

EACH IN OUR OWN WAY

PALMETTO GBA 2013 ANNUAL REPORT





For 48 years, Palmetto GBA has earned recognition as a leader in the field of Medicare administration. Our reputation has long been due to the inspired efforts and individual merits of our associate team. The following pages are a reminder of our tremendous potential, our collective strength, and the significance of our purpose.

Day after day, I meet Palmetto GBA employees who not only care about the success of this great company, but who also find meaning and value in their individual tasks. What we do affects the wellbeing of so many people — our families, our communities, and most importantly, the Medicare providers and beneficiaries we serve. This awareness shapes our company culture. It defines our relationship with customers, focuses our ambitions, and characterizes our ability to weather adversity.

I am continually impressed by Palmetto GBA associates' resilience and grace under pressure. Despite the disappointing outcome of the Jurisdiction E A/B MAC competition, we remained steadfast in our commitment to the highest level of performance. As we finalized the contract, this commitment was evident: we met 100 percent of all contract performance metrics. In addition, we improved performance across contracts throughout 2013, meeting 99 percent of all performance metrics by year's end.

Our dedication to quality performance extended to great achievements in innovation. In multiple areas of Palmetto GBA, collaborative efforts to improve processes and outcomes resulted in providing greater value to our customers. Thanks to the associates who supported this level of ingenuity and invention, we have been able to share these groundbreaking measures with the Centers for Medicare & Medicaid Services (CMS) and our affiliated companies.

Without a doubt, each and every one of you has made a positive impact on this company. Thank you for your dedication, your enthusiasm, and your relentless drive. I am honored to work with you.

Best regards,

W. Joe Johnson
President & COO

EACH IN OUR OWN WAY

PALMETTO GBA 2013 ANNUAL REPORT



PALMETTO GBA®

A CELERIAN GROUP COMPANY

Vision. Metrics. Strategic analysis and growth planning. Countless hallmarks of success can be attributed to a company's long-term efforts.

But diligence and attention to detail manifest themselves constantly and in myriad ways across all departments of an organization. When followed to their human ends, associates' daily tasks take on heroic proportion. Data entered with expertise in a north-wing cubicle may well allow for pathology reports on the other side of the continent. Conditions are diagnosed. Wellness ultimately restored.

In this sense, performance is personal. At every level there is a drive for perfection. A standard to be honored and achieved on a daily basis, **EACH IN OUR OWN WAY.**

CONTENTS

| | |
|--------------------------------------|----|
| Introduction | 3 |
| Company Overview | 7 |
| Achievements..... | 10 |
| Safeguarding the Trust Fund..... | 14 |
| Technological Innovation | 18 |
| Corporate Social Responsibility..... | 22 |
| Leadership | 26 |
| Financials | 28 |



Misty Bowers

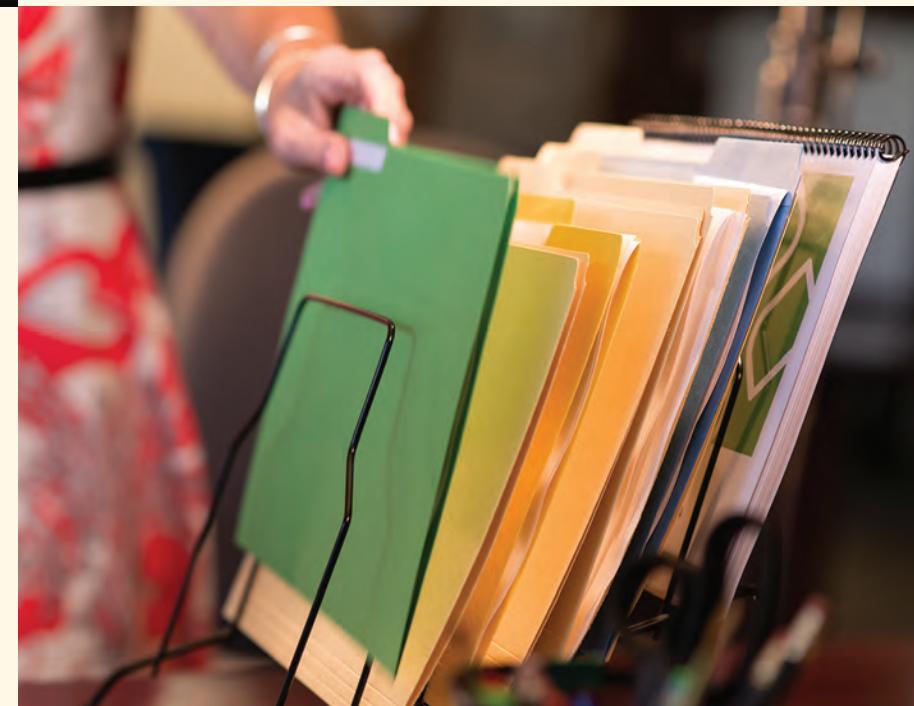
Part B Provider Enrollment Analyst
PROVIDER ENROLLMENT TEAM

Communication is key. That's why Misty Bowers and her team spend countless hours emailing, calling, and answering questions from providers concerning their applications for enrollment in the Medicare program. Once she has verified and approved a provider's application, the provider may begin scheduling beneficiaries and billing Medicare for services rendered. Through this process, Provider Enrollment Team members enjoy a special sense of accomplishment — one that's equally felt by thousands of providers as they open their doors and begin accepting patients.

“

Because my work allows physicians to enroll in Medicare and expand their patient base, I'm helping to improve the quality of care for beneficiaries.

