

Economic and Market Outlook

August 20, 2026

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01

Economic Outlook

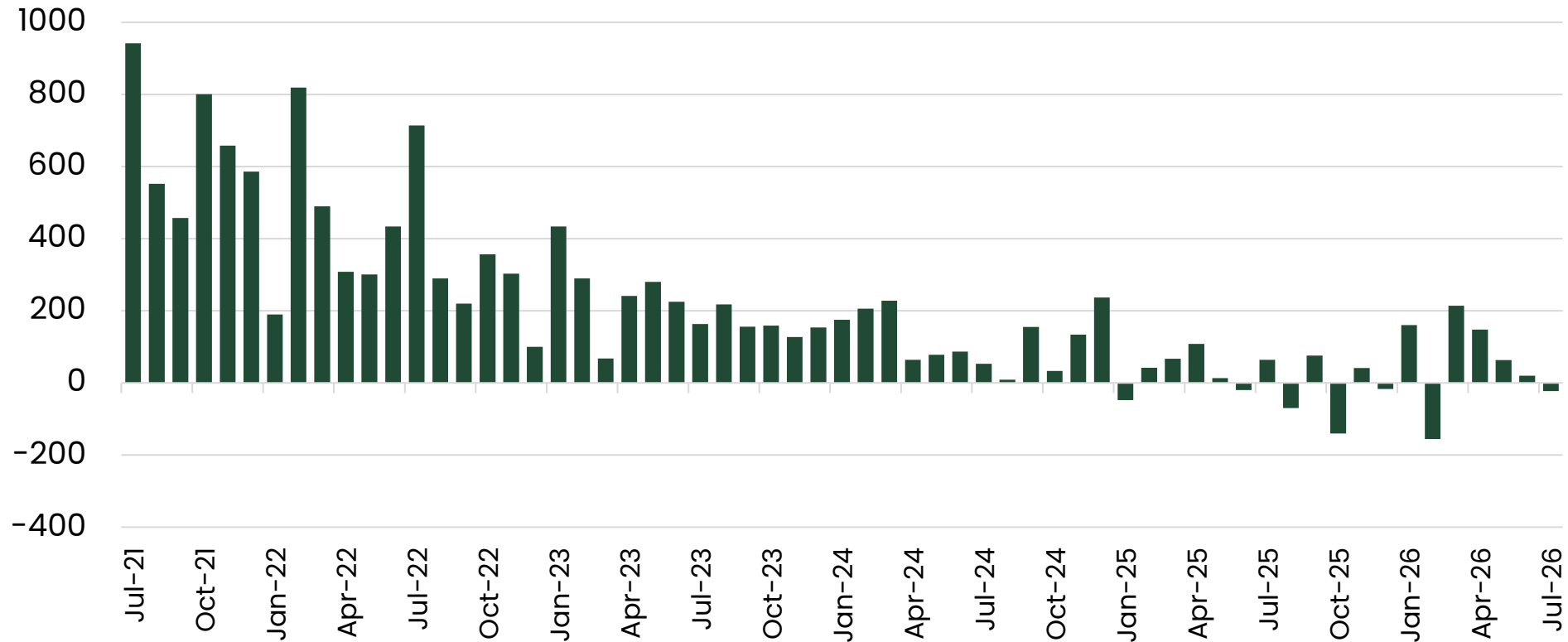
U.S. and Colorado Economic Update

SECTION 01 — ECONOMIC OUTLOOK

The labor market is weakening

Total Nonfarm Payrolls

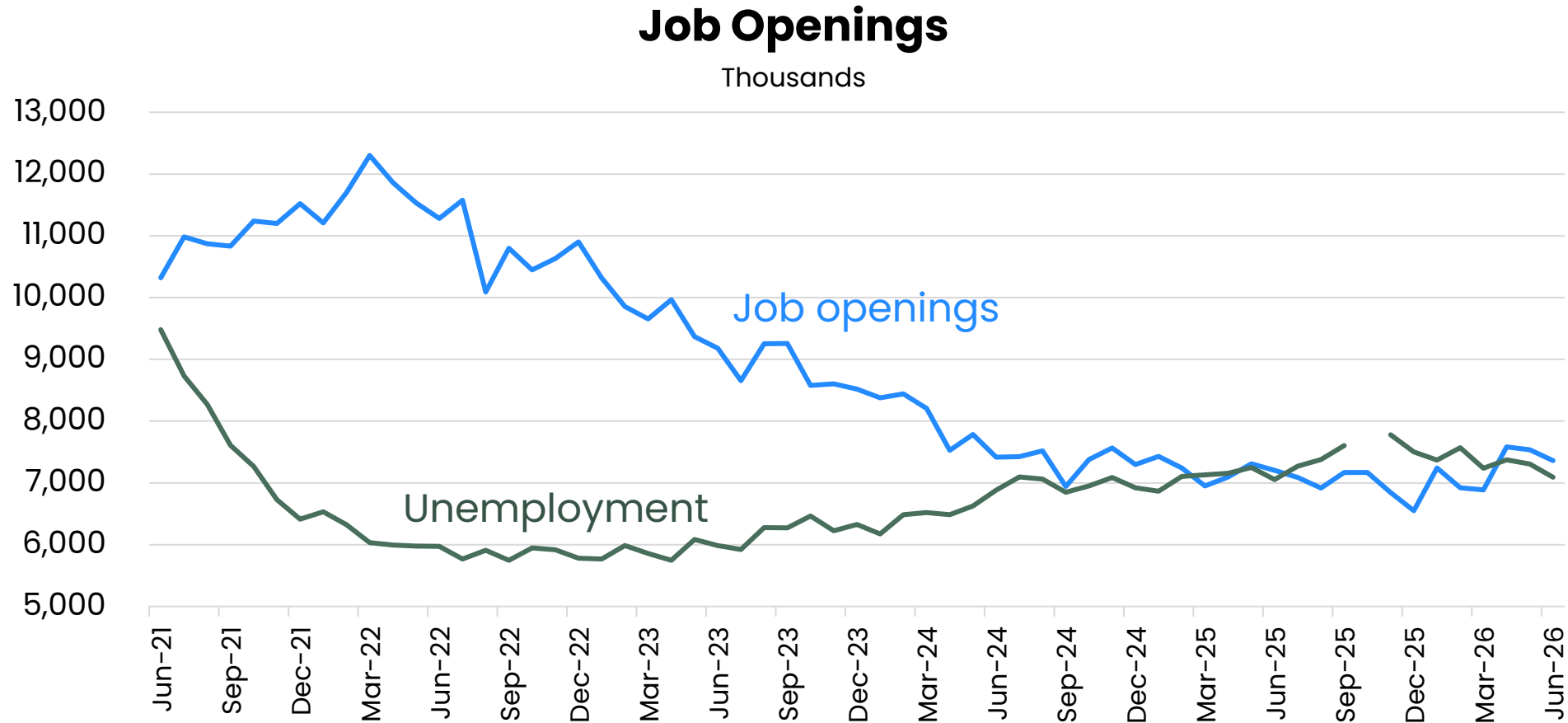
Thousands of Persons



Source: Bloomberg

SECTION 01 — ECONOMIC OUTLOOK

Job openings are balanced relative to unemployment



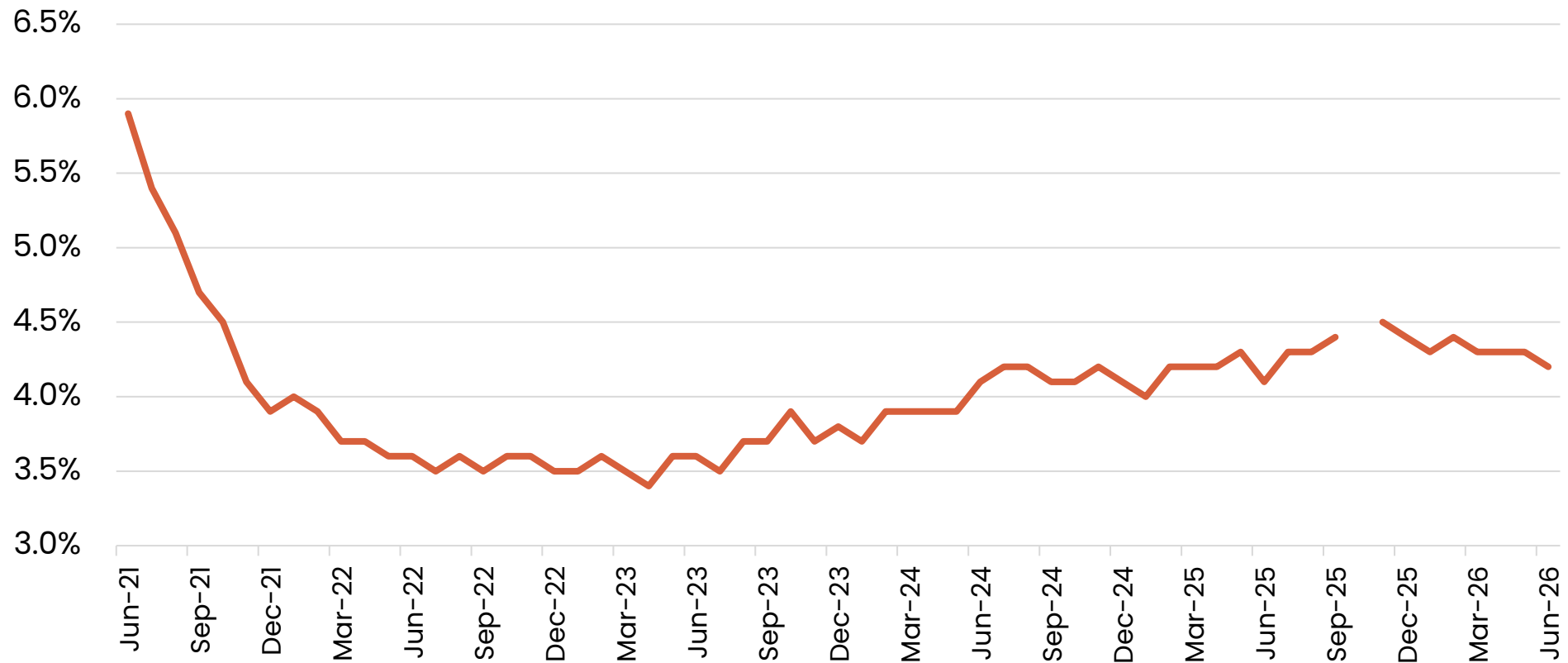
Source: Bloomberg

Note: missing data as a result of the federal government shutdown

SECTION 01 — ECONOMIC OUTLOOK

Unemployment has stabilized

U.S. Unemployment Rate



Source: Bloomberg

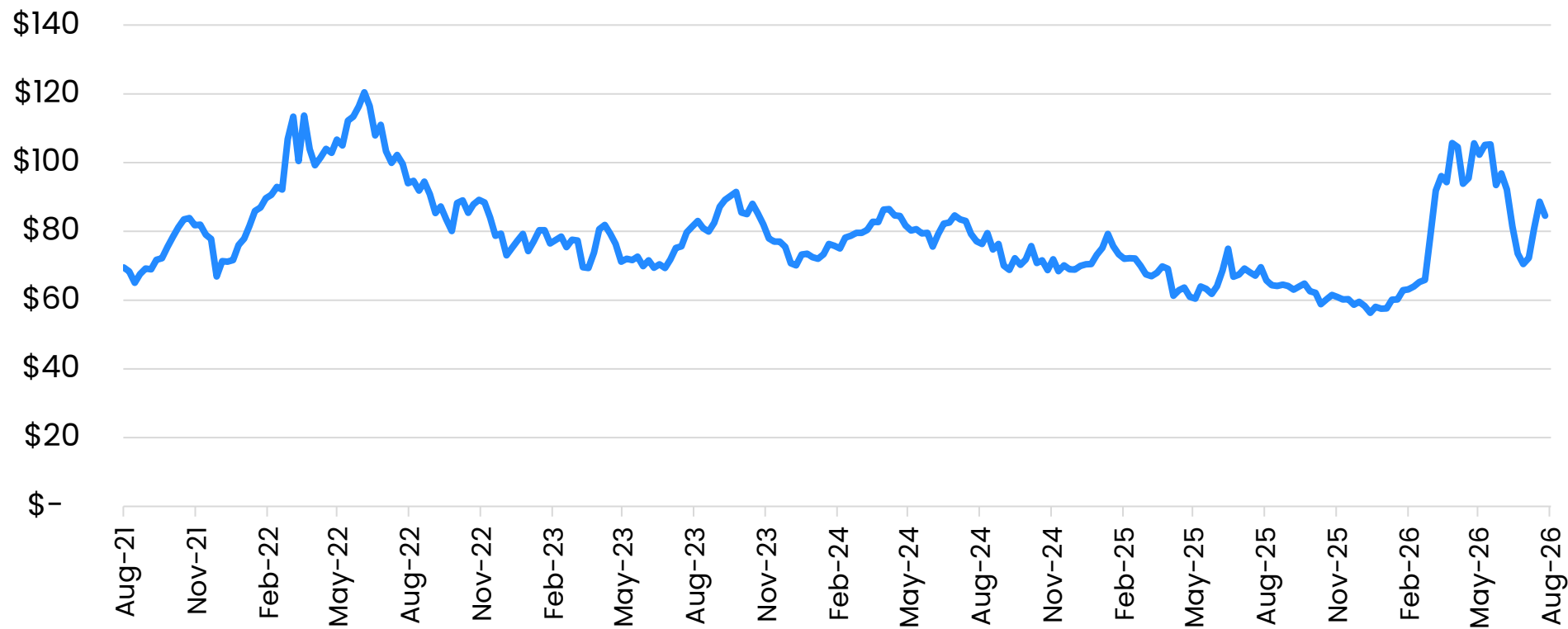
Note: missing data as a result of the federal government shutdown

SECTION 01 — ECONOMIC OUTLOOK

Oil price increases are fueling accelerating inflation

Crude Oil Prices: West Texas Intermediate

Dollars per Barrel



Source: Bloomberg

SECTION 01 — ECONOMIC OUTLOOK

Consumer prices are rising

Consumer Price Index for All Urban Consumers

Percent Change from Year Ago



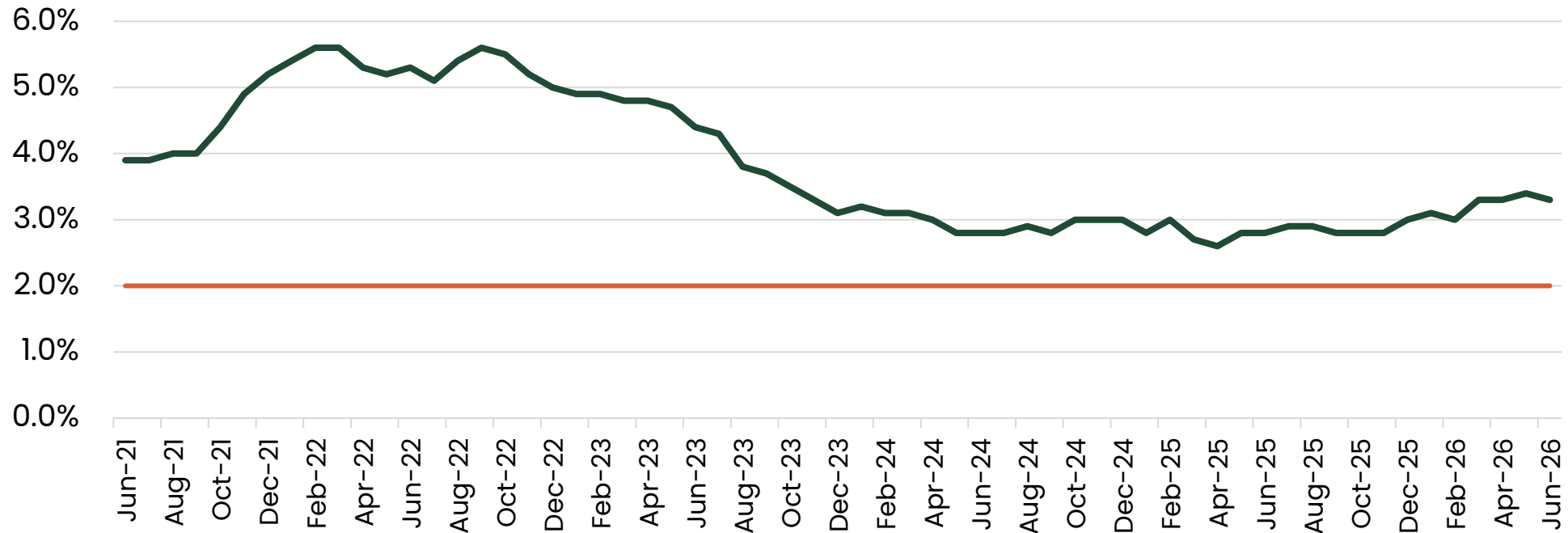
Source: Bloomberg
Note: missing data as a result of the federal government shutdown

SECTION 01 — ECONOMIC OUTLOOK

The Core PCE is moving away from the Fed's target

Core Personal Consumption Expenditures Price Index

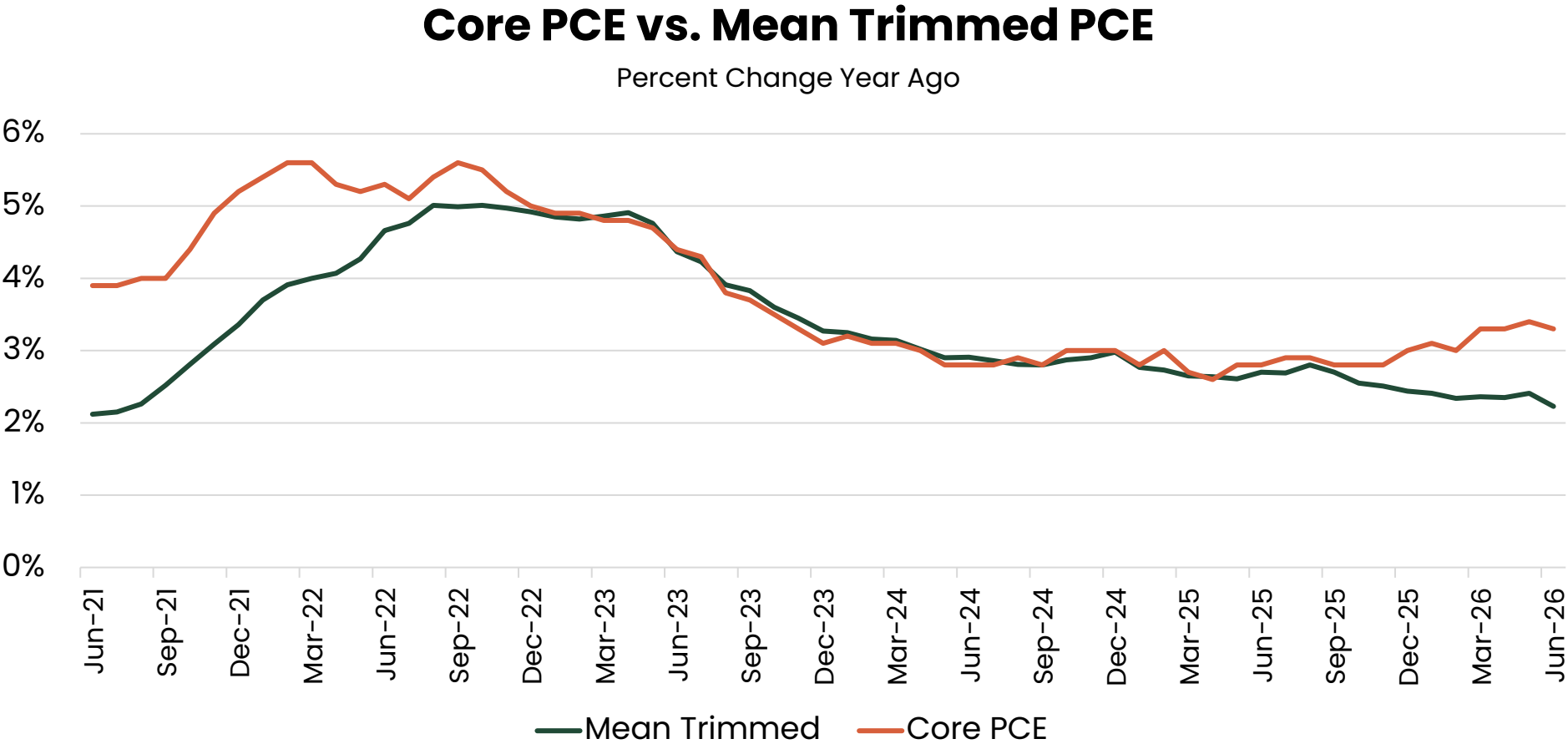
Percent Change from Year



Source: Bloomberg

SECTION 01 — ECONOMIC OUTLOOK

A new viewpoint on inflation



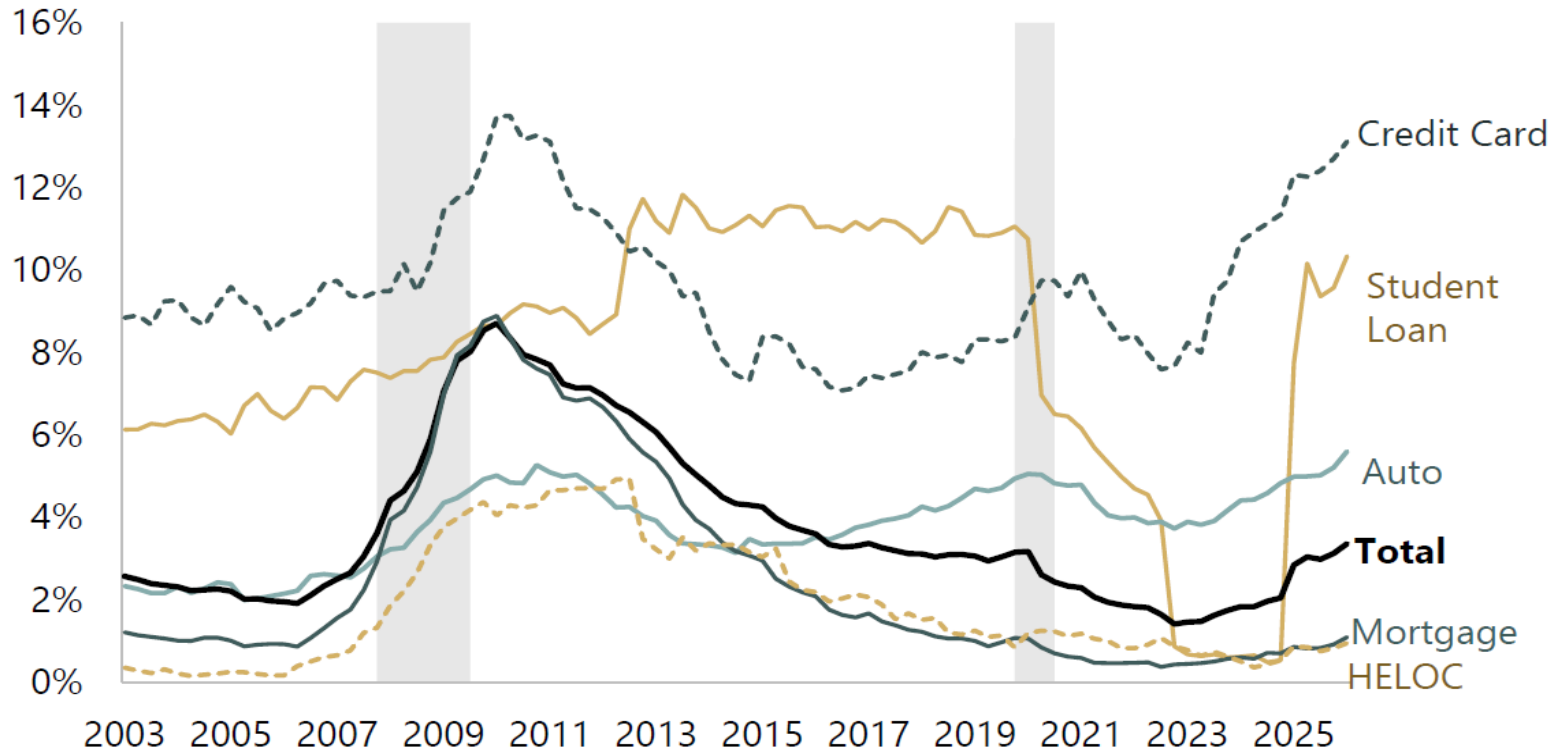
Source: Bloomberg

SECTION 01 — ECONOMIC OUTLOOK

Cracks in consumer balance sheets are emerging

U.S. Serious Delinquency Rates by Loan Type

Percent of Loans

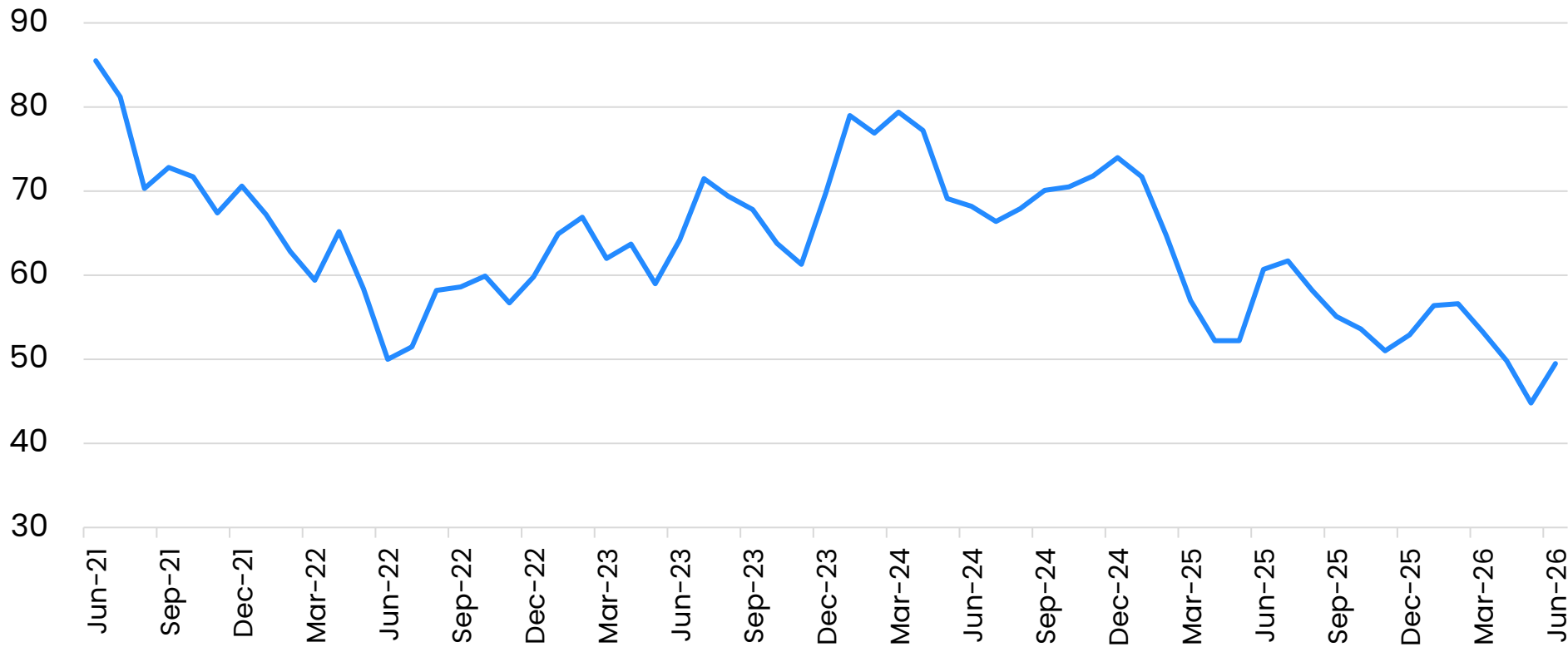


Source: New York Fed Consumer Credit Panel/Equifax. Data are through 2026Q1. Serious delinquency rates are the percentage of total debt that is delinquent by 90 days or more.

