2022
ANNUAL
REPORT

ACCELERATING together

SEE
HOW

A MESSAGE FROM JOE

Continuous innovation and forward progress. Those are the hallmarks of 2022 for Palmetto GBA. Despite market uncertainty, we lived into our philosophy and met challenges head on. I'm pleased to say, we delivered excellent customer service, participated in groundbreaking initiatives with the Centers for Medicare & Medicaid Services (CMS), and made positive changes in our communities.

On a business development front, we were successful with critical contract recompetes, like the Jurisdiction M A/B Medicare Administrative Contractor (MAC) and National Provider Enrollment (NPE) West contracts. We made significant progress on new product developments that drive heightened efficiency, accuracy and financial savings for our clients. And we continue to steward community improvements through acts of service for our senior populations, financial donations exceeding $321,000, and more than 350 volunteered hours for more than 40 organizations.

I'm equally as excited about our Social Determinants of Health (SDoH) program, which launched last fall in partnership with Optum and Unite Us. Through this CMS-funded pilot project, we have the very real opportunity to improve patient outcomes and make health equity viable across South Carolina and Georgia. It's an exciting time to be a connector within health care, providing the technology and solutions to truly bring providers together with the community.

The work we do is so important to the health of this nation. And it's this team's hard work, innovative ideas and generous contributions that make the difference. I consider it a privilege to work with you, and I look forward to what we can accomplish together in 2023.

Best Regards,

Walter J. Johnson
PRESIDENT & COO

OUR PHILOSOPHY

We believe technical and administrative solutions have the power to enhance service and quality. And that they play a major role in the healthcare of our country's elderly population. We constantly strive to reach new performance heights and improve the quality of life for our customers, employees and communities.

CLIENT SERVICES | **IMPACT**

Plus point for the federal government.

2022 SCALE

$59.6 BILLION	11.8 MILLION	170.3 MILLION	1.2 MILLION
Benefits Paid	Beneficiaries Served	Claims Processed	Inquiries Answered

