

compound INTEREST

The exponential impact of accumulated outcomes.

[SEE HOW](#)



Parker Roof - Intern | **Yesenia Robinson** - Customer Service Advocate III | **Daniel Johnson** - Provider File Operations Supervisor



A MESSAGE from joe

We're grateful for the compounding effect of strong performance over time. Along with an energized and flexible team, our accumulated successes positioned us for an outstanding 2021, despite the uncertainty of an altered environment.

Our performance across all contract metrics was 99.7%, and we also experienced great business development success. Palmetto GBA was awarded five new contracts, and two critical recompetes – Competitive Bidding Implementation and Third-Party Administrator contracts. We're awaiting news on the awards of several other critical core contract recompetes, as well as two new, large business opportunities that we submitted proposals for in 2021.

In continued stewardship of the communities we serve, we launched large-scale initiatives for Senior Resources/Meals on Wheels and first responders, raised almost \$400,000 for the United Way, and supported 15 other organizations with donations and volunteered time. It's clear that this team truly cares about helping others.

We have much to be proud of from last year. The Palmetto GBA team's outstanding performance, focus and dedication are the greatest factors in our continued success.

Best regards,

Walter J. Johnson
 President & COO

our PHILOSOPHY

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



PALMETTO GBA
 A CELERIAN GROUP COMPANY

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

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STRONG PERFORMANCE over time yields compounded gains for the federal government.

2021 SCALE

\$61.2 BIL
Benefits Paid

185.8 MIL
Claims Processed

1.1 MIL
Inquiries Answered

12.9 MIL
Beneficiaries Served

Medicare Website Enhancement

In April 2021, Palmetto GBA launched updated and revamped contract websites utilizing a new content management system. The new system makes it easier and more efficient for staff to update the site, as well as adds new features to improve our customers' experience. In addition to the site upgrades, a new website was created to help providers new to the Medicare program easily enroll. The "New to Medicare" site's easy-to-follow, step-by-step instructions guide providers through the process and has received positive feedback.



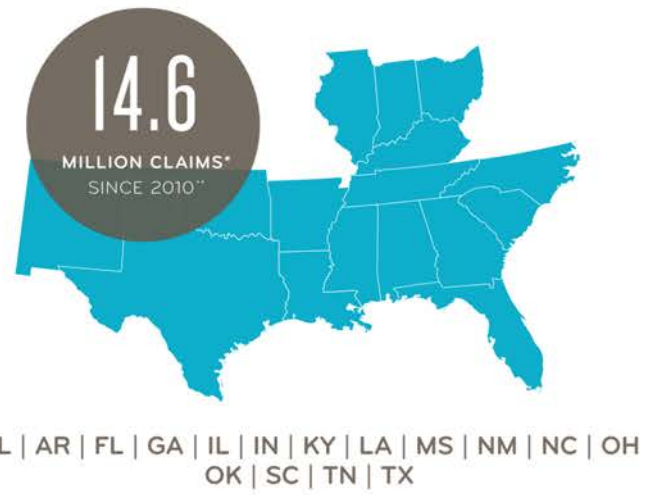
FEE-FOR-SERVICE CONTRACTS

Jurisdiction M A/B MAC



**Portions of the jurisdiction served since 1967 under predecessor contracts
*Calendar year ended December 31, 2021

Jurisdiction M Home Health & Hospice



**Portions of the jurisdiction served since 1967 under predecessor contracts
*Calendar year ended December 31, 2021

Jurisdiction J A/B MAC



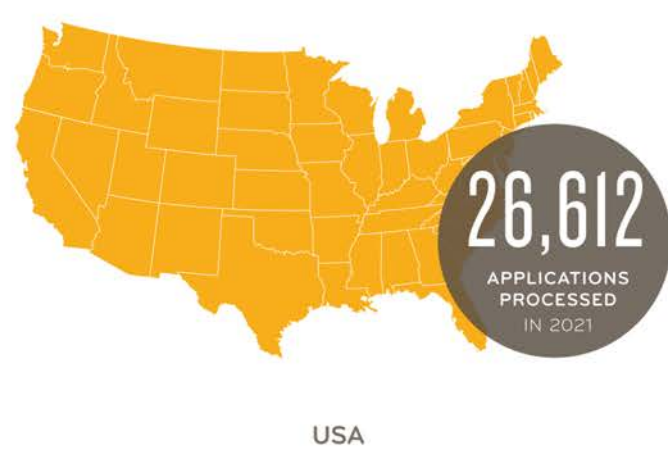
Competitive Bidding Implementation Contractor