”





COMPANY OVERVIEW

Palmetto GBA is a leading provider of contact center, technical and administrative services to federal government agencies. Our core business is to provide services to the Centers for Medicare & Medicaid Services (CMS), Medicare beneficiaries and Medicare providers. Palmetto GBA is one of the few Medicare contractors that has experience in all Medicare business segments: Medicare Part A, Medicare Part B, Durable Medical Equipment, and Regional Home Health and Hospice.

As a Medicare contractor, we have been entrusted with administering health insurance claims for many of our nation's elderly and disabled citizens. Our expertise, combined with our dedication to operational ethics, has allowed us to expand nationally, and we employ more than 1,500 associates in South Carolina, Georgia and Ohio. Headquartered in Columbia, SC, Palmetto GBA served approximately 12.2 million beneficiaries, processed 192 million claims and paid more than \$62 billion in benefits in 2013.



ALSO PICTURED:
LaFarrah Brantley, Paul Beverly, Lauri McLean, Mindy Rawls, Shannon Rosson

Brett Manley

Access & Identity Management Analyst
SYSTEMS SECURITY TEAM

In this age of dynamic technological change, it is imperative that corporations make security a top priority. Brett Manley deeply understands this truth. After serving eight years in the United States Air Force's IT Department, Brett made the transition to the private sector. Now, his work at Palmetto GBA guards against data breaches and shields beneficiaries' private information from unpermitted access. Brett and his department are at the heart of Palmetto GBA's mission to protect the Medicare Trust Fund and its beneficiaries, allowing the company to operate with unparalleled security.

“
The Palmetto GBA Systems Security Team ensures that all sensitive information is protected from unauthorized access resulting in peace of mind for our company and customers.
”

ACHIEVEMENTS

Customer Service and Support Center

On May 29, 2013, Palmetto GBA was awarded a modification to our Customer Service and Support Center (CSSC) contract that adds work related to support of a Medicare/Medicaid dual eligibility demonstration project being conducted in 14 states. Under this contract, Palmetto GBA will collect and process encounter data and provide technical customer service for health plans and state agencies participating in the demonstration. This modification increases contract scope by 181 million transactions each year, bringing total annual transaction volume to 3.5 billion for this contract.

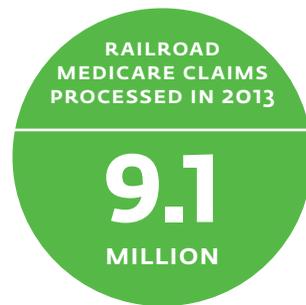


Comparative Billing Report

On September 26, 2013, Palmetto GBA, as a subcontractor to eGlobalTech, was awarded the Comparative Billing Report (CBR) contract. This contract requires production of comparative billing reports for topics proposed by the contractor and approved by CMS in order to provide comparative data to providers in the same services areas. The CBRs better enable providers to identify errors in their billing practices.

Railroad Retirement Board Specialty Medicare Administrative Contractor

Palmetto GBA implemented the Railroad Retirement Board (RRB) Specialty Medicare Administrative Contractor (SMAC) contract on February 1, 2013. Serving 600,000 Railroad Medicare beneficiaries, this contract processed 9.1 million claims in 2013 and paid \$836 million in benefits.



Agile Enterprise

Palmetto GBA's Systems Division fully integrated Agile Development Methodologies throughout its Product Teams. The Agile Methodology strives for a flexible approach to meet complex and unpredictable customer requirements, and it is built on productive involvement of all stakeholders. Deploying Agile at Palmetto GBA has resulted in addressing customers' software and business solutions requirements rapidly, improving all contracts through automation, increasing quality and reducing costs. Agile Methodologies have also increased communication, transparency and accountability throughout all lines of business.



InformationWeek 500 TOP 100

InformationWeek identifies and honors the nation's most innovative users of information technology with its annual InformationWeek 500 listing. Palmetto GBA was honored in the top 100, ranking 81st, for its strategic emphasis on innovating through technology.

Palmetto Pillar Award

The Palmetto Pillar Awards program honors leaders in technology innovation. Palmetto GBA won the "2013 Palmetto Pillar Award for IT Infrastructure Services" for its innovative Security Manager application. Through Security Manager's features, timely and accurate systems and facility access changes are automatically made based on existing human resource transactions. All required documentation is maintained and available through ad-hoc reporting. This unique application has set an industry precedent for meeting government security requirements and protecting critical information from unauthorized access.

nCircle IP360

Palmetto GBA continues to focus on the overall compliance of the systems security program. Assessing systems to identify and eliminate vulnerabilities is critical to protecting sensitive information. CMS utilizes IP360 to score the system security posture for Palmetto GBA on a daily basis and issues a monthly compliance score to Palmetto GBA. Palmetto GBA's nCircle IP360 scores were in the top two for all CMS contractors for 2013, and Palmetto GBA earned an "A" rating during each month of 2013. In July 2013, Palmetto GBA achieved the best IP360 score on record for any Medicare Administrative Contractor (MAC).

In July 2013, Palmetto GBA achieved the best IP360 score on record for any Medicare Administrative Contractor.

Christine Brand

Claims Operations Supervisor
CLAIMS

Christine Brand knows that the devil is in the details. Her department processes millions of claims, and their work materially affects providers, beneficiaries, and Medicare. That's why Christine works tirelessly to support her department, ensuring that her team of Part A claims analysts not only meets the requirements of their jobs but also exceeds them. From monitoring workflow to assisting other departments to attending cross-functional workgroups, Christine keeps the details in mind and maintains a level of performance that facilitates her team's achievements.