FEE-FOR-SERVICE CONTRACTS

Jurisdiction M A/B MAC

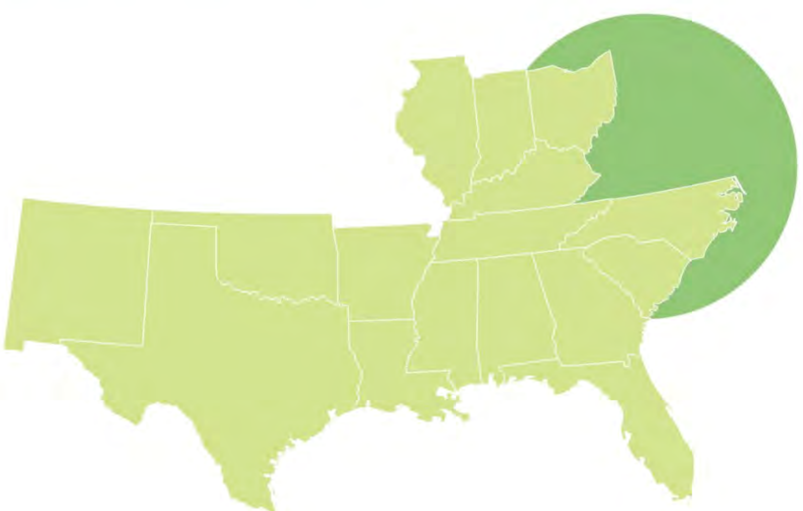
85.9
MILLION CLAIMS*
SINCE 2010**

NC | SC | VA | WV

**Portions of the jurisdiction served since 1967 under predecessor contracts
*Calendar year ended December 31, 2022

Jurisdiction M Home Health & Hospice

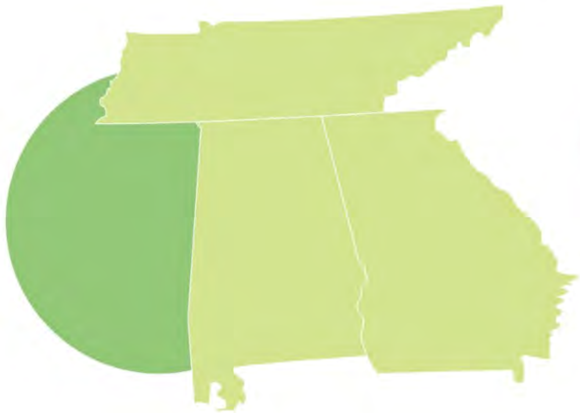
8.6
MILLION CLAIMS*
SINCE 2010**



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

**Portions of the jurisdiction served since 1967 under predecessor contracts
*Calendar year ended December 31, 2022

Jurisdiction J A/B MAC

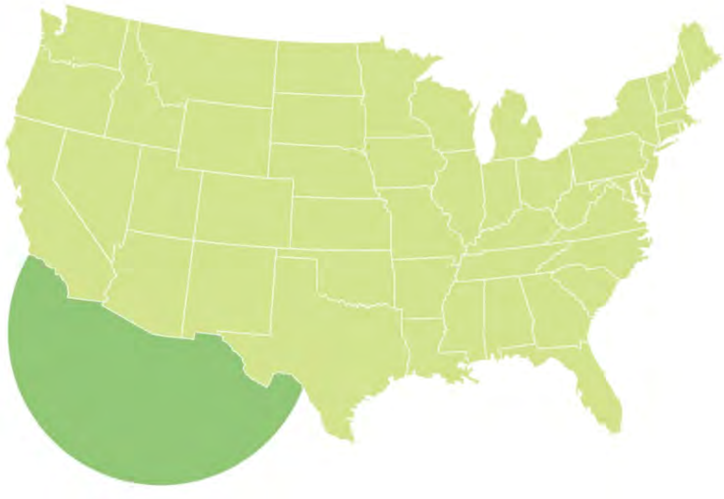


67.9
MILLION CLAIMS
ANNUALLY
SINCE 2017

AL | GA | TN

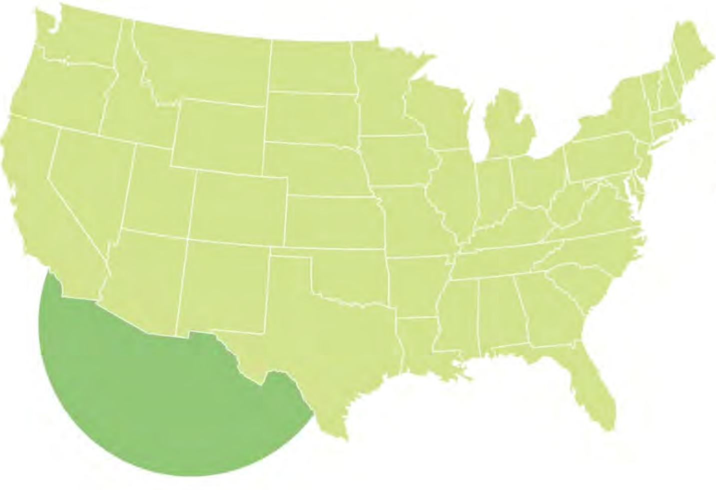
Competitive Bidding Implementation Contractor