Railroad Retirement Board SMAC



National Supplier Clearinghouse MAC



*Including predecessor contracts

Pricing, Data Analysis & Coding



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“Ingenuity is in Palmetto GBA’s DNA. We constantly seek opportunities to be more efficient, reduce costs and increase quality for our customers.”

NELLA BISHOP
CIO & Vice President - Systems & Support



Kavita Chada - Medicare Programming Analyst | Jasmine Keller - EDI Operations I Associate

CREATING VALUE our customers can depend on year after year.

eServices Roster Billing Module

The COVID-19 Public Health Emergency drove a significant increase in roster bill submissions for mass immunizers and Medicare Part B providers. In a proactive step to support them, Palmetto GBA’s Part B/Railroad Retirement Board SMAC Operations Support, eCommerce and Provider Outreach and Education teams collaborated to develop a user-friendly, intuitive and efficient method for these billers to quickly submit their immunization rosters via the Palmetto GBA eServices Portal.

The teams successfully developed and deployed a tool to provide billers a seamless submission process for up to 50 patients at one time. The customized template is easy to complete and upload, and it accommodates COVID-19 immunizations, Monoclonal Antibody infusions, Influenza and Pneumococcal immunizations.

up to **50**
patient submissions
at a time

Provider benefits of the eServices Roster Billing Module include:

- Near real-time status updates for roster billers
- An always current roster worksheet for billers, reflecting the most updated CMS codes available for reimbursement
- Quality check for billers to verify roster billing information prior to final submission
- Ability to track the roster status as it processes

National Supplier Clearinghouse (NSC) Site Visit Review

Artificial Intelligence (AI)/Machine Learning (ML)

Under the current National Supplier Clearinghouse (NSC) MAC contract, we receive inspections from site visit contractors. Within 30 days, we’re required to review each completed site visit form and determine if the Durable Medical Equipment (DME) supplier passed or failed their site visit. The volume of manual review makes this process viable for Artificial Intelligence (AI), primarily to reduce review time, identify problematic suppliers earlier, and decrease the possibility of manual review error.

In spring 2021, working with Guidehouse, we trained 250 Machine Learning (ML) models to predict whether a site visit is classified as a *pass* or a *fail*. Our top ML models were approximately 99% accurate in predicting a *pass* or *fail*. Equally as successful, the ML models processed 3,000 site visit forms in mere seconds.

99%

accuracy in predicting a pass or fail

By fall 2021 we took the program live. Now, once a physical in-person site visit form is uploaded, it automatically attains a *pass* or *fail* prediction. As of the end of November, our ML models were producing approximately 1,000 *pass* or *fail* predictions per month.

Optic Pilot Project

Palmetto GBA conducted a pilot project utilizing Cedar Care Inc.’s Electronic Health Records (EHR) interface, Optic, to support our Outpatient Hospital Department Prior Authorization program. The purpose of this pilot was to reduce the amount of manual work required of healthcare staff to obtain prior authorization for certain procedures, imaging and labs done in hospital settings.

With Optic, Palmetto GBA’s nurses can view relevant parts of the medical record for a Medicare beneficiary directly from the provider’s EHR system. The ability to view the records eliminates the need for the provider to manually submit the medical records to Palmetto GBA for prior authorization review. This is a significant benefit to the healthcare organization, as staff are more available for other critical needs. In addition, Optic decreases the time needed to submit a prior authorization request and allows for faster prior authorization decisions. Early results include reduction in errors, manual work, and decision turnaround time.



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Community Service



Yubo Zou - Statistical Programming IV Analyst

"We truly are a culture of giving back. This team is steadfast in its support of the communities where we live and work."

JOE ROOF
Vice President - Support Operations

RECURRING BENEFITS to the communities we serve through unwavering philanthropy.

