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Perpetual MOTION



In a rapidly changing, increasingly complex industry, we relentlessly move toward greater innovation and more efficient processes.

Not only do we see beyond today's needs to anticipate tomorrow's challenges, we offer solutions to our customers before they even recognize a problem exists.

This never-ending dedication to improvement ensures that we set the standard for others to follow. And now more than ever, we are not content to stand still.

President's LETTER

It seems the world spins faster every day. As the competition becomes tougher and the health care industry faces new challenges, success takes resilience, ingenuity, and a team of smart, dedicated people driven by a passion for superior performance.

That team is here at Palmetto GBA. I am continually impressed by the client solutions and efficiency enhancements that our associates develop, not because they have been explicitly tasked to fix a problem, but because they see a way to make things better and proactively go about doing so.

In 2014, our associates submitted hundreds of process improvements and several key innovations. We continue to highlight these advancements in our business development efforts and share our latest initiatives with customers. What's more, our customers are paying attention, closely watching our progress and commenting on our improvement of results.

Our commitment to smarter workflow and greater efficiency is evidenced by our superior contract evaluations and our exceptional performance metrics. We achieved 100 percent performance in 6 months of 2014 and met 99.7 percent performance metrics across all contracts administered by the company throughout the year.

As we look to strategically position our company for the future, I can't help but think how fortunate I am to be part of this great organization. There's an energy that permeates the halls and workspaces of Palmetto GBA, an enthusiasm for the task at hand that routinely enables us to exceed expectations and rise above challenges. Thank you for your perpetual dedication and relentless drive. I look forward to the accomplishments we are sure to share in the months ahead.



Best Regards,

A handwritten signature in black ink that reads "W. Joe Johnson". The signature is fluid and cursive.

W. Joe Johnson
President and COO

Moving FORWARD

Every year, our customers ask that we improve outcomes and beneficiaries' experience of care. As the demand for Medicare products and services increases as a result of the influx of baby boomer enrollees to the program, it also becomes imperative that we reduce operational costs while maintaining our exceptional performance standards.

To that end, we relentlessly pursue new opportunities that will allow us not only to adapt to the changing needs of our customers, but also to anticipate and resolve problems before they arise. Our innovations are designed to support a renewed industry focus on quality rather than quantity in the Medicare market.

As we go about our daily tasks, we constantly evaluate our processes: Where are efforts duplicated? How can we maximize our utilization of technology? What can we do to ensure the safety and security of beneficiaries' personal health information? How can we refine our strategic plan to support our culture of innovation?

These questions make us stronger, enabling our team to deliver exceptional service to our customers while improving the profitability of our enterprise.

The coming pages demonstrate our agility, forward thinking, and commitment to compliance. As the pace of our industry quickens, the opportunity also rises. At Palmetto GBA, we are in perpetual motion to identify new ways to achieve superior outcomes and sustain performance. Our efforts will surely create the momentum necessary to capitalize on all that the future has to offer.

This year, we set about the work of revising our vision and mission statements. A task force of company officers and directors came together to discuss what drives us, what defines us and where we want to be. Closely aligned with our strategic plan for the future, the statements that follow are a true reflection of our purpose and our promise for tomorrow.

OUR MISSION: Palmetto GBA creates value for government and commercial customers by continuously transforming ideas into technical and administrative solutions that improve service, quality and cost.

OUR VISION: To be the most essential organization to our customers in reaching new heights of performance, ultimately improving the quality of life for our customers, our employees and our communities.



*MEASURED ACROSS ALL CONTRACTS ADMINISTERED IN 2014

Reaching HIGHER

Growth, performance, differentiation. These are the hallmarks of Palmetto GBA's strategic framework. Our ability to seek out innovative solutions and surpass the status quo yielded significant operational achievements in 2014.

COMPARATIVE BILLING REPORT

Palmetto GBA, as a subcontractor to eGlobal Tech, was awarded the Comparative Billing Report (CBR) contract that 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 service areas. The CBRs are intended to assist providers with identifying errors in their billing practices.

RESEARCH, MEASUREMENT, ASSESSMENT, DESIGN AND ANALYSIS

The Center for Medicare and Medicaid Services awarded contracts to 15 of 23 bidders on its five-year, \$7 billion Research, Measurement, Assessment, Design and Analysis (RMADA) procurement program. Palmetto GBA, as a subcontractor, was awarded two of these. The contract is considered among the biggest civilian contract programs to be awarded in 2014 and will provide a variety of professional, scientific and technical services. Vendors in the RMADA program will provide research, payment and service delivery models aimed at reducing costs in the Medicare, Medicaid and other federal healthcare programs, according to the RMADA request for proposals. These cost-cutting initiatives were authorized by the Patient Protection and Affordable Care Act (ACA).