USA
SINCE 2006



USA

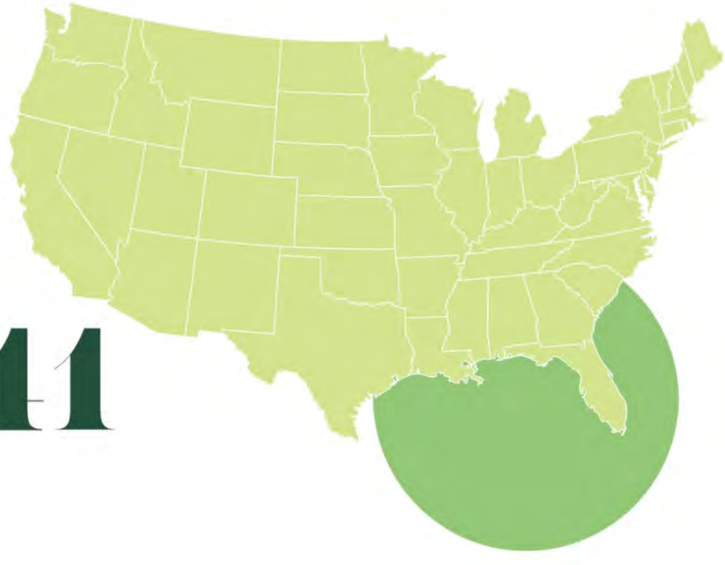
Railroad Retirement Board SMAC



7.9
MILLION CLAIMS
ANNUALLY
SINCE 2000*

USA

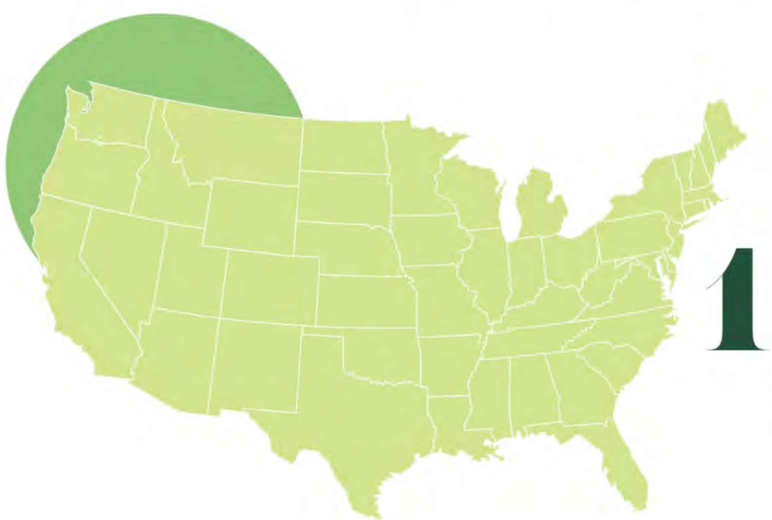
National Supplier Clearinghouse MAC



20,041
APPLICATIONS
PROCESSED FROM
1.1.22 – 11.6.22

USA

Pricing, Data Analysis & Coding

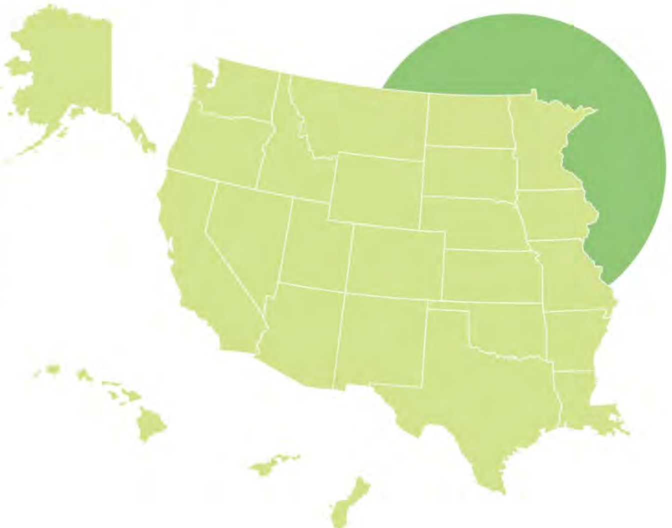


1,567
DMEPOS PRODUCT
APPLICATIONS CODE
REVIEWED
IN 2022

USA

National Provider Enrollment West

1,314
APPLICATIONS
PROCESSED FROM
11.7.22 – 12.31.22



AK | AZ | AR | CA | CO | HI | ID | IA | KS | LA | MN | MO | MT | NE |
NV | NM | ND | OK | OR | SD | TX | UT | WA | WY
AMERICAN SAMOA | GUAM | NORTHERN MARIANA ISLANDS

CLIENT SERVICES | **INNOVATIONS**

Ingenuity is foundational.

Cloud Hosting Activity

Palmetto GBA was awarded a pilot project task order to determine how Medicare Administrative Contractor (MAC) security controls can be implemented in the Centers for Medicare & Medicaid Services (CMS) Amazon Web Services (AWS) Private Cloud. The goal: determine and document the requirements of moving MAC applications to the cloud and how CMS will implement the 393 security controls required by the MAC contracts and the Federal Information Security Modernization Act (FISMA) High environment. We completed Phase II of the pilot December 2022, highlighting options for CMS related to Cloud utilization and security requirements, especially around the A/B MAC contracts.

> Ours is a culture built on strong customer service. Really, it's our number one priority. We're committed to finding resolutions for our customers and going above and beyond."

Robin Key
MANAGER, CUSTOMER SERVICE

Computer Assisted Review of Documentation (CARD)

In partnership with MCG Health LLC (MCG), we continued development, implementation and operation of our pilot project supporting the Home Health (HH) Review Choices Demonstration (RCD). In this we use Outcome and Assessment Information Set (OASIS) data to adjudicate pre-claim review (PCR) requests. Home health data elements from the OASIS submissions are mapped to the MCG Cite™ AutoAuth Module, driving an automated determination of compliance or inability to determine compliance. Much of 2021 and 2022 was spent developing this solution, where automation allows large data sets to be tested to further validate accuracy, specificity and sensitivity.