“

Our ability to work together makes up the culture and philosophy at Palmetto GBA. It means a lot knowing that we help the company meet and surpass its goals.

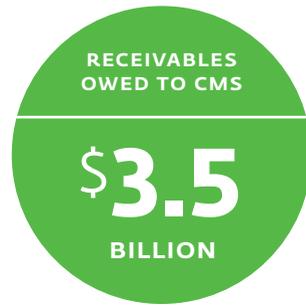
”



SAFEGUARDING THE TRUST FUND

Medicare Debt Collections

During the calendar year 2013, Palmetto GBA collected \$3.5 billion of receivables owed to CMS. This critical component of protecting the Medicare Trust Fund is attributable to the timely and efficient collection methods implemented by Palmetto GBA.



Medicare Integrity Program

As a Medicare contractor, Palmetto GBA is responsible for engaging in activities that protect the Medicare Trust Fund. Our program safeguard activities result in significant savings for Medicare. For the calendar year 2013, Palmetto GBA's efforts resulted in the Medicare savings detailed below:

In 2013, Palmetto GBA saved the Medicare Trust Fund more than \$1.6 billion across three contracts.

| | J1 A/B MAC | J11 A/B MAC | RRB SMAC |
|--------------------------|----------------------|----------------------|---------------------|
| Benefits Integrity | N/A | N/A | \$32,593 |
| Medicare Secondary Payer | \$563,883,646* | \$638,919,830 | \$5,987,746 |
| Medical Review | \$210,870,565 | \$211,187,453 | \$13,719,946 |
| Total | \$774,754,211 | \$850,107,283 | \$19,740,285 |

For J11 the figure is for Part A, HHH, and Part B combined while for J1 the figure is Part A and Part B combined.
*Jurisdiction 1 A/B MAC contract ended in August 2013 – Part A and September 2013 - Part B

Competitive Bidding Implementation Contractor

The Competitive Bidding Implementation Contractor (CBIC) simultaneously managed three competitive bidding programs in various phases. The Round 1 Rebid contract period expired on December 31, 2013, which marked the first successful implementation of a competitive bidding round. The Round 2 program, encompassing 100 competitive bidding areas (CBAs), and the first national mail-order program, began on July 1, 2013. Prior to implementation, the CBIC spearheaded significant contracting and education tasks required for this large program expansion. The Round 1 Recompete competition encompassed every phase of bidder education, bid evaluation, and contracting. The tasks culminated on December 31 as we prepared for implementation the next day. The Competitive Bidding Program has saved more than \$400 million for beneficiaries and taxpayers in its first two years of operation.



Palmetto GBA's innovative approach to RAP Suppression reduced the benefit dollars at risk by approximately \$186 million.

RAP Suppression

Palmetto GBA's Finance and Accounting Department implemented an innovation referred to as RAP Suppression that identifies home health providers who have a high rate of RAP auto-cancels. In order to receive reimbursement for home health services, providers must submit a Request for Anticipated Payment (RAP) at the beginning of a 60-day period of care. This allows home health agencies to receive up to 60 percent of the expected Medicare final claim payment. Providers are then required to submit a final claim when care is complete allowing for claim and payment reconciliation. Palmetto GBA implemented a process to monitor billing practices. When final claims are not consistently submitted timely and reach a specified threshold, Palmetto GBA updates the claim system disabling or suppressing future RAP payments until the provider improves billing practices. In the third year of the contract, this innovation reduced the benefit dollars at risk by approximately \$186 million.

“

Having the tools to research is one thing. Knowing how to use them to their greatest advantage is another.

”



ALSO PICTURED:
Christopher Ellison, Latasha King, Perry Mattox, Edric Stephens



Diego Espinosa

Claims Subject Matter Expert
PROVIDER CUSTOMER SERVICE PROGRAM

Under the Medicare program, policies, guidelines, and processes frequently change. And, although it's impossible to know everything, Diego Espinosa comes close. As a designated Claims Subject Matter Expert, Diego provides a wealth of information whenever call center staff submit internal inquiries. In the event he cannot immediately answer an inquiry, it's his responsibility to research the request and contact the provider with his findings. In the long run, Diego and his team prevent misinformation from reaching providers, helping to create a better customer experience and elevate company performance.

TECHNOLOGICAL INNOVATION

Cognitive Medical Review System

Palmetto GBA's Cognitive Medical Review System (CMRS) combines a next-generation Medical Review (MR) process with enhanced data analysis, effectiveness, timeliness, and edit management. This comprehensive redesign of the approach to the medical review of claims improves storage infrastructure and approaches to analytics. CMRS further provides for a deeper, more actionable data capture process with increased focus on utilizing data analysis for education and improved outcomes.



Palmetto GBA began implementation of CMRS in 2012 and completed Phase IV of the project in 2013. CMRS has resulted in significant operational improvement. The Medical Review Department has seen a 74 percent reduction in cycle time from the time probe edits are implemented until a final decision is made on the edit. Expansion of CMRS continued with implementation in the Railroad Retirement Board (RRB) Specialty Medicare Administrative Contractor (SMAC) contract in October 2013.

Online Provider Service Secure Web Portal

Palmetto GBA's Online Provider Service (OPS) is a highly utilized and feature-rich portal, offering industry-leading provider self-service tools such as claims status, financial inquiry tools, and secure messaging. Palmetto GBA continually enhances OPS, adding significant functionality to maximize 24/7 provider self-service, increase provider access to information, and facilitate information accuracy. These enhancements add the ability to convert every paper-based and many voice-based interactions by providing a secure messaging platform. Providers can use Palmetto GBA's enhanced OPS to submit appeals, Medical Review Additional Data Request (ADR) responses, electronic check payments, and to elect immediate offset.