2021 GIVING

Our associates individually and together help so many worthwhile organizations. From the Alzheimer's Association, Ronald McDonald House and schools to service animals, training groups, food banks and more, we give with our hearts every year.



Giving. Helping. Serving.

| | | | | |
|-------------------------------|-----------------------------|--------------------------------|----------------------------|--------------------------------|
| 17 Charity Projects | 216+ Participants | 1,580+ Items Donated | \$10,886 Donated | 165+ Volunteer Hours |
|-------------------------------|-----------------------------|--------------------------------|----------------------------|--------------------------------|

COMPANY-WIDE COMMUNITY IMPACT INITIATIVES

First Responders

For All You Do, We Honor You.

When most of the world shut down in 2020 due to the COVID-19 pandemic, first responders remained on the front lines, protecting us all. In second quarter 2021, Palmetto GBA honored their dedication and service to our communities by collecting items for individual fire fighter care packages and collective fire station kitchen care packages near our five office locations and two stations in Ohio. We also made donations to **Operation Gratitude**.



\$2,249

raised for **Operation Gratitude**

7 FIRE STATIONS

received individual care packages & fire station kitchen donations

United Way

The United Way advances the common good in communities everywhere. Focusing on education, financial stability and health, its programs help individuals succeed and communities thrive. By donating to the United Way, Palmetto GBA associates are helping build a stronger life in the communities we call home.

\$395,310

donated



Senior Resources, Inc.

Delivering More Than a Meal

The ripple effects of COVID-19 negatively impacted our senior community in ways too numerous to count. Not only were they vulnerable to severe illness from the virus, but many also faced isolation, food insecurity and lack of homecare help. Palmetto GBA worked to ease these hardships for seniors in our communities.

Senior Resources, a local organization in Richland County, SC, strives to help seniors live healthy independent lives by supplying food, providing home help and promoting active living.

Associates also supported local Meals on Wheels organizations.

\$3,700+

collected in 12 days



Leonard L. Price
FUNDRAISING
AWARD
recipients

Senior Resources honored our associate's generosity and care for others with their Leonard L. Price Fundraising Award, recognizing an individual or group who has gone above and beyond in their fundraising efforts for the program.



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EXCEEDING STANDARDS and the highest benchmarks requires every indicator be on point.



Palmetto GBA's performance across all contract metrics in 2021.



Palmetto GBA was rated **Exceptional** or **Very Good** by CMS on 29 out of 38 assessed elements.

Medicare Prescription Drug, Improvement, and Modernization Act

Section 912 Audit Improvements

The Medicare Prescription Drug, Improvement, and Modernization Act (MMA) of 2003 established information security requirements for Medicare Fiscal Intermediaries, carriers and their data centers. MMA Section 912 requires each of these contractors have its information security program evaluated annually by an independent entity.

Within Section 912, there are 10 Federal Information Security Management Act (FISMA) control families referenced. The annual risk assessment evaluates these complex requirements and determines if a contractor's current security controls are sufficient. If inadequacies are found, they're categorized as high, medium or low risk.

ZERO

high findings from current audit

Our recent focus on improvement in this area paid off significantly last year. **Our current audit finished with ZERO high findings** – a first for Palmetto GBA. Additionally, we had only two medium and eight low findings, keeping us below other contractor averages and setting us on a road for continued improvement and success.

MEDICARE INTEGRITY PROGRAM RESULTS

| | Jurisdiction M A/B Medicare Administrative Contractor | Jurisdiction J A/B Medicare Administrative Contractor | Railroad Board Specialty Medicare Administrative Contractor |
|--|---|---|---|
| Benefit Integrity | N/A | N/A | \$1,622,507 |
| Medicare Secondary Payer | \$587,864,543 | \$537,578,716 | \$4,898,154 |
| Medical Review | \$283,272,233 | \$255,266,935 | \$8,787,042 |
| Medical Review Ambulance Prior Authorization | \$1,597,870 | N/A | N/A |
| Medical Review Outpatient Department Prior Authorization | \$3,139,121 | \$1,091,212 | N/A |
| Total | \$875,873,767 | \$793,936,863 | \$15,307,703 |