COMPETITIVE BIDDING IMPLEMENTATION CONTRACTOR

Palmetto GBA was awarded a contract modification to the Competitive Bidding Implementation Contractor (CBIC) contract. Under this modification, Palmetto GBA will develop and provide a secure portal for bidders and contract suppliers to submit and retrieve documentation. These efforts are expected to result in greater efficiencies and cost savings.

CMRS

*Cognitive Medical
Review System*





Using data analytics, Palmetto GBA's Cognitive Medical Review System (CMRS) captures and identifies patterns of errors in claims submissions and payments with increasing efficiency and effectiveness. CMRS continues to improve Medical Review effectiveness and provider education activities, allowing Palmetto GBA to target the most vulnerable services impacting the Medicare Trust Fund.

CMRS also enables Palmetto GBA to give providers more information in a shortened workflow cycle time. Palmetto GBA is continuing to enhance CMRS, adding capabilities and assessing applicability of this technology to additional areas of operation.

IT'S SO IMPORTANT
THAT WE ADD VALUE
TO THE LIVES OF
BENEFICIARIES AND
PROTECT THEIR BEST
INTERESTS – THAT'S
WHY WE'RE ALWAYS
MOVING TO IMPROVE
EFFICIENCIES AND
EFFECTIVENESS.

ANGELA BRADHAM
Statistical Analyst





WE'RE ALWAYS ON
THE LOOKOUT FOR
THE NEXT INNOVATION
THAT WILL ENABLE OUR
DEPARTMENT TO MEET
THE CHALLENGE OF
CHANGING PROCESS
REQUIREMENTS AND
COST-STRUCTURES
HEAD ON.

JOE STRICKLAND
Accounting Manager

DMS

*Debt Management
System*





Through the use of the HIGLAS Automator, a web and server-based application that processes routine and repeatable data entry requests, we continue to realize improved Medicare debt management efficiency.

The Debt Management System (DMS) application allows for increased workflow control, workload productivity tracking and audit trail reporting. In 2014, DMS processed over 185,000 transactions to HIGLAS, representing 65.6 percent of the year's overall financial keying and keying QC volume. This innovation has resulted in annualized cost savings of more than \$1.1 million.

Phase II development of DMS began this year. In November 2014, we implemented a call system module that allows Financial Analysts to systematically identify, log and track telephone calls to providers with past-due debt, meeting the newly revised requirements set forth by CMS for the collection of overpayments. We also began work on Phase II modules for Bankruptcy, Appeals, and ZPIC processing during this time. We expect the 2015 implementation of these modules to result in more efficient debt management processing, increased system controls and enhanced customer service.

Reaching HIGHER

PARTNERS IN EXCELLENCE

In an effort to streamline and standardize the process improvement program, Palmetto GBA evaluated quality improvement and assessment programs across the organization. As a result, Palmetto GBA's refreshed Partners in Excellence program is grounded in new vision and mission statements that strive for heightened performance, improved outcomes for key stakeholders and exceptional value for customers. Partners in Excellence embraces quality management methods that identify and remove causes of errors, minimize variations in business processes, and drive a collective organizational effort to ensure accountability at every level in the organization.

SYSTEM SECURITY

Palmetto GBA continues to focus on the overall compliance of its system security program. Our IP360 system security scores maintained an "A" rating for each month in 2014. nCircle IP360™ is the industry standard in providing a vulnerability and risk management solution that delivers a comprehensive view of network risk.

DEBT MANAGEMENT SYSTEM





WE NEVER FORGET
THAT OUR WORK
ULTIMATELY AFFECTS
THE HEALTH OF
OUR FAMILIES,
NEIGHBORS AND
COMMUNITIES. OUR
TEAM IS COMMITTED
TO HELPING MEDICAL
PROFESSIONALS
DELIVER MEANINGFUL
CARE TO THEIR
PATIENTS.

