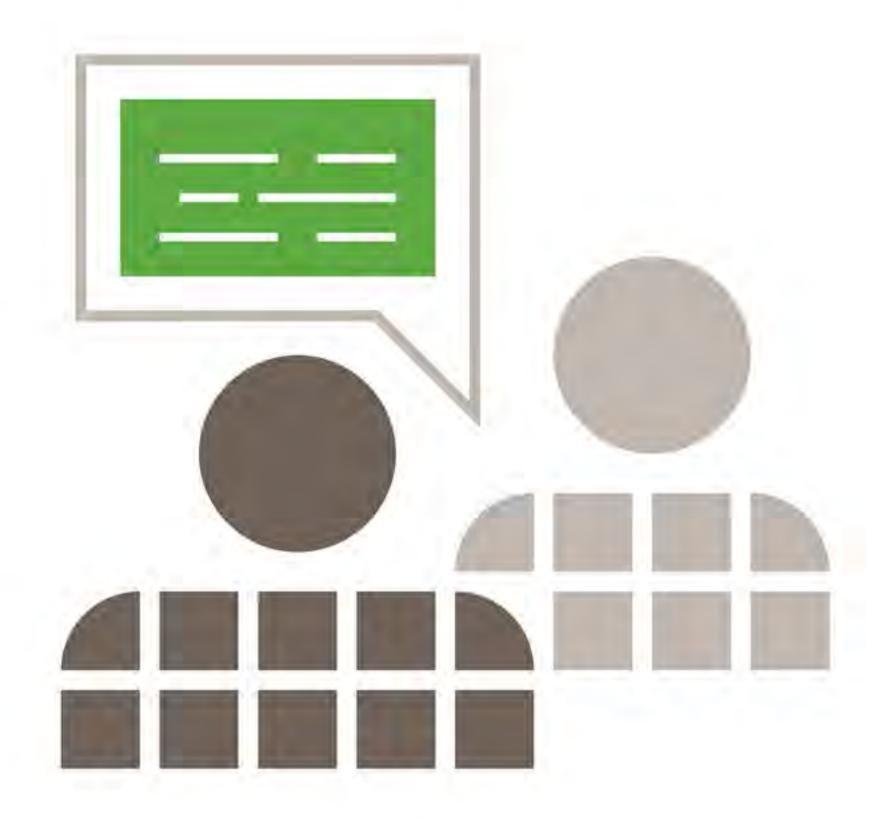


PALMETTO GBA INTERNSHIP PROGRAM

Inspiring Next-Generation Leaders

Palmetto GBA works diligently to develop future healthcare administrators. It's the goal of our robust internship program, designed to give current students real-world experience in heathcare administration. We were excited to welcome a new group of interns in 2020, in spite of a modified experience during COVID-19.

Our summer interns – some of whom ended up staying year-round – worked in finance, provider outreach and education, document control, and specialty contracts. Treated as a true part of the team, they're given ownership of projects, asked to present research to leadership, and are involved in day-to-day operations. The program helps students hone their skills and hands-on knowledge for future healthcare administration studies and careers.







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Progress > Growth

Opportunities Realized

Achievement Second to None – CMMI Maturity Level 5

There is not much beyond an appraisal at maturity level 5 to indicate an organization is performing at an optimal level. It is with great pride we report Palmetto GBA's eCommerce Portal and Medical Review Development areas were appraised last year by The Process Group at a Capability Maturity Model Integration (CMMI) Institute Maturity Level 5. The highest possible level, the appraisal demonstrates Palmetto GBA's commitment to quality, continuous improvement and innovation, and assures our customers that our technologies are of the highest caliber.



The CMMI Institute is the global leader in advancement of best practices in people, process and technology with the goal of improving performance, key capabilities and critical business processes. A maturity level 5 rating is difficult to earn, with only a few software development organizations achieving the distinction. Palmetto GBA continually improves our processes based on a quantitative understanding of business objectives and performance needs. We use a quantitative approach to understand the variation inherent in a process and the causes of process outcomes. The CMMI models were developed by The Software Engineering Institute at Carnegie Mellon University along with industry and government representatives.