Consumer sentiment remains weakening

University of Michigan: Consumer Sentiment, Index

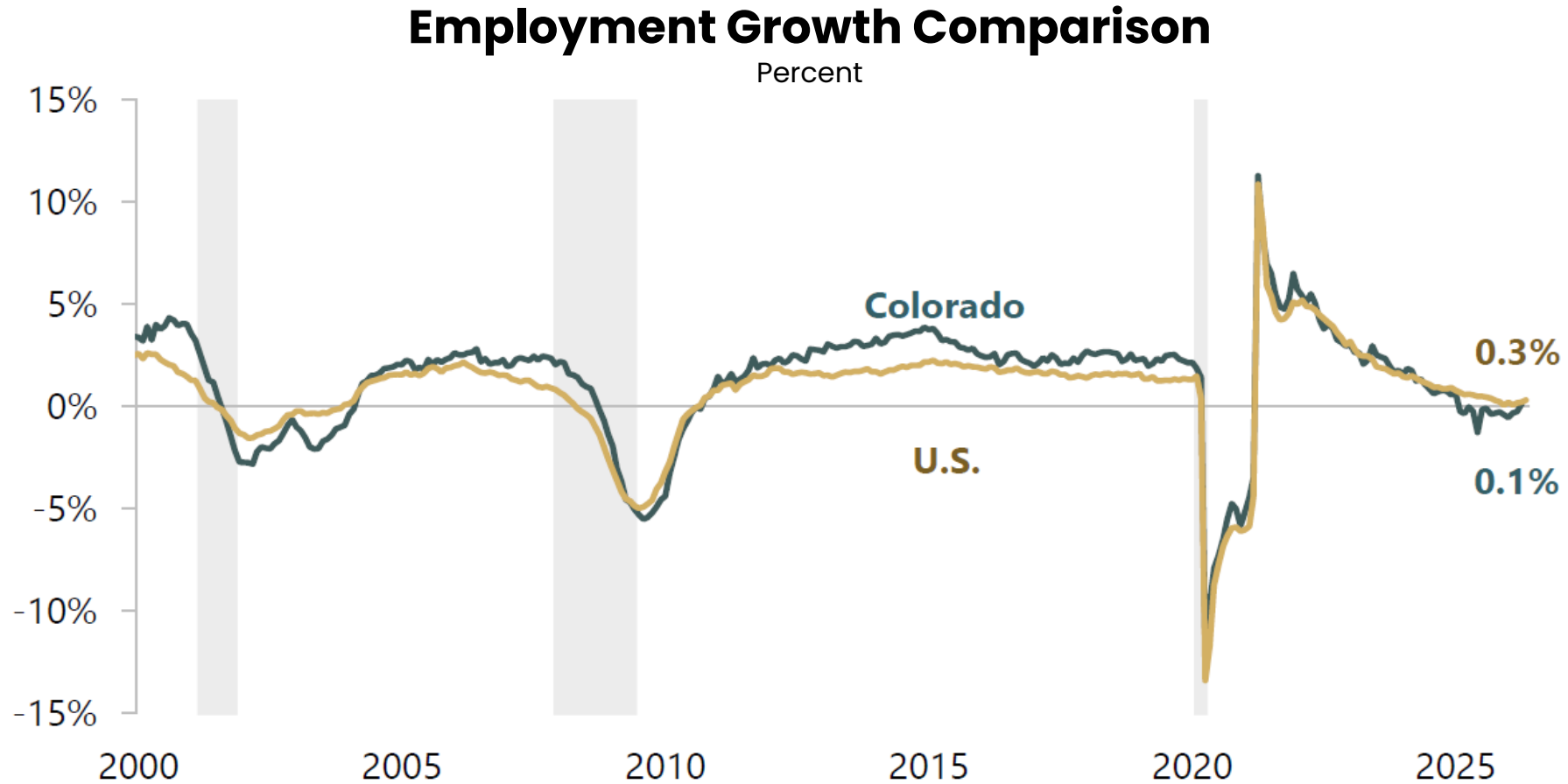
1966:Q1=100



Source: Bloomberg

SECTION 01 — ECONOMIC OUTLOOK

Colorado employment is lagging the nation

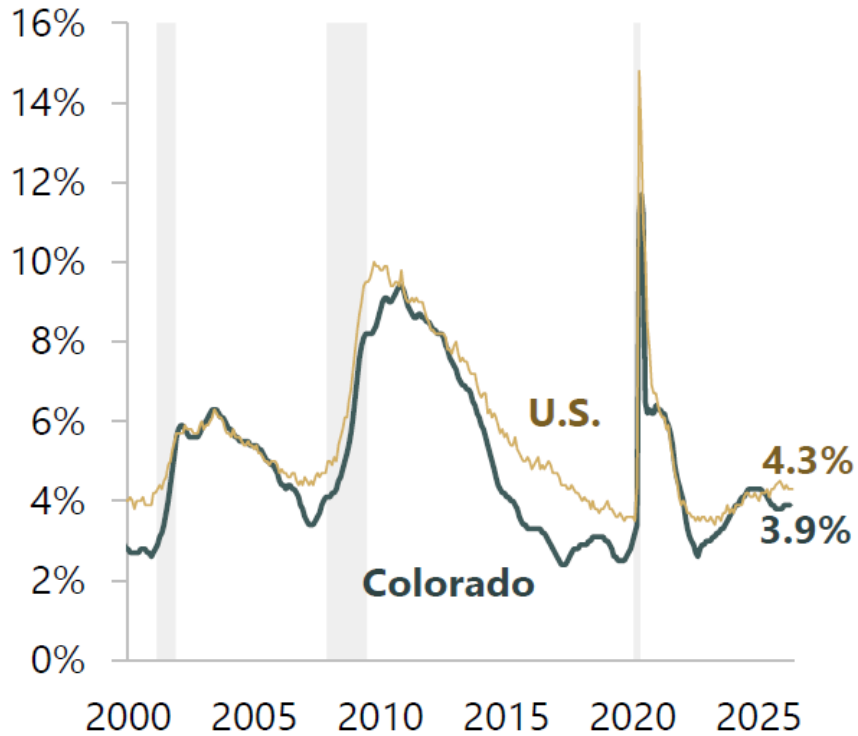


Source: U.S. Bureau of Labor Statistics. Denver area inflation is measured using prices in the Denver-Aurora-Lakewood metropolitan area. Data are through May 2026.

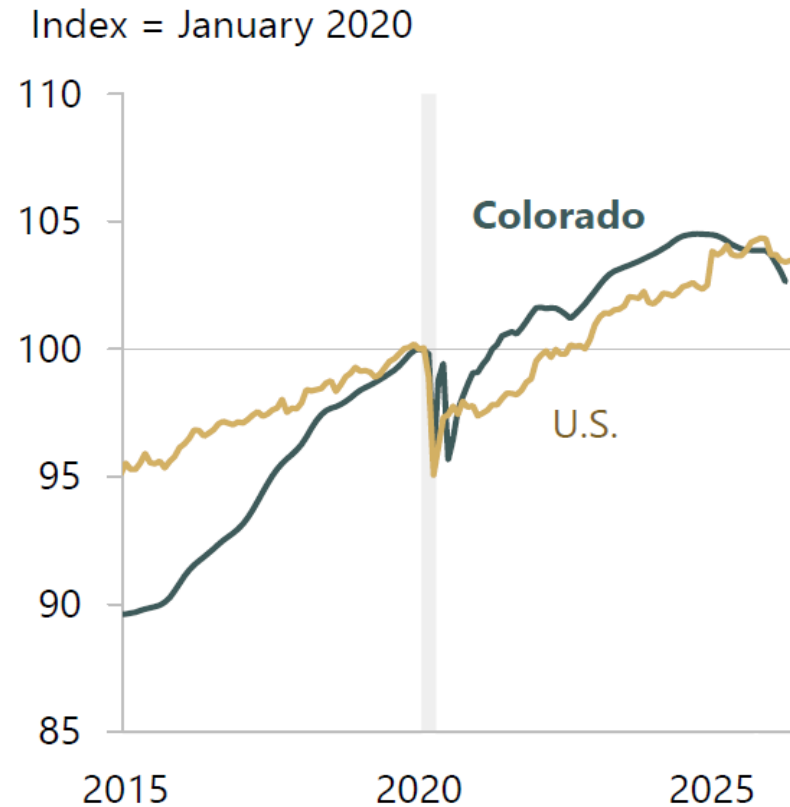
SECTION 01 — ECONOMIC OUTLOOK

Colorado unemployment is down, but the labor force is shrinking

Unemployment Rate



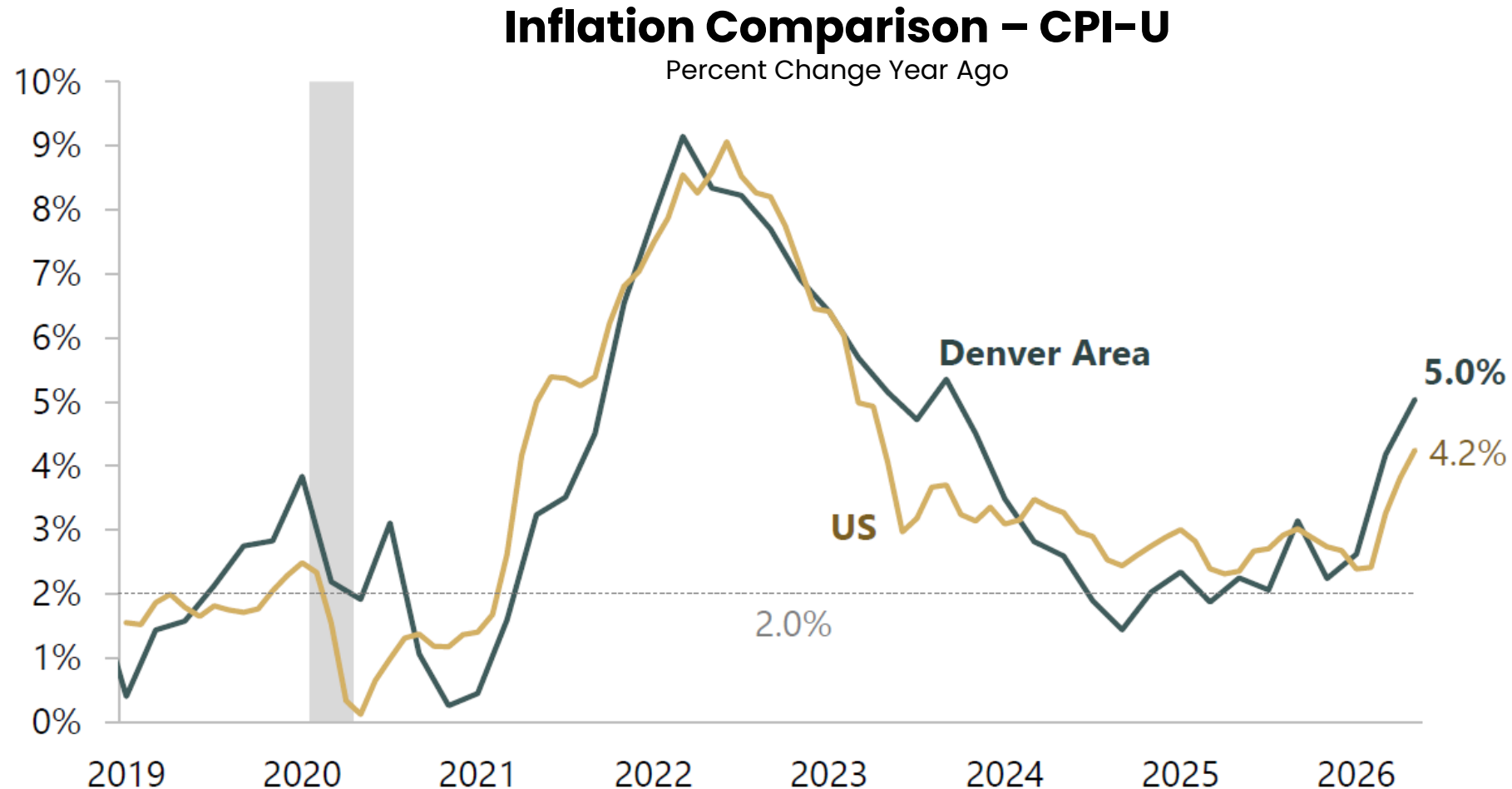
Labor Force



Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted. Data for the U.S. are through May and data for Colorado are through April.

SECTION 01 — ECONOMIC OUTLOOK

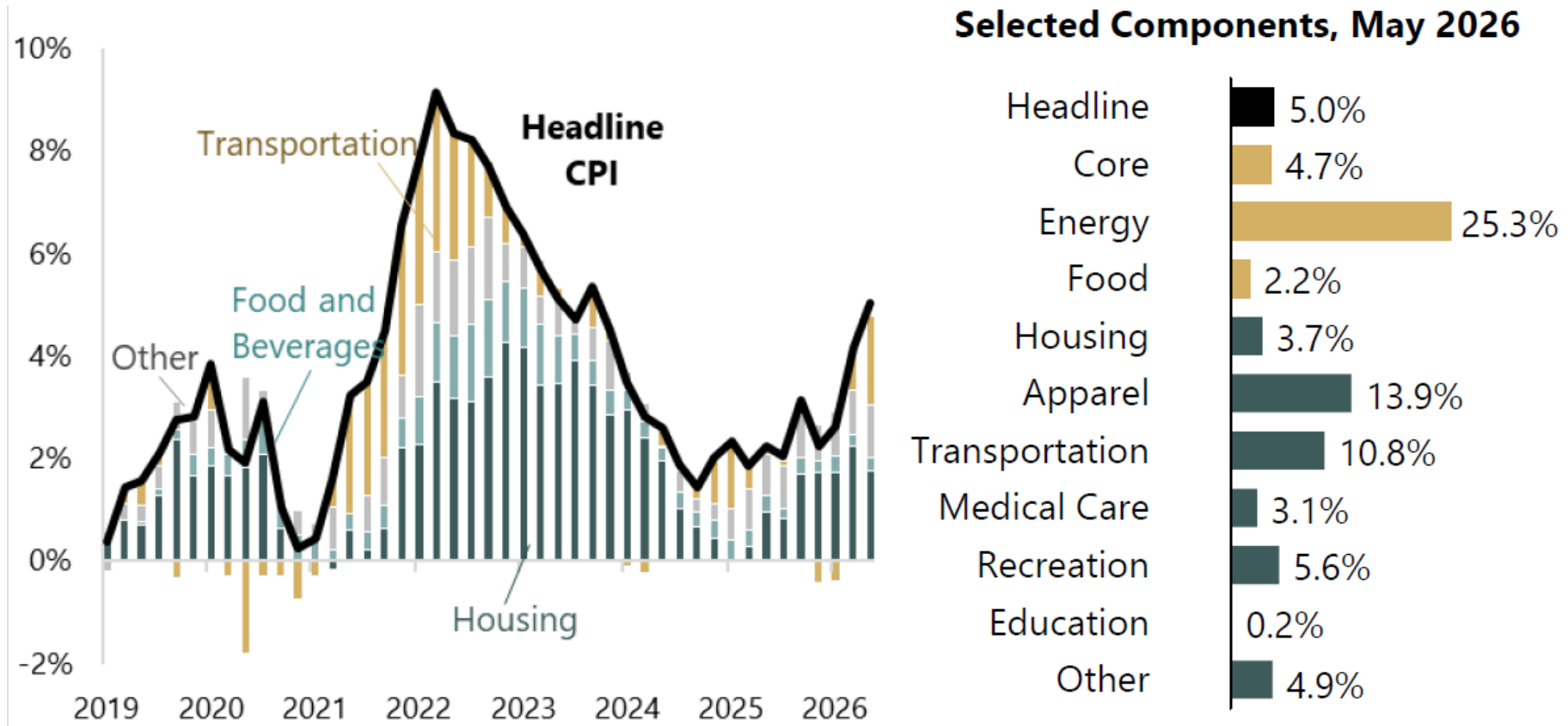
Denver area inflation is accelerating



Source: U.S. Bureau of Labor Statistics. Denver area inflation is measured using prices in the Denver-Aurora-Lakewood metropolitan area. Data are through May 2026.

SECTION 01 — ECONOMIC OUTLOOK

Energy prices have contributed to Denver-area inflation pressure



Source: U.S. Bureau of Labor Statistics and Colorado Legislative Council Staff calculations.
Headline inflation includes all products and services. Transportation includes new and used vehicles, vehicle parts, and motor fuel. Housing includes the cost of rent, homeowner rental equivalent, utilities, and other housing costs.

02

The Fed in Transition

Recent policy regimes and the post-GFC playbook

SECTION 02 — THE FED IN TRANSITION

A transitional phase for U.S. monetary policy

The Federal Reserve is entering a transitional phase marked by evolving leadership, a reassessment of its policy framework, and a shifting macroeconomic backdrop. The dual mandate remains intact, but the emerging regime favors enhanced data utilization, leaner communication, and a sharper focus on price stability.

Higher near-term neutral rate

May reduce fixed income tailwinds and elevate the importance of active duration management.

Elevated policy uncertainty

Enhances the value of diversification across permitted asset sectors.

Tighter funding conditions

Liquidity management becomes more critical as dislocations grow more episodic.

Pressure on credit allocations

Higher discount rates and tighter multiples raise the bar for earnings quality and balance sheet strength.

Bottom line: a shift away from the ultra-accommodative, post-GFC policy era toward a more balanced — and potentially more volatile — environment, calling for flexibility, rigorous risk management, and disciplined strategic asset allocation.

SECTION 02 — THE FED IN TRANSITION

Recent Fed “regimes”



Each transition has recalibrated how much the Fed tells markets in advance — and how much markets should expect to infer from incoming data instead.

SECTION 02 — THE FED IN TRANSITION

Recent Fed “regimes”



1987–2006

Alan Greenspan

Deliberately minimalist statements; “constructive ambiguity”; markets read between the lines

SECTION 02 — THE FED IN TRANSITION

Recent Fed “regimes”



2006–2014

Ben Bernanke

Financial-crisis response; QE launched; post-meeting statements formalized

SECTION 02 — THE FED IN TRANSITION

Recent Fed “regimes”



2014–2018

Janet Yellen

Gradual policy normalization; expanded press-conference cadence

SECTION 02 — THE FED IN TRANSITION

Recent Fed “regimes”



2018–2026



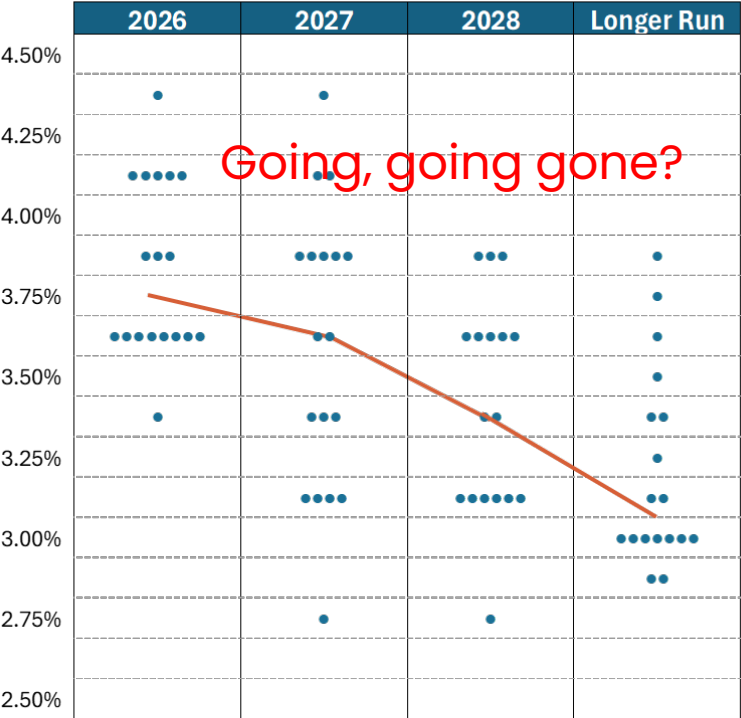
Jerome Powell

Extensive forward guidance; large balance sheet; detailed dot-plot commentary

SECTION 02 — THE FED IN TRANSITION

A New Chair Takes the Helm

Fed Dot Plot



Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant's judgment of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run.

Source: Federal Open Market Committee



2026–present

Kevin Warsh

Leaner statements, forward guidance withdrawn, five task forces launched

SECTION 02 — THE FED IN TRANSITION

The post-GFC playbook vs. the emerging regime

Dimension	Post-GFC Era	Emerging Regime
Communication	Extensive forward guidance; lengthy statements	Forward guidance withdrawn; statements sharply shortened
Balance sheet	Large-scale asset purchases; slow, gradual runoff	Task force reviewing pace and composition, including an all-Treasury goal
Data approach	Reliance on traditional official series (core/non-core CPI, PCE)	Use of private-sector and real-time data, trimmed-mean inflation measure
Policy posture	Ultra-accommodative bias following the financial crisis	Narrower focus on the dual mandate; price-stability emphasis
Rate path signaling	Detailed dot-plot narrative embraced by policymakers	More selective participation in dot-plot projections

03

Five Task Forces for Reform

Communications, data, inflation framework, productivity, and the balance sheet

SECTION 03 — FIVE TASK FORCES

A sweeping, first-principles review

Following his first FOMC meeting on June 17, 2026, Chair Warsh announced five task forces — drawing on internal and outside experts — to re-examine core Fed practices. Each will “start with first principles, ask hard questions, examine current practice, consider alternatives,” and propose next steps for policymakers.

01

Communications

How the Fed conveys policy — statements, the SEP, minutes, press conferences

02

Balance Sheet

Size, composition, and pace of runoff, including an all-Treasury holdings goal

03

Data Sourcing

Broader use of private-sector and real-time data alongside official series

04

Productivity & Jobs

How AI and demographic shifts are reshaping labor markets and output

05

Inflation Framework

The drivers of inflation and the toolkit for delivering 2% price stability

SECTION 03 — FIVE TASK FORCES

Communications: a leaner, less directive Fed

In his first press conference, Chair Warsh cut forward-looking rate signals and pared back the post-meeting statement, arguing markets perform best reacting to incoming data rather than anticipating the Fed's reaction to it.

- Post-meeting statement shortened from 341 words in April to 132 words in June 2026
- Explicit forward guidance omitted from the June FOMC statement
- Warsh declined to submit his own projection in the June dot plot
- Statement format reverted to lead with the rate decision itself — a callback to pre-2009 style

FOMC STATEMENT LENGTH

April 2026



341 words

June 2026



132 words

A roughly 61% reduction in statement length under the first Warsh-led FOMC meeting.

SECTION 03 — FIVE TASK FORCES

Rethinking the data the Fed relies on

Chair Warsh has argued that traditional inflation gauges — including the Fed's preferred PCE index — offer only a rough read, even excluding volatile food and energy prices. The data task force will assess new sources and methods for a more timely picture of the economy.

Private-sector data

Supplementing official statistics with faster-moving, higher-frequency private data series

Trimmed-mean inflation

Evaluating alternative inflation measures beyond the standard core/non-core split

“What's happening now”

A stated preference for actionable, contemporaneous signals over historical “echoes”

Practitioner takeaway: expect Fed communication to lean more heavily on data characterizations markets aren't accustomed to — watch for new series cited in speeches and minutes.

SECTION 03 — FIVE TASK FORCES

Inflation framework: reaffirming — and re-examining — 2%

Chair Warsh has stated unambiguously that the Committee remains committed to its 2% price-stability objective, invoking his long-held view that “inflation is a choice.” At the same time, the inflation-framework task force has been directed to examine the underlying drivers of inflation and the full range of tools available to deliver on that objective in a changed economy.

JUNE 2026 SUMMARY OF ECONOMIC PROJECTIONS (MEDIAN)

Measure	2026	2027	2028	Longer Run
Real GDP growth	2.2%	2.3%	2.2%	2.0%
Unemployment rate	4.3%	4.3%	4.2%	4.2%
PCE inflation	3.6%	2.3%	2.0%	2.0%
Core PCE inflation	3.3%	2.5%	2.1%	—

Source: Federal Reserve, June 2026 Summary of Economic Projections. Nine of eighteen participants penciled in at least one hike for 2026; Chair Warsh did not submit a projection.

SECTION 03 — FIVE TASK FORCES

Productivity, jobs, and the AI question

A dedicated task force will examine how artificial intelligence, demographic shifts, and immigration trends are reshaping the labor market and productivity — factors the Committee sees as increasingly consequential for both sides of the dual mandate.

Demand or supply?

Does AI investment raise aggregate demand through spending, or expand supply through productivity gains?

Labor force effects

Lower population growth and immigration are viewed as forces affecting employment trends independent of monetary policy

Deregulation as disinflation

Regulatory changes are being weighed as a potential disinflationary force worth incorporating into the outlook

SECTION 03 — FIVE TASK FORCES

Productivity, jobs, and the AI question

TASK FORCE LEADERS

Marc Andreessen

Cofounder and general partner,
Andreessen Horowitz

Charles I. Jones

Professor of economics, Stanford
University, currently on leave at
Anthropic

Asha Sharma

Executive vice president and Xbox
CEO, Microsoft Corp.

“Survey the pace, the reach, [and] the economic impact of new general-purpose technologies, including AI, and explore the implications for the Fed in pursuit of our employment and inflation mandates.”

CHAIRMAN KEVIN WARSH

SECTION 03 — FIVE TASK FORCES

Balance sheet: toward an all-Treasury holdings goal

The balance sheet task force will examine the size and composition of the Fed's asset holdings. Former officials expect the review to favor an all-Treasury portfolio over time, prioritizing runoff of mortgage-backed securities — though any shift would need to be managed carefully to avoid financial-stability strain.

- Current holdings still include substantial mortgage-backed securities alongside Treasuries
- Runoff of MBS holdings viewed as a likely early priority
- Pace and endpoint of the reduction remain open questions for the task force
- Careful sequencing needed given the size of the balance sheet, which has exceeded \$6 trillion in recent years

ILLUSTRATIVE BALANCE SHEET SHIFT

Today



Illustrative goal



■ Treasuries ■ MBS

Directional illustration only, not an official Fed target.

04

FOMC Structure & the Vote

Committee composition and where the committee stands

SECTION 04 — FOMC STRUCTURE

How the 12-member committee is built

7

Board of Governors members
(Washington) — vote at every meeting

1

President of the Federal Reserve Bank
of New York — permanent vice-chair
vote

4

Seats that rotate annually among the
remaining 11 Reserve Bank presidents

All 19 policymakers (7 governors + 12 Reserve Bank presidents) attend and contribute to the dot plot regardless of voting status; only 12 cast votes at any given meeting.

Meeting cadence: 8 scheduled meetings per year, roughly every six weeks, each spanning two days. Four meetings (March, June, September, December) include the Summary of Economic Projections. The next meeting is scheduled for September 15–16, 2026.

SECTION 04 — FOMC STRUCTURE

Where the committee stands: rates and dissents

FEDERAL FUNDS TARGET RANGE

3.50% – 3.75%

Held steady since the December 2025 cut, across January, March, April, and June 2026 meetings

Recent dissent pattern:

March 2026: 11–1 vote to hold, with Gov. Miran dissenting in favor of a cut

April 2026: 4 total dissents — a genuine split on the pace of easing

June 2026: Unanimous vote to hold at 3.50%–3.75%, Warsh's first meeting as chair

JUNE 2026 DOT PLOT: A SPLIT COMMITTEE

9 of 18

participants penciled in at least one rate hike for 2026

Chair Warsh did not submit a projection, consistent with his effort to reduce reliance on forward-looking committee signals.

Implication: the committee itself is not of one mind on the path ahead — a genuine source of policy-path uncertainty for portfolio positioning.

Source: Federal Reserve FOMC statements and Summary of Economic Projections, 2026.

05

Implications for the Economic Landscape

Rates, uncertainty, liquidity, and credit

SECTION 05 — ECONOMIC LANDSCAPE

A higher near-term neutral rate

With the federal funds rate held at 3.50%–3.75% through five consecutive 2026 meetings, and nearly half the Committee flagging hike risk in its projections, the path of least resistance points to fewer and later cuts than the market once expected — not a return to near-zero policy rates.

Reduced fixed income tailwinds

A higher-rate environment reduces the price gains that were common after the Great Financial Crisis, so returns come more from carry and income.

Active duration management

With less forward guidance to lean on, positioning ahead of policy shifts requires closer tracking of incoming data rather than the Fed's own signal.

SECTION 05 — ECONOMIC LANDSCAPE

Elevated policy uncertainty

A narrowly confirmed chair, a Committee visibly split on the rate path, and five open-ended task forces reviewing core practices add up to a wider range of plausible policy outcomes than markets have priced in recent years.

- Narrowest Fed chair confirmation vote in history (54–45)
- Nine of eighteen policymakers flagging hike risk versus a chair signaling openness to cuts
- Communications reform reducing the market's ability to anticipate near-term moves
- Ongoing political pressure on the Fed's independence

PORTFOLIO RESPONSE

The value of diversification across permitted asset sectors rises when the range of policy outcomes widens — broadening exposure helps cushion against any single rate-path surprise.

SECTION 05 — ECONOMIC LANDSCAPE

Liquidity management becomes more critical

As balance sheet policy is reassessed and funding conditions adjust to a leaner Fed communication style, dislocations in short-term markets could become more episodic — sharper, but shorter-lived — rather than smoothly telegraphed in advance.

1

Balance sheet runoff

Continued reduction toward an all-Treasury goal changes the supply of reserves in the banking system over time.

2

Less advance signaling

Diminished forward guidance means funding markets may have less warning before policy shifts take hold.

3

Episodic dislocations

Short-term funding stress is more likely to appear suddenly, rewarding funds with ready access to liquidity.

Practitioner takeaway: maintain robust cash-flow forecasting and layered liquidity buffers rather than relying on advance Fed signals to time funding needs.

SECTION 05 — ECONOMIC LANDSCAPE

Credit allocations under sustained pressure

Higher interest rates lower valuations across credit markets, so issuers now have to earn their spreads based on fundamentals rather than the cheap money that boosted the whole sector after the 2008 crisis.