Palmetto GBA's OPS web portal maximizes providers' ability to facilitate information access and accuracy.

Molecular Diagnostic Services Program

Palmetto GBA, in partnership with CMS, developed the Molecular Diagnostic Services Program (MolDx) Demonstration Project originally within its Jurisdiction 1 A/B Medicare Administrative Contractor (MAC) contract. MolDx was developed to identify and establish coverage and

reimbursement for molecular diagnostic tests. The program's primary purpose is to ensure identification and appropriate reimbursement of molecular diagnostic tests for the Medicare beneficiary population. The program defines a clear, evidence-based process to manage molecular diagnostic services, measure the impact molecular diagnostic services have on cost and care, and ensure clinical quality. The program has been extended to additional contracts with development of a master edit file structure for the CMS shared systems in support of expansion to other MACs. To date, there are more than 4,000 registered lab tests and the Medicare program dollars cost avoidance through December 2013 is \$168.8 million.



Barcoding and Q-coding

Palmetto GBA completed implementation of barcodes for all outgoing correspondence that requires a provider response, allowing for improved quality and heightened efficiency within document control. Q-codes were incorporated on documents to provide providers with web links to additional information and educational materials.

Debt Management System HIGLAS Automator

HIGLAS Automator is the first stage of a multi-stage innovation to improve debt management. Many Medicare overpayments require special handling to adhere to requirements associated with debt collections. These stages of the debt collection process require continual intervention to cease and resume collection. Leveraging unmatched experience gained in HIGLAS since May 2005, Palmetto GBA developed a rules and data engine suite of tools: Debt Management System (DMS). The DMS HIGLAS Automator facilitates the automation of repetitive, predictable, discrete tasks associated with HIGLAS data entry and quality review. The DMS HIGLAS Automator was implemented in October 2013, resulting in improved quality, time savings and cost savings.

Palmetto GBA developed the DMS HIGLAS Automator, which facilitates the automation of repetitive, predictable, discrete tasks associated with HIGLAS data entry and quality review.

“

I feel good when the people I've trained get kudos from their managers or receive promotions — their success is a reflection of how well I've done my job.

”

Michelle H. Carter

Training Specialist
TRAINING TEAM

Michelle Carter cares. She cares that a comprehensive curriculum is delivered to supervisors who request additional support from her team. She cares that call center staff have the tools they need to successfully navigate Medicare's intricacies. And she cares, deeply, that Palmetto GBA's newest hires are equipped to meet the responsibilities of their positions, and, more importantly, reach their potential as associates. In laying the groundwork for individual excellence, Michelle and the Palmetto GBA Training Team build a strong foundation for the entire company's future.



ALSO PICTURED:
Reggie Boozer, Tamie Long, Jamarl Ponds, Stephany Reese

CORPORATE SOCIAL RESPONSIBILITY

Palmetto GBA associates make a profound impact on their communities. In 2013, our employees banded together to lend their hands, hearts, and resources to more than 75 local projects and nonprofits. Whether participating in corporate community service efforts or spearheading a large-scale philanthropic initiative, our associates are committed to making a difference, **EACH IN THEIR OWN WAY.**



AMERICAN CANCER SOCIETY

Relay For Life

NETTIE MABE
Compliance Analyst

In 2005, Nettie Mabe started a Relay for Life team as a way for Palmetto GBA associates to reach out to the Columbus, Ohio community. The “Five-Star Fighting Crew” included co-workers, friends, and family, all committed to fundraising for a great cause: saving lives from cancer. That cause struck home in 2008, when Nettie was diagnosed with Stage III breast cancer. Given the rigorous nature of her treatment plan, she told her team that she would be unable to lead their next event. But her team gathered around her, supporting her every step of the way. And five years later, the “Five-Star Fighting Crew” is stronger than ever. In 2013, they raised \$15,827 on behalf of fighters like Nettie.



RICHLAND COUNTY DISTRICT TWO

Backpack Food Program

ANGELA HOLLADAY
Part A Appeals Manager

Angela Holladay believes children shouldn't have to worry about if and when they will be able to eat. Sadly, many do. Her son used to be one of those children. Before Angela adopted her son from foster care, he never knew when he would receive his next meal — unless he was at school, where a hot lunch was guaranteed. That's why Angela is committed to providing children with the food they need after the school bell rings. This year, she co-directed the Richland County District Two Backpack Food Program 5K Race — an opportunity for her to channel her passion and give back to her community. With the help of her Division 29 & 42 associates, she did just that. The event raised more than \$5,000 to prevent childhood hunger.



SOUTH CAROLINA

Special Olympics

SHERRI SELLERS
Fraud Analyst

Sherry Sellers knows the power of giving back. Sherry had always loved cheering on her stepsister, who has special needs, during Special Olympics sports events and group meetings, but she wasn't sure how to get involved with the organization. When an email was sent to her office to solicit volunteers for an upcoming Special Olympics track and field event, Sherry saw her chance to make a difference. She couldn't sign up fast enough. Not only did she say yes, but she also rallied 25 associates of Palmetto GBA's Division 10 to do the same and join her during this year's Standing Long Jump event. Volunteers helped athletes with special needs, ages 8 to 60, line up in several different heats to take their jumps. Volunteers also took pictures, measured the runners' jumps, gave high fives, and cheered on the outstanding group of athletes.