The HH RCD continues to provide significant savings to CMS. Palmetto GBA has completed nearly 4.8 million PCR requests and pre- and post-payment reviews since June 2019. This demonstration is active in five of the 16 HH states within the Jurisdiction M A/B MAC contract. Based on successes to date, CMS intends to expand to the remaining 11 states within the contract. Further expansion is dependent on lifting of the Public Health Emergency (PHE).

4.8
MILLION

PCR requests and pre- and post-payment reviews completed since 2019

Optum Product Development

Last year we continued development of a Molecular Diagnostic Coding and Coverage (MDCC) product. We licensed the Z-Codes™ and DEX™ platform for registering and coding of molecular tests to Optum, as well as performed and developed molecular test clinical assessments to develop a comprehensive product offering.

We completed Phase II rollout of the Medicare Advantage program for United Healthcare. This means all Medicare claims for in-network providers require Z-Codes and can be adjudicated based on the technical assessments performed by Palmetto GBA.

Also, Palmetto GBA and Optum have worked with Avalon Healthcare Solutions to incorporate these processes and procedures into their commercial health plan offerings. The commercial product will be deployed first with United Healthcare, with an expected effective date of June 1, 2023. However, technology deployment and technical assessments will begin as early as spring 2023. The commercial rollout will also be conducted in phases similar to the Medicare Advantage solution.

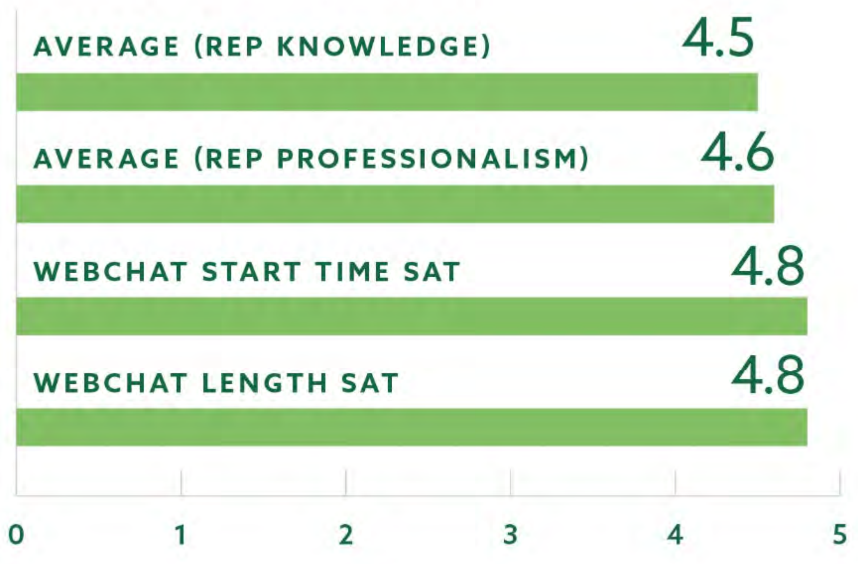
We've begun creating procedures for assessing these tests, and feedback from our partners has been extremely positive. Other large private payors have expressed interest in the Optum product.

Customer Experience (eChat)

Our Customer Experience program continues to focus on ensuring our customers have positive interactions with Palmetto GBA. Forging great relationships and providing exceptional service is what sets us apart from our competitors. In June of last year, we launched a pilot in our Jurisdiction J A/B MAC to increase chat usage for our providers. The pilot has been extremely successful, achieving a 4.5 customer satisfaction rating in December on a 5.0 scale. We hope to expand the pilot to our Jurisdiction M A/B MAC in 2023.

Also, acting on our customers' feedback we implemented a new search engine on our corporate website to help our providers find information faster and easier than before.

CUSTOMER SATISFACTION



CLIENT SERVICES | **PUBLIC HEALTH**

The analytics of meaningful change.

Social Determinants of Health (SDoH) Program: Working toward health equity together.

In September 2022, we launched the first phase of our Social Determinants of Health (SDoH) program for the Centers for Medicare & Medicaid Services (CMS). This was in response to CMS' challenge for Medicare Administrative Contractors (MACs) to develop a program addressing health care inequities and disparities. Our pilot program seeks to address four of CMS' six health equity priorities: documenting SDoH needs among CMS beneficiaries; evaluating disparity impacts; disseminating findings; and enabling providers to meet SDoH needs of vulnerable populations.

To accomplish CMS' goal of improved patient outcomes, Palmetto GBA partnered with **Optum**, an industry leader in population health and analytics, and **Unite Us**, the nation's leading technology company connecting health and social care. Together we're providing a technology solution and technical assistance to rural health care providers in South Carolina and Georgia so they can securely connect patients in need with community-based resources.