New Business

End-Stage Renal Disease Quality Improvement Program (ESRD QIP) Data Validation

Palmetto GBA was awarded the End-Stage Renal Disease Quality Improvement Program (ESRD QIP) Data Validation as a subcontractor to joint venture Fed Pro Services, LLC. Required by statute, this contract provides services to support the validation of data entered into CROWNWeb and the National Health and Safety Network (NHSN). The purpose of the contract is to validate data submitted by dialysis facilities under a Medicare quality improvement project that links reimbursement to qualitative patient outcomes. The results of the validation study are used by CMS to provide feedback to the dialysis providers and to establish reimbursement rates for the subsequent fiscal year.

Program Integrity Modeling and Analytic Support (PIMAS)

In January 2020, as subcontractor to Deloitte, Palmetto GBA was awarded the Program Integrity Modeling and Analytic Support (PIMAS) contract. The contract provides support services to the CMS Center for Program Integrity to strategically combat fraud, waste and abuse across Medicare, Managed Care and Medicaid programs. The contractor serves an essential role in performing data mining and other analytic services to develop algorithms and edits supporting program integrity investigations and administrative actions. Since the contract was implemented, Palmetto GBA has generated \$600k in savings.

Veterans Affairs Integrated Healthcare Transformation (IHT)

In March 2020, Palmetto GBA's prime partner, Sierra 7, was awarded the Veterans Affairs IHT Indefinite Delivery Indefinite Quantity (IDIQ) contract. This IDIQ provides health care transformation services, which are being secured through a \$1 billion multiple award IDIQ with three to five Service-Disabled Veteran-Owned Small Business awardees.

Provider Enrollment and Oversight (PEO) Procurement – Three Wins

- PEO Indefinite Delivery Indefinite Quantity (IDIQ)
- PEO Site Visit Services Contractor EAST
- PEO Small IDIQ

Palmetto GBA was awarded two contracts for Provider Enrollment and Oversight (PEO) Indefinite Delivery Indefinite Quantity (IDIQ), the first as prime and the second as subcontractor to Signature Consulting for the small-business track. The purpose of the IDIQs is to provide a variety of provider enrollment services for CMS. As a result of these wins, Palmetto GBA also was awarded the PEO East Site Visit Task Order that requires site visits for all provider types in the eastern United States. The task order further includes enrollment and screening support to help CMS detect and prevent fraud, abuse and waste in Medicare and Medicaid programs.

CMS Research Management Assessment Design and Analysis (RMADA) Indefinite Delivery Indefinite Quantity (IDIQ)

RMADA provides a wide range of analytic support and technical assistance activities to support models and demonstration programs created or derived under the auspices of the Patient Protection & Affordable Care Act (ACA), MACRA, other non-ACA statutes and future health reform legislation. The RMADA Small Business Track IDIQ was awarded in January 2020 to the Arch Systems team, with Palmetto GBA as subcontractor.

Continuing Education (CE) Support and Medicare Learning Network (MLN) Product Development

As incumbent, Palmetto GBA was again awarded the CEMLN Product Development contract in July 2020. The contract supports the CMS continuing education program and develops educational products for a national audience on the MLN.

Contract achievements in 2020 were vast. For CE/MLN continuing education, Palmetto GBA completed 11 live events and 55 enduring events for 57,507 participants, and continued to provide comprehensive content development and design support for MLN publications. Deliverables for 43 products included: Opioid Treatment Program (OTP) enrollment and billing fact sheets, compliance tips, and multiple how-to booklets, all of which were in the top 10 most downloaded MLN products last year.

In collaboration with the Office of Minority Health (OMH), we continued our very successful work on web-based training courses to help providers meet the needs of vulnerable and underserved populations, with a focus on three new courses: Achieving Health Equity, Improving Accessibility and Using Z Codes. This work includes recognition from OMH group management for original, culturally sensitive graphics and illustrations created by Palmetto GBA.

Food and Drug Administration (FDA) Center for Biologics Effectiveness and Research (CBER) for the CBER Biologics Effectiveness and Safety (BEST) Initiative IDIQ

In October 2020, prime contractor Dovel, Inc., with Palmetto GBA as subcontractor, was awarded the Food and Drug Administration (FDA) Center for Biologics Effectiveness and Research (CBER) for the CBER Biologics Effectiveness and Safety (BEST) Initiative IDIQ. FDA CBER BEST's goal is to assure the safety and effectiveness of biologics. The program will help CBER expand and enhance current capabilities to conduct active surveillance epidemiologic studies (monitoring for data signals that may indicate a problem with approved medical treatment, medicine or a medical device) and automated reporting related to biologic products.





