



PALMETTO GBA®
A CELERIAN GROUP COMPANY

2023 FINANCIAL REPORT



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, 2023 and 2022, 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, 2023 and 2022, and the results of its operations and its cash flows for the years 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 22, 2024

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BALANCE SHEETS (IN THOUSANDS)

	December 31,	
	<u>2023</u>	<u>2022</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 57,066	\$ 42,449
Restricted Medicare cash	3,656	674
Accounts receivable	29,235	33,784
Accounts receivable from affiliates	1,729	719
Accrued revenue	34,295	59,761
Prepaid expenses	<u>1,651</u>	<u>1,430</u>
Total current assets	<u>127,632</u>	<u>138,817</u>
Long-term assets:		
Equipment and leasehold improvements, net of accumulated depreciation of \$13,588 and \$13,572 in 2023 and 2022, respectively	3,208	4,952
Investments – held-to-maturity	125,606	97,681
Investments in affiliates	91	52
Deferred income taxes	<u>2,194</u>	<u>2,961</u>
Total long-term assets	<u>131,099</u>	<u>105,646</u>
Total assets	<u>\$ 258,731</u>	<u>\$ 244,463</u>
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities:		
Accrued payroll, taxes and benefits	\$ 27,644	\$ 26,519
Payable to affiliates	12,421	13,632
Restricted Medicare funds	3,656	674
Other liabilities	<u>2,544</u>	<u>11,986</u>
Total current liabilities	<u>46,265</u>	<u>52,811</u>
Member's equity:		
Contributed capital	34,961	34,961
Retained earnings	<u>177,505</u>	<u>156,691</u>
Total member's equity	<u>212,466</u>	<u>191,652</u>
Total liabilities and member's equity	<u>\$ 258,731</u>	<u>\$ 244,463</u>

STATEMENTS OF OPERATIONS (IN THOUSANDS)

	Years ended December 31,	
	2023	2022
REVENUES		
Total revenues	<u>377,029</u>	<u>375,746</u>
EXPENSES		
Total expenses	<u>355,959</u>	<u>358,125</u>
Operating income	<u>21,070</u>	<u>17,621</u>
OTHER INCOME		
Investment income	<u>5,268</u>	<u>2,392</u>
Total other income	<u>5,268</u>	<u>2,392</u>
Income before income taxes	26,338	20,013
Provision for income taxes	<u>5,524</u>	<u>4,185</u>
Net Income	<u>\$ 20,814</u>	<u>\$ 15,828</u>

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

	Contributed Capital	Retained Earnings	Total
Balance January 1, 2022	\$ 34,961	\$ 140,863	\$ 175,824
Net income	<u>—</u>	<u>15,828</u>	<u>15,828</u>
Balance December 31, 2022	34,961	156,691	191,652
Net income	<u>—</u>	<u>20,814</u>	<u>20,814</u>
Balance December 31, 2023	<u>\$ 34,961</u>	<u>\$ 177,505</u>	<u>\$ 212,466</u>

STATEMENTS OF CASH FLOWS (IN THOUSANDS)

	Years ended December 31,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 20,814	\$ 15,828
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,658	1,709
Amortization on bonds	(78)	373
Loss on equipment and leasehold improvements disposals	163	533
Realized loss on investments	–	33
Equity in (income) loss of affiliates	(39)	10
Deferred income tax provision	767	(583)
Changes in operating assets and liabilities:		
Decrease in accounts receivable and accrued revenue	30,015	6,431
(Increase) in receivables from affiliates	(1,010)	(457)
(Increase) decrease in prepaid expense	(221)	1,784
Increase (decrease) in accrued payroll, taxes and benefits	1,125	(386)
(Decrease) in payable to affiliates	(1,211)	(2,417)
(Decrease) in other liabilities	(6,460)	(326)
Net cash provided by operating activities	<u>45,523</u>	<u>22,532</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Equipment and leasehold improvements purchased	(77)	(350)
Investments redeemed – held-to-maturity	5,945	10,043
Investments purchased – held-to-maturity	(33,792)	(31,109)
Net cash (used in) investing activities	<u>(27,924)</u>	<u>(21,416)</u>
Net increase in cash, cash equivalents, and restricted Medicare cash	17,599	1,116
Cash, cash equivalents, and restricted Medicare cash, beginning of year	43,123	42,007
Cash, cash equivalents, and restricted Medicare cash, end of year	<u>\$ 60,722</u>	<u>\$ 43,123</u>
Supplemental disclosures of cash paid during the year for:		
Income taxes	\$ 6,808	\$ 6,251

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 & 2022

NOTE 1

BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Cash, cash equivalents, restricted cash and credit risk

Cash equivalents represent certificates of deposit that have maturities of less than three months at date of purchase and money market fund investments. Market risk for cash and cash equivalents is limited to any one institution when deposits exceed federally insured limits. The Company had cash deposits in excess of federally insured limits in the approximate amount of \$60,234 and \$42,322 at December 31, 2023 and 2022, 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)	
	2023	2022
Cash and cash equivalents	\$ 57,066	\$ 42,449
Restricted Medicare cash and cash equivalents	<u>3,656</u>	<u>674</u>
Total cash, cash equivalents, and restricted Medicare cash shown in the statement of cash flows	<u>\$ 60,722</u>	<u>\$ 43,123</u>

Restricted cash and the related restricted cash liability includes funds held for processing Medicare benefits paid to providers and beneficiaries of \$3,656 and \$674 at December 31, 2023 and 2022, 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. The Company also holds investments for which the fair values are disclosed in Note 3.