JENNIE MCCOLLUMS
MolDX Project Administrator

MOLDX[®]

*Molecular Diagnostic
Services Program*





Palmetto GBA continues to expand its Molecular Diagnostic Services Program (MoIDX). Through registration of molecular diagnostic tests, review of existing tests and technical assessment of new tests to ensure clinical quality, MoIDX identifies and establishes coverage and reimbursement for molecular diagnostic tests.

The ultimate goal of the MoIDX Program is to ensure that the services provided are optimal for the patient. Under the MoIDX Program, Palmetto GBA has developed 16 Local Carrier Determinations; these determinations ensure that the right test is ordered for true patient benefit. The MoIDX program has also published over 75 educational articles to define coverage. To date, more than 5,100 lab tests have been registered, and the Medicare program cost avoidance totals more than \$514 million.

Reaching HIGHER

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 2014, Palmetto GBA's efforts resulted in the Medicare savings detailed below:

	J11 A/B MAC*		RRB SMAC	
BI		N/A	\$	364,355
MSP	\$	499,306,226	\$	5,515,477
MR	\$	348,850,537	\$	14,406,749
<hr/>				
TOTAL	\$	848,156,763	\$	20,286,581

BI: BENEFITS INTEGRITY MSP: MEDICARE SECONDARY PAYER MR: MEDICAL REVIEW

*FOR J11 A/B MAC THE FIGURE IS FOR PART A, HHH, AND PART B COMBINED

MEDICARE DEBT COLLECTIONS

During the 2014 calendar year, Palmetto GBA collected approximately \$2.3 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.

MoLDX

75

EDUCATIONAL
ARTICLES

5,100

REGISTERED
LAB TESTS

\$514

MILLION

IN MEDICARE
PROGRAM COST
AVOIDANCE



EVERY DAY, WE LOOK
FOR WAYS TO OPTIMIZE
PROCESSES AND
IMPROVE OUTCOMES.
IT'S SO REWARDING TO
SEE A PILOT PROGRAM
EXPAND AND TAKE
SHAPE TO POSITIVELY
AFFECT AN EVEN
GREATER SHARE OF
THE PROVIDERS WE
WORK WITH.

HARRY FELICIANO, M.D.

Senior Medical Director

OPICP

*Organizational
Process Improvement
Coaching Project*





Palmetto GBA, in partnership with the Healthcare Division of the American Society for Quality and PRISM, has been engaged in the Organizational Process Improvement Coaching Project (OPICP).

Palmetto GBA understands that relying on a strategy of medical review and traditional education has not proven to be an efficient and effective way to achieve the results needed by our primary customer, CMS. CMS is seeking a way to promote the change management necessary to eliminate excessive and costly denials of Medicare claims. Palmetto GBA's approach is to strengthen the links in the Medicare Health Information Supply Chain (#MedicareHISC) by communicating the medical record documentation required by CMS via social media and then, in select cases, providing process engineers to help providers implement the change management necessary to get the claim submission right the first time. This eliminates the need for inspections at the provider and Palmetto GBA levels.

In the initial pilot project, the Palmetto GBA team focused on identifying and eliminating the root causes of Medicare claim denials for a specific service. Due to the pilot's success, the OPICP was expanded to include Home Health and Hospice providers.

RAP

*Request for
Advanced Payment
Suppressions*





Palmetto GBA's Request for Advanced Payment (RAP) suppression innovation continues to produce savings for the Medicare program. For Home Health Services, providers receive a portion of an anticipated payment when patient care is initiated. At the completion of care, a final bill must be submitted for claim and payment reconciliation. By monitoring billing practices to identify providers that do not submit final home health bills, overpayments to providers are avoided. The RAP suppression process is continuously evolving as we perform additional data analysis and collaborate with our external partners to resolve RAP vulnerabilities.

In 2014, Palmetto GBA's innovative process resulted in the suppression of 17,274 RAPs for which final claims were never submitted. Using an average RAP of \$1,710, the RAP suppression innovation resulted in \$29.5 million in savings for the Medicare program in 2014.

THE CONTINUED
EVOLUTION OF OUR
RAP SUPPRESSION
PROCESS IS JUST ONE
EXAMPLE OF HOW
WE'RE CONSTANTLY
PUSHING COMPANY
INNOVATIONS TO THE
NEXT LEVEL.