A DISCIPLINED, ROBUST CREDIT EVALUATION FRAMEWORK

- Earnings quality — sustainability and durability of cash flows, not just headline growth
- Balance sheet strength — leverage trends, coverage ratios, and access to funding markets
- Sector and issuer selection — greater dispersion argues against broad-based sector bets
- Ongoing monitoring — higher rates raise refinancing risk for weaker credits over time

06

Positioning Public Fund Portfolios

Practical takeaways and what to watch next

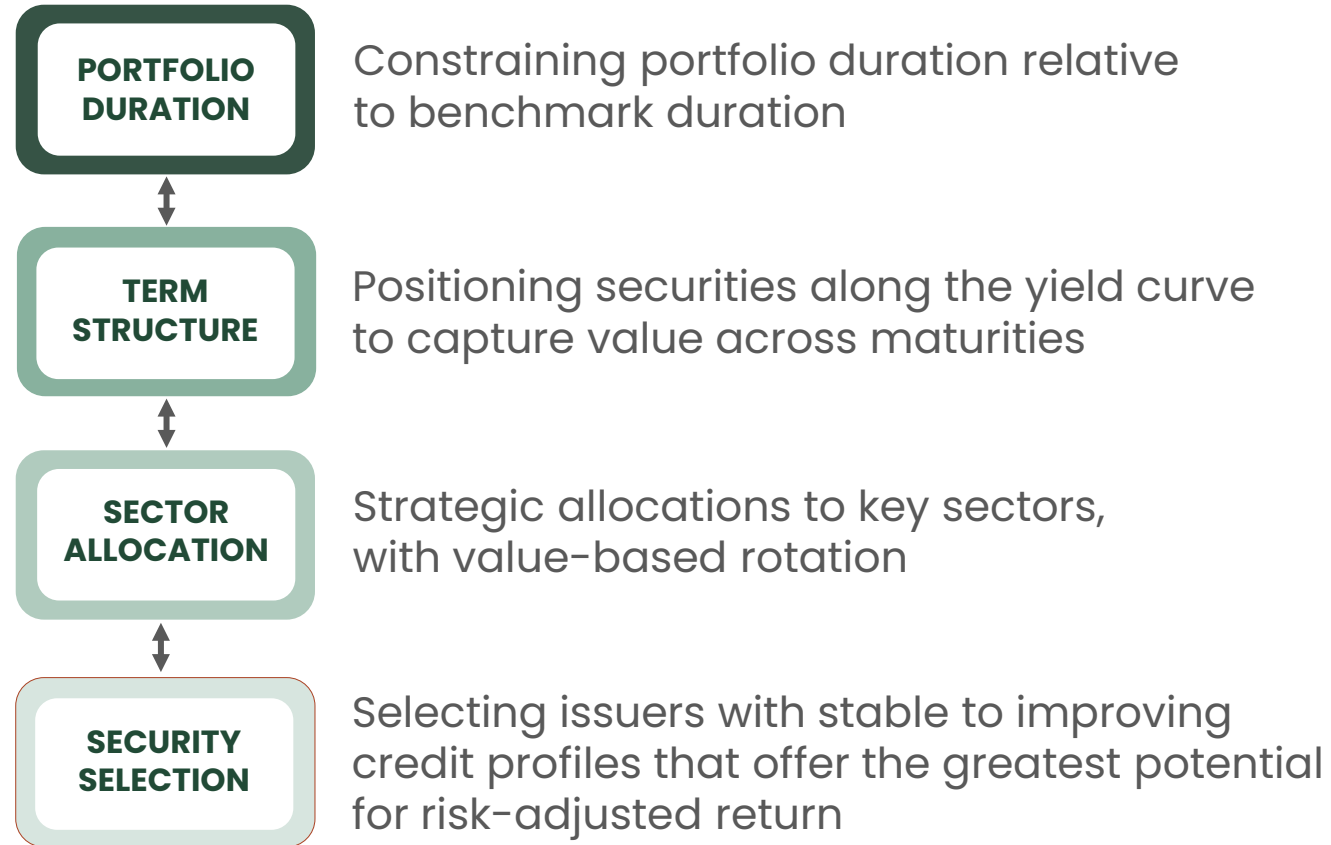
SECTION 06 — POSITIONING PORTFOLIOS

Portfolio implications at a glance

Driver	Effect	Response
Higher near-term neutral rate	Reduced fixed income tailwinds	Prioritize active duration management
Elevated policy uncertainty	Wider range of plausible outcomes	Diversify across permitted asset sectors
Tighter funding conditions	More episodic market dislocations	Strengthen liquidity management practices
Pressure on credit valuations	Compressed multiples, higher discount rates	Apply a disciplined credit evaluation framework

SECTION 06 — POSITIONING PORTFOLIOS

Portfolio implications at a glance



SECTION 06 — POSITIONING PORTFOLIOS

What to watch next

- 
- Sep 15–16, 2026** ● Next FOMC meeting; Summary of Economic Projections update scheduled
 - Q3–Q4 2026** ● Communications task force expected to propose reforms
 - Ongoing** ● Balance sheet, data, inflation-framework, and productivity task forces report progress
 - Dec 2026** ● Year-end FOMC meeting and SEP — a checkpoint for the first full year of the new regime

Dates for future FOMC meetings are tentative until confirmed at the preceding meeting; task force timing per Fed public statements as of June 2026.

CONCLUSION

A more balanced — and potentially more volatile — regime

The evolving Federal Reserve regime signals a shift away from the ultra-accommodative policies of the post-Global Financial Crisis era toward a more balanced, and potentially more volatile, policy environment.

Flexibility

Positioning that can adapt as forward guidance recedes and data-dependency rises

Rigorous risk management

Closer attention to duration, liquidity, and credit risk as tailwinds fade

Disciplined strategic asset allocation

A steady, process-driven approach across permitted sectors, through a less predictable cycle

Public fund managers who adapt on these three fronts may be better positioned to navigate the curve through this transition.

Thank you

Questions and discussion welcome.

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Walking the Steel

How leaders stay steady when the ground feels unstable

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What scares you?

FEAR FACTOR

Our top fears

Arachnophobia – Spiders

Ophidiophobia – Snakes

Acrophobia – Heights

Cynophobia – Intense fear of dogs

Glossophobia – Public speaking

Astraphobia – Thunder & lightning

Mysophobia – Germs

...and these

Bambakophobia –

Nomophobia –

Globophobia –

Genuphobia –

Koumpounophobia –

Willis Tower

103 stories 1,451 feet tall

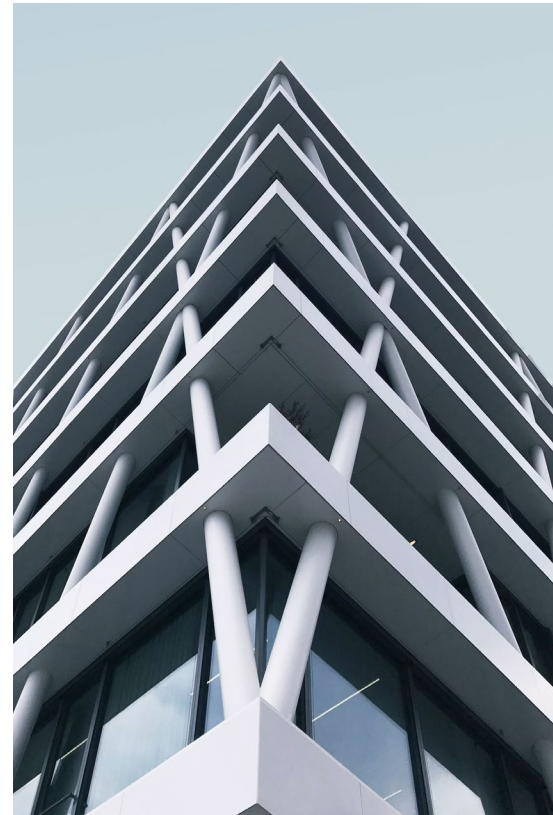


**Logic says you are safe.
Your body is not so sure.**

What scares you?

- Funding cuts?
- Workforce shortages?
- Layoffs?
- AI and technology?
- Employee burnout?
- Public scrutiny?
- Enrollment pressures?

Leadership is about facing heights and steep drop-offs.



Mohawk Skywalkers



Empire State Building, Chrysler Building, Twin Towers, Central Park Tower, George Washington Bridge

Mohawk Skywalker Myths



“We learned by discipline and honor to do what our fathers and uncles told us to do.”

Fear is the Signal.

Discipline is the Practice.

Steadiness is the Result.

The Bridge Collapse

33 Mohawk ironworker deaths

25 widows

53 children fatherless



The Personal Collapse

A diagnosis.

A death.

A family crisis.

A season of anxiety and loss.



Reports are still due.

Deadlines.

Meetings.

Staffing issues.



A steady leader does not pretend nothing happened.

1. Recognize the pain (admit it, name it, don't minimize it).
2. Adjust the load (reprioritize, delegate, delay).
3. Anchor to what remains true (value, purpose, relationships).
4. Protect your own (they need clarity, trust, humanity).
5. Take the next best step.

Discipline Under Pressure

Deciding what to carry to manage the load.

“The key is not to prioritize what’s on your schedule, but to schedule your priorities.”

Stephen Covey

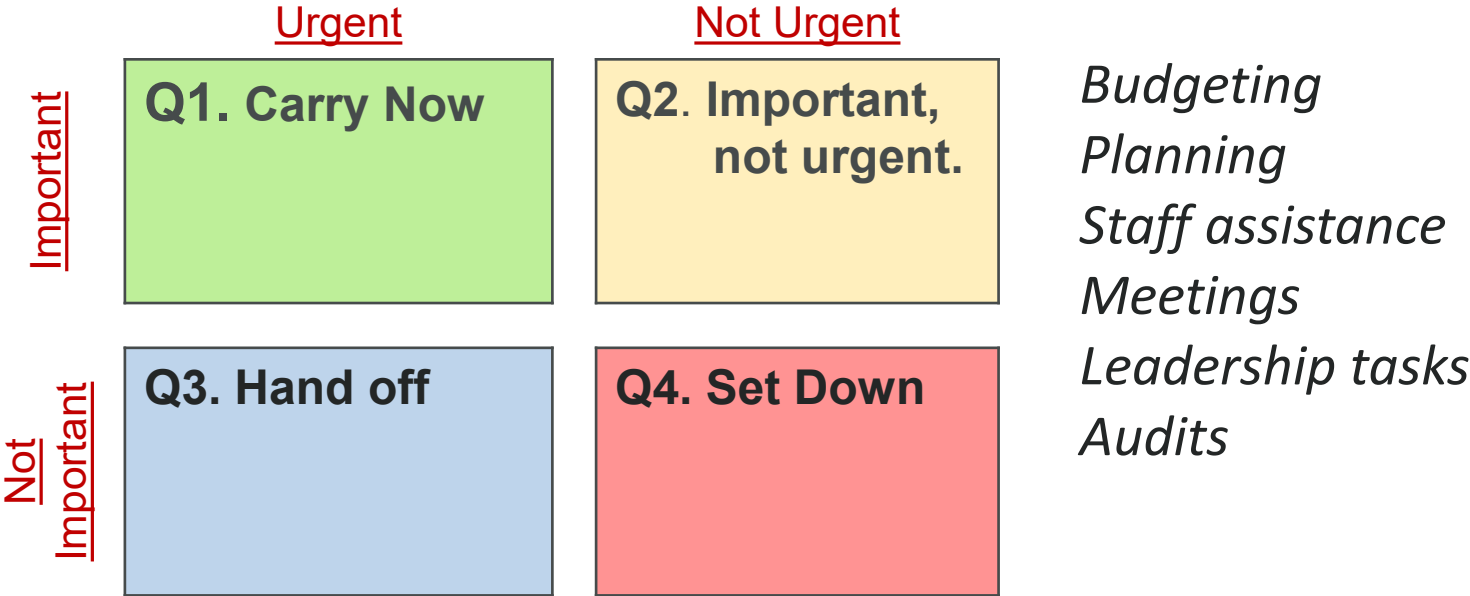


Adjusting the Load

Your Turn



List 8-10 tasks or decisions you’re facing now.
Place each task into one of the four quadrants on the matrix and score them



Steadiness Requires Attention to Details



- Burnout
- Silence (toward management)
- Missed deadlines
- High turnover
- Silo mentality
- Rising errors

Signs of Distress and Danger





Signs of Distress and Danger

Cracks are information

**Cracks, unnoticed or unchecked,
have the potential to bring down
an entire building**

Healthcare – Rural hospital closures and disruptions

Nonprofits – Funding cuts and program disruptions

Public Sector – Staffing issues, loss of institutional knowledge

Higher Ed –
Since 2020, 50 colleges have closed (or announced closure)
28 institutions closed in 2024

Table Discussion



- 1. Where do signs of distress usually show up first in your organization?** People? Work quality? Communication? Culture?
- 2. What warning signs do disciplined leaders need to notice?**
- 3. What is one active outreach question that could help your team regain steadiness?**

Organizational Steadiness

When the Organization Starts to Sway:

1. Notice the crack
2. Diagnose the strain (be honest)
3. Adjust the load
4. Steady the crew
5. Protect the structural core

Organizational Steadiness

1. Notice the crack (pay attention to signs of distress)

- People who used to contribute are now quiet.
- High performers are still producing but seem less engaged.
- Deadlines are being met, but quality is slipping.
- Teams are more reactive, short-tempered, or defensive.
- Turnover, burnout, cynicism, or “just get through it” language is increasing.
- Employees stop bringing up problems because they believe nothing will change.

Organizational Steadiness

2. Diagnose the Strain

ASK:

1. Is this capacity strain? Too much work, too few people?
2. Is this trust strain? People no longer speak honestly?
3. Is this priority strain? Everything is urgent, nothing is clear?
4. Is this communication strain? People are guessing instead of knowing?
5. Is this change strain? AI, funding, enrollment, or restructuring anxiety?

Organizational Steadiness

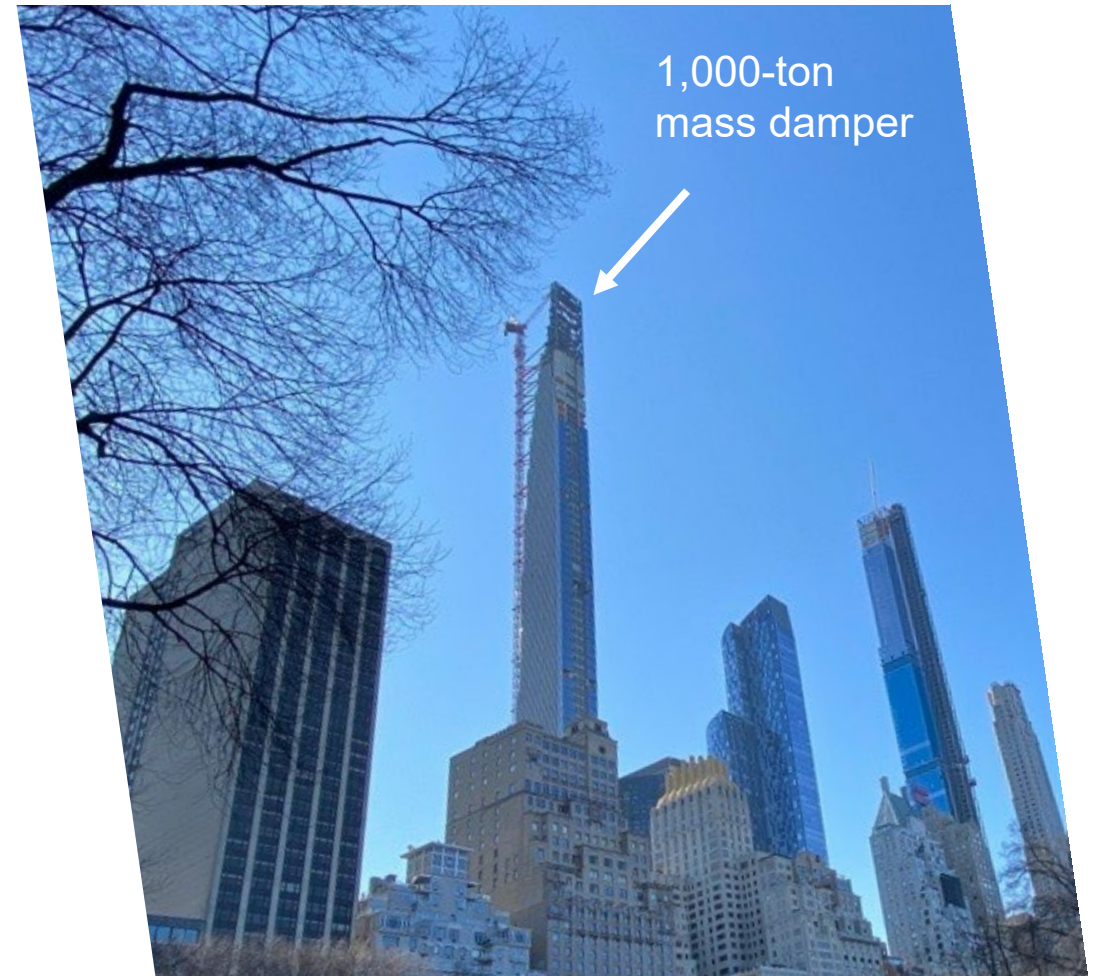
3. **Adjust the Load** (adjust, absorb, bend)

A skyscraper that stands perfectly rigid against strong forces is a structural liability.

Tuned Mass Dampers sway to reduce external forces.

What steps has your organization taken to counteract forces?

(contingency plans, succession, reserves, etc.)



Central Park Tower, world's tallest residential tower.

Organizational Steadiness

4. **Steady Your Crew** (communicate clearly and listen)

- What we know
- What we do not know
- How might this impact each of you?
- What is not changing?
- What happens next?
- What matters most now?

There is no such thing as
no communication.

Organizational Steadiness

5. Protect the Structural Core

Reaffirm the WHY (Raison D'être)

Make sure Mission and Vision are relevant and true

Name & live out Values (guiding behaviors)

When everything is moving, people need to know what is not moving.

Organizational Steadiness

5. Protect the Structural Core

When employees clearly understand the vision, they see how their daily tasks contribute to the broader goal.

Create the Big Picture

Connect the Dots

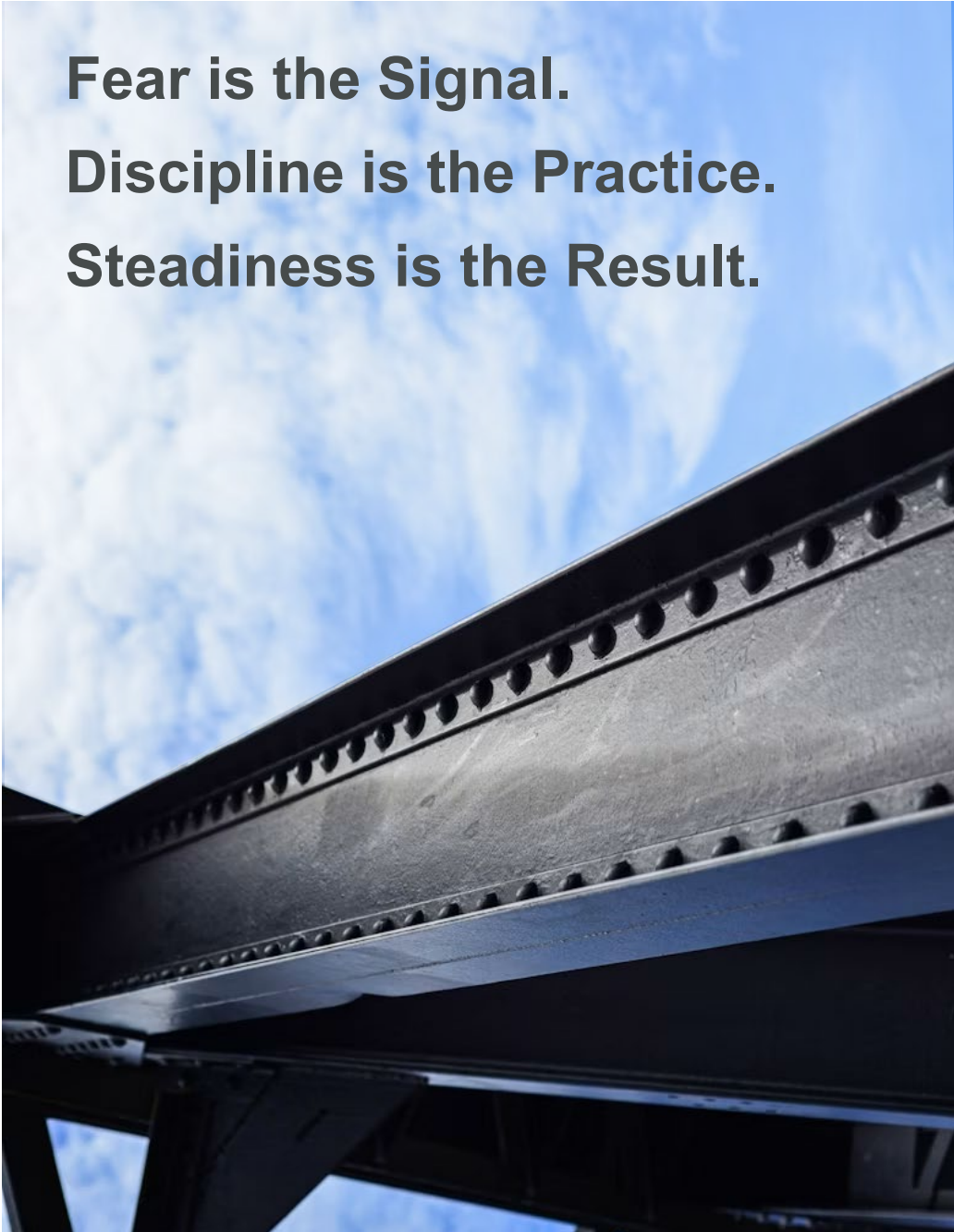
Accountant Challenge: Shifting their focus from **line-item precision** to **broader vision**.



Transfer the Discipline

The Skywalkers became steady because experienced people taught younger people what to do when the wind started blowing.

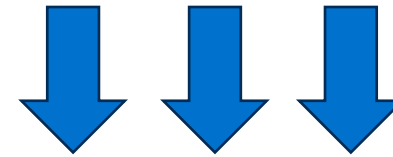
- **Teach insight and judgment** before a crisis hits
- **Model steadiness** when pressure rises
- **Help others learn & practice** before they inherit the beam



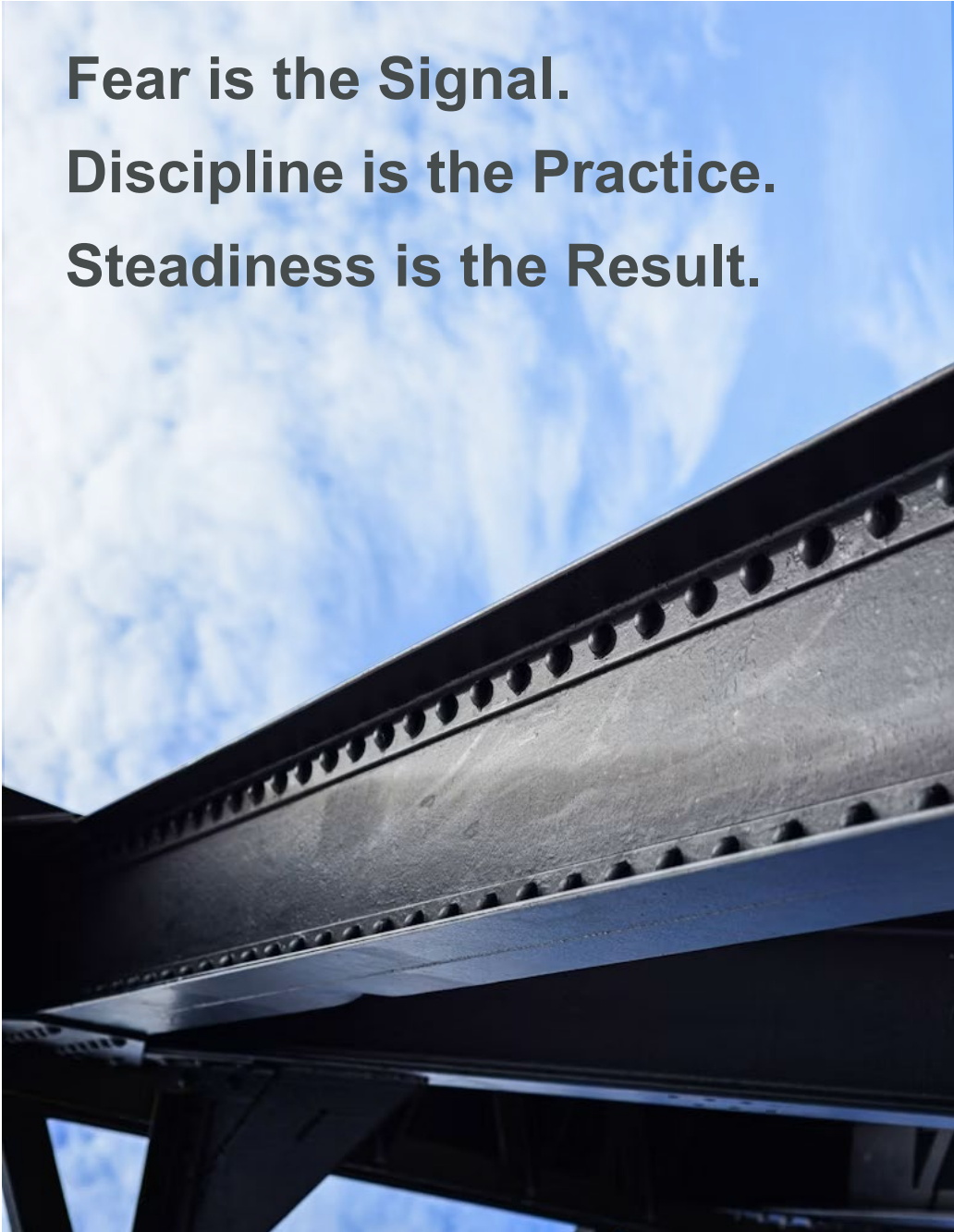
Fear is the Signal.
Discipline is the Practice.
Steadiness is the Result.

Fear – something may be wrong.

Discipline – look closely, ask questions,
adjust the load, etc.



Steadiness – confidence and results.



**Fear is the Signal.
Discipline is the Practice.
Steadiness is the Result.**

Is your organization showing cracks?

Do you look for these details?

What loads need to be adjusted?

What must be moved (and never move)?

Your commitment:

**When I return, the next steady
step I need to take is:**

THANK YOU!

The information set forth in this presentation contains the analysis and conclusions of the author(s) based upon his/her/their research and analysis of industry information and legal authorities. Such analysis and conclusions should not be deemed opinions or conclusions by Forvis Mazars or the author(s) as to any individual situation as situations are fact-specific. The reader should perform their own analysis and form their own conclusions regarding any specific situation. Further, the author(s)' conclusions may be revised without notice with or without changes in industry information and legal authorities.

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A photograph of three professionals (two men and one woman) working together at a desk at night. They are looking at a laptop screen. The woman is leaning over the two men, pointing at the screen. The man on the left is wearing glasses and a blue shirt. The man on the right is wearing a light blue shirt. The background is dark with some bokeh lights.

Preparing for GASB 103 Financial Reporting Requirements & Practical Impacts

2026 Public Sector Seminar

Agenda

1. Background of GASB 103, Scope, & Effective Date
2. Key Changes & Example Financial Statements
3. Supporting GASB 103 with The Reporting Solution (TRS)
4. GASB Implementation Guide Exposure Draft
5. Questions and Answers and Discussion



01

Background of GASB 103, Scope, & Effective Date



Background

- GASB Statement No. 34, *Basic Financial Statements—& Management's Discussion & Analysis—for State & Local Governments*
 - Issued in 1999
 - Defined the structure and measurement focus of basic financial statements, notes, & required supplementary information (RSI), including the MD&A
 - Introduced government-wide financial statements using accrual accounting, which incorporated reporting of infrastructure, other capital assets, & long-term liabilities—items previously reported only on a modified accrual basis in governmental funds
 - Mandated a narrative MD&A before the financial statements, required presentation of the original budget in the budgetary comparison schedule, introduced major fund reporting for governmental & enterprise funds, & added notes on capital asset & long-term liability activity during the reporting period
- GASB Statement No. 103, *Financial Reporting Model Improvements*
 - Initial research to update the financial reporting model began in 2013
 - Over the last decade, GASB has conducted surveys of preparers, auditors, & users, performed field tests, held multiple user forums & public hearings, & reviewed hundreds of comment letters as part of developing GASB 103



Scope

- GASB 103 establishes new accounting & financial reporting requirements—or modifies existing requirements—related to the following:
 - Management's discussion & analysis (MD&A)
 - Unusual or infrequent items
 - Presentation of the proprietary fund statement of revenues, expenses, & changes in fund net position
 - Information about major component units in basic financial statements
 - Budgetary comparison information
 - Financial trends information in the statistical section

Effective Date

	Implement for Fiscal Years Ending			
Fiscal Years Beginning After	March 31	June 30	September 30	December 31
June 15, 2025	2027	2026	2026	2026

The requirements of GASB 103 are effective for fiscal years beginning after June 15, 2025, & all reporting periods thereafter. Earlier application is encouraged.

If a primary government chooses early implementation of GASB 103, all component units also should implement GASB 103 in the same year.

Implementation Guide 2025-1 Q&A

Effective Date

- **Q** – If a primary government is implementing Statement 103 for its fiscal year ended June 30, 2026, & it will include in its financial statements a component unit with a fiscal year-end of December 31, 2025 (in accordance with the provisions in paragraph 59 of Statement No. 14, The Financial Reporting Entity), when should the component unit implement Statement 103?
- **A** – For the purposes of implementing Statement 103, which requires changes to the presentation of certain financial statements, the component unit should implement that Statement in its December 31, 2025 financial statements.

02

Key Changes & Example Financial Statements



Management's Discussion & Analysis (MD&A)

- GASB 103 does not make major changes to the MD&A
- GASB 103 instead includes detailed explanations of what they want the preparer to do:
 - Financial managers are knowledgeable regarding the transactions & events, fiscal policies, & other conditions that may have a significant impact
 - The analysis should assist users in understanding why balances changed
 - Financial managers should include the explanations that are most relevant to the information presented each year
 - Discussion is confined to five categories:
 1. Overview of the Financial Statements
 2. Financial Summary
 3. Detailed Analyses
 4. Significant Capital Asset & Long-Term Financing Activity
 5. Currently Known Facts, Decisions, or Conditions

Currently Known Facts, Decisions, or Conditions

- GASB 103 includes examples of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net position) or that are expected to produce significant differences from the current-period results of operations
- Examples include:
 - Trends in relevant economic & demographic data
 - Relevant factors used to develop the subsequent year's budget
 - Expected changes in budgetary net position or fund balance
 - Actions the government has taken related to postemployment benefit liabilities
 - Capital asset improvement plans
 - Lessee liabilities, operator liabilities in PPP arrangements, SBITA liabilities, & other long-term financings that will affect the government in a subsequent period
 - Actions other parties have taken that will affect the government in a subsequent period, such as new legislation or regulations imposed on the government
- The focus on this section should be currently known information. For purposes of MD&A, currently known refers to information that management is aware of as of the date the financial statements are issued

Appendix C: Illustration

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Currently known facts, decisions, or conditions

The City is aware of five developments that will have an impact on the City's finances in the future and were therefore incorporated into next year's budget:

- (1) Public safety employee unions' new contract
- (2) Amendments to the City budget
- (3) Recent economic reports
- (4) Adoption of the State budget
- (5) Pension plan changes.