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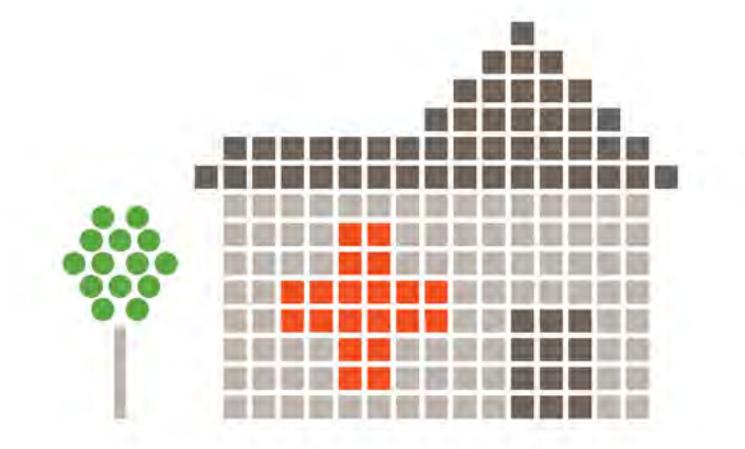
Progress > Innovations

Continuous Improvement

REVIEW CHOICE DEMONSTRATION (RCD) UPDATE

Palmetto GBA continues implementation of the home health RCD. Initiated to develop improved procedures, the RCD establishes a review choice process for home health services.

Together with CMS, Palmetto GBA established new ways to conduct medical review and assess provider compliance with Medicare guidelines to: identify and prevent fraud, guard against improper payments, reduce the number of Medicare appeals, protect beneficiaries from harm, and safeguard taxpayer dollars while minimizing unnecessary provider burden. In essence, the demonstration helps ensure the right payments are made at the right time for home health service through either pre-claim or post payment review. To date, Palmetto GBA has implemented the demonstration in Illinois, Ohio, Texas, North Carolina and Florida. Results have demonstrated an increase in provider compliance with documentation and billing guidelines and data supporting the substantial value of the demonstration to the Medicare trust fund.



CUSTOMER EXPERIENCE (CX)

Palmetto GBA is committed to delivering outstanding customer service, always. It requires continuous process improvement and unwavering dedication from every employee. That's why we launched a robust customer experience initiative in 2019 – to continue evolving and not just meet, but exceed, our providers' expectations.



Last year we implemented two unique enhancements that make it easier and faster for customers to reach us. As a government contractor, we have stringent requirements to properly authenticate each phone call we receive — a process that can be laborious for the caller. Here's how we solved the challenge and improved our customers' experience:

- ePass Our customers use their ePass, a unique eight-digit code, to authenticate just once a day, bypassing the more burdensome process and speaking with our representatives faster. When the ePass is entered, the customer is immediately transferred to an agent who receives all the relevant information.
- eTicket Palmetto GBA issues a reference number, or eTicket, for any outstanding customer issue. When a caller enters their eTicket, the inquiry is identified in our system, allowing the caller to bypass the authentication process and negating the need to relate background information about the issue. Instead, the relevant information is immediately provided to the agent by the system.

The technology we created to apply these improvements is foundational and will enable Palmetto GBA to deliver similar tools on our digital platforms in the future.

MEDICARE ADMINISTRATIVE CONTRACTOR (A/B MAC) INNOVATION CHALLENGE

Submit innovative ideas to address beneficiary care deficits. That was the challenge issued by CMS to all A/B Medicare Administrative Contractors (MAC). We're pleased that two of Palmetto GBA topics were selected: 1) secondary prevention for depression and 2) primary and secondary prevention for cardiovascular disease (CVD). And in 2020, Medical Affairs and Provider Outreach and Education (POE) Part B implemented this pilot initiative to drive better health outcomes for beneficiaries.