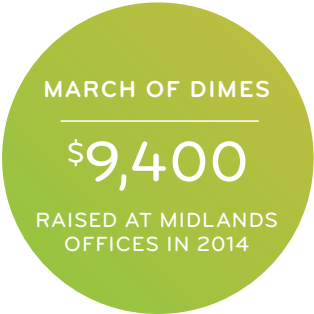
LISA PATTON
Senior Accountant



Going BEYOND

We are more than a corporation. We are citizens, stewards and champions of the communities in which we live and work. Our commitment to giving back is woven through our yearly corporate strategic plan, but it is truly brought to life by the endless compassion and goodwill of our associates.

Whether helping us meet new corporate giving goals or sharing their time and talents with local nonprofits, our associates are making a lasting difference both within and beyond the communities we serve.



Social Media Strategies





Palmetto GBA continues to be a leader in mobile development. We use social media for provider outreach and education, notification of policy changes and to receive feedback on our products and services. Palmetto GBA was the first contractor to release mobile applications for iPhone and Android devices. These apps integrate content from our social media channels, including Twitter and YouTube, with news from Listservs and the Palmetto GBA website.

We have continued development in mobile technologies through the creation of an iPad app that addresses a critical requirement of the National Supplier Clearinghouse contract. Palmetto GBA promotes mobile applications through #StayConnected, which links users to Palmetto GBA's website for more information and provides links to app downloads.

WE ENSURE
OUR SUCCESS
BY PIONEERING
TECHNOLOGICAL
ADVANCEMENTS
THAT RESPOND TO
OUR CUSTOMERS'
NEEDS AND
IMPROVE THEIR
SATISFACTION.

MARLOWE LEVERETTE
Web Developer





WHETHER WE'RE PROVIDING
PERSONALIZED SERVICE TO
CUSTOMERS OR COMING
TOGETHER TO VOLUNTEER FOR
A LOCAL CHARITY, I'M PROUD
TO BE PART OF A COMPANY
THAT VALUES RELATIONSHIP-
BUILDING IN THE WORKPLACE
AND THROUGHOUT OUR
COMMUNITY.

TERRENCE PROUDY

Provider Contact Center Manager

eConnect
Suite of Services

*Provider Customer
Service Technologies*





Palmetto GBA's omni-channel approach to self-service technology, otherwise known as eConnect, provides two-way communication for all provider interactions.

Our eConnect suite of services offers eChat and secure email to connect online to a Customer Service Associate (CSA) seeking navigational assistance with our website or Online Provider Services (OPS) portal. Palmetto GBA's emerging technologies also include eChat, a tool that helps users find the web content they are seeking through real time communication with a provider Customer Service Representative (CSR).

Palmetto GBA's eCallback service offers providers the ability to request a callback for complex questions that are better addressed through personal service.

Going BEYOND

Palmetto GBA associates operate outside ordinary expectations in all that they do. They not only enable this great organization to reach new corporate heights, but they also push us to do more on a humanitarian level.

In addition to their many charitable contributions to major corporate initiatives, Palmetto GBA associates are constantly in motion to improve the lives of their neighbors and local communities. This year, Palmetto GBA associates volunteered for more than 50 organizations. The following profiles highlight but a few of the ways our associates are positively impacting the places they call home.



THE SALVATION ARMY "CENTER OF HOPE" HOMELESS SHELTER

AUGUSTA, GEORGIA

Throughout the year, Augusta Operations associates gave their time and resources to multiple service projects. When the Salvation Army's "Center of Hope" homeless shelter needed basic hygiene items so patrons could bathe, Augusta associates collected 416 toiletry items for donation.



ACTION OHIO & THE SOUTHERN OHIO TASK FORCE FOR DOMESTIC VIOLENCE

WHEELERSBURG, OHIO

First-hand accounts of ACTION Ohio and the Southern Ohio Task Force for Domestic Violence's life-changing work have led Wheelersburg associates to donate clothing, bedding and sundries to the nonprofit, year after year. In 2014, associates raised more than \$750 for the organization, adding to their total of \$4,790 given to 12 deserving charities over the course of the year.



FAMILIES HELPING FAMILIES

COLUMBIA, SOUTH CAROLINA

This year, roughly 400 Columbia associates shared their holiday spirit by volunteering and donating gifts on behalf of Families Helping Families. Our associates' generosity helped to provide toys, clothing, food and other essentials to more than 150 Midlands families this winter.



MID-OHIO FOOD BANK

COLUMBUS, OHIO

Many local schools and charities benefited from Columbus associates' commitment to giving back. Through June 2014, Columbus associates raised more than \$2,700 for the Mid-Ohio Food Bank (MOFB). For every dollar donated, the MOFB is able to distribute \$11.00 worth of groceries to those in need.