Continued Savings for the Medicare Trust Fund

Advanced Communication Engine (ACE) Contributions

Using the Advanced Communication Engine (ACE) tool, Palmetto GBA continued to provide savings to the Medicare Trust Fund last year, while also offering an enhanced claims processing system for our Part B providers. ACE identifies problematic or "certain to deny" claims prior to adjudication, alerts providers of errors or potential claims issues, and uses timely, SMART messaging to deliver information on how to fix the error. *The tool increases claims processing accuracy, reduces cycle times associated with claim resubmissions, and provides an enhanced customer experience.*



In 2021, we implemented 34 new SMART edits to ACE, eight of which are information-driven and supply additional alerts and awareness of various Medicare program requirements to providers.

The tool increases claims processing accuracy, reduces cycle times associated with claim resubmissions, and provides an enhanced customer experience.

2021 ACE Impacts

- 2.2+ million claims denied
- 61,723 claims denied due to new SMART edits
- 83.6% of denied claims resubmitted
- \$85.1 million reduction in charges based on denied, resubmitted claims using ACE-issued education
- 421,685 additional claims denied but not resubmitted before year end



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Shana Chappell - Senior Database Report Writer/Analyst

“The success we have achieved in growing our organization through new business opportunities and successful re-competes is a direct result of our past performance excellence.”

TIM MASHECK
Vice President - Information Technology Services

STRATEGIC ADVANCEMENT through unmitigated commitment to building on our success.

NEW BUSINESS

Streamlined Technology Acquisition Resources for Services (STARS) III IDIQ

As part of the Vetshare Services joint venture, Palmetto GBA was awarded the STARS III IDIQ. This indefinite delivery/indefinite quantity contract provides federal agencies with customized information technology (IT) services and IT services-based solutions.

National Government Services (NGS) Jurisdiction 6 A/B MAC (J6)

Under this recently awarded subcontract, Palmetto GBA provides the Advanced Communication Engine (ACE) product and services in support of NGS's administration of J6. ACE delivers SMART messaging alerts to providers via front-end Electronic Data Interchange (EDI) claim rejection or informational messaging any time billing compliance errors or educational items are identified with their claim submissions.

Optum, Inc. Molecular Coding and Content

Palmetto GBA partnered with Optum to make the DEX™ molecular solutions commercially available. Health plans can now adopt (through the Optum product suite) the Z-Code identifiers and DEX coverage policies in a simplified and streamlined process. DEX helps reduce costs, increase efficiency and improve quality of care by connecting commercial and government payers with accurately identified molecular tests and test assessments to improve policy determination management.

Durable Medical Equipment, Prosthetics, Orthotics, and Supplies (DMEPOS) Competitive Bidding Implementation Contractor (CBIC)

As incumbent, Palmetto GBA was again awarded the CBIC contract to assist CMS in administering the DMEPOS Competitive Bidding Program. The contract includes a Blanket Purchase Agreement and three task orders and extends through 2026.

The DMEPOS Competitive Bidding Program has been an essential tool to help Medicare set market-based payment rates for certain DMEPOS items, save money for Medicare beneficiaries and taxpayers, and limit fraud, waste, and abuse in the Medicare program. The program has saved billions of dollars since implementation while ensuring access to quality items and services.

National Institute of Diabetes and Digestive and Kidney Diseases (NIDDK) Electronic Health Record (EHR) Support

As a subcontractor to JBS International, Palmetto GBA was awarded the NIDDK Electronic Health Record (EHR) Support procurement contract. Through this agreement, we will provide subject matter expertise and educational content regarding coverage, reimbursement and related topics. The NIDDK is an institute within the National Institute of Health.

Medicare Part D Coverage Gap Discount Program (CGDP) Third-Party Administrator (TPA)

As incumbent, Palmetto GBA was awarded the TPA contract for the Medicare Part D CGDP. The contract includes development, testing, implementation, operation, maintenance and customer service necessary to meet the needs of CMS, pharmaceutical manufacturers, Part D sponsors and contracted CMS personnel involved with the operation and administration of the Medicare Coverage Gap Discount Program. Palmetto GBA was originally awarded the stand-alone contract in 2012, with this new contract continuing through 2026.