Palmetto GBA associates possess an unparalleled generosity of spirit and passion for giving. Through contributions great and small, they champion organizations that have positively affected their own lives.

REBECCA MCKNIGHT
Part B Claims Customer Service Advocate III

“Portsmouth Hospice is an amazing organization. When my mom, and later, my sister, were diagnosed with advanced cancer and placed in hospice care, the staff worked around the clock to make them as comfortable as possible. They looked out for our family too, answering all our questions so we knew what was happening and what to expect.”

KELLI SESSOR
Medical Reviewer III

“When my nephew died, my family discovered that he had been addicted to prescription painkillers. In order to preserve his memory, we established the Garrett Maloney Memorial Foundation to teach drug prevention and help people connect to recovery resources. It's been such a healing experience for my family.”

GLENNA SANDERS
Medical Reviewer III, J11 Part B Appeals

“I want to give children the chance to grow up happy and healthy. That's why I support Children's Research Hospital and St. Jude Children's Research Hospital. Five of my siblings were born with Hirschsprung's disease, a potentially fatal illness. Surgery performed by the doctors at Children's Hospital of Columbus, Ohio saved the lives of two of my brothers — I will be forever grateful for their care.”

“
Every time I apply an
overpayment, I feel a sense of
accomplishment.
”



Brandy Heiting

Accounting Analyst
FINANCE & ACCOUNTING

Brandy Heiting loves a challenge. Whenever providers voluntarily issue a refund for an incorrectly filed beneficiary claim, it's Brandy's job to collaborate with providers and obtain the additional documentation needed for her to appropriately apply that payment — a process that involves a large amount of detective work. Thankfully, she's always up to the task. For every claim Brandy successfully adjusts, she prevents Medicare from overpaying. Whenever Brandy investigates an overpayment, she performs a meaningful service to beneficiaries and the Medicare Trust Fund. In 2013, Brandy and the Finance and Accounting Team processed and applied more than \$76 million in refunds.

LEADERSHIP BOARD OF DIRECTORS



BRUCE W. HUGHES
President & COO
Celerian Group



W. JOE JOHNSON
President & COO
Palmetto GBA, LLC



MARTIN L. KAPPERT
Retired
CMS & Department of Defense



ILENE H. NAGEL
Managing Director (2011)
Russell Reynolds Associates



DAVID PANKAU
Chairman, Board of Directors
Palmetto GBA, LLC
President/CEO
BlueCross BlueShield of South Carolina



M. EDWARD SELLERS
Chairman, Board of Directors
BlueCross BlueShield of South Carolina



COL. ROBERT E. SHIELDS
Retired
Humana Military Healthcare Services (TRICARE)



JOSEPH F. SULLIVAN
Chairman Emeritus
Board of Directors
BlueCross BlueShield of South Carolina



LELIA WRIGHT
Retired
Blue Cross Blue Shield of Texas

CORPORATE OFFICERS



ANN ARCHIBALD
Compliance Officer



MIKE BARLOW
Vice President
Jurisdiction 1 A/B MAC Operations



NELLA BISHOP
CIO & Vice President
Systems & Support



NEAL BURKHEAD
Vice President
Railroad Medicare & Jurisdiction 15 A/B MAC Operations



JEAN CATALANO
Assistant Vice President
Competitive Bid Operations



ELAINE GARRICK
Vice President
Support Operations



W. JOE JOHNSON
President & COO



MIKE MIZEUR
Treasurer



DEDEE ROWE
Secretary



ED SANCHEZ
Vice President
Jurisdiction 11 A/B MAC Operations



CAROL SUTTON
Vice President
Shared Services



JOE WRIGHT
Vice President & CFO

**BOARD OF DIRECTORS
PALMETTO GBA, LLC**

Report on the Financial Statements

We have audited the accompanying financial statements of Palmetto GBA, LLC which are comprised of the balance sheets as of December 31, 2013 and 2012, and the related statements of operations, comprehensive income, changes in member's equity, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palmetto GBA, LLC at December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Derrick, Stubbs & Stith, L.L.P.

February 25, 2014

FINANCIALS

Independent Auditor's Report 29

Audited Financial Statements

Balance Sheets..... 30

Statements of Operations..... 31

Statements of Comprehensive Income 31

Statements of Changes in Member's Equity..... 31

Statements of Cash Flows..... 32

Notes to Financial Statements 33

BALANCE SHEETS (in thousands)

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

| | Years ended December 31, | |
|--|--------------------------|-------------------|
| | 2013 | 2012 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 38,413 | \$ 27,865 |
| Accounts receivable, net | 31,185 | 36,157 |
| Accounts receivable from affiliates | 2,309 | 1,345 |
| Accrued revenue | 36,648 | 48,543 |
| Prepaid expenses | 2,183 | 573 |
| Deferred income taxes | 3,223 | 3,554 |
| Total current assets | 113,961 | 118,037 |
| Long-term assets: | | |
| Fixed assets, <i>net of accumulated depreciation of \$29,458 and \$28,644 in 2013 and 2012, respectively</i> | 4,771 | 4,386 |
| Long-term investments | 2,882 | 2,489 |
| Investments in affiliates | 1,726 | 1,667 |
| Total long-term assets | 9,379 | 8,542 |
| TOTAL ASSETS | \$ 123,340 | \$ 126,579 |
| Liabilities and member's equity | | |
| Current liabilities: | | |
| Accrued payroll, taxes and benefits | \$ 15,074 | \$ 17,184 |
| Payable to parent | 6,915 | 9,131 |
| Other liabilities | 14,269 | 21,138 |
| Deferred income taxes | 454 | 36 |
| Total current liabilities | 36,712 | 47,489 |
| Long-term liabilities: | | |
| Deferred income taxes | 1,375 | 1,349 |
| Total long-term liabilities | 1,375 | 1,349 |
| Member's equity: | | |
| Contributed capital | 34,961 | 34,961 |
| Retained earnings | 50,272 | 42,780 |
| Accumulated other comprehensive income | 20 | - |
| Total member's equity | 85,253 | 77,741 |
| TOTAL LIABILITIES AND MEMBER'S EQUITY | \$ 123,340 | \$ 126,579 |