AS ASSOCIATES,
WE'RE ENCOURAGED
TO CONTRIBUTE NEW
IDEAS AND SOLUTIONS
WHENEVER POSSIBLE.
OUR CORPORATE
CULTURE REALLY
FOSTERS CREATIVE
THINKING, AND I THINK
THAT'S WHAT HAS
ALLOWED US TO BE A
LEADER IN THIS FIELD.

QUINTERRA WILSON

Qualified Independent Contractor Assistant

QIC

*Qualified
Independent Contractor
Case Builder*





Qualified Independent Contractors (QICs) make decisions on Medicare claim denials at the second level of the Medicare appeals process.

To conduct a reconsideration, QICs require the case file documentation from Palmetto GBA. Historically, this was a highly manual, inefficient process. Rather than manually duplicating documentation and mailing cases, Palmetto GBA has developed the QIC case builder to electronically assemble and securely route critical documents.

Palmetto GBA's QIC case builder continues to have a significant impact through increased efficiencies and reduced costs. The QIC case builder provides over \$800,000 in annualized savings. Palmetto GBA was the first contractor with this capability.

OPS

*Online Provider
Service Enhancements*





Palmetto GBA's Online Provider Service (OPS) was built with core capabilities to offer a secure channel for providers to submit requests, obtain information and use tools to conduct numerous interactions electronically.

The OPS portal is fully integrated with iFlow, Palmetto GBA's workflow management system, as well as Medicare systems. This gives providers a complete channel to obtain information, conduct independent research, complete financial transactions and directly submit documents into the appropriate workflow, bypassing the need for manual document control. Palmetto GBA's continuing OPS enhancements encourage new users to register and increase portal-based activities by furnishing a secure, transaction-based two-way communication portal with 24/7 availability. The ongoing development of the portal will further enhance the ability of every provider interaction to be securely supported and available electronically.

AT THE END OF THE DAY, OUR SUCCESS IS DEPENDENT ON WHETHER WE CAN MAKE OUR CUSTOMERS' LIVES EASIER AND ANTICIPATE THEIR NEEDS. IT MEANS A LOT TO KNOW THAT WHAT WE DO HAS A DIRECT EFFECT ON THE COMPANY'S CONTINUED GROWTH.

SATISH PALAKURTHI
Programmer Analyst



Leadership BOARD OF DIRECTORS



DAVID BUTLER
RETIRED
Strategic Management Systems



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
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

Leadership CORPORATE OFFICERS



MIKE BARLOW
VICE PRESIDENT
Operations



NELLA BISHOP
CIO & VICE PRESIDENT
Systems & Support



NEAL BURKHEAD
VICE PRESIDENT
*Compliance & RRB SMAC
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

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INDEPENDENT AUDITOR'S REPORT

BOARD OF DIRECTORS
PALMETTO GBA, LLC

Report on the Financial Statements

We have audited the accompanying financial statements of Palmetto GBA, LLC which are comprised of the balance sheets as of December 31, 2014 and 2013, 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, 2014 and 2013, 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, LLP

February 25, 2015



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FAX 803.799.5554 | DSSCPA.COM

BALANCE SHEETS (IN THOUSANDS)

December 31,

2014 2013

ASSETS

Current assets:

Cash and cash equivalents	\$ 27,201	\$ 33,392
Accounts receivable, net	41,161	31,185
Accounts receivable from affiliates	1,235	2,309
Accrued revenue	40,119	36,648
Prepaid expenses	1,959	2,183
Deferred income taxes	3,055	3,223
Total current assets	114,730	108,940

Long-term assets:

Fixed assets, <i>net of accumulated depreciation of \$29,931 and \$29,458 in 2014 and 2013, respectively</i>	4,153	4,771
Long-term investments	8,121	7,903
Investments in affiliates	1,785	1,726
Total long-term assets	14,059	14,400

TOTAL ASSETS	\$ 128,789	\$ 123,340
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LIABILITIES AND MEMBER'S EQUITY

Current liabilities:

Accrued payroll, taxes and benefits	\$ 12,966	\$ 15,074
Payable to parent	6,916	6,915
Other liabilities	14,336	14,269
Deferred income taxes	261	454
Total current liabilities	34,479	36,712

Long-term liabilities:

Deferred income taxes	1,293	1,375
Total long-term liabilities	1,293	1,375

Member's equity:

Contributed capital	34,961	34,961
Retained earnings	57,998	50,272
Accumulated other comprehensive income	58	20
Total member's equity	93,017	85,253

TOTAL LIABILITIES AND MEMBER'S EQUITY	\$ 128,789	\$ 123,340
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The accompanying notes are an integral part of these financial statements.