Improve Beneficiary Care Deficits Initiative Pilot

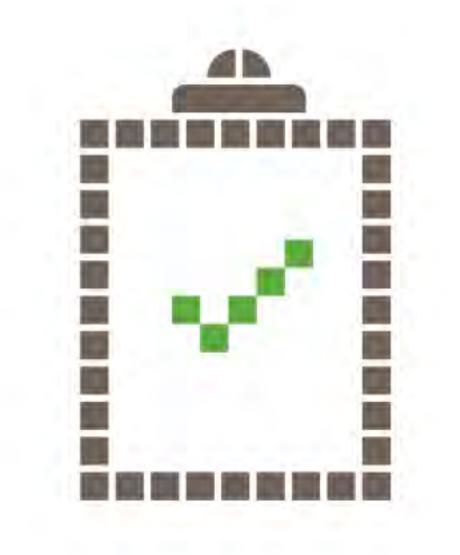
The project's goal is to increase Annual Wellness Visits (AWV) and Annual Depression Screenings in professional (Part B) practices – both critical screenings for our beneficiaries' health and wellbeing. Our objectives for this pilot program in our Medicare Jurisdictions J and M include:

- Increase rate of CVD risk-reduction visits over 12 months
- Increase rate of AWV
- Increase the rate of depression screenings
- Reduce the percent of primary care physicians reporting no CVD risk-reduction visits

We're working to increase awareness and use of these services among providers through a multi-tiered education and outreach campaign highlighting the benefits to the patient:

- Electronic Comparative Billing Reports (eCBRs) eCBR links to the appropriate educational materials
- Advanced Communication Engine (ACE) eCompare messages information only, educational messages and links to eCBR stats for beneficiaries with no recent AWV or screening
- Webinars and teleconferences
- Direct provider contacts targeted education materials
- Website articles

It's our sincere hope that this pilot program will result in tremendous health benefits for those within the Medicare population, and we're proud to take these strides to help mitigate depression and cardiovascular disease.

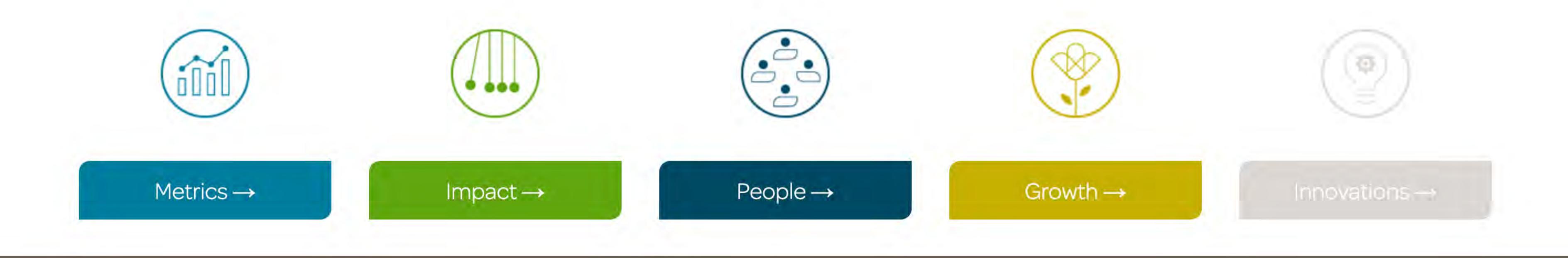


Depression is a prevalent, but often under-diagnosed condition in the Medicare population. CMS covers an annual depression screening for Medicare beneficiaries in primary care settings that can assure accurate diagnosis, effective treatment, and follow-up.



Primary and secondary prevention for populations with, or at risk for, cardiovascular diseases (CVD) has been shown to improve clinical outcomes. CMS covers CVD intensive behavioral therapy (a CVD risk-reduction visit), as it has been deemed reasonable and necessary for the prevention or early detection of illness or disability.







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Impacting Lives

"At Palmetto GBA, giving back is who we are. Our associates are dedicated to supporting the needs of our neighbors. As a team, we rose to the challenge presented by 2020 and donated time and resources to clothe and feed those in need, forming strong partnerships with local nonprofits. We're proud of the impact our company has in the communities we serve."

-Joe Roof, Vice President - Support Operations





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

311+ HOURS VOLUNTEERED \$34,637+ 1,959+ ITEMS DONATED

Company-Wide Community Impact Initiatives

Last year, we refined our Community Impact program and introduced company-wide quarterly giving initiatives. Each of these projects was sponsored by a member of our executive team and benefited the communities where our associates live. Despite unusual circumstances due to the pandemic, we were able to complete three quarters worth of projects that touched the lives of many.

\$2,132 cash & gift cards collected

\$362,500+ donated **61%** employee participation

\$7,228 raised **3,330+** meals provided

Fostering Hope

Goal: Collect cash and gift cards for children transitioning to foster care, as well as donated items for local foster care clothes closets.