Translator and Multi-Carrier System Desk Top (MCSDT) Support for Medicare Integrated Systems Testing (MIST)

In a subcontractor role to Sparksoft, Palmetto GBA was awarded the Translator and Multi-Carrier System Desk Top Support for MIST contract. We will provide EDI-related technical support and infrastructure to support the MIST contract. Palmetto GBA will maintain these environments to support quarterly release testing, regression testing and off-quarter testing of CMS standard systems.



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Leadership > Board of Directors



David Pankau

CHAIRMAN, BOARD OF DIRECTORS
Palmetto GBA, LLC
PRESIDENT/CEO
BlueCross BlueShield of South Carolina



Mike Mizeur

PRESIDENT & COO
BlueCross BlueShield of South Carolina



Bruce W. Hughes

PRESIDENT & COO
Celerian Group, BlueCross BlueShield of South Carolina



Joseph Sullivan

CHAIRMAN EMERITUS, BOARD OF DIRECTORS
BlueCross BlueShield of South Carolina



Joe Johnson

PRESIDENT & COO
Palmetto GBA, LLC



Elizabeth Cusick

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



Tom Grissom

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



Col. Robert E. Shield

RETIRED
Humana Military/Healthcare Services (TRICARE)



Harvey Yampolsky

RETIRED PARTNER, ARENT FOX
Former Chief Counsel to the Inspector General, Department of Health and Human Services



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Leadership > 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 & Prior
 Authorization*



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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2021 FINANCIAL REPORT

compound INTEREST

The exponential impact of accumulated outcomes.



INDEPENDENT AUDITOR'S REPORT

BOARD OF DIRECTORS
PALMETTO GBA, LLC



Opinion

We have audited the accompanying financial statements of Palmetto GBA, LLC (a limited liability company) which comprise the balance sheets as of December 31, 2021 and 2020, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palmetto GBA, LLC as of December 31, 2021 and 2020, 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 of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Palmetto GBA, LLC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Palmetto GBA, LLC's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Palmetto GBA, LLC's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Palmetto GBA, LLC's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Mauldin & Jenkins, LLC

Columbia, South Carolina

February 24, 2022

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BALANCE SHEETS (IN THOUSANDS)

| | December 31, | |
|---|--------------------------|--------------------------|
| | <u>2021</u> | <u>2020</u> |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 38,757 | \$ 37,334 |
| Restricted Medicare cash | 3,250 | 5,202 |
| Accounts receivable | 32,251 | 31,538 |
| Accounts receivable from affiliates | 262 | 238 |
| Accrued revenue | 67,725 | 49,164 |
| Prepaid expenses | 3,214 | 2,206 |
| Total current assets | <u>145,459</u> | <u>125,682</u> |
| Long-term assets: | | |
| Equipment and leasehold improvements, net of accumulated depreciation of \$19,006 and \$24,648 in 2021 and 2020, respectively | 6,844 | 8,925 |
| Investments – held-to maturity | 77,021 | 75,788 |
| Investments in affiliates | 62 | 454 |
| Deferred income taxes, net | 2,378 | 791 |
| Total long-term assets | <u>86,305</u> | <u>85,958</u> |
| Total assets | <u>\$ 231,764</u> | <u>\$ 211,640</u> |
| LIABILITIES AND MEMBER'S EQUITY | | |
| Current liabilities: | | |
| Accrued payroll, taxes and benefits | \$ 26,905 | \$ 24,513 |
| Payable to affiliates | 16,049 | 8,681 |
| Restricted Medicare funds | 3,250 | 5,202 |
| Other liabilities | 9,736 | 10,553 |
| Total current liabilities | <u>55,940</u> | <u>48,949</u> |
| Member's equity: | | |
| Contributed capital | 34,961 | 34,961 |
| Retained earnings | 140,863 | 127,730 |
| Total member's equity | <u>175,824</u> | <u>162,691</u> |
| Total liabilities and member's equity | <u>\$ 231,764</u> | <u>\$ 211,640</u> |