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

STATEMENTS OF OPERATIONS (IN THOUSANDS)

	Years ended December 31,	
	2014	2013
REVENUES		
Total revenues	\$ 212,232	\$ 288,559
EXPENSES		
Total expenses	200,583	277,245
Gain from operations	11,649	11,314
Investment income	200	178
Income before income taxes	11,849	11,492
Provision for income taxes	4,123	4,000
NET INCOME	\$ 7,726	\$ 7,492

STATEMENTS OF COMPREHENSIVE INCOME (IN THOUSANDS)

	Years ended December 31,	
	2014	2013
NET INCOME	\$ 7,726	\$ 7,492
<i>Other comprehensive income (OCI), net of tax</i>		
Unrealized gains on investments:		
Unrealized holding gain arising during period, net of \$20 and \$11 tax expense in 2014 and 2013	38	20
Total unrealized gains on investments	38	20
<i>Other comprehensive income</i>	38	20
COMPREHENSIVE INCOME	\$ 7,764	\$ 7,512

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

	Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance January 1, 2013	\$ 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
Net income	-	7,726	-	7,726
Other comprehensive income	-	-	38	38
Balance December 31, 2014	\$ 34,961	\$ 57,998	\$ 58	\$ 93,017

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

STATEMENTS OF CASH FLOWS (IN THOUSANDS)

	Years ended December 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 7,726	\$ 7,492
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	848	990
Amortization on bonds	32	46
Loss on fixed asset disposals	61	62
Realized gain on investments	(34)	(1)
Unrealized gain on investments	(59)	(32)
Change in other comprehensive income	38	20
Equity in income of affiliates	(59)	(59)
Deferred income tax provision	(107)	775
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(9,976)	4,972
Decrease (increase) in receivables from affiliates	1,074	(964)
(Increase) decrease in accrued revenue	(3,471)	11,895
Increase (decrease) in prepaid expense	224	(1,610)
(Decrease) in accrued payroll, taxes and benefits	(2,108)	(2,110)
Increase (decrease) in payable to parent	1	(2,216)
Increase (decrease) in other liabilities	67	(6,869)
Net cash (used in) provided by operating activities	(5,743)	12,391
CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed assets purchased	(291)	(1,437)
Investments redeemed - held-to-maturity	661	130
Investments sold - available-for-sale	339	48
Investments purchased - held-to-maturity	-	(456)
Investments purchased - available-for-sale	(1,157)	(5,149)
Net cash (used in) investing activities	(448)	(6,864)
Net (decrease) in cash and cash equivalents	(6,191)	5,527
Cash and cash equivalents beginning of year	33,392	27,865
Cash and cash equivalents end of year	\$ 27,201	\$ 33,392
Supplemental disclosures of cash paid during the year for:		
Income taxes	\$ 3,101	\$ 3,112

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

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

NOTE 1 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Palmetto GBA, LLC (the Company) is a single-member limited liability company organized on January 1, 1998. The Company's sole member is Blue Cross and Blue Shield of South Carolina (BCBSSC). The Company is engaged in the business of providing Medicare Administrative Contractor (MAC) and Specialty Medicare Administrative Contractor (SMAC) services in various states. These services include health insurance claims processing and payment, customer service for health care providers, and payment safeguard functions designed to detect and prevent fraud and abuse in the Medicare program. The Company provides services to Medicare beneficiaries residing in various states and territories. The Company has submitted a proposal to continue as the JM MAC contractor that is the replacement for the J11 MAC contract. 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 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 \$27,658,000 and \$33,392,000 at December 31, 2014 and 2013, 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, 2015, 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 \$0 and \$3,000 at December 31, 2014 and 2013, respectively.

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, 2014 and 2013.

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

ASSETS, LIABILITIES & RESULTS OF OPERATIONS FOR TRICENTURION, INC. (IN THOUSANDS)

	Years ended December 31,	
	2014	2013
Assets	\$ 12,610	\$ 12,034
Liabilities	\$ 5,533	\$ 5,134
Net Income	\$ 237	\$ 236

Investments

Investments are comprised of common stocks, mutual funds, 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 and equity securities 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 policies

The Company recognizes revenue on the 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.