United Way

Goal: Increase company-wide participation.

Fill a Plate, Fill a Heart

Goal: *Each one feeds one.* Provide 2,400 Thanksgiving meals through the Oliver Gospel Mission for the homeless and those in need – one meal representing every Palmetto GBA employee.



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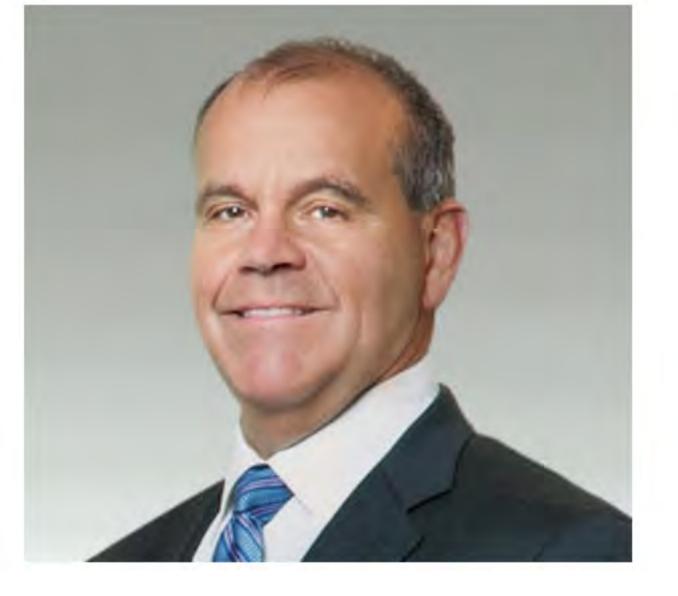
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Board of Directors











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Palmetto GBA, LLC

PRESIDENT & CEO

BlueCross BlueShield of South Carolina

Joseph Sullivan

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EXECUTIVE VICE PRESIDENT, TREASURY & CFO

BlueCross BlueShield of South Carolina

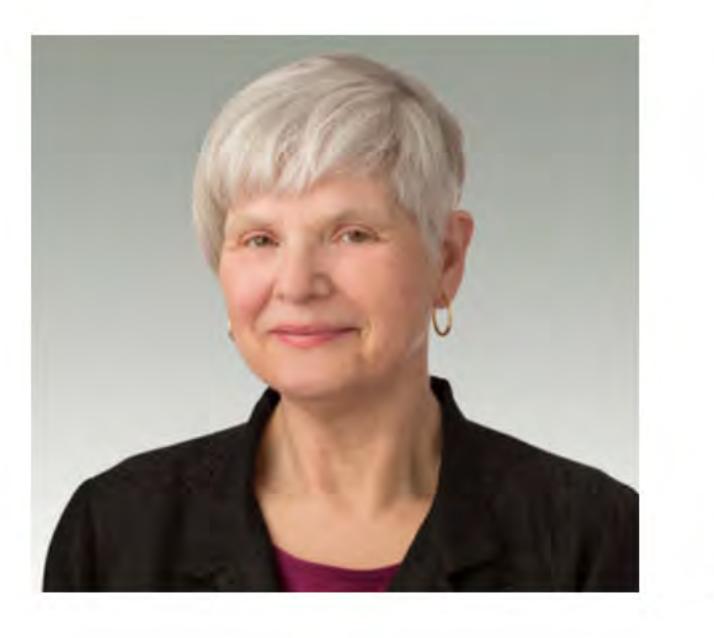
Joe Johnson

PRESIDENT & COO

Palmetto GBA, LLC













Brian Rubin RETIRED

Department of Defense TRICARE Management Activity

Tom Grissom

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















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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

Ken Lewis VICE PRESIDENT & CFO













Tim Masheck VICE PRESIDENT *Information Technology Services*

Lee McElveen vice president Compliance & Privacy Margaret Price VICE PRESIDENT & CTO

Joe Roof VICE PRESIDENT Support Operations

Ed Sanchez

VICE PRESIDENT

Jurisdiction M A/B MAC Operations



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INDEPENDENT AUDITOR'S REPORT

BOARD OF DIRECTORS PALMETTO GBA, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of **Palmetto GBA**, **LLC** (a limited liability company) which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, 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 from 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

AULDIN ENKINS CPAs & ADVISORS

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, 2020 and 2019, 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 & Jerkins, LLC