Public safety employee unions' new contract

The collective bargaining agreement for uniformed police officers and firefighters expired at the end of fiscal year 20X5. On September 15, 20X5, the members of the public safety employee unions ratified a new four-year contract that is retroactive to the start of fiscal year 20X6. The key features of the contract are annual increases in base pay of 3.5 percent; increases in rank pay, shift premiums, and other add-ons averaging 2.5 percent; and a series of nonpensionable bonuses at the end of each calendar year. The contract also changes certain staffing rules that will allow the City more flexibility in deploying its uniformed employees and, as a result, is expected to reduce overtime spending. The City's Labor Relations Division budgeted an annual increase of \$4.1 million of expenses to the public safety function, net of reduced overtime costs, as a result of the contract.

Amendments to the City budget

The first mid-year amendment to the City's operating budget addresses budgetary variances that are found in the actual results for the first quarter ending September 30, 20X5. The additional public safety expenses resulting from the new contract were a prominent aspect of the amendment, which was adopted by the City Council on November 1, 20X5. Use tax revenues for the first quarter were 4.6 percent below budget. Extrapolated for the full year, use taxes would fall short of the budget by \$1.9 million. The City Council decided to monitor ongoing tax receipts for further deterioration and to postpone consideration of a rate increase until the second mid-year modification. To potentially buffer the lost revenue, the City Council identified certain positions that are vacant or expected to become vacant that could be filled more slowly than originally planned and adjusted the department budgets accordingly.

Unusual or Infrequent Items

Replace extraordinary or special items

Unusual in nature

Infrequent in occurrence

Unusual or Infrequent Items Defined

Unusual nature – The underlying event or transaction should possess a high degree of abnormality & be of a type clearly unrelated to, or only incidentally related to, the ordinary & typical activities of the government, taking into account the environment in which the government operates. Unusual nature is not established by the fact that an event or transaction is beyond the control of management.

Infrequency of occurrence – The underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the government operates. The past occurrence of an event or transaction for a particular government provides evidence to assess the probability of recurrence of that type of event or transaction in the foreseeable future.

Unusual or Infrequent Items

- Display inflows & outflows for each unusual or infrequent item separately
- Displayed as last items before net change in resource flows
- Should not be netted
- Notes should disclose:
 - The program, function, or identifiable activity to which each is related
 - If the event was within the control of management

Sample City
Statement of Activities
for the Year Ended June 30, 20X5
(amounts expressed in thousands)

This is an alternative presentation using a combining statement (Exhibit 13) in order not to reduce the readability of this statement.

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 46,059	\$ 22,500	\$ -	\$ -	\$ (23,559)		\$ (23,559)	
Public safety	205,416	8,688	31,395	-	(165,333)		(165,333)	
Public works	71,308	2,948	-	8,564	(59,796)		(59,796)	
Culture and recreation	25,631	2,868	-	-	(22,763)		(22,763)	
Social and economic development	79,701	8,297	6,768	22,321	(42,315)		(42,315)	
Interest on long-term debt	25,566	-	-	-	(25,566)		(25,566)	
Total governmental activities	<u>453,681</u>	<u>45,301</u>	<u>38,163</u>	<u>30,885</u>	<u>(339,332)</u>		<u>(339,332)</u>	
Business-type activities:								
Public utility	42,687	41,003	-	2,938		\$ 1,254	1,254	
Transit authority	25,826	18,636	-	-		(7,190)	(7,190)	
Golf courses	8,396	2,561	-	-		(5,835)	(5,835)	
Total business-type activities	<u>76,909</u>	<u>62,200</u>	<u>-</u>	<u>2,938</u>		<u>(11,771)</u>	<u>(11,771)</u>	
Total primary government	<u>\$ 530,590</u>	<u>\$ 107,501</u>	<u>\$ 38,163</u>	<u>\$ 33,823</u>	<u>(339,332)</u>	<u>(11,771)</u>	<u>(351,103)</u>	
Total component units	<u>\$ 111,018</u>	<u>\$ 72,991</u>	<u>\$ 16,503</u>	<u>\$ 12,902</u>				<u>\$ (8,622)</u>
General revenues:								
Taxes:								
Sales taxes					279,567	-	279,567	6,340
Property taxes					78,930	-	78,930	3,153
Franchise taxes					23,122	-	23,122	-
Use taxes					41,068	-	41,068	-
Hotel/motel taxes					7,870	-	7,870	-
Special assessment tax					2,880	-	2,880	-
Payments in lieu of taxes					16,869	-	16,869	-
Intergovernmental revenue					9,324	-	9,324	-
Investment earnings					20,667	1,674	22,341	3,034
Miscellaneous					3,195	420	3,615	-
Transfers					(18,996)	18,996	-	-
Unusual or infrequent item—flood damage:								
Grant revenues					2,500	-	2,500	-
Cleanup					(10,000)	-	(10,000)	-
Total general revenues, transfers, and unusual or infrequent item					<u>456,996</u>	<u>21,090</u>	<u>478,086</u>	<u>12,527</u>
Change in net position					117,664	9,319	126,983	3,905
Net position—beginning of period					1,616,147	539,077	2,155,224	395,568
Net position—end of period					<u>\$ 1,733,811</u>	<u>\$ 548,396</u>	<u>\$ 2,282,207</u>	<u>\$ 399,473</u>

Proprietary Fund Statement of Revenues, Expenses, & Changes in Fund Net Position

- GASB 103 retains the requirement for proprietary fund statements of revenues, expenses, & changes in fund net position to distinguish between operating & nonoperating revenues & expenses
- Operating revenues & expenses are defined as revenues & expenses other than nonoperating revenues & expenses
 - These classifications should generally align with how transactions are reported in the statement of cash flows
- Nonoperating revenues & expenses are defined as:
 - (a) subsidies received & provided
 - (b) contributions to permanent & term endowments
 - (c) revenues & expenses related to financing, *i.e.*, interest income & expense
 - (d) resources from the disposal of capital assets & inventory, &
 - (e) investment income & expenses
 - This definition eliminates the need for governments to establish individual policies defining operating revenues & expenses, as previously required by GASB 34

Proprietary Fund Statement of Revenues, Expenses, & Changes in Fund Net Position

The statement of revenues, expenses, & changes in fund net position should present the following information in the order shown, using the all-inclusive format indicated:

Operating revenues (detailed)

Total operating revenues

Operating expenses (detailed)

Total operating expenses

Operating income (loss)

Noncapital subsidies (detailed)

Total noncapital subsidies

Operating income (loss) and noncapital subsidies

Other nonoperating revenues and expenses (detailed)

Total other nonoperating revenues and expenses

Income (loss) before unusual or infrequent items

Unusual or infrequent items (detailed)

Increase (decrease) in fund net position

Fund net position—beginning of period

Fund net position—end of period

Proprietary Fund Statement of Revenues, Expenses, & Changes in Fund Net Position

Subsidies

- GASB 103 defines subsidies as follows:
 - (1) resources received from another party or fund
 - (a) for which the proprietary fund does not provide goods & services to the other party or fund &
 - (b) that directly or indirectly keep the proprietary fund's current or future fees & charges lower than they would be otherwise
 - (2) resources provided to another party or fund
 - (a) for which the other party or fund does not provide goods & services to the proprietary fund &
 - (b) that are recoverable through the proprietary fund's current or future pricing policies
 - (3) all other transfers

Sample City
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
for the Year Ended June 30, 20X5
(amounts expressed in thousands)

See Exhibit 21 for an illustration of an optional combining statement of internal service funds.

	Enterprise Funds				Internal Service Funds
	Public Utility	Transit Authority	Golf Courses	Total	
OPERATING REVENUES					
Charges for services	\$ 41,003	\$ 18,636	\$ 2,561	\$ 62,200	\$ 42,523
Miscellaneous	283	33	104	420	78
Total operating revenues	<u>41,286</u>	<u>18,669</u>	<u>2,665</u>	<u>62,620</u>	<u>42,601</u>
OPERATING EXPENSES					
Personnel services	13,991	-	-	13,991	5,786
Contractual services	13,952	16,406	4,893	35,251	4,117
Insurance claims and expenses	-	-	-	-	26,388
Depreciation	11,767	8,972	2,375	23,114	415
Other	1,067	-	165	1,232	7,834
Total operating expenses	<u>40,777</u>	<u>25,378</u>	<u>7,433</u>	<u>73,588</u>	<u>44,540</u>
Operating income (loss)	<u>509</u>	<u>(6,709)</u>	<u>(4,768)</u>	<u>(10,968)</u>	<u>(1,939)</u>
NONCAPITAL SUBSIDIES					
Intergovernmental revenue	-	-	-	-	881
Transfers in	-	2,090	110	2,200	300
Transfers out	(1,980)	-	-	(1,980)	-
Total noncapital subsidies	<u>(1,980)</u>	<u>2,090</u>	<u>110</u>	<u>220</u>	<u>1,181</u>
Operating income (loss) and noncapital subsidies	<u>(1,471)</u>	<u>(4,619)</u>	<u>(4,658)</u>	<u>(10,748)</u>	<u>(758)</u>
OTHER NONOPERATING REVENUES (EXPENSES)					
Investment earnings	1,496	75	103	1,674	446
Gain from the sale of capital assets	-	-	-	-	3
Interest expense	(1,910)	(448)	(963)	(3,321)	-
Capital contributions	2,938	-	-	2,938	-
Transfers in—restricted for capital assets	1,032	15,360	2,384	18,776	1,215
Total other nonoperating revenue (expenses)	<u>3,556</u>	<u>14,987</u>	<u>1,524</u>	<u>20,067</u>	<u>1,664</u>
Increase (decrease) in fund net position	<u>2,085</u>	<u>10,368</u>	<u>(3,134)</u>	<u>9,319</u>	<u>906</u>
Fund net position—beginning of period	<u>331,657</u>	<u>177,997</u>	<u>29,423</u>	<u>539,077</u>	<u>12,387</u>
Fund net position—end of period	<u>\$ 333,742</u>	<u>\$ 188,365</u>	<u>\$ 26,289</u>	<u>\$ 548,396</u>	<u>\$ 13,293</u>

Implementation Guide 2025-1 Q&A

Interest Revenues & Expenses

- **Q** – Paragraph 13 of Statement No. 103, Financial Reporting Model Improvements, indicates that interest revenues of a proprietary fund established to provide loans to first-time homeowners should be reported as operating revenues because those transactions constitute the proprietary fund's principal ongoing operations. If this proprietary fund reports interest expenses associated with borrowings that finance operations, would the interest expenses be reported as operating expenses?
- **A** – No. Interest expenses related to financing are always reported as nonoperating expenses. The interest revenues are related to the operations of the program, whereas the interest expenses are related to how the fund obtained resources (financing) to operate its lending program.

Implementation Guide 2025-1 Q&A

Interest Revenues – BTA

- **Q** – If the principal ongoing operation of a business-type activity (BTA) or an enterprise fund is leasing property to other entities, should interest revenue related to leases be reported as operating revenue?
- **A** – No. Interest revenue is a revenue related to financing, which, in accordance with paragraph 13 of Statement 103, is a nonoperating revenue unless financing transactions constitute the proprietary fund's principal ongoing operations. If the principal ongoing operation of a BTA or an enterprise fund is leasing property to other entities, the principal ongoing operation is conveying control of the right to use an underlying asset. Because interest revenue related to a lease is recognized from financing the operation of conveying control of the right to use an underlying asset, rather than from the operation itself, interest revenue from a lease should not be reported as operating revenue.

Implementation Guide 2025-1 Q&A

Subsidies

- **Q** – How should subsidies be classified if resources are used for the acquisition of capital assets in circumstances in which the provider of a subsidy did not limit the use of the resources to the acquisition of capital assets?
- **A** – Subsidies are classified as noncapital subsidies if the provider of the subsidy either does not limit the use of the resources or limits the use of the resources to something other than the acquisition of capital assets. Subsidies are only classified as capital subsidies (that is, all subsidies other than noncapital subsidies) if the provider of the subsidy has limited the use of the resources to the acquisition of capital assets. The recipient's use of all or a portion of a subsidy for capital purposes does not, by itself, result in all or a portion of the subsidy being classified as a capital subsidy. Subsidies other than noncapital subsidies should be reported as other nonoperating revenues & expenses.

Implementation Guide 2025-1 Q&A

PILOTS as Subsidies

- **Q** – Do payments in lieu of taxes (PILOTs) made by a BTA or a proprietary fund meet the definition of subsidies?
- **A** – It depends on the substance of the transaction. In many circumstances, a PILOT is an arrangement in which (a) a payment from a BTA or proprietary fund is made either to the general fund of the primary government or to another government to compensate for tax revenue lost due to tax exemptions for the purpose of supporting general governmental activities & (b) the BTA or proprietary fund establishes a rate or fee that produces operating income greater than or equal to the amount of the PILOT. In these circumstances, the PILOT would meet the definition of subsidies. However, in other circumstances, a PILOT is a payment from a BTA or proprietary fund to another government or fund for goods or services provided to the BTA or proprietary fund. In those circumstances, the PILOT would not meet the definition of subsidies. The name of the arrangement is not relevant to the determination of whether it is a subsidy for accounting & financial reporting purposes.

Implementation Guide 2025-1 Q&A

Healthcare Subsidies

- **Q** – An insured individual receives covered healthcare services from a governmental healthcare provider, resulting in recognition of a revenue & receivable by the governmental healthcare provider. The third-party insurer is responsible for making payments to the governmental healthcare provider in accordance with the terms of the insurance contract. Does this circumstance meet the criterion established in paragraph 14a of Statement 103 for purposes of the definition of subsidies?
- **A** – No. Even though the third-party insurer did not directly receive goods or services from the governmental healthcare provider, those payments do not meet the criterion in paragraph 14a. The insured individual received goods or services from the governmental healthcare provider that resulted in the healthcare provider receiving resources in the form of a receivable. The third-party insurer is paying the governmental healthcare provider in place of the insured individual because of the contractual relationship between the insured individual & the third-party insurer.

Major Component Units



GASB 103 requires governments to present each major component unit separately in the reporting entity's statement of net position & statement of activities, unless doing so would reduce the readability of the financial statements.



If the readability of those statements would be reduced, combining statements of major component units should be included after the fund financial statements.



GASB 103 eliminates the option to present major component unit information solely in the reporting entity's notes to financial statements.



The criteria for determining a major component unit remains unchanged from GASB 14 & continues to be based on the nature & significance of its relationship to the primary government.

Sample City
Combining Statement of Net Position
Discretely Presented Component Units
June 30, 20X5
(amounts expressed in thousands)

This is an alternative presentation using a combining statement in order not to reduce the readability of Exhibit 2.

	Energy Authority	Airport	Nonmajor Component Units	Total (See Exhibit 2)
ASSETS				
Cash and cash equivalents	\$ 10,928	\$ 31,958	\$ 17,247	\$ 60,133
Investments	9,487	27,744	14,972	52,203
Receivables, net	2,946	6,486	24,827	34,259
Inventories	-	1,517	765	2,282
Other assets	-	407	992	1,399
Capital assets:				
Nondepreciable capital assets	171	147,234	14,985	162,390
Depreciable capital assets, net	7,857	252,813	45,262	305,932
Total assets	<u>31,389</u>	<u>468,159</u>	<u>119,050</u>	<u>618,598</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension-related items	814	2,404	1,397	4,615
OPEB-related items	42	-	36	78
Debt refundings	-	9,185	267	9,452
Total deferred outflows of resources	<u>856</u>	<u>11,589</u>	<u>1,700</u>	<u>14,145</u>
LIABILITIES				
Accounts payable and accrued expenses	1,963	6,299	3,463	11,725
Advances	-	529	93	622
Long-term liabilities:				
Short-term portion				
Bonds payable	-	8,441	970	9,411
Other	255	276	114	645
Long-term portion				
Bonds payable	-	162,164	6,195	168,359
Net pension liability	5,656	19,308	12,317	37,281
Net OPEB liability	57	1,837	187	2,081
Other	11	367	37	415
Total liabilities	<u>7,942</u>	<u>199,221</u>	<u>23,376</u>	<u>230,539</u>
DEFERRED INFLOWS OF RESOURCES				
Pension-related items	246	670	1,780	2,696
OPEB-related items	18	-	17	35
Total deferred inflows of resources	<u>264</u>	<u>670</u>	<u>1,797</u>	<u>2,731</u>
NET POSITION				
Net investment in capital assets	8,016	260,554	54,412	322,982
Restricted for:				
Debt service	-	9,733	3,244	12,977
Capital projects	-	1,812	8,032	9,844
Other purposes	-	-	21,927	21,927
Unrestricted	16,023	7,758	7,962	31,743
Total net position	<u>\$ 24,039</u>	<u>\$ 279,857</u>	<u>\$ 95,577</u>	<u>\$ 399,473</u>

Sample City
Combining Statement of Activities
Discretely Presented Component Units
for the Year Ended June 30, 20X5
(amounts expressed in thousands)

This is an alternative presentation using a combining statement in order not to reduce the readability of Exhibit 3.

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Energy Authority	Airport	Nonmajor Component Units	Total
Component units:								
Energy authority	\$ 26,925	\$ 26,723	\$ -	\$ -	\$ (202)			\$ (202)
Airport	51,306	34,520	9,237	10,168		\$ 2,619		2,619
Nonmajor component units	32,787	11,748	7,266	2,734			\$ (11,039)	(11,039)
Total component units	<u>\$ 111,018</u>	<u>\$ 72,991</u>	<u>\$ 16,503</u>	<u>\$ 12,902</u>	<u>(202)</u>	<u>2,619</u>	<u>(11,039)</u>	<u>(8,622)</u>
General revenues:								
Taxes:								
Sales taxes					-	-	6,340	6,340
Property taxes					-	-	3,153	3,153
Investment earnings					554	1,523	957	3,034
Total general revenues					<u>554</u>	<u>1,523</u>	<u>10,450</u>	<u>12,527</u>
Change in net position					352	4,142	(589)	3,905
Net position—beginning of period					<u>23,687</u>	<u>275,715</u>	<u>96,166</u>	<u>395,568</u>
Net position—end of period					<u>\$ 24,039</u>	<u>\$ 279,857</u>	<u>\$ 95,577</u>	<u>\$ 399,473</u>

Budgetary Comparison Information

GASB 103 requires governments to present budgetary comparison information exclusively as RSI, removing the option to include as a basic financial statement.

Governments also are required to present (1) variances between original & final budget amounts & (2) variances between final budget & actual amounts.

Explanation of significant variances is required to be presented in notes to RSI.

Required Supplementary Information

Sample City

Budgetary Comparison Schedule

General Fund

for the Year Ended June 30, 20X6

(amounts expressed in thousands)

	Budgeted Amounts		Variance with Original Budget—over (under) Final Budget	Actual Amounts Budgetary (and GAAP) Basis	Variance with Final Budget—over (under) Actual Amounts
	Original	Final			
BUDGETARY REVENUES					
Taxes	\$ 157,715	\$ 157,715	\$ -	\$ 161,885	\$ 4,170
Payments in lieu of taxes	16,218	15,853	(365)	15,737	(116)
Intergovernmental	1,560	2,002	442	1,597	(405)
Charges for services	13,299	13,299	-	13,905	606
Licenses, permits, and fees	2,712	3,220	508	3,532	312
Fines and forfeitures	8,262	8,262	-	7,853	(409)
Investment earnings	5,100	5,100	-	6,792	1,692
Miscellaneous	3,313	3,313	-	2,075	(1,238)
Total budgetary revenues	208,179	208,764	585	213,376	4,612
BUDGETARY EXPENDITURES					
Current:					
General government	29,786	29,138	(648)	29,097	(41)
Public safety	132,479	129,953	(2,526)	129,770	(183)
Public works	3,297	3,263	(34)	1,882	(1,381)
Culture and recreation	22,086	22,075	(11)	21,354	(721)
Social and economic development	12,095	12,038	(57)	11,614	(424)
Debt Service:					
Principal	1,275	1,275	-	1,262	(13)
Interest and other charges	41	41	-	54	13
Capital outlay	1,105	1,105	-	1,103	(2)
Total budgetary expenditures	202,164	198,888	(3,276)	196,136	(2,752)
Budgetary excess of revenues over expenditures	6,015	9,876	3,861	17,240	7,364
BUDGETARY OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets	-	-	-	275	275
Transfers in	2,630	2,630	-	2,630	-
Transfers out	(1,871)	(2,713)	(842)	(662)	2,051
Total budgetary other financing sources (uses)	759	(83)	(842)	2,243	2,326
UNUSUAL OR INFREQUENT ITEM—FLOOD DAMAGE					
Grant revenues	-	2,500	2,500	2,500	-
Cleanup	-	(10,000)	(10,000)	(10,000)	-
Total	-	(7,500)	(7,500)	(7,500)	-
Net change in fund balances	6,774	2,293	(4,481)	11,983	9,690
Budgetary fund balance—beginning of period	55,009	55,009	-	55,009	-
Budgetary fund balance—end of period	\$ 61,783	\$ 57,302	\$ (4,481)	66,992	\$ 9,690
RECONCILIATION TO GAAP BASIS					
Total fund balance GAAP basis				\$ 66,992	

Required Supplementary Information
Sample City
Budgetary Comparison Schedule
Public Safety and Transportation Special Revenue Fund
for the Year Ended June 30, 20X5
(amounts expressed in thousands)

	Budgeted Amounts		Variance with Original Budget— over (under) Final Budget	Actual Amounts Budgetary (and GAAP) Basis	Variance with Final Budget— over (under) Actual Amounts
	Original	Final			
BUDGETARY REVENUES					
Taxes	\$ 49,825	\$ 49,825	\$ -	\$ 51,442	\$ 1,617
Intergovernmental	29,750	29,750	-	30,337	587
Charges for services	6,720	6,720	-	6,848	128
Investment earnings	1,900	1,900	-	2,295	395
Total budgetary revenues	88,195	88,195	-	90,922	2,727
BUDGETARY EXPENDITURES					
Current:					
General government	13,665	15,305	1,640	15,083	(222)
Public safety	58,000	58,250	250	58,452	202
Public works	16,265	16,945	680	16,934	(11)
Total budgetary expenditures	87,930	90,500	2,570	90,469	(31)
Net change in fund balances	265	(2,305)	2,570	453	2,758
Budgetary fund balance—beginning of period	4,024	4,024	-	4,024	-
Budgetary fund balance—end of period	\$ 4,289	\$ 1,719	\$ 2,570	4,477	\$ 2,758
RECONCILIATION TO GAAP BASIS					
Total fund balance GAAP basis				\$ 4,477	

Required Supplementary Information
Note to Budgetary Comparison Schedules
(amounts expressed in thousands)

Note A—Actual Budget Results

	<u>General Fund over (under)</u>	<u>Public Safety and Transportation Fund over (under)</u>
BUDGETARY REVENUES		
Differences—final budget to actual:		
The City experienced an increase in revenue for taxes from budgeted amounts primarily due to the opening of the new shopping center 3 months earlier than expected.	\$ 4,170	\$ 1,617
Actual amounts of interest revenue exceeded budgeted amounts as the City saw higher interest rates than expected.	1,692	395
BUDGETARY EXPENDITURES		
Differences—original budget to final budget:		
The original budget was amended for public safety as the new police station #453 was completed 7 months behind schedule. The original budget included salaries and benefits for new officers and administrative staff, in addition to noncapital building expenditures. Station #453 will be opening in the next fiscal year, and these expenditures have been included in the next year's budget.	\$ (2,526)	\$ -
UNUSUAL OR INFREQUENT ITEM		
Differences—original budget to final budget:		
The City experienced flood damage during the current fiscal year. During the year, the City increased the original budget to account for the State grants received to address the flood damage.	\$ 2,500	\$ -
During the year, the City increased the original budget to account for the spending required to address the flood damage.	(10,000)	-

Note: This explanation of significant differences is shown in a tabular format. Governments can show this information in other styles such as paragraph form if they choose.

Financial Trends Information in the Statistical Section

- When a statistical section is included in separately issued financial reports, governments that engage solely in business-type activities or in both business-type & fiduciary activities should present revenues distinguishing between operating, noncapital subsidy, & other nonoperating revenues & expenses.

04

GASB Implementation Guide Exposure Draft and Resources



GASB Exposure Draft

Financial Reporting Model Improvements— Subsidies

- GASB has released an [Exposure Draft](#) for the Proposed Implementation Guide on Financial Reporting Model Improvements—Subsidies, connected to Statement 103, *Financial Reporting Model Improvements*.
- Final guidance expected 3rd Quarter of 2026

GASB 103 Checklist

[GASB-103-Implementation-Checklist.pdf](#)

GASB 103 Implementation Checklist



Question	GASB 103 Para No.	Status (Completed/ Pending/N/A)	Comments	Owner	Reviewed By
Management's Discussion & Analysis (MD&A)					
Is the MD&A written in a clear and understandable manner for users without detailed governmental accounting knowledge?	4				
Does the MD&A analysis avoid unnecessary duplication and boilerplate discussion?	6&8				
Is the information presented confined to the topics discussed in the five sections outlined below?	8				

05

Group Discussion – Questions & Answers



Contact

Forvis Mazars

Marcie Ardan

Assurance Managing Director

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The information set forth in this presentation contains the analysis and conclusions of the author(s) based upon his/her/their research and analysis of industry information and legal authorities. Such analysis and conclusions should not be deemed opinions or conclusions by Forvis Mazars or the author(s) as to any individual situation as situations are fact-specific. The reader should perform their own analysis and form their own conclusions regarding any specific situation. Further, the author(s)' conclusions may be revised without notice with or without changes in industry information and legal authorities.

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2026 Single Audit Update

Agenda

1. Single Audit Overview
2. Single Audit Environment
3. Status and
Expectations for 2026 Compliance Supplement
4. Reminders and best practices



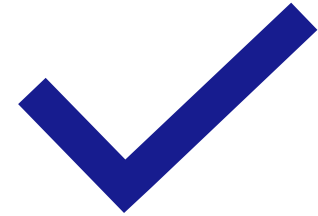
Single Audit Regulatory Framework



Grant agreement



2 CFR Part 200
(Uniform Guidance)



OMB Compliance
Supplement

Compliance Audit Overview

Compliance vs. Control Testing

Tests of compliance and controls are required.

Compliance Testing

- Testing is determined by the annual Compliance Supplement issued by United States Office of Management and Budget (OMB). Testing varies by federal program.
- Some items that may be requested include:
 - Invoices
 - Grant reports
 - Bids/RFPs
 - Suspension and Debarment support

Control Testing

- Control testing is required for each required compliance area.
- Some items that may be requested include:
 - Policies
 - Support for proper approvals
 - Support for review procedures
 - Documentation of processes

Consequences of Noncompliance



Audit findings



Increased oversight



Award termination



Withholding of
payments



Required
repayment of funds
received



Ineligible for future
funds

Single Audit Environment

The Current Single Audit Environment

Governance

Boards and executives expect clearer risk prioritization, escalation and resilience planning

Political Volatility/Uncertainty

- Funding priorities, agency roles and compliance expectations can shift faster than annual planning cycles
- Competitive grant opportunities, COVID funding, changes to federal programs and compliance requirements

Audit Timing Pressure

Delayed Supplements and evolving requirements are creating compressed and challenging audit timelines

Resource Constraints

Leaders are balancing limited compliance capacity, growing technology needs and pressure to control indirect cost rates.

Impact of AI

- Data reliability and quality risks; AI bias: [OMB Memo on AI](#)
- Cybersecurity and privacy issues; legal and regulatory uncertainty

Fraud Remains a Critical Area of Focus

Taskforce created
and headed by VP

States testifying
before Congress

PRAC

- (Pandemic Response Accountability Committee) moving to Treasury

Hints at performance-
based auditing

OMB Memo M-25-30

- Federal auditing does not work
- Compliance for its own sake is no longer the goal

Benefit payment
fraud schemes
(Minnesota)

HHS Cracks Down on
Years of Unchecked
Audit Findings |
HHS.gov

Key Changes Expected in the 2026 Supplement

Background and Effective Date

OMB has not yet issued the Supplement

Once issued, it will be effective for audits of fiscal years beginning after June 30, 2025

Anticipate the Supplement will be posted on OMB's website at:
<https://www.whitehouse.gov/omb/>

Can a 6/30/26 year-end single audit be issued before the final 2026 Supplement is released?

- No, auditors are required to use the version of the Supplement effective for the year-end associated with the audit
- Need key information from the Supplement, such as higher risk designations, 6 compliance requirements subject to audit, etc.
- Federal quality review checklists ask if the appropriate version of the Supplement was used to perform the audit

CAUTION

- The following 2026 Supplement information is based on review of drafts from OMB
- Changes could be made by OMB before issuance
- Important to review the issued 2026 Supplement to identify any changes



Auditors are required to use the version of the Supplement effective for the year-end associated with the audit – Audit CANNOT be issued prior to Supplement release!

2026 Compliance Supplement Expectations

The following 2026 Supplement information is based on a draft from OMB

Parts 2 and 4 – new and deleted programs

New Programs

- **15.018** – Energy Community Revitalization Program (ECRP)
- **20.337** – Consolidated Rail Infrastructure and Safety Improvements Program
- **93.00R** – 988 and Behavioral Health Crisis Services Programs
- **93.798** – Rural Health Transformation Program

Deleted programs are still subject to audit

Auditors will utilize Part 7 of the Supplement to audit these programs

Deleted Programs

- **10.181** – Pandemic Relief Activities: Farm and Food Worker Relief Grant Program
- **16.034** – Coronavirus Emergency Supplemental Funding Program
- **20.319** – High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants
- **21.023** – Emergency Rental Assistance Program
- **21.026** – Homeowner Assistance Fund
- **21.032** – Local Assistance and Tribal Consistency Fund
- **59.075** – Shuttered Venue Operators Grant Program
- **84.425** – Education Stabilization Fund
- **93.498** – Child Care Disaster Relief

2026 Compliance Supplement Expectations

Part 8, Appendix IV - Higher Risk Designation

- Removed 15.252 - Abandoned Mine Land Reclamation (AMLR)
- Added 2 new programs

Assistance Listing Number	Title
93.778/93.777/93.775	Medicaid Cluster
93.489/93.575/93.596	Child Care and Development Fund (CCDF) Cluster
93.558	Temporary Assistance for Needy Families (TANF)

Other Single Audit Updates and Reminders

FAC Updates

No changes to the DCF in 2026

- Taskforce for updating the DCF for 2027

Adding resubmissions option - in process

- Adding ability to change the DCF, audit report, or both, for a submitted file
- Select if made changes to DCF, audit report or both
- Marked as a resubmission
- Only Federal agencies will be able to see original audit report
- A full resubmission will generate new acceptance date and may impact “low-risk auditee” status

Future updates

- See [Updates from the FAC](#) section of the GSA FAC site

Contact

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Supercharge Your Organization

How AI and Hyperautomation Is Within Reach

August 2026

Ready to Reach Your Potential?