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, 2014, the tax years 2011 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, 2014, 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.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation. The Company reclassified a mutual fund with a book value of \$5,021,000 as of December 31, 2013, from cash and cash equivalents to long-term investments. This classification resulted in no change to net income or member's equity.

New pronouncements

The FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which is expected to remove inconsistencies and weaknesses in revenue requirements and improve comparability of revenue recognition practices across companies, industries, jurisdictions and capital markets. ASU 2014-09 is effective for fiscal periods beginning after December 15, 2017. The Company is currently evaluating ASU 2014-09 but does not expect it will have a material impact on the Company's results of operations, cash flows or financial position.

NOTE 2 FIXED ASSETS

FIXED ASSETS (IN THOUSANDS)

	Years ended December 31,	
	2014	2013
Leasehold improvements	\$ 222	\$ 204
Equipment, furniture & fixtures	25,359	25,643
Software	8,503	8,382
	<u>34,084</u>	<u>34,229</u>
Accumulated depreciation	(29,931)	(29,458)
	<u>\$ 4,153</u>	<u>\$ 4,771</u>

Depreciation expense was \$848,000 and \$990,000 for the years ended December 31, 2014 and 2013, respectively.

NOTE 3 INVESTMENTS

LONG-TERM INVESTMENTS (IN THOUSANDS)

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2014				
Held-to-maturity securities:				
Corporate bonds	\$ 1,991	\$ 49	\$ 1	\$ 2,039
Total held-to-maturity securities	<u>1,991</u>	<u>49</u>	<u>1</u>	<u>2,039</u>
Available-for-sale securities:				
Common stocks	1,000	134	25	1,109
Mutual funds	5,041	-	20	5,021
Total long-term investments	<u>\$ 8,032</u>	<u>\$ 183</u>	<u>\$ 46</u>	<u>\$ 8,169</u>
DECEMBER 31, 2013				
Held-to-maturity securities:				
Corporate bonds	2,683	\$ 93	\$ 7	\$ 2,769
Total held-to-maturity securities	<u>\$ 2,683</u>	<u>93</u>	<u>7</u>	<u>2,769</u>
Available-for-sale securities:				
Common stocks	168	32	1	199
Mutual funds	5,021	-	-	5,021
Total long-term investments	<u>\$ 7,872</u>	<u>\$ 125</u>	<u>\$ 8</u>	<u>\$ 7,989</u>

The fair value of available-for-sale securities with unrealized losses was \$5,248,000 and \$5,021,000 at December 31, 2014 and 2013, 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, 2014, were considered other than temporary.

**AMORTIZED COST & ESTIMATED FAIR
VALUES OF HELD-TO-MATURITY DEBT
SECURITIES, BY CONTRACTUAL MATURITY**
(IN THOUSANDS)

	Amortized Cost or Cost Value	Fair Value
DECEMBER 31, 2014		
Held-to-maturity securities:		
Due in one year or less	\$ 501	\$ 507
Due in one year through five years	1,220	1,261
Due in five years or more	<u>270</u>	<u>271</u>
Total held-to-maturity	<u><u>\$ 1,991</u></u>	<u><u>\$ 2,039</u></u>

There were gross realized gains of \$34,000 and \$1,000 for the years ended December 31, 2014 and 2013, respectively, that were included in net investment income. There were no gross realized losses for the year ended December 31, 2014 and 2013. 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, 2014, 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 \$166,000. There were no held-to-maturity investments in an unrealized loss position for more than twelve months at December 31, 2014. 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.

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.

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, 2014, and December 31, 2013, the Company did not record any other-than temporary impairments on those assets required to be measured at fair value on a nonrecurring basis.