"Palmetto GBA is honored to offer this opportunity to our providers. The program uses an innovative technology solution to better serve beneficiaries by connecting health care with communities. It's a difference that can have significant impact."

Alex Delage, Ph.D.
PALMETTO GBA SDoH PROGRAM DIRECTOR

80%
of an individual's health outcomes are dictated by social determinants

53%
of patients report being affected by at least one SDoH

2.4x
more likely for patients reporting food insecurity to report multiple ER visits

2.6x
more likely for patients with transportation needs to report multiple ER visits

SUCCESS METRICS | **GROWTH**

Giant strides forward.

New Business

Jurisdiction M A/B Medicare Administrative Contractor (MAC)
Palmetto GBA was awarded the contract for Jurisdiction M A/B MAC covering South Carolina, North Carolina, Virginia and West Virginia. Under this contract, Palmetto GBA also administers the Medicare Home Health and Hospice (HHH) benefit for Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Mississippi, New Mexico, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee and Texas. This is Palmetto GBA's largest contract.

The scope of this contract is significant. Palmetto GBA performs all the Medicare Parts A and B administration for the jurisdiction including provider enrollment, outreach and education, claims processing, appeals, provider customer service, medical review, and audit and reimbursement. As of September 30, 2022, the region includes:

- Total Number of Part A/Part B Fee-for-Service Beneficiaries: 3,069,107
- Total Number of HHH Fee-for-Service Beneficiaries: 14,287,496
- Total Number of Physicians: 76,992
- Total Number of Medicare Hospitals: 315
- Total Number of Home Health Agencies: 5,786
- Total Number of Hospices: 2,193
- Total Annual Claims Volume: 8.1% of national Part A/Part B workload
- Total Annual Claims Volume: 50.2% of national HHH workload

"There is tremendous value in winning contract recompetes — for our customers, the communities we serve and our employees. It means consistency in the relationships, a seamless move to a new contract, and the customer already knows what to expect from us. Successful recompetes truly are a credit to the trust our customers have in us."

Arteya Robinson
AUDIT & REIMBURSEMENT DIRECTOR, JURISDICTION M

"This business is data rich. We're constantly engineering new ways to leverage that data to better hear our customers' voice and make data-driven decisions possible."

Derek Roberts
DEVELOPMENT MANAGER, ECOMMERCE

National Supplier Clearinghouse (NSC) Medicare Administrative Contractor (MAC) Transitions to National Provider Enrollment (NPE) West

Palmetto GBA has been the administrator for the NSC MAC since the program's inception in 1993. Last year, the contract was divided into two regions and re-competed as the NPE East and West task orders.

Palmetto GBA was awarded the western region and is responsible for issuing or revoking Medicare billing privileges for suppliers of Durable Medical Equipment, Prosthetics, Orthotics, and Supplies (DMEPOS) in states west of the Mississippi River and the three U.S. Territories of American Samoa, Guam and the Northern Mariana Islands. Under the NPE West, we will continue to ensure enrolled suppliers meet all required supplier standards and federal and state requirements, as well as implement controls to combat fraud, waste and abuse, and maintain a data repository of DMEPOS suppliers. The NPE West was developed because of the unique and specialized requirements that distinguish DMEPOS supplier enrollment from other Medicare and Medicaid providers and suppliers, especially related to surety bonding, special licensing, insurance and inventory.

General Services Administration (GSA) IT Schedule 70
Palmetto GBA was awarded a seat on the GSA IT Schedule 70 contract. Vendors awarded this contract are pre-approved by the GSA to deliver a streamlined purchasing process for information technology services.

SUCCESS METRICS | **BENCHMARKS**

Performance that propels.

99.2%

Palmetto GBA's performance across all contract metrics in 2022

Palmetto GBA was rated **Exceptional** or **Very Good** by CMS on 32 out of 43 assessed elements.

"We pay keen attention to the details in everything we do. It's one of the ways we don't just meet client expectations, we exceed them."

Clinton Griffin
PROJECT MANAGER, PRIOR AUTHORIZATION & REVIEW CHOICE DEMONSTRATION

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	$2,092,870
Medicare Secondary Payer	$572,472,909	$518,968,867	$5,268,649
Medical Review	$420,956,171	$403,542,603	$9,213,700
Medical Review Ambulance Prior Authorization	$1,086,955	$2,001,828	$79,206
Total	$994,516,035	$924,513,298	$16,654,425

$1.9 BILLION

2022 Medicare Program Safeguard Savings

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.