STATEMENTS OF OPERATIONS (IN THOUSANDS)

| | Years ended December 31, | |
|----------------------------|--------------------------|-------------------------|
| | 2021 | 2020 |
| REVENUES | | |
| Total revenues | <u>355,627</u> | <u>324,603</u> |
| EXPENSES | | |
| Total expenses | <u>340,693</u> | <u>311,076</u> |
| Operating income | <u>14,934</u> | <u>13,527</u> |
| OTHER INCOME | | |
| Investment income | <u>1,646</u> | <u>1,921</u> |
| Total other income | <u>1,646</u> | <u>1,921</u> |
| Income before income taxes | 16,580 | 15,448 |
| Provision for income taxes | <u>3,447</u> | <u>3,255</u> |
| Net Income | <u>\$ 13,133</u> | <u>\$ 12,193</u> |

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

| | Contributed Capital | Retained Earnings | Total |
|----------------------------------|-------------------------|--------------------------|--------------------------|
| Balance January 1, 2020 | \$ 34,961 | \$ 115,537 | \$ 150,498 |
| Net income | <u>—</u> | <u>12,193</u> | <u>12,193</u> |
| Balance December 31, 2020 | 34,961 | 127,730 | 162,691 |
| Net income | <u>—</u> | <u>13,133</u> | <u>13,133</u> |
| Balance December 31, 2021 | <u>\$ 34,961</u> | <u>\$ 140,863</u> | <u>\$ 175,824</u> |

STATEMENTS OF CASH FLOWS (IN THOUSANDS)

| | Years ended December 31, | |
|---|--------------------------|------------------|
| | 2021 | 2020 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 13,133 | \$ 12,193 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 1,708 | 1,021 |
| Amortization on bonds | 820 | 452 |
| Loss on equipment and leasehold improvements disposals | 743 | 592 |
| Realized (gain) on investments | (20) | (119) |
| Equity in (income) of affiliates | (53) | (40) |
| Deferred income tax provision | (1,586) | 673 |
| Changes in operating assets and liabilities: | | |
| (Increase) in accounts receivable and accrued revenue | (19,274) | (2,600) |
| (Increase) decrease in receivables from affiliates | (24) | 168 |
| (Increase) in prepaid expense | (1,008) | (1,070) |
| Increase in accrued payroll, taxes and benefits | 2,392 | 2,679 |
| Increase (decrease) in payable to affiliates | 7,368 | (1,607) |
| (Decrease) in other liabilities | (2,769) | (114,914) |
| Net cash provided by (used in) operating activities | 1,430 | (102,572) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Equipment and leasehold improvements purchased | (370) | (6,806) |
| Investments redeemed – held-to-maturity | 14,556 | 15,695 |
| Investments purchased – held-to-maturity | (16,589) | (27,785) |
| Net cash (used in) investing activities | (2,403) | (18,896) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Return of capital contribution from investment in affiliates | 444 | – |
| Net cash provided by financing activities | 444 | – |
| Net (decrease) in cash, cash equivalents, and restricted Medicare cash | (529) | (121,468) |
| Cash, cash equivalents, and restricted Medicare cash, beginning of year | 42,536 | 164,004 |
| Cash, cash equivalents, and restricted Medicare cash, end of year | \$ 42,007 | \$ 42,536 |
| Supplemental disclosures of cash paid during the year for: | | |
| Income taxes | \$ 3,363 | \$ 4,518 |

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 & 2020

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 \$41,156,000 and \$41,820,000 at December 31, 2021 and 2020, 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) | |
|---|---|-----------|
| | 2021 | 2020 |
| Cash and cash equivalents | \$ 38,757 | \$ 37,334 |
| Restricted Medicare cash | \$ 3,250 | \$ 5,202 |
| Total cash, cash equivalents, and restricted Medicare cash shown in the statement of cash flows | \$ 42,007 | \$ 42,536 |

Restricted cash and the related restricted cash liability includes funds held for processing Medicare benefits paid to providers and beneficiaries of approximately \$3,250,000 and \$5,202,000 at December 31, 2021 and 2020, 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 24, 2022, 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, 2021 and 2020. The Company received \$375,000 return of capital from TriCenturion in December of 2021. The Company received \$69,000 return of capital from Fed Pro Services in December of 2021.