Columbia, South Carolina February 26, 2021

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BALANCE SHEETS (IN THOUSANDS)	Decer	mber 31,	
	 2020		2019
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 37,334	\$	42,728
Restricted Medicare cash	5,202		121,276
Accounts receivable	31,538		28,112
Accounts receivable from affiliates	238		406
Accrued revenue	49,164		49,990
Prepaid expenses	2,206		1,136
Total current assets	125,682	_	243,648
Long-term assets:			
Equipment and leasehold improvements, net of accumulated			
depreciation of \$24,648 and \$30,008 in 2020 and 2019, respectively	8,925		3,732
Investments – held-to maturity	75,788		64,031
Investments in affiliates	454		414
Deferred income taxes, net	 791		1,464
Total long-term assets	85,958		69,641
Total assets	\$ 211,640	\$	313,289
LIABILITIES AND MEMBER'S EQUITY			
Current liabilities:			
Accrued payroll, taxes and benefits	\$ 24,513	\$	21,834
Payable to affiliates	8,681		10,288
Restricted Medicare cash	5,202		121,276
Other liabilities	10,553		9,393
Total current liabilities	 48,949	_	162,791
Member's equity:			
Contributed capital	34,961		34,961
Retained earnings	127,730		115,537
Total member's equity	 162,691		150,498
Total liabilities and member's equity	\$ 211,640	\$	313,289

STATEMENTS OF OPERATIONS (IN THOUSANDS)

	Years ended December 31,			
	2020	2019		
REVENUES Total revenues	\$ 324,603	\$ 293,712		
EXPENSES				
Total expenses	311,076	276,198		
Operating income	13,527	17,514		
OTHER INCOME				
Investment income	1,921	2,092		
Total other income	1,921	2,092		
Income before income taxes	15,448	19,606		
Provision for income taxes	3,255	4,145		
Net Income	\$ 12,193	\$ 15,461		

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

	 ntributed Capital	Retained Earnings		Total
Balance January 1, 2019	\$ 34,961	\$ 100,076	\$	135,037
Net income	_	15,461		15,461
Balance December 31, 2019	34,961	 115,537	-	150,498
Net income	_	12,193		12,193
Balance December 31, 2020	\$ 34,961	\$ 127,730	\$	162,691

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

STATEMENTS OF CASH FLOWS (IN THOUSANDS)	Years ended [December 31,	
	 2020		2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 12,193	\$	15,461
Adjustments to reconcile net income to net cash			
(used in) provided by operating activities:			
Depreciation	1,021		320
Amortization on bonds	452		149
Loss on equipment and leasehold improvements disposals	592		212
Realized (gain) on investments	(119)		(128
Equity in (income) loss of affiliates	(40)		78
Deferred income tax provision	673		27
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable and accrued revenue	(2,600)		905
Decrease in receivables from affiliates	168		324
(Increase) in prepaid expense	(1,070)		(585
Increase (decrease) in accrued payroll, taxes and benefits	2,679		(481
(Decrease) in payable to affiliates	(1,607)		(137
(Decrease) increase in other liabilities	(114,914)		119,132
Net cash (used in) provided by operating activities	 (102,572)		135,277
CASH FLOWS FROM INVESTING ACTIVITIES			
Equipment and leasehold improvements purchased	(6,806)		(961
Investments redeemed – held-to-maturity	15,695		6,601
Investments purchased — held-to-maturity	(27,785)		(39,341
Net cash (used in) investing activities	 (18,896)		(33,701
	(1.21./.(0)		101 570

Investments purchased — held-to-maturity	 (27,785)	 (39,341)
Net cash (used in) investing activities	 (18,896)	 (33,701)
Net (decrease) increase in cash, cash equivalents, and restricted Medicare cash	(121,468)	101,576
Cash, cash equivalents, and restricted Medicare cash beginning of year	164,004	62,428
Cash, cash equivalents, and restricted Medicare cash end of year	\$ 42,536	\$ 164,004
Supplemental disclosures of cash paid during the year for:		
Income taxes	\$ 4,518	\$ 5,051

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 & 2019

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, 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 \$41,820,000 and \$163,654,000 at December 31, 2020 and 2019, respectively. The Company has not experienced any losses on these accounts and management considers this to be a normal risk.