STATEMENTS OF OPERATIONS (in thousands) The accompanying notes are an integral part of these financial statements.

| | Years ended December 31, | |
|----------------------------|--------------------------|-----------------|
| | 2013 | 2012 |
| Revenues: | | |
| Total revenues | \$ 288,559 | \$ 329,929 |
| Expenses: | | |
| Total expenses | 277,245 | 314,003 |
| Gain from operations | 11,314 | 15,926 |
| Investment income (loss) | 178 | (11,036) |
| Income before income taxes | 11,492 | 4,890 |
| Provision for income taxes | 4,000 | 1,792 |
| NET INCOME | \$ 7,492 | \$ 3,098 |

STATEMENTS OF COMPREHENSIVE INCOME (in thousands)

| | Years ended December 31, | |
|--|--------------------------|-----------------|
| | 2013 | 2012 |
| Net income | \$ 7,492 | \$ 3,098 |
| Other comprehensive income (OCI), net of tax | | |
| Unrealized gains on investments: | | |
| Unrealized holding gain arising during period, net of \$11 tax expense in 2013 | 20 | - |
| Total unrealized gains on investments | 20 | - |
| Other comprehensive income | 20 | - |
| COMPREHENSIVE INCOME | \$ 7,512 | \$ 3,098 |

STATEMENTS OF CHANGES IN MEMBER'S EQUITY (in thousands)

| | Contributed Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|----------------------------|---------------------|-------------------|--|-----------|
| Balance January 1, 2012 | \$ 28,461 | \$ 39,682 | \$ - | \$ 68,143 |
| Net income | - | 3,098 | - | 3,098 |
| Contribution of Capital | 6,500 | - | - | 6,500 |
| Balance December 31, 2012 | 34,961 | 42,780 | - | 77,741 |
| Net income | - | 7,492 | - | 7,492 |
| Other Comprehensive Income | - | - | 20 | 20 |
| Balance December 31, 2013 | \$ 34,961 | \$ 50,272 | \$ 20 | \$ 85,253 |

| | Years ended December 31, | |
|---|--------------------------|------------------|
| | 2013 | 2012 |
| Cash Flows from Operating Activities | | |
| Net income | \$ 7,492 | \$ 3,098 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation | 990 | 1,155 |
| Amortization on bonds | 46 | 38 |
| Loss on fixed asset disposals | 62 | 2 |
| Realized gain on investments | (1) | (31) |
| Unrealized gain on investments | (32) | - |
| Change in other comprehensive income | 20 | - |
| Equity in income of affiliates | (59) | 11,174 |
| Deferred income tax provision | 775 | (804) |
| Changes in operating assets and liabilities: | | |
| Decrease/(increase) in accounts receivable | 4,972 | (673) |
| (Increase)/decrease in receivables from affiliates | (964) | 1,092 |
| Decrease/(increase) in accrued revenue | 11,895 | (7,118) |
| (Increase)/decrease in prepaid expense | (1,610) | 1,425 |
| (Decrease)/increase in accrued payroll, taxes and benefits | (2,110) | 2,804 |
| (Decrease)/increase in payable to parent | (2,216) | 1,552 |
| (Decrease)/increase in other liabilities | (6,869) | 1,376 |
| Net cash provided by operating activities | 12,391 | 15,090 |
| Cash Flows from Investing Activities | | |
| Capital contribution to affiliate | - | (3,474) |
| Fixed assets purchased | (1,437) | (304) |
| Investments redeemed - held-to-maturity | 130 | 316 |
| Investments sold - available-for-sale | 48 | - |
| Investments purchased - held-to-maturity | (456) | (56) |
| Investments purchased - available-for-sale | (128) | (86) |
| Net cash (used in) investing activities | (1,843) | (3,604) |
| Cash Flows from Financing Activities | | |
| Capital contribution from parent | - | 6,500 |
| Net increase in cash and cash equivalents | 10,548 | 17,986 |
| CASH AND CASH EQUIVALENTS BEGINNING OF YEAR | 27,865 | 9,879 |
| CASH AND CASH EQUIVALENTS END OF YEAR | \$ 38,413 | \$ 27,865 |
| Supplemental disclosures of cash paid during the year for: | | |
| Income taxes | \$ 3,112 | \$ 1,840 |

NOTE 1 – Basis of Presentation & Summary of Significant Accounting Policies

Palmetto GBA, LLC (the Company) is a single-member limited liability company organized on January 1, 1998. The Company's sole member is Blue Cross and Blue Shield of South Carolina (BCBSSC). The Company is engaged in the business of providing Medicare Administrative Contractor (MAC) and Specialty Medicare Administrative Contractor (SMAC) services in various states. These services include health insurance claims processing and payment, customer service for health care providers, and payment safe-guard 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 & 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 equivalents

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 \$24,662,000 and \$27,329,000 at December 31, 2013 and 2012, 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 Financial Accounting Standards Board (FASB) rules.

Subsequent events

Subsequent events have been evaluated through February 25, 2014, 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.