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

| | Years ended December 31, | |
|-------------------|--------------------------|----------|
| | 2021 | 2020 |
| Assets | \$ 253 | \$ 6,936 |
| Liabilities | \$ 2 | \$ 5,402 |
| Net income (loss) | \$ 218 | \$ (109) |

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

| | Years ended December 31, | |
|-------------------|--------------------------|--------|
| | 2021 | 2020 |
| Assets | \$ 35 | \$ 196 |
| Liabilities | \$ 34 | \$ 59 |
| Net (loss) income | \$ (4) | \$ 139 |

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, Program Integrity Modeling and Analytic Support (PIMAS), and Medicare Integrated Systems Testing 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), Provider Enrollment and Oversight (PEO), 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):

| CONTRACT TYPE | Years ended December 31, | |
|------------------------------------|--------------------------|-------------------|
| | 2021 | 2020 |
| Cost plus | | |
| Cost reimbursement | \$ 293,194 | \$ 266,393 |
| Award fee | 2,842 | 2,769 |
| Base/fixed fee | 3,737 | 3,393 |
| Total cost plus revenue | \$ 299,773 | \$ 272,555 |
| Fixed price | 28,455 | 18,755 |
| Time and materials | 11,718 | 17,597 |
| Interdivisional work authorization | 15,681 | 15,696 |
| Total contract revenue | \$ 355,627 | \$ 324,603 |

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 does 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, | |
|---|--------------------------|-------------------------|
| | 2021 | 2020 |
| Accounts receivable | \$ 32,251 | \$ 31,538 |
| Accrued revenue | <u>67,725</u> | <u>49,164</u> |
| Total accrued revenue and accounts receivable | <u><u>\$ 99,976</u></u> | <u><u>\$ 80,702</u></u> |

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, 2021. 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, 2021, the tax years 2018 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, 2021 and 2020.

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 – Credit 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 not anticipate the adoption of either ASU 2016-13 or ASU 2019-04 will have a material impact on its financial statements.

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements. ASU 2016-02 was effective for financial statements issued for fiscal years beginning after December 15, 2019. In June 2020, the FASB issued ASU 2020-05 to allow for the deferral of the implementation date of ASU 2016-02 for one year for entities that have not yet issued their financial statements. ASU 2016-02 is now effective for fiscal years beginning after December 31, 2021. The Company is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

In December 2019, the FASB issued Accounting Standards Update 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, removes certain exceptions for recognizing deferred taxes for investments, performing intraperiod tax allocations and calculating income taxes in interim periods. The ASU also adds guidance to reduce complexity in certain areas, including recognizing deferred taxes for tax goodwill and allocating income taxes to members of a consolidated group. ASU 2019-12 is effective for fiscal years beginning after December 15, 2021. The Company is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's equity or net income.

NOTE 2

EQUIPMENT AND LEASEHOLD IMPROVEMENTS

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

| | December 31, | |
|-----------------------------------|------------------------|------------------------|
| | 2021 | 2020 |
| Leasehold improvements | \$ 84 | \$ 84 |
| Equipment, furniture and fixtures | 11,401 | 18,569 |
| Software | 14,365 | 14,920 |
| | <u>25,850</u> | <u>33,573</u> |
| Accumulated depreciation | (19,006) | (24,648) |
| | <u><u>\$ 6,844</u></u> | <u><u>\$ 8,925</u></u> |

Depreciation expense was approximately \$1,708,000 and \$1,021,000 for the years ended December 31, 2021 and 2020, respectively.

NOTE 3

INVESTMENTS

Investments consist of the following (in thousands):

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------------|------------------------------|-------------------------------|-------------------------|
| DECEMBER 31, 2021 | | | | |
| Held-to-maturity securities: | | | | |
| Corporate bonds | \$ 50,755 | \$ 1,682 | \$ 372 | \$ 52,065 |
| Mortgage-backed securities | 18,383 | 180 | 214 | 18,349 |
| US Government agency bonds | 4,047 | 185 | - | 4,232 |
| US Special Revenue & Special Assessments | 3,836 | - | 89 | 3,747 |
| Total held-to-maturity securities | <u>77,021</u> | <u>2,047</u> | <u>675</u> | <u>78,393</u> |
| Total investments | <u>\$ 77,021</u> | <u>\$ 2,047</u> | <u>\$ 675</u> | <u>\$ 78,393</u> |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair 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 | <u>75,788</u> | <u>4,138</u> | <u>107</u> | <u>79,819</u> |
| Total investments | <u>\$ 75,788</u> | <u>\$ 4,138</u> | <u>\$ 107</u> | <u>\$ 79,819</u> |

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, 2021 or 2020 were considered other than temporary.