Principal

Ben Sady

Forvis Mazars

IT Risk & Compliance Consulting

Learning Objectives

1. Understand the concept of AI in the context of Hyperautomation
2. Explore practical applications of Hyperautomation



01

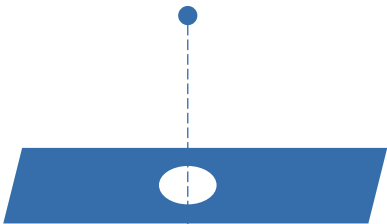
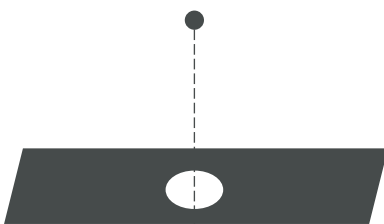
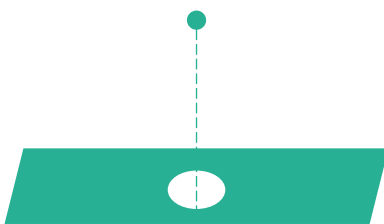
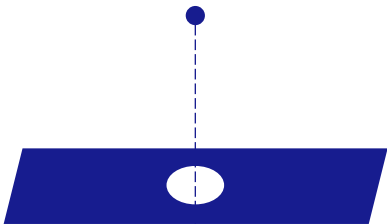
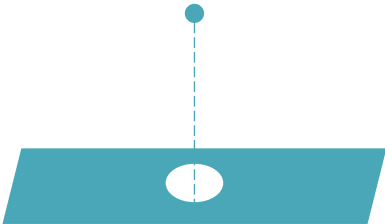
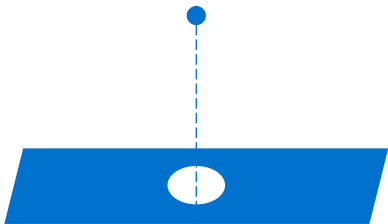
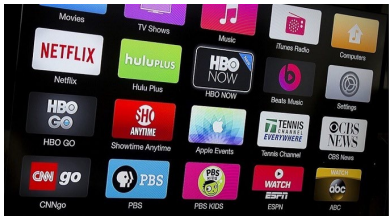
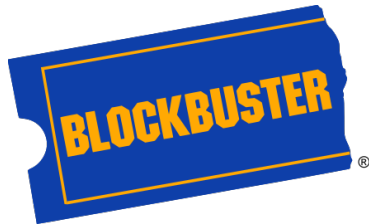
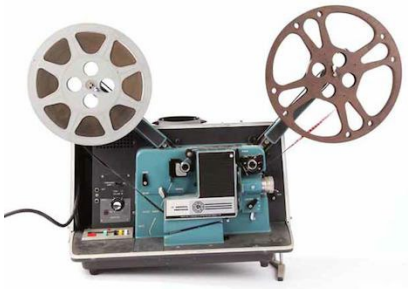
“Change is the law of life. And those who look only to the past or present are certain to miss the future.”

– John F. Kennedy



The Journey

Who Would Have Thought



1950's

1970's

1980's

1990's

2000's

Today

Reels

VHS/Beta

Laserdisc

Blockbuster
Peaked

Online
Streaming

What's
Next?



I suppose it is tempting, if the only tool you have is a hammer, to treat everything as if it were a nail.

- Abraham Maslow



If all I hear about is Artificial Intelligence (AI), I suppose I should use AI for everything?

- Ryan Kauzlick

Define

What Is Hyperautomation



According to Gartner ...

Hyperautomation is a business-driven, disciplined approach that organizations use to **rapidly identify, vet, and automate as many business and IT processes** as possible.

Hyperautomation involves the orchestrated use of multiple technologies, tools or platforms, including artificial intelligence (AI), machine learning, event-driven software architecture, robotic process automation (RPA), business process management (BPM), intelligent business process management suites (iBPMS), integration platform as a service (iPaaS), low-code/no-code tools, packaged software, and other types of decision, process, and task automation tools.

02

Houston, We've Got a Problem



Unlocking the Value of Automation

“Robots will steal jobs.”

No, they'll steal *tasks*. Your people move up the value chain.

“Too small or too unique.”

Autonomy scales to any company size and adapts on the fly.

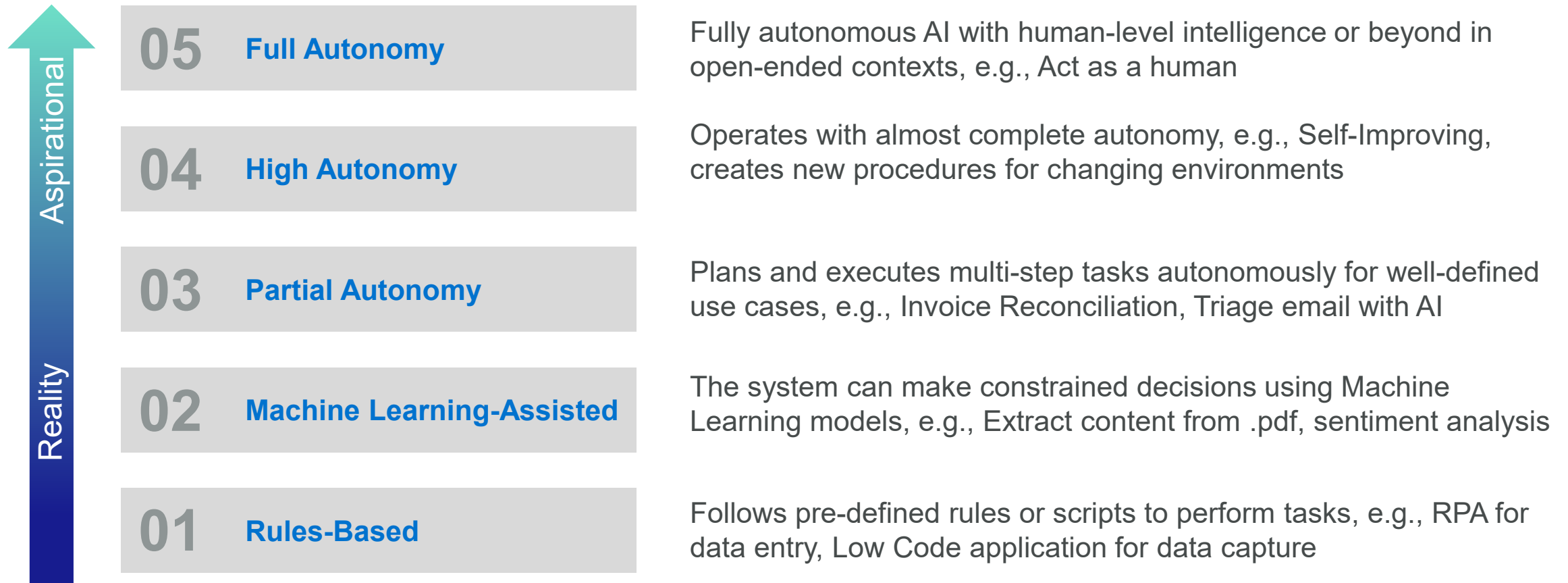
“It's a massive IT project.”

With modern low-code tools, business users steer. IT monitors security; the business owns improvement.



Enterprise Automation

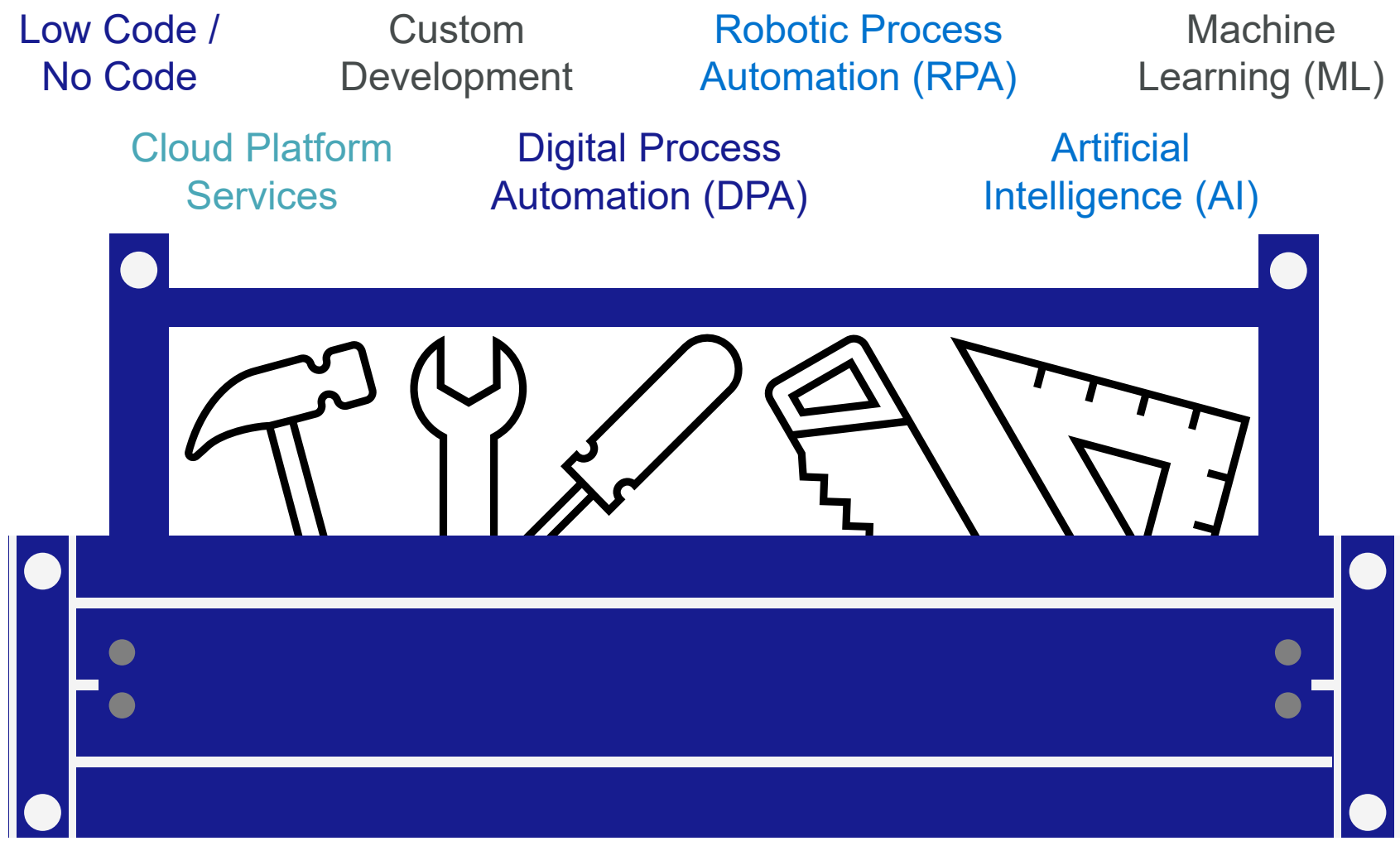
Levels of Autonomy



NOTE: Level 5 is aspirational in today's world but getting closer to reality

You Have a Toolbox

Use the Right Tool for the Job



03

Opportunity

“When you walk up to opportunity’s door ... don’t knock it. Kick that ---- in, smile and introduce yourself.”

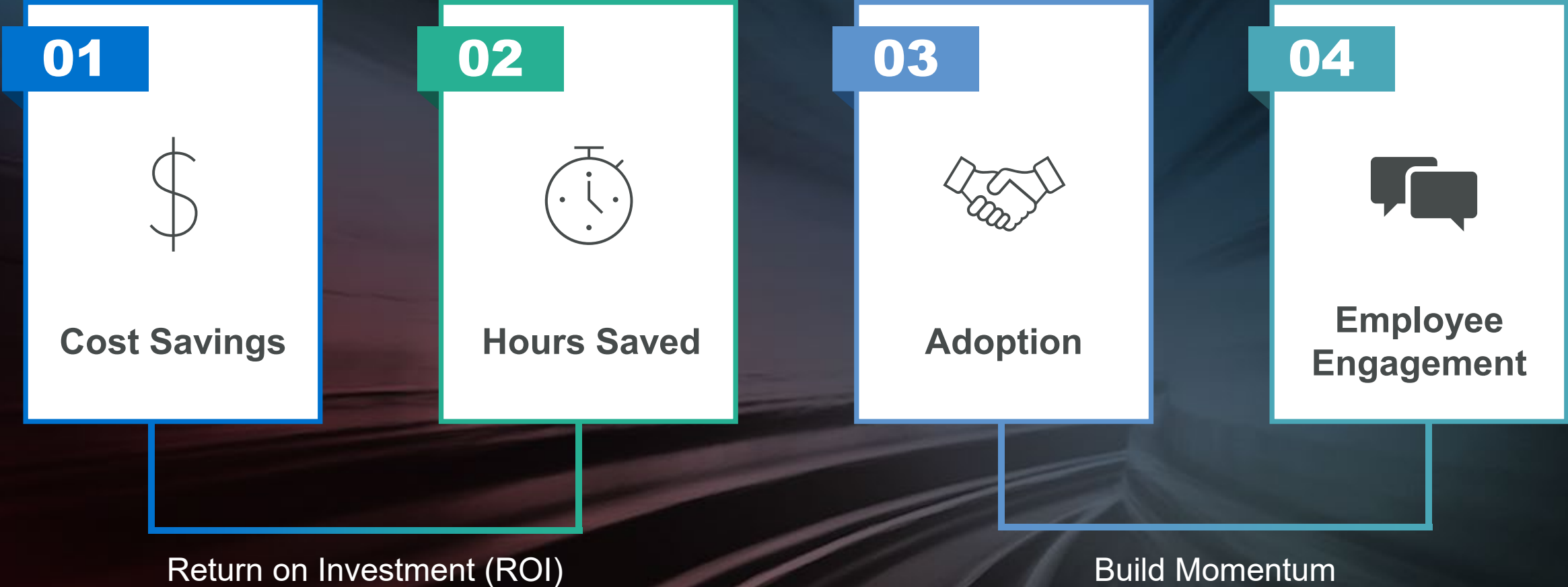
– Dwayne “The Rock” Johnson



Unlocking the Value of Automation & AI

Start Small & Measure Value

248% Return on investment over three years*



*Source: The Total Economic Impact® of Microsoft Power Automate – July 2024.

Estimate Worksheet Review



04

Where to Start



Sample Use Case
Write Invoice Data to System

Utilizing Robotic Process Automation (RPA)

Requirement

Need the ability to
extract data from a .pdf
and input into a
disparate system

INVOICE

DATE
7/1/2024

INVOICE NO
000123

ACME CORPORATION
234 France Ave
WA 76328
www.adatum.com
sales@acme.com

INVOICE TO
Fabrikam, Inc.
345 North St
NY 98052

Customer Id: 5791

SALESPERSON
Jacob Steffensen

PAYMENT TERMS
Due on Receipt

QUANTITY

DESCRIPTION

UNIT PRICE

LINE TO

Contoso Invoicing

File Edit Notes Help

Office

Cross-Application Components

Logistics

Accounting

- General Ledger
- Accounts Receivable
- Accounts Payable
 - Document Entry
 - Invoices*
 - Document Parking
 - Down Payment
 - Bill of Exchange
 - Other
 - Reference Documents
 - Outgoing Payment
 - Document
 - Accounts
 - Support
 - Cases
 - Visitors
 - Records
 - Master Records

ID

Date

Account Name

Contact Email

Amount

Status

1044

5/26/2024

Johnson Corporation

sales@johnson.com

\$ 33.50

Invoiced

1045

6/1/2024

ACME CORPORATION

sales@acme.com

\$ 150.25

Invoiced

1046

7/24/2024

Johnson Corporation

sales@johnson.com

\$ 53.00

Invoiced

1047

7/1/2024

ACME CORPORATION

sales@acme.com

\$ 154.25

Invoiced

1048

7/2/2024

New Plumbing

sales@newplumbing.com

\$ 52.00

Invoiced

1049

7/15/2024

Johnson Corporation

sales@johnson.com

\$ 50.20

Invoiced

1050

7/1/2024

ACME CORPORATION

sales@acme.com

\$ 150.25

Invoiced

1051

7/26/2024

Johnson Corporation

sales@johnson.com

\$ 90.20

Invoiced

Invoice Detail

Notes

Budgeting

Sales

Resources

ID: 1051

Date: 7/26/2024

Account: Johnson Corporation

Contact: sales@johnson.com

Amount: \$90.20

Status: Invoiced

Subflows

Main

1 > Region Initialize (6 Actions)

8 End region

9 For each CurrentFile in PDFFiles (7 Actions)

10 > Region Extract Data From Invoices (7 Actions)

18 End region

19 > Region Enter into ERP (8 Actions)

28 End region

29 > Region Reconciliation (3 Actions)

33 End region

34 End

35 > Region Clean-up (2 Actions)

38 End region

Subflows Main

1 **Region Initialize**

2 {x} **Set variable**
Assign to variable **ProjectPath** the value 'C:\RPA'

3 **Set variable**
{x} Assign to variable **ContosoPath** the value 'C:\Program Files (x86)\Contoso, Inc\Contoso Invoicing\LegacyInvoicingApp.exe'

4 **Launch Excel**
Launch Excel and open document **ProjectPath** \Output\Reconciliation.xlsx' using an existing Excel process and store it into Excel instance **ExcelInstance**

5 **Run application**
Run application **ContosoPath** with arguments and store its process ID into **AppProcessId**

6 **Get files in folder**
Retrieve the files in folder **ProjectPath** \Input' that match *.pdf' and store them into **PDFFiles**

7 **Create new data table**
Create a new data table and store it into **Regex**

8 **End region**

9 **For each** **CurrentFile** in **PDFFiles**

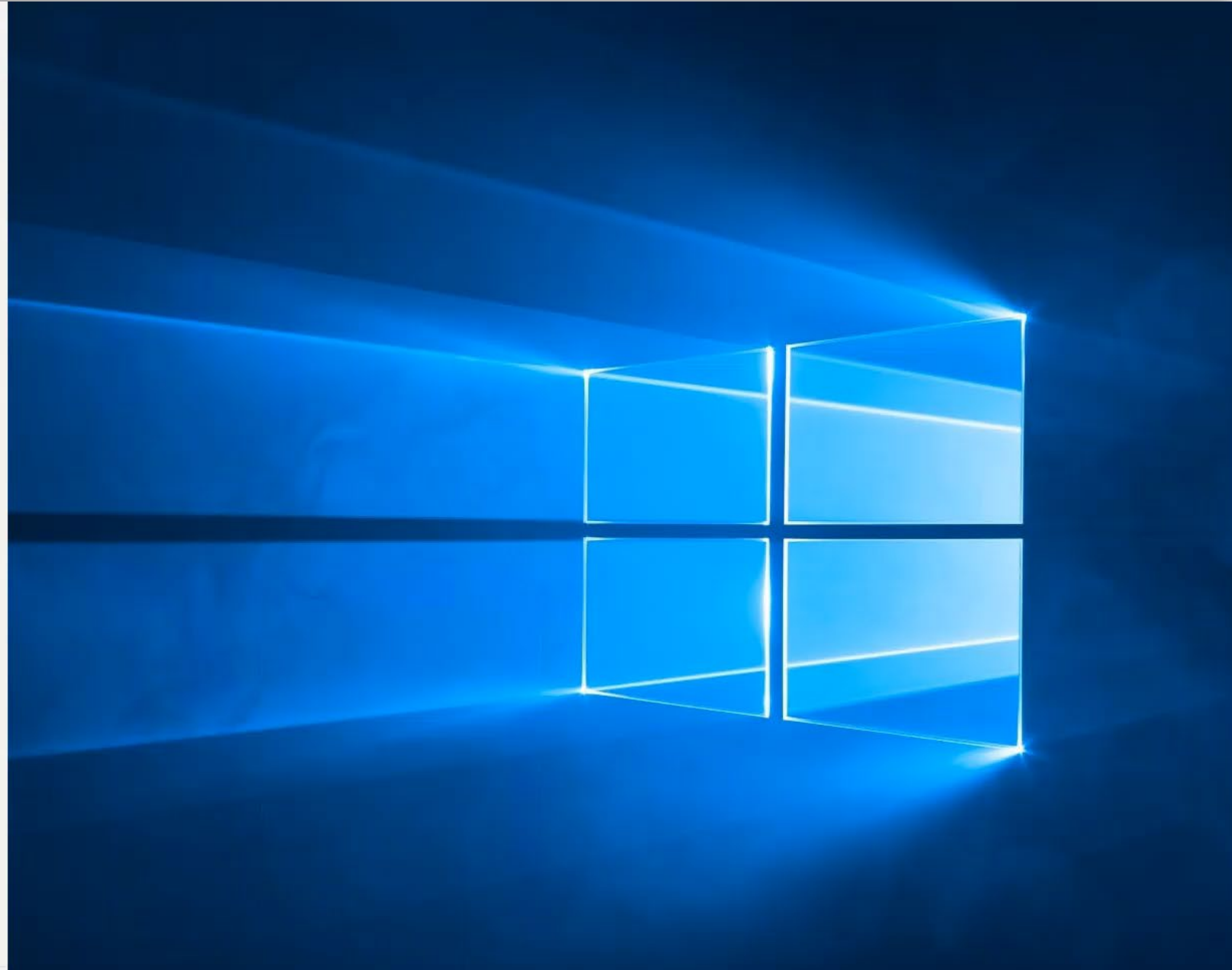
10 **Region Extract Invoices**

11 **Extract text from PDF**
Extract text from PDF **CurrentFile** into **ExtractedPDFText**

12 {x} **Set variable**
Assign to variable **RowNumber** the value 0

13 **For each** **CurrentItem** in **Regex**

14 **Parse text**
Parse text **ExtractedPDFText** for regular expression **Regex** [**RowNumber**][Pattern]' starting at position 0 and find the first occurrence only. Store the match found into

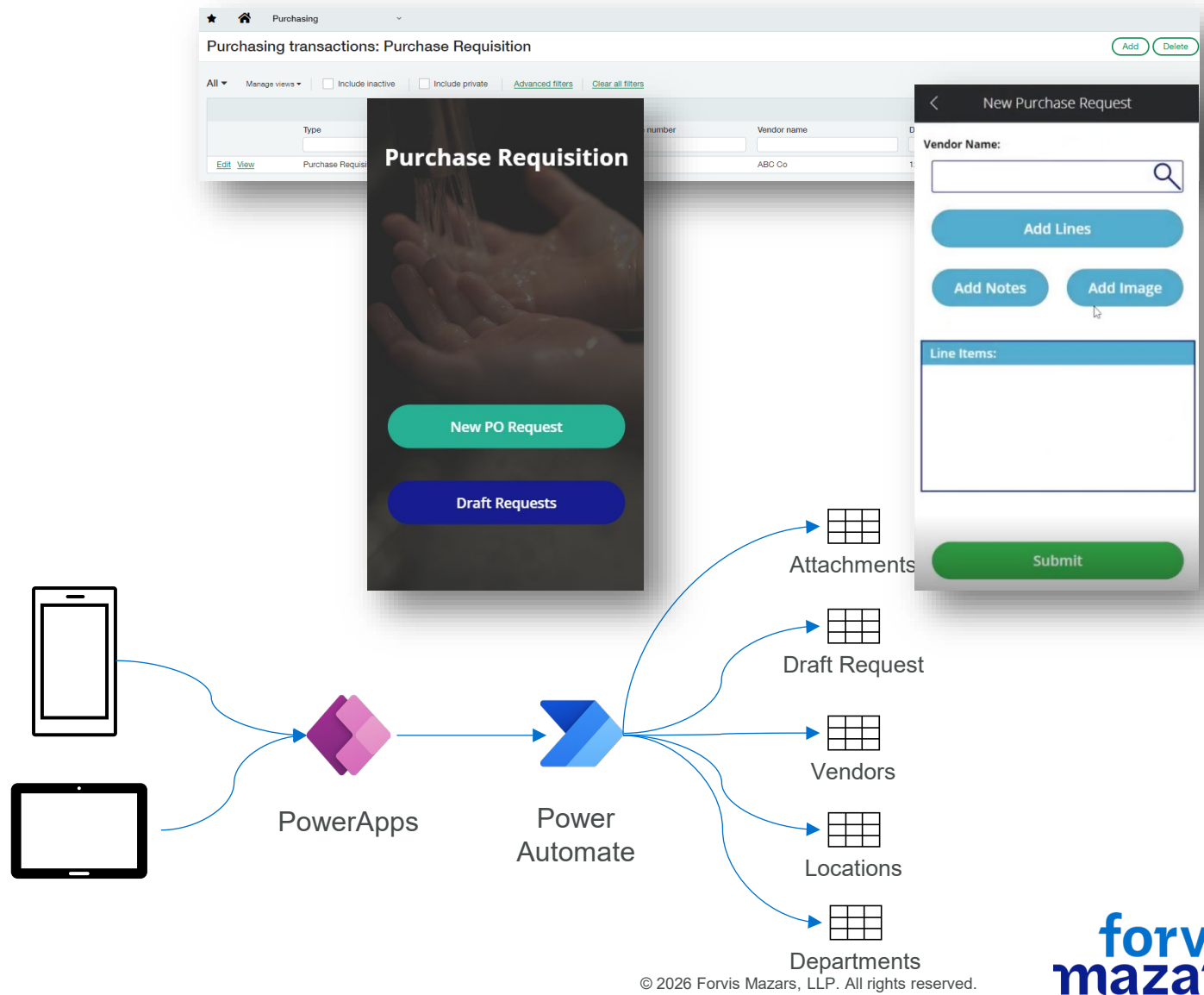


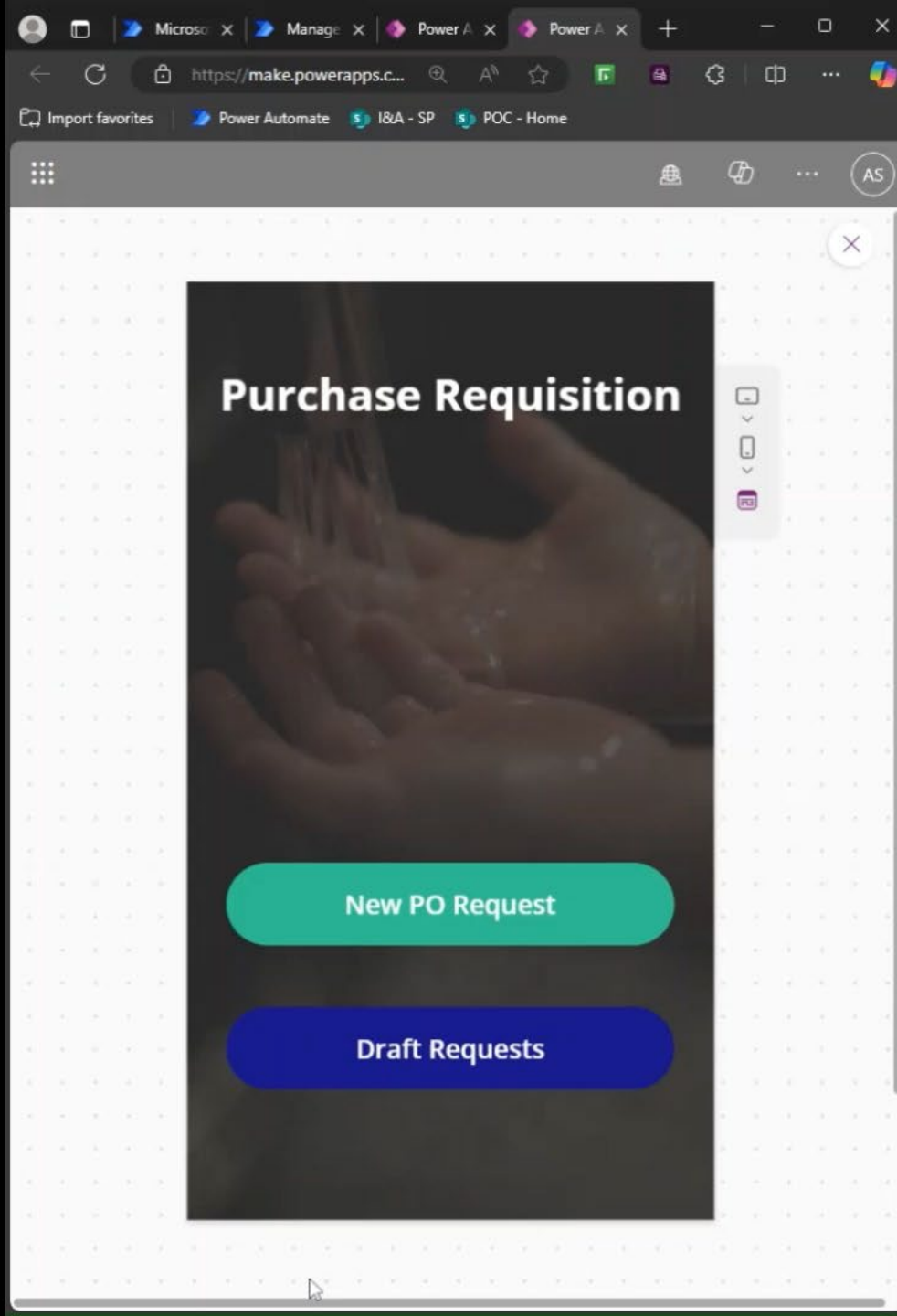
Sample Use Case
Purchase Requisition – Sage Intacct

Utilizing Power Platform

Requirement

The team requires the ability to submit purchase requests and integrate immediately to an ERP





Sample Use Case

AP Automation

Process/Workflow Using Power Automate

Requirement

The team must efficiently extract, verify, and approve invoices.