Asset valuation allowances

The Company recorded an allowance for uncollectible receivables in the amount of \$3,000 at December 31, 2013 and 2012.

Fixed assets

Fixed assets 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. that is accounted for using the equity method. The Company's proportionate share of earnings or losses of this affiliate 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, 2013 and 2012.

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

| | Years ended December 31, | |
|--------------------|--------------------------|-----------|
| | 2013 | 2012 |
| ASSETS | \$ 12,034 | \$ 11,201 |
| LIABILITIES | \$ 5,134 | \$ 4,537 |
| NET INCOME | \$ 236 | \$ 179 |

Investments

Investments are comprised of common stocks, bonds and money market mutual funds. 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 when 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 securities that are not classified as held-to-maturity are classified as available-for-sale. Available-for-sale securities are carried at fair value based on published exchange prices, with the unrealized gains and losses reported in stockholder'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 policies

The Company recognizes revenue on the Jurisdiction 1 A/B MAC, Jurisdiction 11 A/B MAC, Single Testing Contractor (STC), National Supplier Clearinghouse (NSC) MAC and Railroad Retirement Board SMAC contracts on cost plus a fixed fee basis. Award fees, if applicable, for these contracts are recognized based upon historical performance or management estimates if no historical data is available.

The Company recognizes revenue on the Direct Data Entry System Access (DDE), Competitive Bidding Implementation Contractor (CBIC), Customer Support and Front End System (CSFES), Provider Education Support Service (PESS) and various other contracts when services are performed and billable.

Reclassifications

Certain reclassifications have been made to the 2012 amounts to conform to the 2013 presentation. These classifications resulted in no change to net income or member's equity.

Income taxes

The Company adopted the authoritative guidance on accounting for and disclosure of uncertainty in tax positions on January 1, 2009, which required the Company to determine whether a tax position of the Company is 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. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial statements is the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authority. The tax position determination did not have a material effect on the Company's financial statements.

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, 2013, the tax years 2010 forward remain subject to examination by the federal tax jurisdiction under the statute of limitations.

If applicable, the Company accrues interest and penalties that may be assessed by the taxing authorities on any underpayment of tax. As of December 31, 2013, the Company had not accrued any interest and penalties related to income tax accruals.

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.

NOTE 2 – Fixed Assets

Fixed assets consist of the following (in thousands):

| | Years ended December 31, | |
|--|--------------------------|-----------------|
| | 2013 | 2012 |
| LEASEHOLD IMPROVEMENTS | \$ 204 | \$ 204 |
| EQUIPMENT, FURNITURE & FIXTURES | 25,643 | 25,408 |
| SOFTWARE | 8,382 | 7,418 |
| AUTOMOBILES | - | - |
| | <u>34,229</u> | <u>33,030</u> |
| ACCUMULATED DEPRECIATION | (29,458) | (28,644) |
| | <u>\$ 4,771</u> | <u>\$ 4,386</u> |

Depreciation expense was \$990,000 and \$1,155,000 for the years ended December 31, 2013 and 2012, respectively.

NOTE 3 – Investments

Long-term investments consist of the following (in thousands):

| December 31, 2013 | Amortized Cost Or Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|------------------------|------------------------|-------------------------|-----------------|
| Held-to-maturity securities: | | | | |
| Corporate bonds | \$ 2,683 | \$ 93 | \$ 7 | \$ 2,769 |
| Total held-to-maturity securities | 2,683 | 93 | 7 | 2,769 |
| Available-for-sale securities: | | | | |
| Common stocks | 168 | 32 | 1 | 199 |
| Total long-term investments | \$ 2,851 | \$ 125 | \$ 8 | \$ 2,968 |

| December 31, 2012 | Amortized Cost Or Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|------------------------|------------------------|-------------------------|-----------------|
| Held-to-maturity securities: | | | | |
| Corporate bonds | \$ 2,403 | \$ 112 | \$ 1 | \$ 2,514 |
| Total held-to-maturity securities | 2,403 | 112 | 1 | 2,514 |
| Available-for-sale securities: | | | | |
| Common stocks | 86 | 3 | 3 | 86 |
| Total long-term investments | \$ 2,489 | \$ 115 | \$ 4 | \$ 2,600 |

The fair value of available-for-sale securities with unrealized losses was \$15,000 and \$59,000 at December 31, 2013 and 2012, respectively. 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, 2013, were considered other than temporary.

The amortized cost and estimated fair values of held-to-maturity debt securities, by contractual maturity, at December 31, 2013, are as follows (in thousands):

| | Amortized Cost Or Cost Value | Fair Value |
|------------------------------------|---------------------------------|-----------------|
| Held-to-maturity securities: | | |
| Due in one year or less | \$ 551 | \$ 551 |
| Due in one year through five years | 1,733 | 1,826 |
| Due in five years or more | 399 | 392 |
| Total held-to-maturity | \$ 2,683 | \$ 2,769 |

There were gross realized gains of \$1,000 and \$31,000 for the years ended December 31, 2013 and 2012, respectively, that were included in net investment income. There were no gross realized losses for the year ended December 31, 2013 and 2012. Gross unrealized holding gains and losses on securities classified as available-for-sale are reported in accumulated other comprehensive income in the accompanying balance sheets. No cash or assets are pledged or restricted for any purpose.