Visit our Corporate Site

2022 FINANCIALS

COMMUNITY SERVICE

Leading with heart.

2022 GIVING

Our associates individually and together help so many worthwhile organizations, from the Salvation Army and Families Helping Families to food banks and more. Giving back to the communities we call home is in our DNA.

44 Initiatives

331+ Participants

$321,386+ Donated

2,258+ Items Donated

351+ Hours Volunteered

"The Palmetto GBA team makes this such a special place. Everyone is helpful and provides all the things we need to learn the business."

Ryusei Takahashi
INTERN, PROVIDER AUDIT

COMPANY-WIDE COMMUNITY IMPACT INITIATIVE

Helping Seniors Through Acts of Service

Senior populations have faced many challenges over the past couple of years, including rising costs for critical needs while on fixed incomes, limited socialization with friends and families, and restricted activities due to facility closures. Seniors are directly impacted by the work we do at Palmetto GBA, and there are so many ways we can help improve their lives.

Our 2022 Community Impact initiative looked to enhance programs for senior populations. We highlighted opportunities to donate, volunteer and make other contributions to senior programs near where we live and work, including:

- **Senior Citizens Council of Augusta** | Augusta, GA
- **McCoy Adult Day Care** | Birmingham, AL
- **Kershaw County Council on Aging** | Camden, SC
- **The Lourie Center** | Columbia, SC
- **LifeCare Alliance – Meals on Wheels** | Columbus, OH
- **Leatherman Senior Center** | Florence, SC
- **The Community Action Organization of Scioto County – Senior Nutrition Home Delivered Meals Program** | Wheelersburg/Portsmouth, OH Area

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.

Visit our Corporate Site

2022 FINANCIALS

LEADERSHIP

BOARD OF DIRECTORS

Mike Mizeur

CHAIRMAN, BOARD OF DIRECTORS
Palmetto GBA, LLC

PRESIDENT & CEO
BlueCross BlueShield of South Carolina

David Pankau

CHAIRMAN, BOARD OF DIRECTORS
BlueCross BlueShield of South Carolina

Bruce W. Hughes

PRESIDENT & COO
Celerian Group, BlueCross BlueShield of South Carolina

Lori Hair

EXECUTIVE VICE PRESIDENT, CHIEF FINANCIAL OFFICER & TREASURER
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. Shields

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

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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A CELERIAN GROUP COMPANY

2022
FINANCIAL
REPORT

ACCELERATING together

01 Independent Auditor's Report

03 Balance Sheets

04 Statements of Operations

04 Statements of Changes in Member's Equity

05 Statements of Cash Flows

06 Notes to Financial Statements

INDEPENDENT AUDITOR'S REPORT

BOARD OF DIRECTORS
PALMETTO GBA, LLC

MAULDIN & JENKINS
CPAs & ADVISORS

Opinion

We have audited the accompanying financial statements of Palmetto GBA, LLC which comprise the balance sheets as of December 31, 2022 and 2021, 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, 2022 and 2021, 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 24, 2023

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BALANCE SHEETS (IN THOUSANDS)

	December 31, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 42,449	$ 38,757
Restricted Medicare cash	674	3,250
Accounts receivable	33,784	32,251
Accounts receivable from affiliates	719	262
Accrued revenue	59,761	67,725
Prepaid expenses	1,430	3,214
Total current assets	138,817	145,459
Long-term assets:		
Equipment and leasehold improvements, net of accumulated depreciation of $13,572 and $19,006 in 2022 and 2021, respectively	4,952	6,844
Investments - held-to maturity	97,681	77,021
Investments in affiliates	52	62
Deferred income taxes	2,961	2,378
Total long-term assets	105,646	86,305
Total assets	**$ 244,463**	**$ 231,764**
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities:		
Accrued payroll, taxes and benefits	$ 26,519	$ 26,905
Payable to affiliates	13,632	16,049
Restricted Medicare funds	674	3,250
Other liabilities	11,986	9,736
Total current liabilities	52,811	55,940
Member's equity:		
Contributed capital	34,961	34,961
Retained earnings	156,691	140,863
Total member's equity	191,652	175,824
Total liabilities and member's equity	**$ 244,463**	**$ 231,764**

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

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

STATEMENTS OF OPERATIONS (IN THOUSANDS)

	Years ended December 31, 2022	2021
REVENUES		
Total revenues	375,746	355,627
EXPENSES		
Total expenses	358,125	340,693
Operating income	17,621	14,934
OTHER INCOME		
Investment income	2,392	1,646
Total other income	2,392	1,646
Income before income taxes	20,013	16,580
Provision for income taxes	4,185	3,447
Net Income	**$ 15,828**	**$ 13,133**