The amortized cost and estimated fair values of held-to-maturity debt securities, by contractual maturity, at December 31, 2021, are as follows (in thousands):

| | <u>Amortized Cost</u> | <u>Fair Value</u> |
|-------------------------------------|---------------------------|-------------------------|
| Held-to-maturity securities: | | |
| Due in one year or less | \$ 4,965 | \$ 4,991 |
| Due in one year through five years | 19,092 | 19,453 |
| Due in five years through ten years | 32,924 | 33,986 |
| Due in ten years or more | <u>20,040</u> | <u>19,963</u> |
| Total held-to-maturity | <u>\$ 77,021</u> | <u>\$ 78,393</u> |

There were gross realized gains of \$20,000 and \$119,000 for the years ended December 31, 2021 and 2020, respectively, that were included in net investment income. There were no gross realized losses for the years ended December 31, 2021 and 2020.

For held-to-maturity investments in an unrealized loss position at December 31, 2021, the aggregate amount of unrealized loss that had been in an unrealized loss position for less than twelve months was \$310,000 and the aggregate estimated fair value was \$21,292,000. For investments that had been in an unrealized loss position for more than twelve months, the aggregate amount of unrealized loss was \$365,000 and the aggregate estimated fair value was \$9,368,000. 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.

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 approximately \$3,387,000 and \$882,000 at December 31, 2021 and 2020, respectively, which are included in net receivables and payables to the parent. The Company made payments to BCBSSC for income taxes of approximately \$3,363,000 and \$4,518,000 during the years ended December 31, 2021 and 2020, respectively.

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

| | Years ended December 31, | |
|------------------------------------|--------------------------|-----------------|
| | 2021 | 2020 |
| Current | \$ 5,033 | \$ 2,582 |
| Deferred | (1,586) | 673 |
| Total income taxes incurred | \$ 3,447 | \$ 3,255 |

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, 2021 and 2020.

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

| | December 31, | |
|----------------------------------|-----------------|---------------|
| | 2021 | 2020 |
| Deferred tax assets: | | |
| Long-term | \$ 2,967 | \$ 2,898 |
| Deferred tax liabilities: | | |
| Long-term | (589) | (2,107) |
| Net deferred income taxes | \$ 2,378 | \$ 791 |

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 2021 and 2020. 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, 2021 and 2020.

The cost of providing the 401(k) contribution was approximately \$7,220,000 and \$6,496,000 for the years ended December 31, 2021 and 2020, respectively. The pension expense allocated to the Company under the BCBSSC defined benefit pension plan was approximately \$5,892,000 and \$3,325,000 for the years ended December 31, 2021 and 2020, 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, 2021. 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, 2021. 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 \$4,901,000 and \$4,721,000 at December 31, 2021 and 2020, 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

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 \$101,022,000 and \$91,930,000 for the years ended December 31, 2021 and 2020, respectively. The Company paid approximately \$115,938,000 and \$103,839,000 during the years ended December 31, 2021 and 2020, 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 \$14,467,000 and \$13,549,000 for these services during the years ended December 31, 2021 and 2020, 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 \$991,000 and \$1,395,000 for these services during the years ended December 31, 2021 and 2020, respectively.

The Company paid CGS Administrators (a wholly owned subsidiary of BCBSSC) for assistance with the JM MAC contract. The Company paid approximately \$1,081,000 and \$18,000 for these services during the years ended December 31, 2021 and 2020, 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 \$3,640,000 and \$4,327,000 for these services during the years ended December 31, 2021 and 2020, respectively.

The Company paid Karna (a wholly owned subsidiary of BCBSSC) for assistance with Nurse Helpline contract. The Company paid approximately \$271,000 and \$2,000 for these services during the years ended December 31, 2021 and 2020, respectively.