FAIR VALUE OF ASSETS & LIABILITIES MEASURED ON A RECURRING BASIS (IN THOUSANDS)

	Level 1	Level 2	Level 3	Total
DECEMBER 31, 2014				
Available-for-sale securities:				
Common stocks	\$ 1,109	\$ -	\$ -	\$ 1,109
Total common stocks	<u>1,109</u>	<u>-</u>	<u>-</u>	<u>1,109</u>
Mutual funds				
U.S. Treasury obligations	-	854	-	854
Commercial mortgage-backed securities	-	602	-	602
Asset-backed securities	-	1,657	-	1,657
Agency obligations	-	402	-	402
Corporate bonds	-	1,456	-	1,456
Registered investment company	50	-	-	50
Total mutual funds	<u>50</u>	<u>4,971</u>	<u>-</u>	<u>5,021</u>
Total investments	<u>\$ 1,159</u>	<u>\$ 4,971</u>	<u>\$ -</u>	<u>\$ 6,130</u>
DECEMBER 31, 2013				
Available-for-sale securities:				
Common stocks	\$ 199	\$ -	\$ -	\$ 199
Total common stocks	<u>199</u>	<u>-</u>	<u>-</u>	<u>199</u>
Mutual funds				
U.S. Treasury obligations	-	1,607	-	1,607
Commercial mortgage-backed securities	-	452	-	452
Asset-backed securities	-	1,105	-	1,105
Agency obligations	-	653	-	653
Corporate bonds	-	1,054	-	1,054
Corporate international sovereign	-	50	-	50
Registered investment company	100	-	-	100
Total mutual funds	<u>100</u>	<u>4,921</u>	<u>-</u>	<u>5,021</u>
Total investments	<u>\$ 299</u>	<u>\$ 4,921</u>	<u>\$ -</u>	<u>\$ 5,220</u>

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 \$1,627,000 and \$477,000 at December 31, 2014 and 2013, respectively, which are included in net receivables and payables to the parent. The Company made payments to BCBSSC for income taxes of \$3,101,000 and \$3,112,000 during the years ended December 31, 2014 and 2013, respectively.

RECOGNIZED PROVISION FOR INCOME TAXES
(IN THOUSANDS)

	Year ended December 31,	
	2014	2013
Current	\$ 4,251	\$ 3,236
Deferred	(128)	764
Total income taxes incurred	\$ 4,123	\$ 4,000

Unrealized gains on investments credited directly to equity have been reduced by deferred income tax expense of \$20,000 and \$11,000 for the years ended December 31, 2014 and 2013, 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, 2014 and 2013.

Deferred tax assets and liabilities are classified as current and long-term based on the classification of the related asset or liability.

DEFERRED TAX ASSETS & LIABILITIES
(IN THOUSANDS)

	December 31,	
	2014	2013
Deferred tax assets:		
Current	\$ 3,055	\$ 3,223
	<u>3,055</u>	<u>3,223</u>
Deferred tax liabilities:		
Current	\$ 261	\$ 454
Long-term	\$ 1,293	\$ 1,375
	<u>1,554</u>	<u>1,829</u>
Net deferred tax asset	\$ 1,501	\$ 1,394

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 \$53,641,000 and \$75,422,000 for the years ended December 31, 2014 and 2013, respectively. The Company paid \$71,917,000 and \$99,068,000 during the years ended December 31, 2014 and 2013, 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 \$14,977,000 and \$28,434,000 for these services during the years ended December 31, 2014 and 2013, 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, 2014. 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, 2014. 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 \$5,615,000 and \$5,435,000 at December 31, 2014 and 2013, respectively.

The Company has entered into certain non-cancelable operating leases in excess of one year as of December 31, 2014.

FUTURE REQUIRED MINIMUM LEASE PAYMENTS (IN THOUSANDS)

<u>Years ended December 31,</u>	<u>Amount</u>
2016	972
2017	601
Total	<u>\$ 1,573</u>

Total rent expense was \$1,781,000 and \$4,199,000 during the years ended December 31, 2014 and 2013, 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 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 2014 and 2013. For employees hired after January 1, 2003, there is a 2-year cliff-vesting schedule on the match contribution. Employees hired after April 1, 2014, are not covered by the BCBSSC defined benefit pension plan. For those employees, the Company makes a discretionary contribution to the 401(k) plan which is 50% vested for employees with one year of service and fully vested for employees with two years of service. Employees must be employed on the last day of the year to be eligible for the discretionary contribution, unless terminated during the year due to retirement (age 55 and 5 years of service), death or disability. The discretionary Enhanced 401(k) contribution was 4% and 6% of salary for the years ended December 31, 2014 and 2013, respectively.

The cost of providing the 401(k) contribution was \$2,616,000 and \$3,654,000 for the years ended December 31, 2014 and 2013, respectively. The pension expense allocated to the Company under the BCBSSC defined benefit pension plan was \$4,780,000 and \$5,535,000 for the years ended December 31, 2014 and 2013, respectively.



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