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 50% 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 did not receive any dividends in 2023 or 2022. The Company has not received return of capital from TriCenturion, Inc. in 2023 and 2022, respectively. The Company has not received return of capital from Fed Pro Services, LLC in 2023 and 2022, respectively.

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

	Years ended December 31,	
	2023	2022
Assets	\$ 185	\$ 201
Liabilities	\$ —	\$ —
Net (loss) income	\$ (17)	\$ (50)

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

	Years ended December 31,	
	2023	2022
Assets	\$ 32	\$ 50
Liabilities	\$ 36	\$ 52
Net (loss)	\$ (2)	\$ (4)

Investments

Investments are comprised of corporate bonds, United States Government agency bonds and mortgage-backed securities, and US special revenue and assessment bonds. 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. A fixed income security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against investment income.

The Company has made a policy election to exclude accrued interest from the amortized cost basis of debt securities and report accrued interest on held to maturity debt securities in accounts receivable in the balance sheets of \$1,081 and \$626 as of December 31, 2023 and 2022, respectively.

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, National Supplier Clearinghouse (NSC) MAC, 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 also considers self-assessment, if available, and other current information.

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), Medicare Integrated Systems Testing, Product Development and various other contracts when services are performed and billable.

Under Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*, 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,	
	2023	2022
Cost plus		
Cost reimbursement	\$ 296,053	\$ 301,706
Award fee	5,590	3,947
Base/fixed fee	5,284	3,874
Total cost plus revenue	306,927	309,527
Fixed price	38,301	32,266
Time and materials	15,641	17,560
Interdivisional work authorization	16,160	16,393
Total contract revenue	\$ 377,029	\$ 375,746

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. Almost all invoices are sent out monthly and are due 30 days from date of invoice. Receivables and accrued revenue consisted of the following (in thousands):

	Years ended December 31,	
	2023	2022
Accounts receivable	\$ 29,235	\$ 33,784
Accrued revenue	34,295	59,761
Total accrued revenue and accounts receivable	<u>\$ 63,530</u>	<u>\$ 93,545</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, 2023. 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, 2023, the tax years 2020 and forward remain subject to examination by the federal tax jurisdiction under the statute of limitations.

Fair value measurements

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, 2023 and 2022.

Accounting standards adopted in 2023

On January 1, 2023, the Company adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and all related subsequent amendments thereto (Accounting Standards Codification (ASC) 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including held-to-maturity debt securities and accounts receivable. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities, requiring 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. As of December 31, 2023 and 2022, the Company classified its debt securities as held to maturity. The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and any off-balance-sheet credit exposures. Results from reporting periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. As of December 31, 2022, the Company did not have any other-than-temporarily impaired investment securities. Upon adoption of ASC 326, the Company determined that an allowance for credit losses on financial instruments was not deemed mate.

Subsequent events

Subsequent events have been evaluated through February 22, 2024, 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.

NOTE 2

EQUIPMENT AND LEASEHOLD IMPROVEMENTS

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

	December 31,	
	2023	2022
Leasehold improvements	\$ —	\$ 84
Equipment, furniture and fixtures	5,292	6,363
Software	11,504	12,077
	<u>16,796</u>	<u>18,524</u>
Accumulated depreciation	(13,588)	(13,572)
	<u>\$ 3,208</u>	<u>\$ 4,952</u>

Depreciation expense was \$1,658 and \$1,709 for the years ended December 31, 2023 and 2022, respectively.

NOTE 3

INVESTMENTS

Investments consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2023				
Held-to-maturity securities:				
Corporate bonds	\$ 83,756	\$ 732	\$ 3,363	\$ 81,125
Mortgage-backed securities	32,455	343	2,433	30,365
US Government agency bonds	4,000	—	134	3,866
US special revenue & special assessments	5,395	—	594	4,801
Total held-to-maturity securities	<u>125,606</u>	<u>1,075</u>	<u>6,524</u>	<u>120,157</u>
Total investments	<u>\$ 125,606</u>	<u>\$ 1,075</u>	<u>\$ 6,524</u>	<u>\$ 120,157</u>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2022				
Held-to-maturity securities:				
Corporate bonds	\$ 63,532	\$ 122	\$ 4,840	\$ 58,814
Mortgage-backed securities	25,057	32	2,673	22,416
US Government agency bonds	4,023	—	209	3,814
US special revenue & special assessments	5,069	—	787	4,282
Total held-to-maturity securities	<u>97,681</u>	<u>154</u>	<u>8,509</u>	<u>89,326</u>
Total investments	<u>\$ 97,681</u>	<u>\$ 154</u>	<u>\$ 8,509</u>	<u>\$ 89,326</u>