The screenshot displays a software interface for processing invoices. It is divided into two main sections: 'Invoices' and 'Review Invoices'.

Invoices Section:

- On the left, there is a vertical stack of buttons: 'All' (blue), 'New' (purple, highlighted with a mouse cursor), 'Pending Approval' (teal), 'Approved' (green), and 'Rejected' (red).
- On the right, under the heading 'Invoices', there is a list of invoice entries. The first entry shows 'Vendor: Contoso Coffee Shop', 'Invoice #: 1021', and 'Total Amount: \$3,345.87'. The second entry shows 'Vendor: ADATUM CORPORATION', 'Invoice #: 1783', and 'Total Amount: \$90.20'. Each entry has a 'New' button and a yellow circular icon with a hand cursor.

Review Invoices Section:

- This section is for reviewing a specific invoice. It shows 'Vendor: Contoso Coffee Shop', 'Invoice #: 1021', 'Invoice Total: \$3,345.87', and 'Invoice Date: 2/14/2019 7:00 PM'.
- Below this information is a table with the following columns: 'Item/Product', 'Qty', 'Unit Price', 'Unit(s) Cost', and 'Validated'.
- The table contains five rows of data:

Item/Product	Qty	Unit Price	Unit(s) Cost	Validated
Cafe S-100 Semi-Automatic	20	486.33	9726.6	☐
Cafe A-100 Automatic	5	948.75	4743.75	☒
Cafe A-200 Automatic	15	682.35	10235.25	☐
Cafe S-200 Semi-Automatic	3	56.97	170.91	☐
Cafe Corto	8	743.68	5949.44	☐

At the bottom of the 'Review Invoices' section are two buttons: 'Cancel' and 'Submit for Approval'.

Invoice Preview Section:

- To the right of the review section is a preview of the invoice document.
- The preview shows the 'Contoso Coffee Shop' logo and address: '3720 159th Ave NE, Redmond, WA 98052'.
- It also shows the 'Invoice # 1021', 'Date: Feb 15, 2019', and 'Due Date: Feb 28, 2019'.
- The 'Balance due: \$3,345.87 USD' is prominently displayed.
- Below this is a detailed table of items and costs, matching the data in the 'Review Invoices' table.

A 'Cancel' button is located to the right of the invoice preview.

Adding Invoice to SharePoint Document Library

Sample Use Case

Use Agentic AI to Manage a Sales Pipeline

Utilizing Workato

Requirement

Ability to interact with an Agentic bot to manage all aspects of a sales pipeline

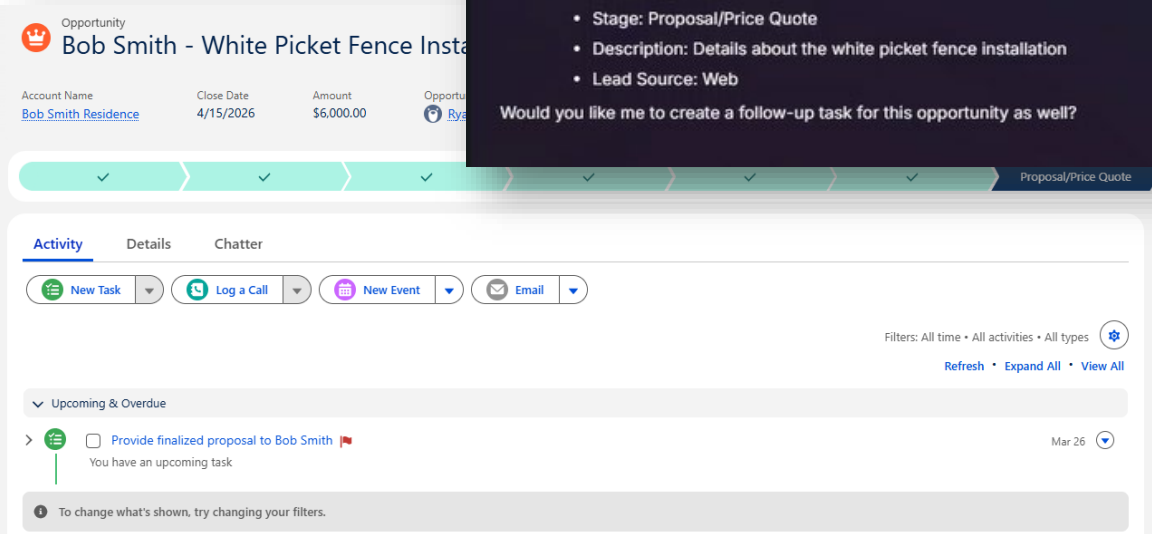
I just received a web form inquiry from Bob Smith. They are looking for a fence installation. They want it to be white picket fence. Create an opportunity and put an estimated closed date of 4/15/2026 with a probability of closing at 75%. The estimated value is \$6,000.

7 steps >

Great! I've successfully created all the necessary records for Bob Smith's fence installation inquiry:

1. Created a lead record for Bob Smith with the web inquiry information
2. Created an account called "Bob Smith Residence"
3. Created a contact record for Bob Smith associated with the account
4. Created an opportunity with the following details:
 - Name: Bob Smith - White Picket Fence Installation
 - Amount: \$6,000
 - Close Date: April 15, 2026
 - Probability: 75%
 - Stage: Proposal/Price Quote
 - Description: Details about the white picket fence installation
 - Lead Source: Web

Would you like me to create a follow-up task for this opportunity as well?



Opportunity

Bob Smith - White Picket Fence Installation

Account Name	Close Date	Amount	Opportunity
Bob Smith Residence	4/15/2026	\$6,000.00	By...

Activity Details Chatter

New Task Log a Call New Event Email

Filters: All time • All activities • All types

Refresh Expand All View All

Upcoming & Overdue

Provide finalized proposal to Bob Smith

You have an upcoming task

Mar 26

To change what's shown, try changing your filters.

Create Account & Opportunity in Salesforce using Natural Language

AI Lab Goal

Help teams discover automation opportunities to increase efficiency and reduce manual work



Lab Agenda:

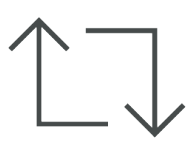
1. Find Your People
2. Problem Identification
3. Thought Provoking
4. Prioritization & Viability
5. Sharing



Identifying the Right Processes

Key Considerations

Find the Right Process to Automate



Repetitiveness

Processes that involve repetitive tasks.



Error Prone

Process is prone to human error.



Volume

Processes that are performed frequently by multiple individuals.



Employee Impact

Process impacts the roles and responsibilities of employees.



Cost Savings

Process has high potential cost savings from automating a process.

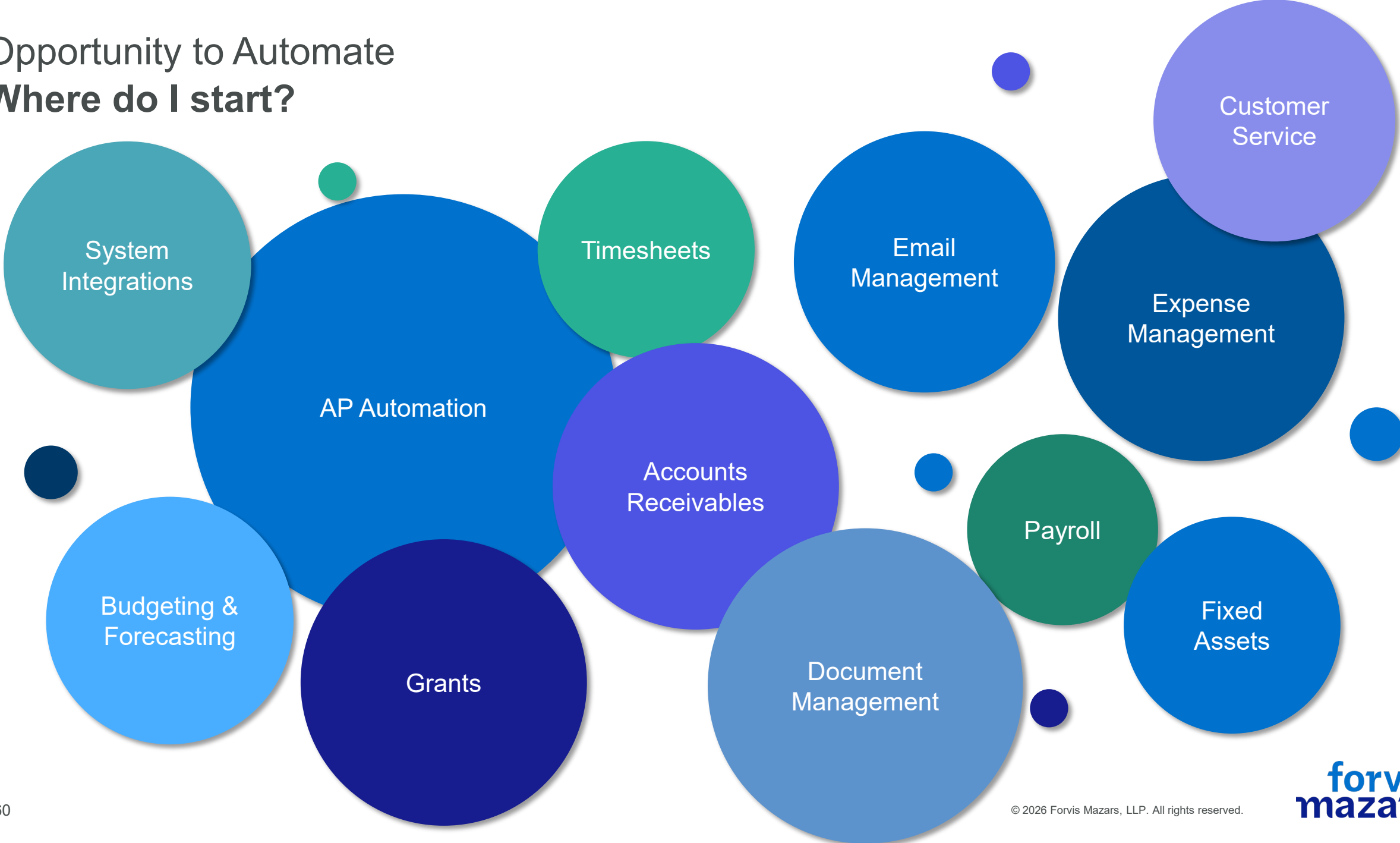


Scalability

Process needs to scale as the business grows.

Opportunity to Automate

Where do I start?

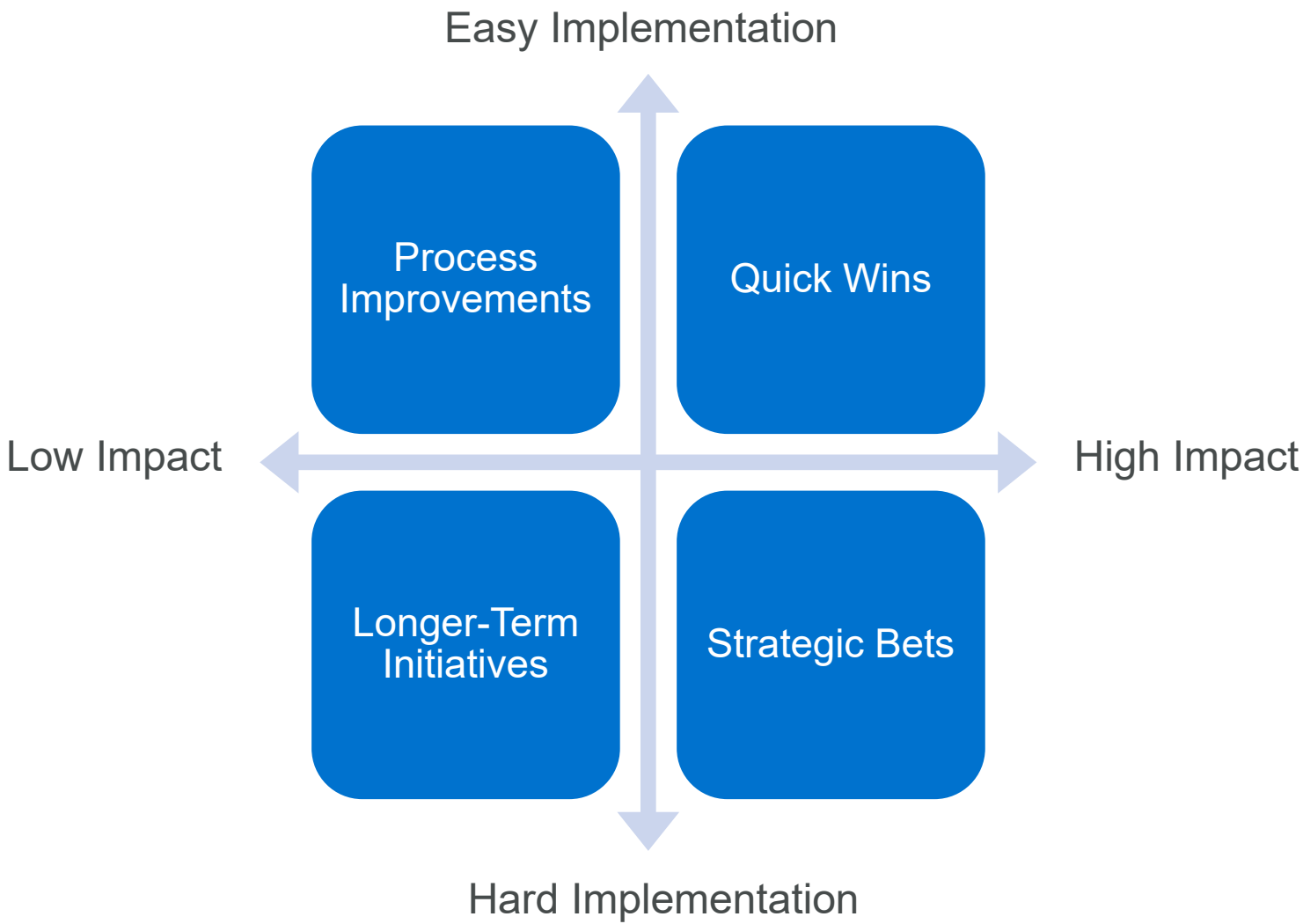


Find your people

- Form groups of 3-5 people.
- Arrange yourselves so you are sitting together.

Prioritization and Viability

5 Minutes



5:00

Sharing Time

5 Minutes

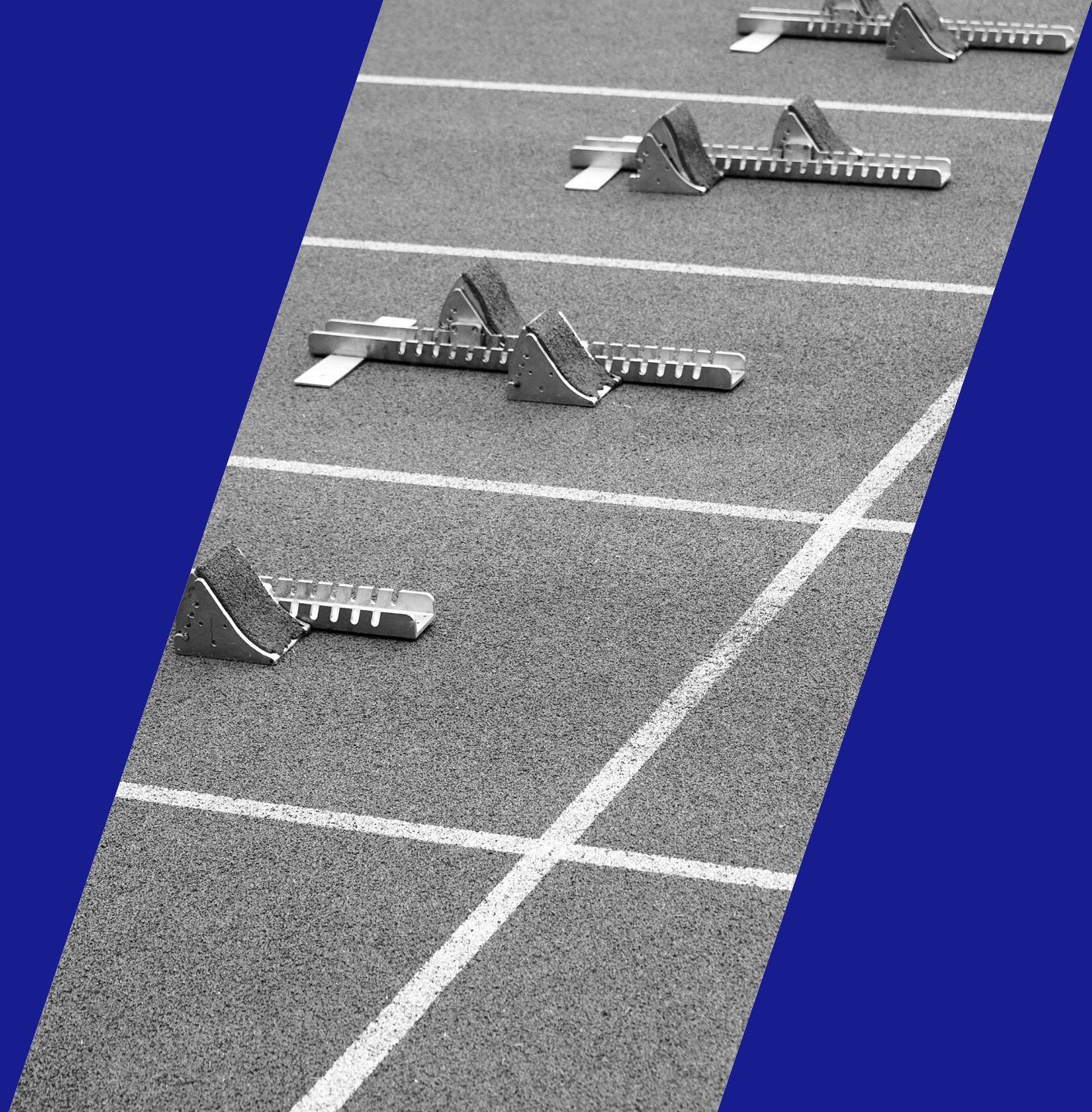
- Problem/Desired Outcome
- Automation Approach
- Owner
- First Step
- Success Criteria



5:00

05

Are You Ready?





Key Takeaways



Efficiency

Automation & AI drives efficiency in businesses by automating repetitive tasks, optimizing processes, and reducing manual intervention.



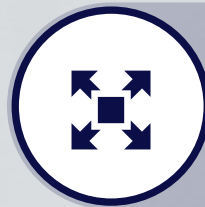
Accuracy

Automation & AI looks to minimize the risk of human errors leading to enhanced accuracy of data within a financial process.



Reallocate

Automation & AI enables workers to focus on activities that require critical thinking to enhance overall business productivity.



Scalability

Automation & AI supports the growing workloads of resources without increasing the number of human resources.

Getting Started Driving Success



Start Small

Find a project
that is low
hanging fruit



Win Small

Find a project
that will give
you a quick win



Fail Fast

If you are not going
to get the return;
stop the project
immediately



Call to Action

- Embrace the power of hyperautomation
- Your journey begins now, and it's never too late
- Focus on your unique business processes and dare to break away from the crowd

06

Questions & Answers



Contact

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Ethics in Action: Navigating Complexity with Confidence

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About Me

- *Ph.D. in Ethical and Creative Leadership with a focus in Creativity, Diversity and Social Justice
- *Master's degree in Consciousness Studies
- *Master's degree in Communication
- *Bachelor's degree in Journalism & Public Relations
- *Ordained Minister serving a church that honors all people and faith traditions, including those not on a faith path
- *Adjunct Faculty, Metropolitan State University of Denver

David S. Goldberg, Ph.D., Instructor

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Course Objectives

- Apply Colorado State Board of Accountancy Rules (CRS Title 12, Article 100)
- Integrate AICPA Code of Professional Conduct and federal laws
- Identify and navigate ethical gray areas
- Promote justice in financial decision-making
- Evaluate personal ethical leadership

Ethics in the Age of Complexity

- The landscape has changed
- Emerging risks from AI, automation, globalization
- The public interest vs. what the public is interested in
- Can AI pass Grandma's ethics test?

Colorado CPA Ethics Rules – CRS Title 12, Article 100

- Statutory Foundation
- Board's disciplinary authority and scope
- Ethics Continuing Education (CPE Requirements)

When facing a tough ethical call, what guides you most?

- A. Written rules and regulations
- B. My gut instinct or conscience
- C. Advice from mentors or colleagues
- D. The impact on others (stakeholders or the public)

Poll #1: Is This Client Ethical?

Your long-standing client suddenly pivots into a cryptocurrency venture with limited documentation and unusual transaction volume. They say it's all legal, but you suspect otherwise. Do you:

- A. Resign
- B. Report
- C. Talk it out
- D. Sign anyway

AICPA, IRS, and SOX Guidance

- AICPA Code: six principles: responsibilities, public interest, integrity, objectivity/independence, due care and scope/nature.
- IRS Circular 230: due diligence, conflicts of interest, no contingent fees (mostly), return client docs, risks of suspension.
- Sarbanes-Oxley: PCAOB oversight, auditor independence, CEO/CFO certification, strong fraud penalties, whistleblower protection.

Gray Areas and Moral Reasoning

- Not everything is black or white
- Three questions to ask in any Gray Area
 1. Would I be okay if this decision were made public? **Transparency test**
 2. Would I want someone I respect to take this path? **Role Model test**
 3. Would I feel comfortable defending this in front of a regulator or a client? **Accountability test**

Rest's Four-Component Model of Moral Behavior

- Moral Sensitivity: recognize moral issue
- Moral Judgment: decide what's right or fair
- Moral Intent: Prioritize doing the right thing over competing interests
- Moral Behavior: Actually take the ethical action

Gray Areas and Moral Reasoning

Poll #2: Dual Sets of Books

Scenario

You're asked to prepare one version of projections for a lender and a rosier one for internal strategy. There's no outright fraud, but clearly different narratives. What are you thinking?

- A. Nothing to worry about
- B. Cover myself with my supervisor and team
- C. Have a conversation with the client to understand why
- D. Refuse to sign off on a client's work with two sets of books

Bias, Diversity, and Justice

- Ethics does not equal neutrality
- Types of bias that affect CPAs
 - Unconscious bias
 - Affinity bias – favoring people who look or act like us
 - Confirmation bias – seeking data that supports our beliefs
 - Attribution bias – explaining others' mistakes as personal flaws but excusing our own as circumstantial
 - Anchoring bias – letting the first figure influence all others
- Representation matters in ethical culture

Bias, Diversity, and Justice

Poll #3

You're the CPA for a nonprofit that awards education grants. You notice that more than 80 percent of approved applicants are from affluent ZIP codes, even though the mission is equity in access. Your supervisor says, "It's their money, they can do what they want." What would you say or not say?

- A. This is an ethical issue.
- B. This is a data issue.
- C. This is a public relations issue.
- D. This is all of the above.

Bias, Diversity, and Justice

From Awareness to Action

Practical Actions

- Review hiring and advancement practices.
- Encourage demographic analysis in nonprofit and governmental financial audits.
- Recommend stakeholder impact assessments for major financial policies.
- Learn more about Diversity, Equity and Inclusion (DEI) frameworks, including reviewing AICPA's DEI toolkit.

The Ethical Tightrope

Ethical decisions often come without a net.

Identifying

Competing pressures

- Integrity and loyalty to boss/client
- Transparency and strategic messaging
- Short-term gain and long-term reputation
- Legal risk and career risk

Four filters to guide your actions

1. The Headline Test
2. The Role Model Test
3. The Reversal Test
4. The Licensing Test

The Ethical Tightrope

Poll #4: Positive Assumptions

- You're the Controller for a private company. The CFO asks you to revise Q4 earnings projections for an investor meeting. They don't say, "lie," but suggests using "optimistic yet supportive assumptions" to reflect "strong market confidence." These changes would improve the optics but might not pan out. Do you:
 - A. Go along with the changes – include a footnote for cover
 - B. Decline the request and report to senior leadership
 - C. Ask for the request in writing – protect yourself
 - D. Step back from the account altogether

Creative Ethical Leadership

- Leadership isn't about titles, it's about influence
- Ethical culture begins with tiny practices
- Ethics is a team sport
 - Be the person who listens without judgment
 - Be the person who says, “Wait, let's think about this.”
 - Be the person who knows how to disagree respectfully and still show up for your team.
- Model the behavior you want to see
- Build ethics into systems, not just people
 - Set ethics Key Performance Indicators (KPIs)
 - Use feedback loops and real-life training

Evaluation & Action Planning

- Create an Action Plan
- Five elements of an Action Plan
 - Scope: Where in your professional life will you focus?
 - Goals: What ethical behavior or improvement do you want to cultivate?
 - Strategies: What's your ethical game plan and general approach?
 - Tactics: What specific actions or steps will you take?
 - Timeline: By when will you act and how will you track it?

Evaluation & Action Planning

Poll #5: What Will You Do Differently?

- What is one takeaway from today's class, and what is one thing you will do differently?
- Write in chat: One insight, one action

CLOSING THOUGHT:
'ETHICS IS WHO WE CHOOSE TO BE.'

Further Resources

- Books: Blind Spots, Ethical Executive, Giving Voice to Values
- Websites: AICPA, CO Board of Accountancy, Ethics.org
- Articles from Journal of Accountancy and CPA Journal

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Kahoot! Seminar Recap Game

Contact

Forvis Mazars

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Automation & AI **Practical Tools, Strong Results** **(Small Starts, Large Impacts)**

Lanny Morrow | Analytics | Forensic Intelligence



Lanny Morrow

Forvis Mazars

Analytics | Forensic Intelligence

- Forvis Mazars (8th largest public accounting firm)
- 12,000 domestic, 47,000 worldwide
- 30 years with firm this July
- 25 years in forensics
- Developed first AI in 2008
- Current roles:
 - Forensic Intelligence
 - Applied Data Engineering

Learning Objectives

1. Understand Automation & AI
2. Learn the Applications of Automation & AI
3. Learn the Benefits of Automation & AI
4. Learn Implementation Strategies
5. See Real-World Use Cases



01

“Change is the law of life. And those who look only to the past or present are certain to miss the future.”

– John F. Kennedy



Technology Journey

We've come a long ways!



Technology Journey

- But there is a wrong way to go about it...



Reframing the AI Conversation

- Immediate large scale implementation is probably a bad idea
- AI is about saving time and reducing errors
- Think hours or days, not months to start achieving results
- Progress beats perfection
- Small starts = more effective governance



What 'Good' Looks Like

- Clear problem statement
- Simple automation or analysis
- Uses tools you already have
- Delivers visible value in days
- Easy to explain to leadership
- Start with simple then tackle more
- *Governance principles: Outputs are easy to verify and explain. Whole process is easier to rollback.*



02

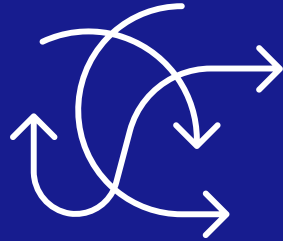
Houston, We've Got a Problem



Headwinds Facing Organizations

Is Automation Right for You?