For held-to-maturity investments in an unrealized loss position at December 31, 2013, the aggregate amount of unrealized loss that had been in an unrealized

loss position for less than twelve months was \$0 and the aggregate estimated fair value was \$0. For investments that had been in an unrealized loss position for more than twelve months, the aggregate amount of unrealized loss was \$7,000 and the aggregate estimated fair value was \$248,000. For held-to-maturity investments in an unrealized loss position at December 31, 2012, the aggregate amount of unrealized loss that had been in an unrealized loss position for less than twelve months was \$1,000 and the aggregate estimated fair value was \$46,000. There were no held-to-maturity investments in an unrealized loss position for more than twelve months at December 31, 2012.

Fair Value Measurements

The Company's financial assets carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by FASB. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). The levels of the fair value hierarchy are as follows:

LEVEL 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

LEVEL 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

LEVEL 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Fair Value of assets and liabilities measured on a recurring basis are as follows (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------|---------------|-------------|-------------|---------------|
| December 31, 2013 | | | | |
| Available-for-sale securities: | | | | |
| Common stocks | \$ 199 | \$ - | \$ - | \$ 199 |
| Total | \$ 199 | \$ - | \$ - | \$ 199 |
| December 31, 2012 | | | | |
| Available-for-sale securities: | | | | |
| Common stocks | \$ 86 | \$ - | \$ - | \$ 86 |
| Total | \$ 86 | \$ - | \$ - | \$ 86 |

The Company measures certain assets at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. During the years ended December 31, 2013 and December 31, 2012, the Company did not record any other-than-temporary impairments on those assets required to be measured at fair value on a nonrecurring basis.

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 \$477,000 and income tax receivables from BCBSSC of \$31,000 at December 31, 2013 and 2012, respectively, which are included in net receivables and payables to the parent. The Company made payments to BCBSSC for income taxes of \$3,112,000 and \$1,840,000 during the years ended December 31, 2013 and 2012, respectively.

The provision for income taxes differs from the amount computed by applying the federal statutory tax rate of 35% to income before income taxes primarily due to changes in the tax contingency reserve, investment in subsidiaries, and the dividends received deduction allowed for tax purposes. The temporary differences that give rise to deferred tax assets and liabilities are primarily related to accrued expenses, fixed assets, and prepaid expenses. There was no valuation allowance at December 31, 2013 and 2012.

Deferred tax assets and liabilities are classified as current and long-term based on the classification of the related asset or liability, as follows (in thousands):

| | Years ended December 31, | |
|-------------------------------|--------------------------|-----------------|
| | 2013 | 2012 |
| Deferred tax assets: | | |
| Current | \$ 3,223 | \$ 3,554 |
| Total | \$ 3,223 | \$ 3,554 |
| Deferred tax liabilities: | | |
| Current | \$ 454 | \$ 36 |
| Long-term | 1,375 | 1,349 |
| Total | \$ 1,829 | \$ 1,385 |
| Net deferred tax asset | \$ 1,394 | \$ 2,169 |

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

| | Years ended December 31, | |
|------------------------------------|--------------------------|-----------------|
| | 2013 | 2012 |
| CURRENT | \$ 3,236 | \$ 2,596 |
| DEFERRED | \$ 764 | \$ (804) |
| TOTAL INCOME TAXES INCURRED | \$ 4,000 | \$ 1,792 |

Unrealized gains on investments credited directly to equity have been reduced by deferred income tax expense of \$11,000 and \$0 for the years ended December 31, 2013 and 2012, respectively.

NOTE 5 – 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 \$75,422,000 and \$72,714,000 for the years ended December 31, 2013 and 2012, respectively. The Company paid \$99,068,000 and \$94,127,000 during the years ended December 31, 2013 and 2012, 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 \$28,434,000 and \$27,879,000 for these services during the years ended December 31, 2013 and 2012, 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, 2013. 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, 2013. 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 \$5,435,000 and \$5,255,000 at December 31, 2013 and 2012, respectively.

The Company has entered into certain non-cancelable operating leases in excess of one year as of December 31, 2013. The future minimum lease payments required under these leases are as follows (in thousands):

| Years ending December 31, | Amount |
|---------------------------|-----------------|
| 2014 | \$ 1,568 |
| 2015 | 901 |
| 2016 | 601 |
| Total: | \$ 3,070 |

Total rent expense was \$4,199,000 and \$3,442,000 during the years ended December 31, 2013 and 2012, respectively. The majority of the Company's leases are guaranteed by BCBSSC.

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 - 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 2013 and 2012. For employees hired after January 1, 2003, there is a 2-year cliff-vesting schedule on the match contribution. For certain employees not covered by the BCBSSC defined benefit pension plan, the Company makes a discretionary contribution to the 401(k) plan which is 50% vested for employees with one year of service and fully vested for employees with two years of service. Employees must be employed on the last day of the year to be eligible for the discretionary contribution, unless terminated during the year due to retirement (age 55 and 5 years of service), death or disability. The discretionary contribution for 2013 and 2012 was 6% of salary.

The cost of providing the 401(k) contribution was \$3,654,000 and \$3,498,000 for the years ended December 31, 2013 and 2012, respectively. The pension expense allocated to the Company under the BCBSSC pension plan was \$5,535,000 and \$5,291,000 for the years ended December 31, 2013 and 2012, respectively.



PALMETTO GBA®

A CELERIAN GROUP COMPANY

PO Box 100190
Columbia, SC 29202

PALMETTOGBA.COM

CELERIAN GROUP is a service mark of BlueCross BlueShield of South Carolina.

THE PALMETTO GBA LOGO is a service mark of BlueCross BlueShield of South Carolina.

NCIRCLE IP360 is a registered trademark of nCircle Network Security, Inc.



PALMETTO GBA[®]
A CELERIAN GROUP COMPANY