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)			
		2020	2019	
Cash and cash equivalents Restricted cash and	\$	37,334	\$	42,728
cash equivalents	\$	5,202	\$	121,276
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	Ś	42.536	Ś	164,004
the statement of cash flows	\$	42,536	\$	164

Restricted cash and the related restricted cash liability includes funds held for processing Medicare benefits paid to providers and beneficiaries of approximately \$5,202,000 and \$121,276,000 at December 31, 2020 and 2019, 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 February 26, 2021, 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, 2020 and 2019.

Assets, liabilities and results of operations for TriCenturion, Inc. were as follows (in thousands):

	Years ended December 31,				
	2020			2019	
Assets	\$	6,936	\$	7,051	
Liabilities	\$	5,402	\$	5,408	
Net (loss)	\$	(109)	\$	(314)	

Assets, liabilities and results of operations for Fed Pro Services, LLC were as follows (in thousands):

	Years ended December 31,					
	2020		2019			
Assets	\$	196	\$	70		
Liabilities	\$	59	\$	_		
Net income	\$	139	\$	68		

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 Program Integrity Modeling and Analytic Support (PIMAS) contracts on a cost plus 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 & Front End System (CSFES), Continuing Education (CE) Support and Medicare Learning Network (MLN), Pricing, Data, Analysis and Coding Implementation (PDAC), Third Party Administrator (TPA), 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.

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,			
CONTRACT TYPE	 2020		2019	
Cost plus				
Cost reimbursement	\$ 266,393	\$	236,958	
Award fee	2,769		3,798	
Base/fixed fee	 3,393		3,073	
Total cost plus revenue	\$ 272,555	\$	243,829	
Fixed price	18,755		21,784	
Time and materials	17,597		14,968	
Interdivisional work authorization	 15,696		13,112	
Total contract revenue	\$ 324,603	\$	293,693	

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 predetermined 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.

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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,				
	2020		2019		
Accounts receivable Accrued revenue	\$	31,538 49,164	\$	28,112 49,990	
Total accrued revenue and accounts receivable	\$	80,702	\$	78,102	

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 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, 2020. 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, 2020, the tax years 2017 forward remain subject to examination by the federal tax jurisdiction under the statute of limitations.

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, 2020 and 2019.

Recent accounting guidance not yet adopted

In April 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2019-04, Codification Improvements to Topic 326, Financial Instruments -Credits Losses, Topic 815, Derivatives and Hedging and Topic 825, Financial Instruments – Credit Losses. These updates provide an option to irrevocably elect to measure certain individual financial assets at fair value instead of amortized cost and provide additional clarification and implementation guidance on certain aspects of the previously issued Accounting Standards Update No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, or ASU 2016-13, ASU 2016-13 introduces a current expected credit loss model for measuring expected supportable forecasts. ASU 2016-13 replaces the incurred loss model for measuring expected credit losses, requires expected losses on available-for-sale debt securities to be recognized through an allowance for credit losses rather than as reductions in the amortized cost of the securities and provides for additional disclosure requirements. ASU 2016-13 and ASU 2019-04 if adopted together, are both effective for fiscal reporting periods beginning after December 15, 2022 (ASU 2019-09 amended the original effective date). The Company currently classifies its debt securities as held to maturity and does anticipate the adoption of either ASU 2016-13 or ASU 2019-04 will have a material impact on its financial statements.

Reclassifications

Certain 2019 amounts have been reclassified on the balance sheet in order to be comparable to the 2020 amounts. These reclassifications resulted in no change to net income or member's equity.

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

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

	December 31,			
		2020	2019	
Leasehold improvements	\$	84	\$	84
Equipment, furniture and fixtures		18,569		24,274
Software		14,920		9,382
		33,573		33,740
Accumulated depreciation		(24,648)		(30,008)
	\$	8,925	\$	3,732

Depreciation expense was approximately \$1,021,000 and \$320,000 for the years ended December 31, 2020 and 2019, respectively.

NOTE 3

INVESTMENTS

Investments consist of the following (in thousands):

	Aı	nortized Cost	Un	Gross realized Gains	Unr	ealized osses	Fa	ir Value
DECEMBER 31, 2020								
Held-to-maturity securities:								
Corporate bonds	\$	48,962	\$	3,383	\$	4	\$	52,341
Mortgage-backed securities		19,124		391		103		19,412
US Government agency bonds		6,084		362		-		6,446
US Special Revenue &								
Special Assessments		1,618		2		-		1,620
Total held-to-maturity securities		75,788		4,138		107		79,819
Total investments	\$	75,788	\$	4,138	\$	107	\$	79,819

	A	nortized Cost	Un	Gross realized Gains	Unr	iross ealized osses	Fa	air 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

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, 2020 or 2019 were considered other than temporary.