The amortized cost and estimated fair values of held-to-maturity debt securities, by contractual maturity, at December 31, 2023, are as follows (in thousands):

	<u>Amortized Cost</u>	<u>Fair Value</u>
Held-to-maturity securities:		
Due in one year or less	\$ 8,776	\$ 8,689
Due in one year through five years	46,309	45,225
Due in five years through ten years	37,701	35,500
Due in ten years or more	2,194	1,966
Mortgage-backed securities	30,626	28,777
Total held-to-maturity	<u>\$ 125,606</u>	<u>\$ 120,157</u>

There were no gross realized gains for the years ended December 31, 2023 and 2022, respectively. There were gross realized losses of \$0 and \$33 for the years ended December 31, 2023 and 2022, respectively.

The Company measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. Management classifies the held-to-maturity portfolio into the following major security types: corporate bonds, mortgage-backed securities, US government agency bonds, and US special revenue and special assessments. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and/or have a long history of no credit losses. The estimate of expected credit losses for those securities not explicitly or implicitly guaranteed by the U.S. government is primarily based on the ratings assigned to the securities by debt rating agencies and the average of the annual historical loss rates associated with those ratings. The Company then multiplies those loss rates, as adjusted for any modifications to reflect current conditions and reasonable and supportable forecasts as considered necessary, by the remaining lives of each individual security to arrive at a lifetime expected loss amount. As a result, no allowance for credit losses was recorded on held-to-maturity debt securities at December 31, 2023.

For the year ended December 31, 2022, the Company monitored investment securities for other than temporary declines in fair value in accordance with previously applicable GAAP guidance. In determining whether a decline in fair value was other than temporary, consideration was given to the extent of the decline, the length of time fair value had been below cost, and other relevant factors including estimated future cash flows.

For held-to-maturity investments in an unrealized loss position at December 31, 2022, the aggregate amount of unrealized loss that had been in an unrealized loss position for less than twelve months was \$2,949 and the aggregate estimated fair value was \$47,971. For investments that had been in an unrealized loss position for more than twelve months, the aggregate amount of unrealized loss was \$5,561 and the aggregate estimated fair value was \$31,553. None of the unrealized losses at December 31, 2022, were considered other than temporary.

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 \$2,605 and \$3,060 at December 31, 2023 and 2022, respectively, which are included in net receivables and payables to the parent. The Company made payments to BCBSSC for income taxes of \$6,672 and \$6,186 during the years ended December 31, 2023 and 2022, respectively.

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

	Years ended December 31,	
	2023	2022
Current	\$ 4,757	\$ 4,768
Deferred	767	(583)
Total income taxes incurred	\$ 5,524	\$ 4,185

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, 2023 and 2022.

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

	December 31,	
	2023	2022
Deferred tax assets:		
Long-term	\$ 2,467	\$ 3,122
Deferred tax liabilities:		
Long-term	(273)	(161)
Net deferred income taxes	\$ 2,194	\$ 2,961

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 the lesser of 50% of their salary or the IRS maximum. The Company matched 50% of the first 6% deferred in 2023 and 2022. 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 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, 2023 and 2022.

The cost of providing the 401(k) contribution was \$7,845 and \$7,407 for the years ended December 31, 2023 and 2022, respectively. The pension expense allocated to the Company under the BCBSSC defined benefit pension plan was \$7,499 and \$6,022 for the years ended December 31, 2023 and 2022, 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, 2023. 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, 2023. 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 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, recorded in other liabilities, was \$346 and \$5,081 at December 31, 2023 and 2022, 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 PARTY TRANSACTIONS

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 \$100,755 and \$107,343 for the years ended December 31, 2023 and 2022, respectively. The Company paid approximately \$126,326 and \$137,152 during the years ended December 31, 2023 and 2022, 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 \$13,138 and \$14,052 for these services during the years ended December 31, 2023 and 2022, respectively.

The Company paid CGS Administrators (a wholly owned subsidiary of BCBSSC) for assistance with the JM MAC and JJ MAC contract. The Company paid approximately \$901 and \$1,232 for these services during the years ended December 31, 2023 and 2022, 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 \$3,178 and \$4,388 for these services during the years ended December 31, 2023 and 2022, respectively.

The Company paid Karna (a wholly owned subsidiary of BCBSSC) for information technology services. The Company paid approximately \$330 and \$184 for these services during the years ended December 31, 2023 and 2022, respectively.