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

	Contributed Capital	Retained Earnings	Total
Balance January 1, 2021	$ 34,961	$ 127,730	$ 162,691
Net income	–	13,133	13,133
Balance December 31, 2021	34,961	140,863	175,824
Net income	–	15,828	15,828
Balance December 31, 2022	**$ 34,961**	**$ 156,691**	**$ 191,652**

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

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

STATEMENTS OF CASH FLOWS (IN THOUSANDS)

	Years ended December 31, 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 15,828	$ 13,133
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,709	1,708
Amortization on bonds	373	820
Loss on equipment and leasehold improvements disposals	533	743
Realized loss (gain) on investments	33	(20)
Equity in loss (income) of affiliates	10	(53)
Deferred income tax provision	(583)	(1,586)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable and accrued revenue	6,431	(19,274)
(Increase) in receivables from affiliates	(457)	(24)
Decrease (increase) in prepaid expense	1,784	(1,008)
(Decrease) increase in accrued payroll, taxes and benefits	(386)	2,392
(Decrease) increase in payable to affiliates	(2,417)	7,368
(Decrease) in other liabilities	(326)	(2,769)
Net cash provided by operating activities	22,532	1,430
CASH FLOWS FROM INVESTING ACTIVITIES		
Equipment and leasehold improvements purchased	(350)	(370)
Investments redeemed — held-to-maturity	10,043	14,556
Investments purchased — held-to-maturity	(31,109)	(16,589)
Net cash (used in) investing activities	(21,416)	(2,403)
CASH FLOWS FROM FINANCING ACTIVITIES		
Return of capital contribution from investment in affiliates	–	444
Net cash provided by financing activities	–	444
Net increase (decrease) in cash, cash equivalents, and restricted Medicare cash	1,116	(529)
Cash, cash equivalents, and restricted Medicare cash, beginning of year	42,007	42,536
Cash, cash equivalents, and restricted Medicare cash, end of year	**$ 43,123**	**$ 42,007**
Supplemental disclosures of cash paid during the year for:		
Income taxes	$ 6,251	$ 3,363

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

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

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 & 2021

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 $42,322,000 and $41,156,000 at December 31, 2022 and 2021, 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)	
	2022	2021
Cash and cash equivalents	$ 42,449	$ 38,757
Restricted Medicare cash and cash equivalents	$ 674	$ 3,250
Total cash, cash equivalents, and restricted Medicare cash shown in the statement of cash flows	$ 43,123	$ 42,007

Restricted cash and the related restricted cash liability includes funds held for processing Medicare benefits paid to providers and beneficiaries of $674,000 and $3,250,000 at December 31, 2022 and 2021, 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, 2023, 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, 2022 and 2021. The Company received $0 and $375,000 return of capital from TriCenturion, Inc. in December of 2022 and 2021, respectively. The Company received $0 and $69,000 return of capital from Fed Pro Services, LLC in December of 2022 and 2021, respectively.

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

	Years ended December 31,	
	2022	2021
Assets	$ 201	$ 253
Liabilities	$ –	$ 2
Net (loss) income	$ (50)	$ 218

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

	Years ended December 31,	
	2022	2021
Assets	$ 50	$ 35
Liabilities	$ 52	$ 34
Net (loss)	$ (4)	$ (4)

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, National Supplier Clearinghouse (NSC) MAC, Durable Medical Equipment (DME) Appeals Demo by IMPAQ, and Program Integrity Modeling and Analytic Support (PIMAS) contracts on a cost-plus fixed fee basis. Award fees, if applicable, for these contracts are recognized based upon historical performance or management estimates if no historical data is available.

The Company recognizes revenue on the Competitive Bidding Implementation Contractor (CBIC), Customer Support & Front End System (CSFES), Continuing Education (CE) Support and Medicare Learning Network (MLN), Pricing, Data, Analysis and Coding Implementation (PDAC), 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.

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

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

	Years ended December 31,	
CONTRACT TYPE	2022	2021
Cost plus		
Cost reimbursement	$ 301,706	$ 293,194
Award fee	3,947	2,842
Base/fixed fee	3,874	3,737
Total cost plus revenue	$ 309,527	$ 299,773
Fixed price	32,266	28,455
Time and materials	17,560	11,718
Interdivisional work authorization	16,393	15,681
Total contract revenue	**$ 375,746**	**$ 355,627**

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,	
	2022	2021
Accounts receivable	$ 33,784	$ 32,251
Accrued revenue	59,761	67,725
Total accrued revenue and accounts receivable	**$ 93,545**	**$ 99,976**

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, 2022. 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, 2022, the tax years 2019 and 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, 2022 and 2021.