The amortized cost and estimated fair values of held-to-maturity debt securities, by contractual maturity, at December 31, 2020, are as follows (in thousands):

	Amortized Cost	Fair Value		
Held-to-maturity securities:				
Due in one year or less	\$ 1,600	\$ 1,622		
Due in one year through five years	19,628	20,541		
Due in five years through ten years	34,243	37,048		
Due in ten years or more	20,317	20,608		
Total held-to-maturity	\$ 75,788	\$ 79,819		

There were gross realized gains of \$119,000 and \$132,000 for the years ended December 31, 2020 and 2019, respectively, that were included in net investment income. There were gross realized losses of \$0 and \$4,000 for the years ended December 31, 2020 and 2019, respectively, that were included in net investment income.

For held-to-maturity investments in an unrealized loss position at December 31, 2020, the aggregate amount of unrealized loss that had been in an unrealized loss position for less than twelve months was \$14,000 and the aggregate estimated fair value was \$5,572,000. For investments that had been in an unrealized loss position for more than twelve months, the aggregate amount of unrealized loss was \$93,000 and the aggregate estimated fair value was \$1,806,000. 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 \$3,6000 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 sposition for more than twelve months, the aggregate amount of unrealized loss was \$36,000 and the aggregate estimated fair value was \$7,890,000. For investments that had been in an unrealized loss sposition for more than twelve months, the aggregate amount of unrealized loss was \$163,000 and the aggregate estimated fair value was \$3,390,000.

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 approximately \$882,000 and \$1,957,000 at December 31, 2020 and 2019, respectively, which are included in net receivables and payables to the parent. The Company made payments to BCBSSC for income taxes of approximately \$4,518,000 and \$5,051,000 during the years ended December 31, 2020 and 2019, respectively.

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

	Years ended December 31,				
	2020		2019		
Current	\$	2,582	\$	4,118	
Deferred		673		27	
Total income taxes incurred	\$	3,255	\$	4,145	

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 and changes in the tax contingency reserve. 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, 2020 and 2019.

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

	December 31,				
	2020			2019	
Deferred tax assets:					
Long-term	\$	2,898	\$	2,439	
	\$	2,898		2,439	
Deferred tax liabilities:					
Long-term	\$	2,107	\$	975	
	\$	2,107	\$	975	
	*	701			
Net deferred income taxes	Ş	791	Ş	1,464	

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 2020 and 2019. 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, 2020 and 2019.

The cost of providing the 401(k) contribution was approximately \$6,496,000 and \$5,068,000 for the years ended December 31, 2020 and 2019, respectively. The pension expense allocated to the Company under the BCBSSC defined benefit pension plan was approximately \$3,325,000 and \$1,808,000 for the years ended December 31, 2020 and 2019, respectively.

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, 2020. 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 \$4,721,000 and \$4,694,000 at December 31, 2020 and 2019, 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 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, 2020. BCBSSC has also executed an indemnification agreement, pursuant to minimum reserve and other requirements established by the BlueCross and BlueShield 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.

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 approximately \$91,930,000 and \$85,015,000 for the years ended December 31, 2020 and 2019, respectively. The Company paid approximately \$103,839,000 and \$92,989,000 during the years ended December 31, 2020 and 2019, 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 approximately \$13,549,000 and \$10,776,000 for these services during the years ended December 31, 2020 and 2019, 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 approximately \$1,395,000 and \$1,819,000 for these services during the years ended December 31, 2020 and 2019, 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 approximately \$18,000 and \$19,000 for these services during the years ended December 31, 2020 and 2019, respectively.

The Company paid PGBA Tricare (a wholly owned subsidiary of BCBSSC) for assistance with the JM Review Choice Demonstration contract. The Company paid approximately \$4,327,000 and \$892,000 for these services during the years ended December 31, 2020 and 2019, respectively.

The Company paid Karna (a wholly owned subsidiary of BCBSSC) for assistance with Nurse Helpline contract. The Company paid approximately \$2,000 and \$0 for these services during the years ended December 31, 2020 and 2019, respectively.