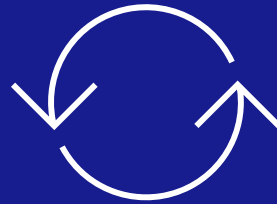
Inefficient Processes



On average companies lose **20 – 30%** of revenue each year due to inefficient processes ¹

¹ [How Inefficient Processes Are Hurting Your Company](#)

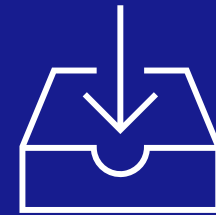
Opportunity for Automation



On average workers spend **520 hours** annually on tasks that could be automated ²

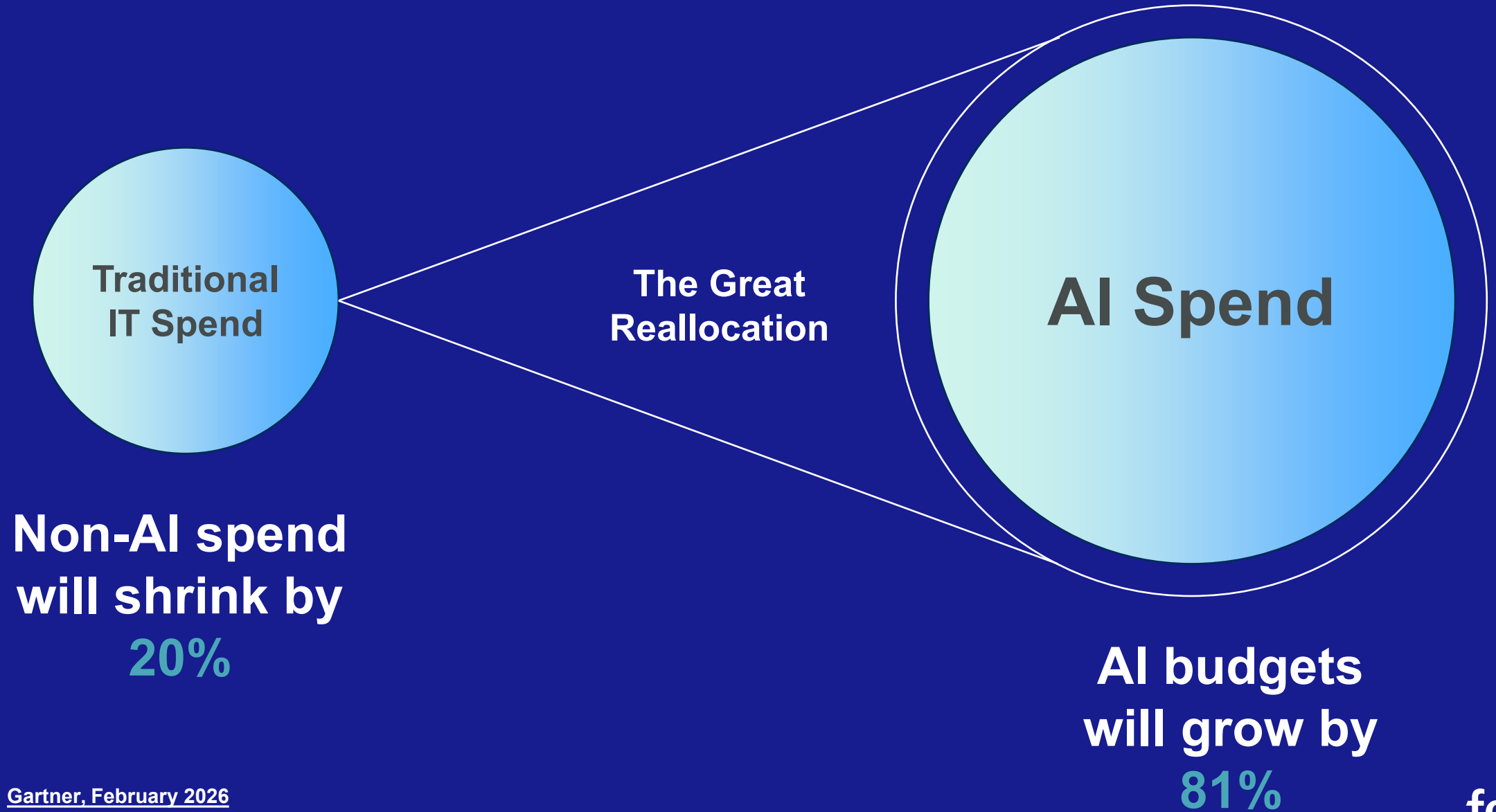
² [How Repetitive Tasks are Hurting Your Business](#)

Work Overload

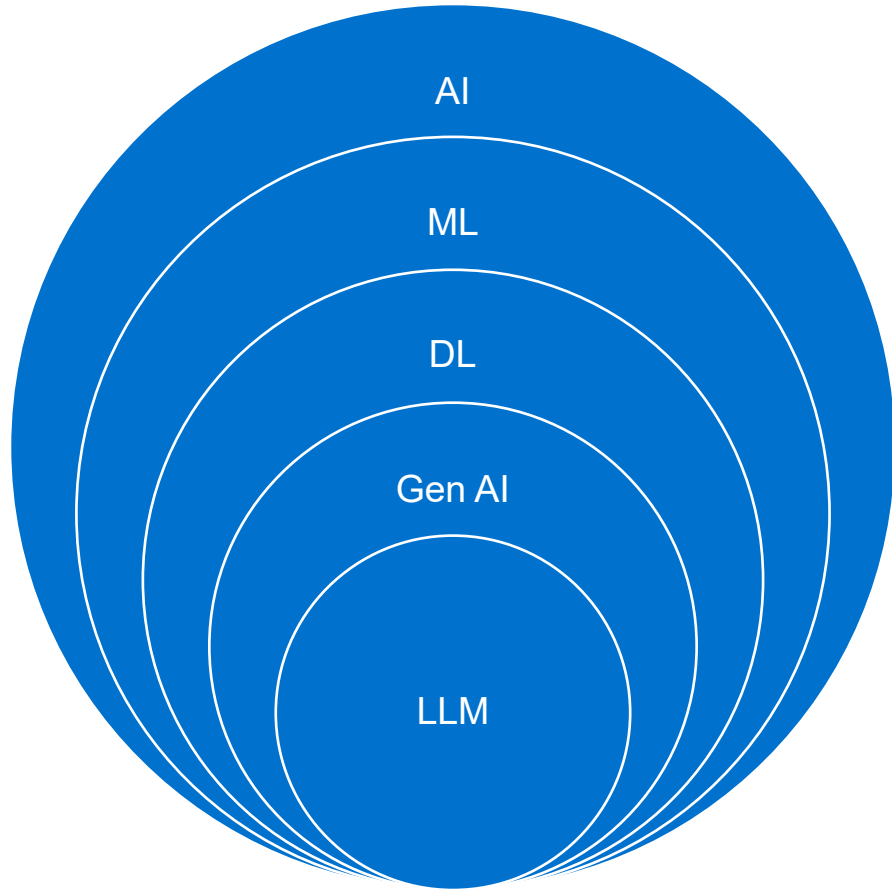


On average **68%** of workers suffer from work overload in which they have too much to handle daily ³

³ [Key Business Automation Statistics You Should Know](#)



AI Overview – Demystifying the Tech



Artificial Intelligence – computer ability to mimic human intelligence, ranging from rule based to complex reasoning

Machine Learning – “traditional AI” – learning from data patterns to predict outcomes

Deep Learning – leveraging human-like neural networks to solve complex problems, such as speech & image recognition

Generative AI – machine’s ability to predict outcome & create new content such as text, audio, video

AI Assistants

vs

AI Agents



Helping me to do things



Doing things for me

Agentic Agents

Agentic agents have four extra properties above and beyond traditional generative AI (LLMs)

Goal-oriented

AP *“Flag, stop, and reduce high-risk transactions or anomalies within the process” (contrast with Gen AI “flag high-risk transactions”)*

Persistent memory

Builds a history of transactions, exceptions, and prior outcomes for improved detection

Autonomous triggers

Activates when predefined control thresholds or anomalies occur

Multi-step execution

Progresses from detection to analysis to recommended action, with full traceability

Trigger → Detection → Risk Assessment → Action → Audit

Trail



Governance Principle:
Greater autonomy increases the risk of unintended or unverified actions. Mitigate through controlled triggers, human oversight, and full transparency of decisions. **Often includes IT Risk function.**

The Importance of Using Enterprise Licenses



- Only use organization-sponsored enterprise AI license (CoPilot, GPT, etc.).
- Personal versions do not have agreements in place to prevent sensitive data from being used to train public AI models
- Interested parties may be able to *infer* sensitive, specific information from well-prompted questions and responses



I suppose it is tempting, if the only tool you have is a hammer, to treat everything as if it were a nail.

- Abraham Maslow



If all I hear about is Artificial Intelligence (AI), I suppose I should use AI for everything?

- Ryan Kauzlick

AI Adoption

Are You Getting the Right Return?

Have you gone beyond ChatGPT and Microsoft Copilot?

Deployment Rates

5%

Solutions making it to production

Getting No Return

95%

Are getting zero (0.0%) return on their investments in AI

Current Investment \$

50%

Percent of funds going to Sales & Marketing, however, back-office processes yield higher ROI

Hiring Trend

>80%

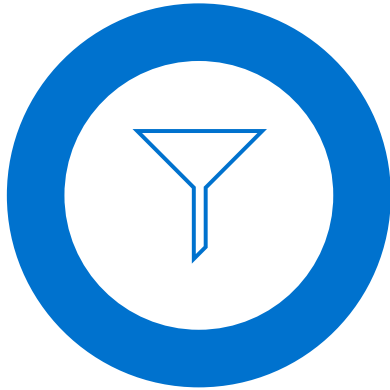
Executives anticipate reduced hiring volume in next 24 months



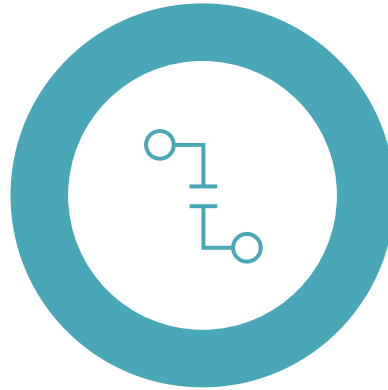
Business Challenges

Creating a Foundation for Everything (Including AI)

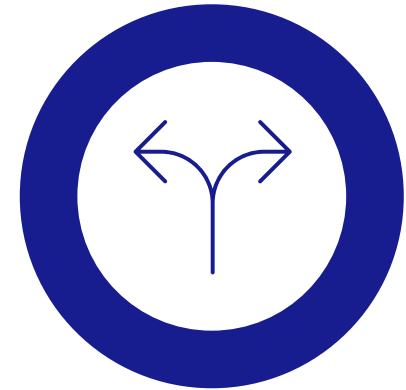
Operational Bottlenecks



Disconnected Systems



Fragmented Data

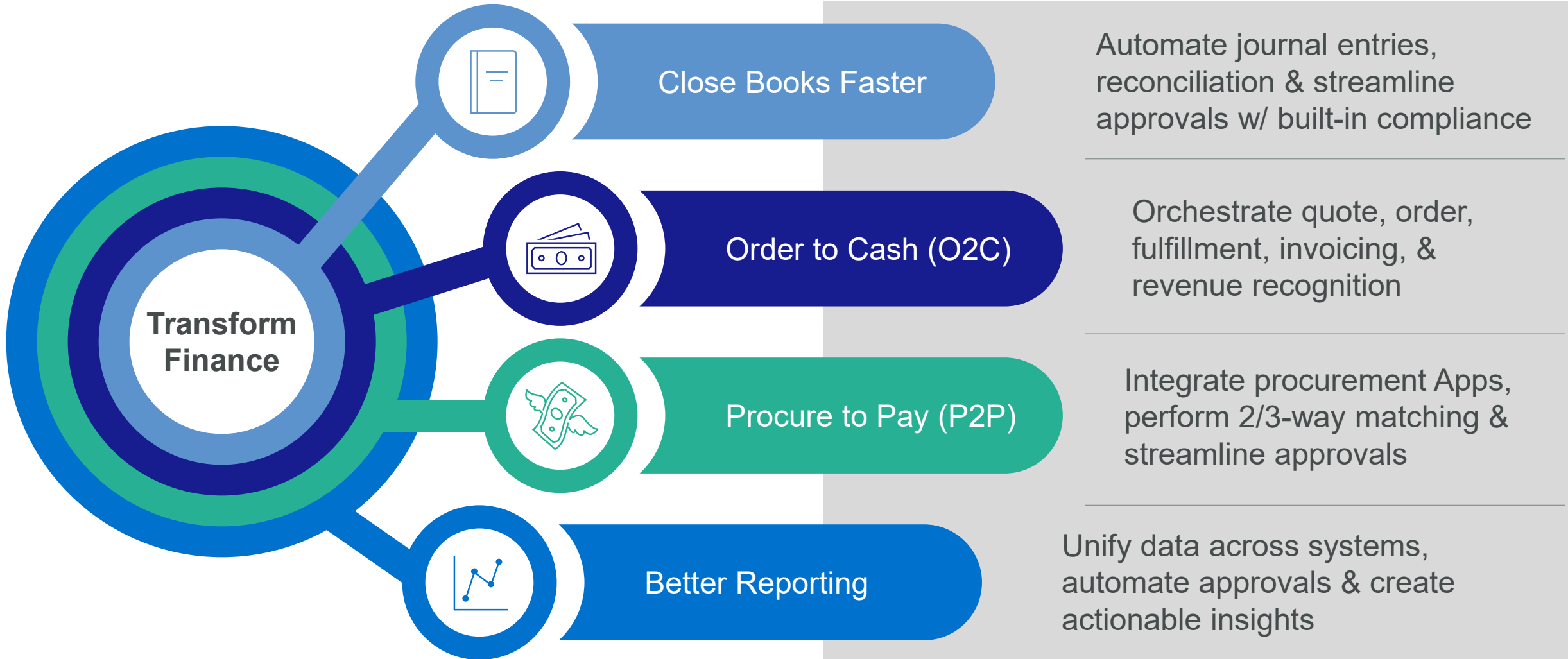


Enterprise Orchestration

Compliment, Connect, and Make Intelligent Decisions

CFO 4.0

Transform how Finance Operates



03

Opportunity

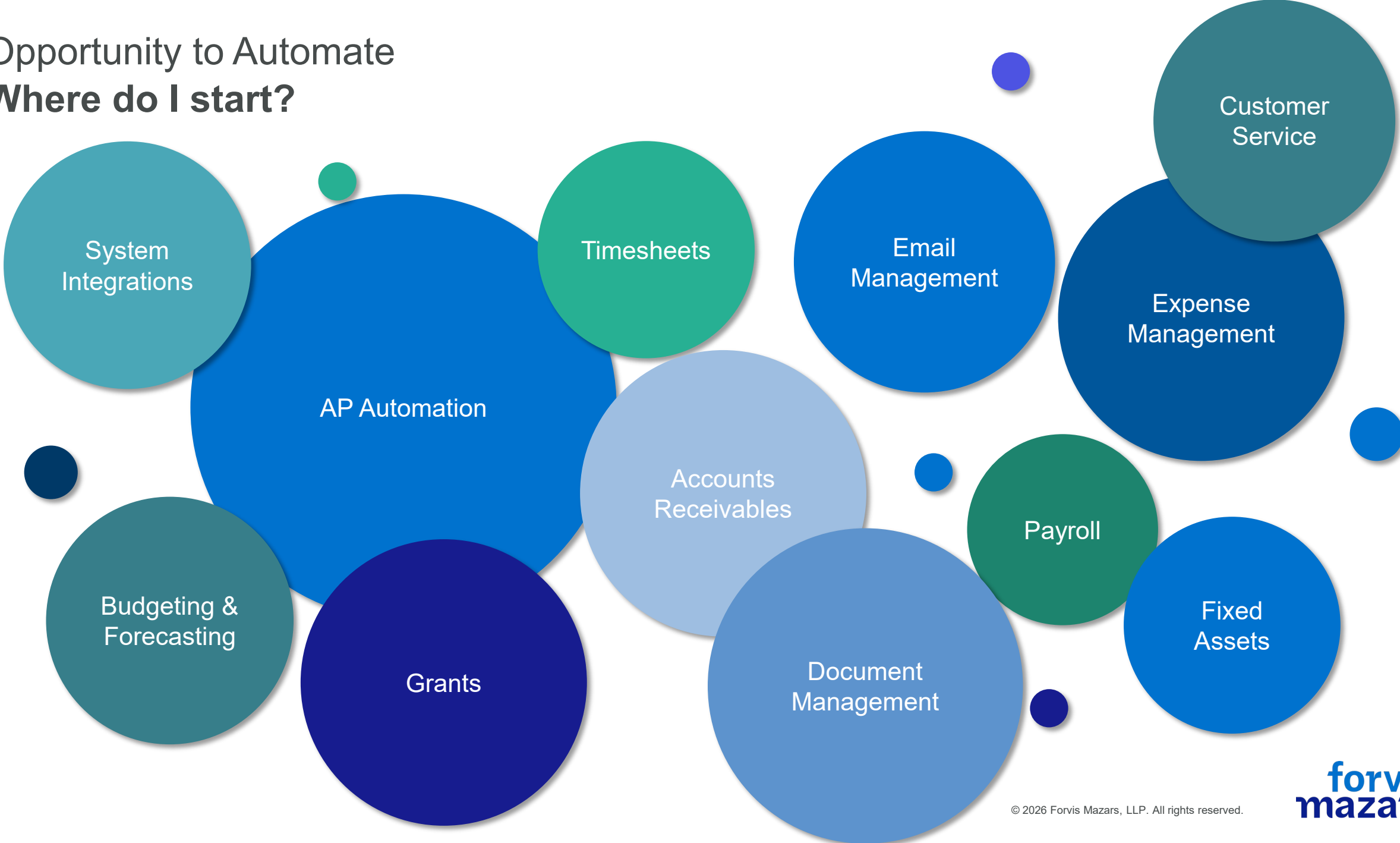
“When you walk up to opportunity’s door ... don’t knock it. Kick that ---- in, smile, and introduce yourself.”

– Dwayne “The Rock” Johnson



Opportunity to Automate

Where do I start?



What If ...

Opportunity Cost

What if there was a way to take advantage of automating various tasks?

Parameters

Assumption	Value
Est. Hours Worked per Day	8
Est. # Days per Week Worked	5
# Hours Per Year	2080
# Corporate Holidays Per Year	10
# of PTO Days Per Year	15
Est. Hours of Work Performed	1880
Est. Days Worked Per Year	235
Est. Weeks Worked Per Year	47
Est. Burden Rate	30%

* Shaded rows are calculated values

Input Invoices

- **Frequency:** Daily
- **# Inputted Each Day:** 40
- **# Mins / Occurrence:** 2
- **Est. Labor Cost / Hr:** \$39.72
- **Est. Employees:** 1
- **Est. Yearly Cost:** \$12,445

Performing Check Processing

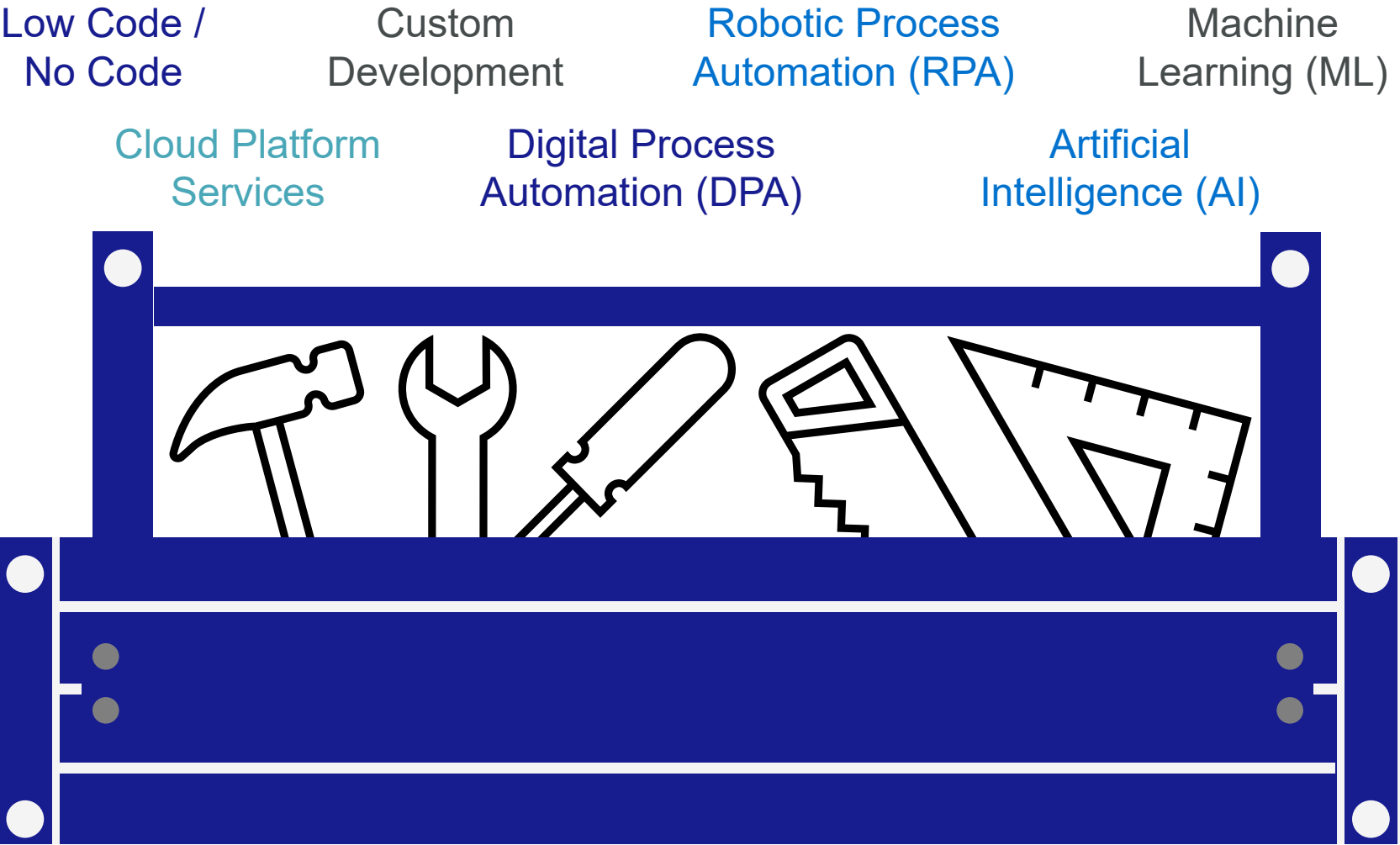
- **Frequency:** Daily
- **# Performed Each Day:** 20
- **# Mins / Occurrence:** 10
- **Est. Labor Cost / Hr:** \$20.88
- **Est. Employees:** 1
- **Est. Yearly Cost:** \$16,356

Reallocate Costs

- **Est. Time Save / Occurrence:** 4
- **Est. Days Saved / Year:** 62
- **Est. \$ to Reallocate:** \$6,542.40

You Have a Toolbox

Use the Right Tool for the Job



04

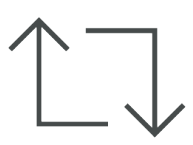
Where to Start



Identifying the Right Processes

Key Considerations

Find the Right Process to Automate



Repetitiveness

Processes that involve repetitive tasks.



Error Prone

Process is prone to human error.



Volume

Processes that are performed frequently by multiple individuals.



Employee Impact

Process impacts the roles and responsibilities of employees.



Cost Savings

Process has high potential cost savings from automating a process.



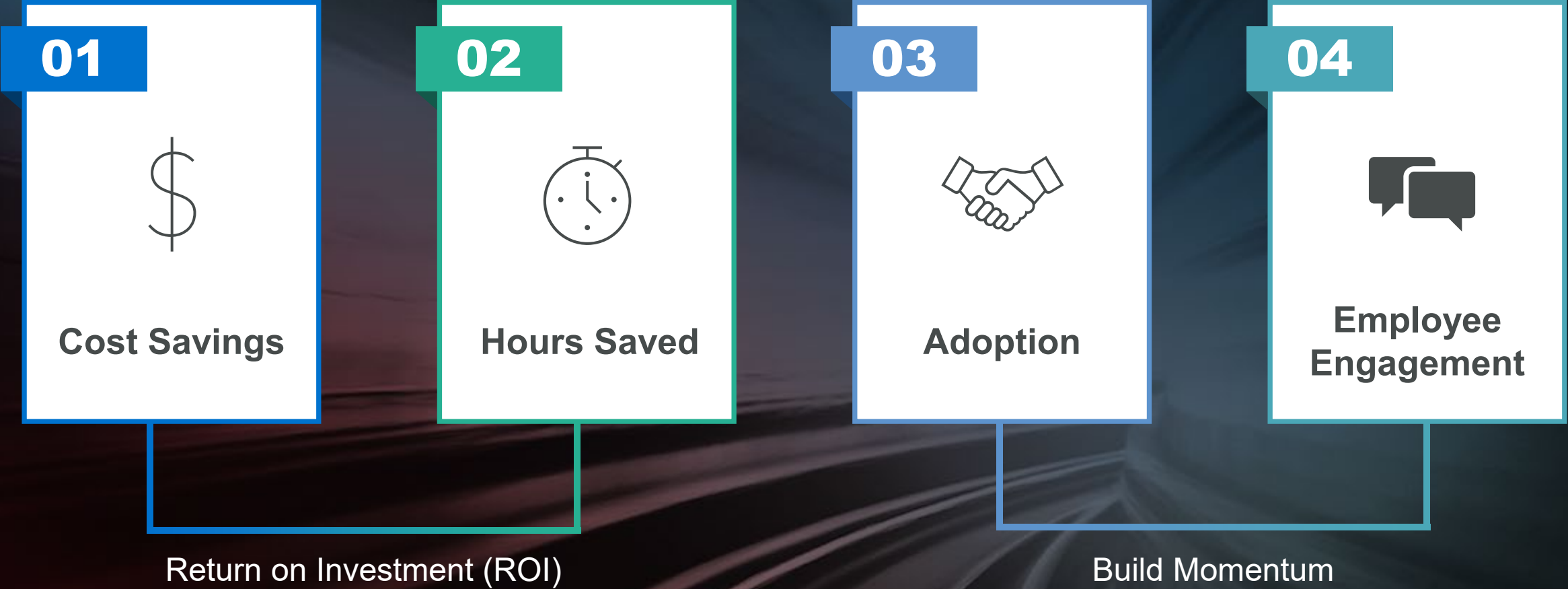
Scalability

Process needs to scale as the business grows.

Unlocking the Value of Automation & AI

Start Small & Measure Value

248% Return on investment over three years*



*Source: The Total Economic Impact® of Microsoft Power Automate – July 2024.

Selecting Low-Risk Pilots



High
manual
effort today

Low data
sensitivity

Clear
success
metric

Easy
rollback if it
fails

Governance Principle:

Incremental adoption, containment of failure, defined success criteria measured against policies, procedures, and controls. This supports “responsible deployment discipline”.

What a 2–10 Day Pilot Looks Like

01

Day 1:

Define problem
and baseline

02

Days 2–4:

Build and test

03

Days 5–7:

Validation, more
trials

04

Days 8–10:

Measure and
document
impact

Quantifying Impact

Hours saved

Errors reduced; anomalies caught

Cycle time improvements

Risk avoided

Cost savings



Making Value Visible to Leadership and Board



- Before / after comparisons
- Simple visuals
- Clear ROI story
- Keywords and phrases
 - *“we ran a small, effective pilot”*
 - *“hours to minutes in just a small test”*
 - *“allows us to do more with less”*
 - *“human oversight and accountability”*
 - *“supports defensible decisions”*

Common Pitfalls to Avoid

- Over-engineering (over thinking it)
- Vendor lock-in
- Unclear success criteria
- Trying to do too much at once
- Build and run it before considering the risks
- Using AI when other efficiency/automation tools are better
 - RPA
 - Deterministic pipelines and workflows
 - A simple spreadsheet, better designed



How to Get Started Now

- Pick one problem
- Use existing data
- Start with a prototype
- Measure one outcome



5

Real-World Examples



Case Study

Gen AI Digital Filing

➔ Built for Forward

An organization relied on a fully manual workflow to manage critical signed documents. Staff monitored a shared inbox, searched for completed files, and manually downloaded and stored them in the appropriate SharePoint location. This created operational bottlenecks, inconsistent filing practices, and risks around compliance, auditability, and version control. As volume increased, the process became harder to scale, making timely document handling dependent on constant human oversight.



Moving with Momentum

Deployed Power Platform–driven automation that continuously monitors incoming signed documents, uses AI and OCR to extract key metadata, and classifies each file with high accuracy. A rules-based engine determines the correct SharePoint destination based on document content, while integrated workflows enforce audit trails, logging, and version control. **The solution eliminates manual inbox monitoring and filing, standardizes document handling, and establishes a scalable foundation for compliance-ready, end-to-end document processing.**



Delivering Outcomes

By automating this workflow, the organization eliminated up to 520 hours of manual effort per employee each year, reclaiming time previously spent on repetitive document handling. The projected financial return is equally significant, with the solution expected to deliver a **128% ROI in the first year**, driven by labor savings, improved accuracy, and faster document processing.



Send

To

Organization

Cc

SubjectInvoice BRI-20260213-101 from Bright Cleaning Services

Hello Accounts Payable,

Please find attached invoice.

Thank you,
Bright Cleaning Services Billing

(Synthetic sample email/invoice for demo purposes.)

INVOICE

Bright Cleaning Services
1200 Market St
Kansas City, MO 64105

Invoice #: BRI-20260213-101

Invoice Date: 2026-02-13

Due Date: 2026-03-15

Terms: Net 30

Bill To

Hope Harbor Nonprofit (Demo)
Attn: Accounts Payable
123 Charity Way
Kansas City, MO 64105

Description	Qty	Rate	Amount
Monthly facility cleaning	1	\$950.00	\$950.00
Carpet spot treatment	1	\$125.00	\$125.00
Subtotal			\$1,075.00
Tax			\$0.00
Total			\$1,075.00

SourceEmail_From	SourceEmail_To	Attachment	Vendor	InvoiceNumber	InvoiceDate	DueDate	Terms	Subtotal	Tax	Total	LineItemCount	LineItems
billing@brightcleaning.example.org	ap@hopeharbor.demo	Invoice_BRI-20260213-101.pdf	Bright Cleaning Services	BRI-20260213-101	2026-02-13	2026-03-15	Net 30	1075	0	1075	2	Monthly facility cleaning (qty 1 @ \$950.00 = \$950.00); Carpet spot treatment (qty 1 @ \$125.00 = \$125.00)
invoices@metroprinting.example.org	ap@hopeharbor.demo	Invoice_MET-20260216-102.pdf	Metro Printing Co.	MET-20260216-102	2026-02-16	2026-03-18	Net 30	530	0	530	2	Program flyers (1,000 qty) (qty 1 @ \$320.00 = \$320.00); Posters (50 qty) (qty 1 @ \$6.00 = \$600.00)
ap@communitycatering.example.org	ap@hopeharbor.demo	Invoice_COM-20260219-103.pdf	Community Catering	COM-20260219-103	2026-02-19	2026-03-21	Net 30	1630	0	1630	2	Outreach event catering (qty 1 @ \$1,450.00 = \$1,450.00); Beverage service (qty 1 @ \$180.00 = \$180.00)
billing@comcastbusiness.example.org	ap@hopeharbor.demo	Invoice_COM-20260222-104.pdf	Comcast Business	COM-20260222-104	2026-02-22	2026-03-24	Net 30	269.97	0	269.97	2	Internet service (monthly) (qty 1 @ \$189.99 = \$189.99); Voice line service (qty 1 @ \$80.00 = \$80.00)
billing@officedepot.example.org	ap@hopeharbor.demo	Invoice_OFF-20260225-105.pdf	Office Depot	OFF-20260225-105	2026-02-25	2026-03-27	Net 30	454.4	0	454.4	2	Office supplies bundle (qty 1 @ \$275.40 = \$275.40); Printer toner (qty 2 @ \$22.50 = \$45.00)

Vendor	Description	Qty	Rate	Ar
Bright Cleaning Services	Monthly facility cleaning	1	950	
Bright Cleaning Services	Carpet spot treatment	1	125	

Live Demonstrations

- Address cleanup and normalization
- Invoice summarization / categorization from email
- Budget vs. variance analysis
- Identifying fraud red flags

Grant Compliance

The Challenge

Grant administrators received hundreds of emails containing grant agreements, reporting requirements, award modifications, and compliance notifications. Critical deadlines were often buried in lengthy correspondence.