Recent accounting guidance not yet adopted

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

NOTE 2

EQUIPMENT AND LEASEHOLD IMPROVEMENTS

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

	December 31, 2022	December 31, 2021
Leasehold improvements	$ 84	$ 84
Equipment, furniture and fixtures	6,363	11,401
Software	12,077	14,365
	18,524	25,850
Accumulated depreciation	(13,572)	(19,006)
	$ 4,952	**$ 6,844**

Depreciation expense was $1,709,000 and $1,708,000 for the years ended December 31, 2022 and 2021, respectively.

NOTE 3

INVESTMENTS

Investments consist of the following (in thousands):

	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	97,681	154	8,509	89,326
Total investments	**$ 97,681**	**$ 154**	**$ 8,509**	**$ 89,326**

	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	77,021	2,047	675	78,393
Total investments	**$ 77,021**	**$ 2,047**	**$ 675**	**$ 78,393**

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, 2022 or 2021 were considered other than temporary.

The amortized cost and estimated fair values of held-to-maturity debt securities, by contractual maturity, at December 31, 2022, are as follows (in thousands):

	Amortized Cost	Fair Value
Held-to-maturity securities:		
Due in one year or less	$ 3,263	$ 3,238
Due in one year through five years	30,556	29,338
Due in five years through ten years	39,611	35,054
Due in ten years or more	24,251	21,696
Total held-to-maturity	**$ 97,681**	**$ 89,326**

There were gross realized gains of $0 and $20,000 for the years ended December 31, 2022 and 2021, respectively, that were included in net investment income. There were gross realized losses of $33,000 and $0 for the years ended December 31, 2022 and 2021.

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 $2,949,000 and the aggregate estimated fair value was $47,971,000. For investments that had been in an unrealized loss position for more than twelve months, the aggregate amount of unrealized loss was $5,561,000 and the aggregate estimated fair value was $31,553,000. 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.

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 $3,060,000 and $3,387,000 at December 31, 2022 and 2021, respectively, which are included in net receivables and payables to the parent. The Company made payments to BCBSSC for income taxes of $6,186,000 and $3,363,000 during the years ended December 31, 2022 and 2021, respectively.

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

	Years ended December 31, 2022	Years ended December 31, 2021
Current	$ 4,768	$ 5,033
Deferred	(583)	(1,586)
Total income taxes incurred	**$ 4,185**	**$ 3,447**

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, 2022 and 2021.

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

	December 31, 2022	December 31, 2021
Deferred tax assets:		
Long-term	$ 3,122	$ 2,967
Deferred tax liabilities:		
Long-term	(161)	(589)
Net deferred income taxes	**$ 2,961**	**$ 2,378**

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 2022 and 2021. 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, 2022 and 2021.

The cost of providing the 401(k) contribution was $7,407,000 and $7,220,000 for the years ended December 31, 2022 and 2021, respectively. The pension expense allocated to the Company under the BCBSSC defined benefit pension plan was $6,022,000 and $5,892,000 for the years ended December 31, 2022 and 2021, 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, 2022. 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, 2022. 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 $5,081,000 and $4,901,000 at December 31, 2022 and 2021, 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 $107,343,000 and $101,022,000 for the years ended December 31, 2022 and 2021, respectively. The Company paid approximately $137,152,000 and $115,938,000 during the years ended December 31, 2022 and 2021, 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 $14,052,000 and $14,467,000 for these services during the years ended December 31, 2022 and 2021, 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 $0 and $991,000 for these services during the years ended December 31, 2022 and 2021, respectively.

The Company paid CGS Administrators (a wholly owned subsidiary of BCBSSC) for assistance with the JM MAC contract. The Company paid approximately $1,232,000 and $1,081,000 for these services during the years ended December 31, 2022 and 2021, respectively.

The Company paid PGBA Tricare (a wholly owned subsidiary of BCBSSC) for assistance with the JM Review Choice Demonstration contract. The Company paid approximately $4,388,000 and $3,640,000 for these services during the years ended December 31, 2022 and 2021, respectively.

The Company paid Karna (a wholly owned subsidiary of BCBSSC) for information technology services. The Company paid approximately $184,000 and $271,000 for these services during the years ended December 31, 2022 and 2021, respectively.