The Solution: AI reviews incoming grant correspondence and:

- Identifies reporting deadlines
- Extracts compliance requirements
- Highlights funding restrictions
- Summarizes key obligations
- Creates reminders and workflow tasks
- Associates documents with the appropriate grant record

Outcomes

- ✓ Reduced risk of missed deadlines (prioritizes by due date, etc)
- ✓ Improved compliance
- ✓ Less manual tracking
- ✓ Easier grant administration and processing



Case Study

Smarter Invoice Processing. Zero Manual Grind.

➔ Built for Forward

The organization faced thousands of invoices from traveling nurses, each in a different format and requiring manual review. Staff had to validate the accuracy of key details—hours worked, hourly rates, and per diem amounts where applicable—and then re-enter that information into a structured format for analysis. The volume, inconsistency, and variability of the invoices made this a slow, error-prone process that consumed valuable operational time.



Moving with Momentum

To tackle this challenge, **an AI model was trained to recognize and extract the critical fields across the diverse invoice formats.** The solution identifies hours, rate information, and per-diem fields—even when they appear in different layouts—and outputs the data in a clean, standardized structure. **Strong governance and controlled access ensured that sensitive vendor and rate information remained secure throughout the process.**



Delivering Outcomes

By automating document interpretation and data extraction, the solution dramatically reduced the time required to process and validate each invoice. Instead of manual review and transcription, teams now receive organized, ready-to-analyze data that fits directly into their existing workflows. This allowed staff to focus on evaluation and decision-making, delivered faster cycle times, and improved overall accuracy—all within an easy-to-use, secure environment.

Case Study

Empowering People Through an AI-Ready HR Bot

➔ Built for Forward

The company's HR content was spread across policy documents, SharePoint sites, FAQs, and email threads, making it difficult for employees to quickly find accurate answers. HR teams spent too much time responding to repeat questions, while employees struggled to navigate dense information sources. The organization needed a way to centralize its HR knowledge and deliver it in a format that matched how people actually work day-to-day.

🚀 Moving with Momentum

Using Microsoft Copilot Studio, the company built a secure, conversational HR bot that sits across all HR policies, guides, and resources. Designed for Microsoft Teams, the bot uses generative AI to answer common questions, surface relevant documents, and route employees to the right resources. Strong governance—role-based access, permissions tied to Microsoft 365, and controlled data connections—ensured the bot respected privacy boundaries and delivered only the content employees were authorized to see.



🤖 Delivering Outcomes

The new HR bot delivered immediate value by meeting employees directly in Teams—the tool they already use daily. Instead of digging through SharePoint or sending emails to HR, users simply ask a question and get instant, accurate, and secure answers. This reduced HR response volume, improved employee satisfaction, and ensured consistent communication across the organization. The result is a more streamlined, user-centered HR experience that frees HR staff to focus on higher-value work.

Case Study

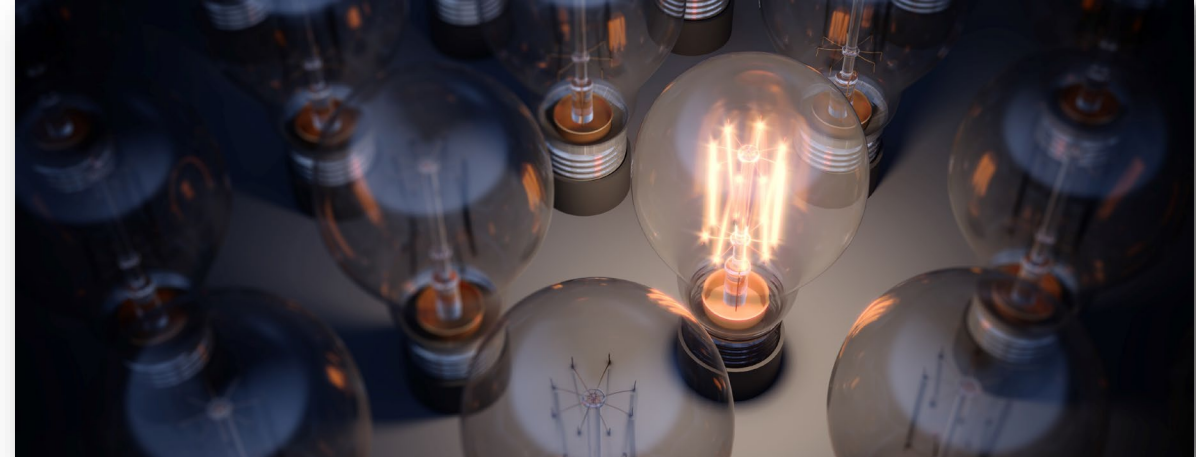
From Manual Entry to Intelligent Automation

➔ Built for Forward

The organization relied on a highly manual, email-driven contract process that required staff to repeatedly re-enter identical information into multiple documents. This created delays, tracking challenges, and increased compliance risk. As contract volume grew, the approach became increasingly inefficient, error-prone, and difficult to scale.

🚀 Moving with Momentum

The team implemented a modernized, fully automated contracting process that leverages structured data from SharePoint to generate and populate agreements in real time. Each document is assigned a unique identifier to ensure complete lifecycle traceability. **Upon receipt of signed contracts via email, Azure Document Intelligence automatically extracts, classifies, and routes the files to the appropriate SharePoint location—eliminating manual intervention and strengthening audit readiness.**



🔗 Delivering Outcomes

The transformation dramatically improved both efficiency and client satisfaction by removing manual data entry and accelerating turnaround times. Clients now receive accurate, pre-populated contracts that can be reviewed and signed without delays or back-and-forth revisions. On the backend, documents are automatically recognized and stored without human intervention, providing a high-quality, reliable, and scalable experience that supports continued business growth.

Case Study

Custom AI Solution – Payroll Audit at Scale

➔ Built for Forward

A global real estate development and lifestyle company needed to comply with the NY 421A Affordable Housing Program, requiring real estate owners to validate that they are paying at least the living wage rates published by New York City. The City requires owners to ensure contractors submit certified payroll reports. Meeting these criteria earns a tax exemption that reduces the property's tax value to its pre-construction level. However, the process of collecting and validating these reports was manual, time-consuming, and error-prone.



Moving with Momentum

Datapath Intelligent Form Capture tool was used to **automate the collection and processing of certified payroll reports**. Using Microsoft technologies such as **Azure Cognitive Services Form Recognizer, Power Automate, and Power BI**, the solution **converts scanned PDFs into structured data for reporting and compliance verification**.



Delivering Outcomes

The automation significantly reduced manual effort and ensured accurate, timely compliance. Processing time dropped from three weeks to about one hour—a 99% reduction—while following compliance requirements and securing tax exemptions worth millions annually.

Case Study

Closing the Books Faster With Automation

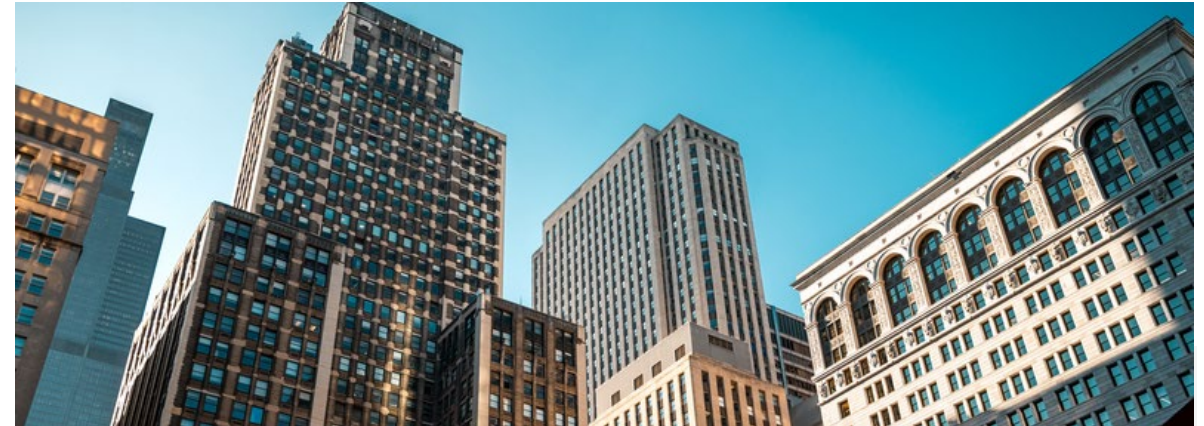
➔ Built for Forward

A real estate developer's growth has been exponential—growing from approximately 150 agents to 22,000 over the last 12 years. Their accounting processes weren't keeping up with their expansion. Spending less time in spreadsheets was a top priority.



Moving with Momentum

Solution: building a custom automation solution to streamline data management and financial reporting. Using a set of automation tools, new workflows are drastically reducing manual effort and enhancing data integrity.

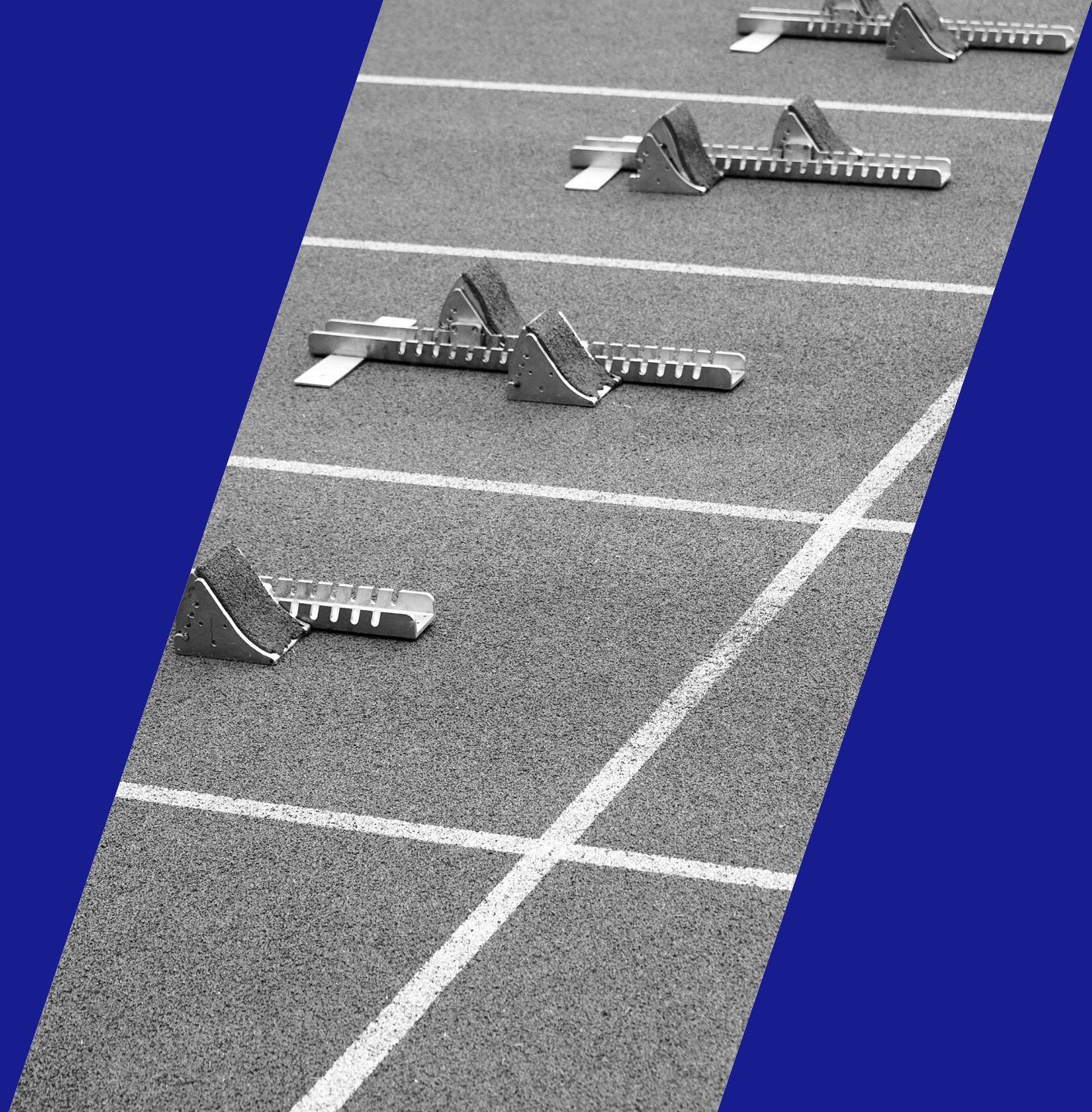


Delivering Outcomes

Since introducing automated workflows, office accounting teams are expediting their monthly close processes, redirecting their efforts toward value-added tasks, and helping to improve overall productivity. Now they're gaining back about 10 days per month for higher-value activities.

06

Are You Ready?





Key Takeaways



Efficiency

Automation & AI drives efficiency in businesses by automating repetitive tasks, optimizing processes, and reducing manual intervention.



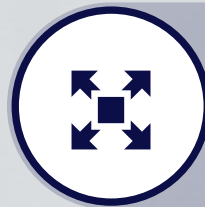
Accuracy

Automation & AI looks to minimize the risk of human errors leading to enhanced accuracy of data within a financial process.



Reallocate

Automation & AI enables workers to focus on activities that require critical thinking to enhance overall business productivity.



Scalability

Automation & AI supports the growing workloads of resources without increasing the number of human resources.

And now, the test...

Before you move on, jot down your first “Small Starts, Large Impacts” pilot:

- One pain point
- One dataset
- One goal
- One measurement



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Single Audit & Tax Update **Nonprofit & Healthcare Breakout**

August 20, 2026



2026 Single Audit Update

Single Audit Update

1. Single Audit Overview
2. Single Audit Environment
3. Status and
Expectations for 2026 Compliance Supplement
4. Reminders and best practices



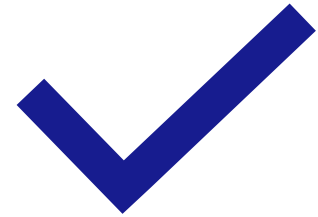
Single Audit Regulatory Framework



Grant agreement with
Federal funding source



2 CFR Part 200
(Uniform Guidance)



OMB Compliance
Supplement

*Expenditures from
Federal funding source
> \$1,000,000*

Single Audit Overview

Control Testing & Compliance Testing

Control Testing

Control testing is required for each compliance area and varies by federal program.

- Compliance area is determined by the annual Compliance Supplement issued by United States Office of Management and Budget (OMB).

Compliance Testing

Compliance testing is required for each compliance area and varies by federal program.

- Testing is determined by the annual Compliance Supplement issued by United States Office of Management and Budget (OMB).

Requirement	A	B	C	E	F	G	H	I	J	L	M	N
	Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment Real Property Management	Matching, Level of Effort, Earmarking	Period of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Program Number												
10.181	Y	Y	N	Y	N	N	Y	N	N	Y	Y	N
10.182	Y	Y	N	N	N	N	N	N	N	N	N	N
10.185	Y	Y	N	N	N	N	N	N	N	N	N	N

Consequences of Noncompliance



Audit findings



Increased oversight



Award termination



Withholding of payments



Required repayment of funds received



Ineligible for future funds

Single Audit Environment



What changed in the single audit environment

Current pressures to understand and plan for

Operating environment

- Governance expectations are shifting toward clearer risk prioritization, escalation, and resilience planning.
- Funding priorities, agency roles, and compliance expectations can change faster than annual planning cycles.
- Resource constraints include limited compliance capacity, growing technology needs, and pressure on indirect cost rates.

Timing and uncertainty

- Delayed Supplements and evolving requirements are compressing audit timelines.
- Policy changes, legislative impacts, indirect cost questions, and program changes are creating planning uncertainty.
- The 2026 Supplement may bring timing challenges, higher-risk designation changes, ALN realignment, and program edits.

Technology and AI

- Data reliability and quality risks remain important.
- AI-related risks include bias, cybersecurity, privacy, and legal or regulatory uncertainty.

Regulatory Watchlist

Uniform Guidance Revisions

- **Uniform Guidance Revisions**
- 2024 revisions to 2 CFR Part 200 are effective
- Focus on grant terms and conditions for operational impact, effective dates and internal policy refresh
- Pay attention to agency-specific implementation(s)
- Updates to the 2026 Uniform Guidance (2 CFR)
- Changes “Uniform Guidance” to “Uniform Grants Regulation (UGR)”
- **Objective 1: Improve Transparency, Accountability, and Oversight**
- **Objective 2: Clarify Regulatory Structure**
- **Objective 3: Reduce Recipient Burden**

Regulatory Changes

- **Regulatory Changes**
- H.R.1 –One Big Beautiful Bill Act (OBBA)
- H.R.4 –Recissions Act of 2025
- E.O. 14332 –Improving Oversight of Federal Grantmaking
- E.O. 14395 –Establishing Task Force to Eliminate Fraud
- H.R.8312 Establish Fraud Prevention and Program Integrity within the U.S. Dept. of Treasury
- H.R.8107 Government Audit and Accountability of Federally Funded State-Administered Programs Act
- Web and Mobile Accessibility Regulation for Public Entities
- Federal agency policy actions regarding indirect costs
- Proposed changes to SAM.gov

Fraud Remains a Critical Area of Focus

Taskforce created
and headed by VP

States testifying
before Congress

PRAC

- (Pandemic Response Accountability Committee) moving to Treasury

Hints at performance-
based auditing

OMB Memo M-25-30

- Federal auditing does not work
- Compliance for its own sake is no longer the goal

Benefit payment
fraud schemes
(Minnesota)

HHS Cracks Down on
Years of Unchecked
Audit Findings |
HHS.gov

Status & Expected Key Changes

2026 Uniform ~~Guidance~~
Grants Regulation (UGR)



2026 Uniform Guidance Status



Once issued it will be effective for audits of fiscal years beginning after June 30, 2025

2026 Uniform Guidance Revisions

Objective 1: Improve Transparency, Accountability, and Oversight

- End DEI/DEIA mandates and other “ideological” requirements in grant programs
- Ensure merit-based selection of award recipients
- Align awards with administration policies and Executive Branch priorities
- Strengthen enforcement through expanded termination authority and payment controls

Objective 2: Clarify Regulatory Structure

- Reclassify 2 CFR subtitle A from “guidance” to binding OMB regulation
- Future OMB amendments will apply government-wide on OMB’s own effective date
- No secondary agency notice-and-comment rulemaking will be required

Objective 3: Reduce Recipient Burden

- Remove extraneous policy requirements from funding opportunities
- Encourage multi-year awards and streamlined NOFOs via Grants.gov
- Eliminate fixed amount awards and simplify procurement provisions

Three main
objectives
for revisions
to UG

CAUTION

- The following 2026 Supplement information is based on review of drafts from OMB
- Changes could be made by OMB before issuance
- Important to review the issued 2026 Supplement to identify any changes



Auditors are required to use the version of the Supplement effective for the year-end associated with the audit – Audit CANNOT be issued prior to Supplement release!

2026 Compliance Supplement Expectations

- Limited scope review process – only statutory and regulatory updates
- Realigned/Decoupled programs – This is when the agency creates separate ALNs for an existing program.
- Part 2 – Matrix

Reminder: Maximum of 6 compliance requirements continues (A & B are 1)

2 possible exceptions:
CCDF Cluster and R&D Cluster have 7 requirements

New Programs

- **15.018** – Energy Community Revitalization Program (ECRP)
- **20.337** – Consolidated Rail Infrastructure and Safety Improvements Program
- **93.00R** – 988 and Behavioral Health Crisis Services Programs
- **93.798** – Rural Health Transformation Program

Deleted Programs

- **10.181** – Pandemic Relief Activities: Farm and Food Worker Relief Grant Program
- **16.034** – Coronavirus Emergency Supplemental Funding Program
- **20.319** – High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants
- **21.023** – Emergency Rental Assistance Program
- **21.026** – Homeowner Assistance Fund
- **21.032** – Local Assistance and Tribal Consistency Fund
- **59.075** – Shuttered Venue Operators Grant Program
- **84.425** – Education Stabilization Fund
- **93.498** – Child Care Disaster Relief

Deleted programs are still subject to audit

(Auditors will utilize Part 7 of the Supplement to audit these programs)

2026 Compliance Supplement Expectations

Part 8, Appendix IV - Higher Risk Designation

- Removed 15.252 - Abandoned Mine Land Reclamation (AMLR)
- Added 2 new programs

Assistance Listing Number	Title
93.778/93.777/93.775	Medicaid Cluster
93.489/93.575/93.596	Child Care and Development Fund (CCDF) Cluster
93.558	Temporary Assistance for Needy Families (TANF)

Single Audit Readiness



Single Audit Readiness

**Treat single audit as a year-round governance and compliance activity
— not a post-year-end task for the audit**

Monitor throughout the year:

- Grant terms and specific award terms
- Agency-specific implementation and effective dates
 - Internal policy refresh needs
- Documentation around compliance judgments

Compliance Supplement – OMB – The White House

Questions?





Nonprofit Tax Updates & Focus Areas

Nonprofit Tax Updates & Focus Areas

1. Indirect Impacts of OBBBA
2. Unrelated Business Income
3. Excess Benefit Transactions
4. Contribution Reporting
5. Form 990 Reporting



Treasury Announces 990 Transparency Initiative

- The goal includes exposing hidden funding and strengthening oversight to detect misconduct and hold wrongdoers accountable.
- Intent is to provide clearer reporting activities like those below:
 - Government contracts
 - Government grants
 - Fiscal sponsorship arrangements
- Treasury Announces Form 990 Transparency Initiative to Expose Hidden Funding and Strengthen Oversight | U.S. Department of the Treasury
<https://home.treasury.gov/news/press-releases/sb0470>
 - “Public money and tax-exempt status demand public accountability,” said Treasury Secretary Scott Bessent. “We are ending the days of hiding fraud, abuse, and extremist activity behind complicated nonprofit arrangements. When bad actors misuse charitable structures, directors and officers should understand that transparency can lead to scrutiny, accountability, and liability under the law.”
 - “Tax-exempt status is not immunity from scrutiny,” said Treasury Assistant Secretary and Acting IRS Chief Counsel Ken Kies

01

Indirect Impacts of OBBBA



Indirect Impact Provisions

Corporate Charitable Contributions

New 1% floor on charitable contributions

- Corporations generally allowed to deduct charitable contributions up to 10% of corporation's taxable income (contribution base)
- 1% floor for tax years beginning after December 31, 2025
 - If contributions less than 1% of the contribution base, no deduction
- If contributions are between 1% and 10%, deduction is actual contributions less 1% of contribution base
- If contributions exceed 10% of contribution base, current year deduction is 9%
- Five-year carryforward for:
 - ✓ Contributions in excess of 10% contribution base
 - ✓ The 1% floor for years in which the 10% limit was exceeded

Indirect Impact Provisions

Individual Charitable Contributions

Itemized deductions

- Charitable contributions limited
 - New 0.5% floor on itemized charitable contributions
 - Permanent 60% AGI limit for cash gifts; 30% AGI limit for appreciated assets
- New 2/37th Limitation on itemized deductions for individuals in highest bracket
- SALT cap increased to \$40,000

Standard Deduction

- Made permanent
 - 2025: \$15,750 single; \$31,500 joint; +\$6,000 for 65+ through 2028
 - Phaseout at \$75K/\$150K MAGI
- Non-itemizers can deduct up to \$1,000 (\$2,000 joint)

Strategies

- “Bunching”
 - Example: \$30,000 every three years as opposed to \$10,000 every year

02

Unrelated Business Income Tax



Unrelated Business Income Tax (UBIT)

- Net income from an activity unrelated to the exempt purposes
- Three-part test
 - Is the activity a trade or business?
 - Activity carried on for the production of income from sale of goods or services
 - Is the activity regularly carried on?
 - Questions the frequency and continuity of the activity comparable to for-profit taxable entities
 - Is the activity substantially related to the exempt purposes?
 - Must have a substantial relationship to achieve the entity's exempt purpose
 - A source of funding for other exempt activities is not enough
- Examples of common UBIT our clients see:
 - Advertising income
 - Debt-financed rental income
 - Investment in pass-through entities (Box 20V on K-1)
 - Rental activities when organizations provide services
- Siloing Rules

Unrelated Business Income Tax (UBIT)

Exceptions & Modifications to UBI

- Passive royalty exception
- Qualified Sponsorship rules
- Acknowledgment vs. advertising
- Volunteer exception
- Convenience exception
- Leasing
- Sale of merchandise
- Debt-financed income
- Bingo

03

Excess Benefit Transactions



Rebuttable Presumption of Reasonableness

- The compensation arrangement was approved by a board of directors or trustees (or a committee of the board) of an applicable tax-exempt organization that was composed entirely of individuals who were unrelated to, and not subject to the control of, the disqualified person or persons involved in the arrangement;
- The board obtained and relied on appropriate data as to comparability; and
- The board adequately and concurrently documented the basis for its determination.

Appropriate Comparability Data

- Sufficient information to determine whether a transaction is at fair market value or the compensation is reasonable, given the knowledge and expertise of board members. Compensation is reasonable if the amount paid is no more than what would ordinarily be paid for similar services by comparable enterprises under like circumstances.

Concurrent Documentation

- Terms of the approved transaction and the date approved.
- The members of the decision-making body present and who voted when the transaction was approved.
- The comparability data relied on and how it was obtained.
- The documentation must be prepared before the later of the next meeting of the decision-making body, or 60 days after the final actions of the body. In addition, the decision-making body must approve the documentation within a reasonable time after preparation.

Excess Benefit Transaction

- An excess benefit transaction generally is a transaction in which an economic benefit is provided by an applicable tax-exempt organization, directly or indirectly, to or for the use of any disqualified person, and the value of the economic benefit provided by the applicable tax-exempt organization exceeds the value of the consideration (including the performance of services) received for providing such benefit. An excess benefit transaction also can occur when a disqualified person embezzles from the exempt organization.

Automatic Excess Benefit Transaction

- Improperly reimbursed expenses of disqualified persons not under an accountable plan.
- IRS has taken the stance that if a reimbursement does not comply with accountable expense reimbursement rules AND is not reported as compensation, it is treated as an excess benefit.
- Even if the compensation to the disqualified person would have been reasonable if reported.
- Can be fixed if payments are reported as taxable compensation to the IRS before an IRS audit.

Excess Benefit Transaction Penalties

- Any disqualified person who benefits from an excess benefit transaction is liable for a 25% tax on the excess benefit
- The disqualified person is also liable for a 200% tax on the excess benefit if the excess benefit is not corrected by a certain date
- In addition, organization managers who participate in an excess benefit transaction knowingly, willfully, and without reasonable cause are liable for a 10% tax on the excess benefit, not to exceed \$20,000.

04

Contribution Reporting



Contribution Reporting

Cash & Non-Cash Gifts

- Written acknowledgement is required for donor to substantiate charitable contribution of \$250 or more
- Written disclosure statement is required when donor makes quid pro quo contribution (payment exceeding \$75 partly as contribution & partly for goods & services provided by the organization)
- Statement of whether goods or services were provided.

Non-Cash Gifts

- There is no requirement to tell the donor the value of a noncash gift. This is the donor's responsibility.
- Additional requirements (Form 1098-C) apply when charity receives donation of vehicle, boat, or plane with value of more than \$500
- Additional requirements (Forms 8283, 8282) can apply when a donor contributes more than \$5,000 of non-cash gifts during year.

Contribution Reporting

Forms 8283 & 8282

- Form 8283 is provided by the donor and must be signed by the charity indicating receipt of donation for certain noncash charitable contributions. The organization is not confirming the fair market value but merely confirming receipt of the gift. The number of Form 8283s received is reported on Schedule M.
- Form 8282 must be completed by the charitable organization for any contribution sold or disposed of within three years of contribution date for which Form 8283 was completed.
- Form 8282 must be filed with the IRS within 125 days after disposition of donated property. A copy also must be given to original donor. The number of Forms 8282 filed is reported on Form 990, Part V, line 7d.
- Consider communicating with the donor regarding the sales price of the donation

05

Form 990 Reporting



Common Form 990 Errors

1. Including donated facilities or services in revenue and expense
2. Including unrealized gains/losses in revenue
3. Not reporting sponsorships or other informal types of grants
4. Reporting officer compensation for the wrong period.
5. Failing to track revenue in sufficient detail for public support test.
6. Not tracking, limiting, and reporting lobbying expenditures
7. Underreporting foreign investments and activities (can be K-1 based)

Questions?



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USI INSURANCE SERVICES EMPLOYEE BENEFITS

2026 LIVING WITHIN THE STORM

BEN WOJCHIK VP EB PRACTICE LEADER
GREG LEONARD EB CONSULTANT

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Today's speakers



Ben Wojchik

Employee Benefits Practice Leader



Greg Leonard

Employee Benefit Consultant



Your curated team is collaboratively connected with all other disciplines.
USI experts are deeply connected nationally, with locally based experts with industry-wide expertise.

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Sections Covered Today

- Market Overview: How Did We Get Here?
 - Skyrocketing Claims & Poor State of Health
 - Foundational Challenges to the Carrier Model
 - Regulatory Uncertainty
 - Volatility Within the Broker Market
- Employer Cost-Control Strategies
 - Traditional & Middle of the Road
 - Non-Traditional



Market Overview: How Did We Get Here?

Trends Converge to Create the Perfect Storm

HOW DID WE GET HERE?

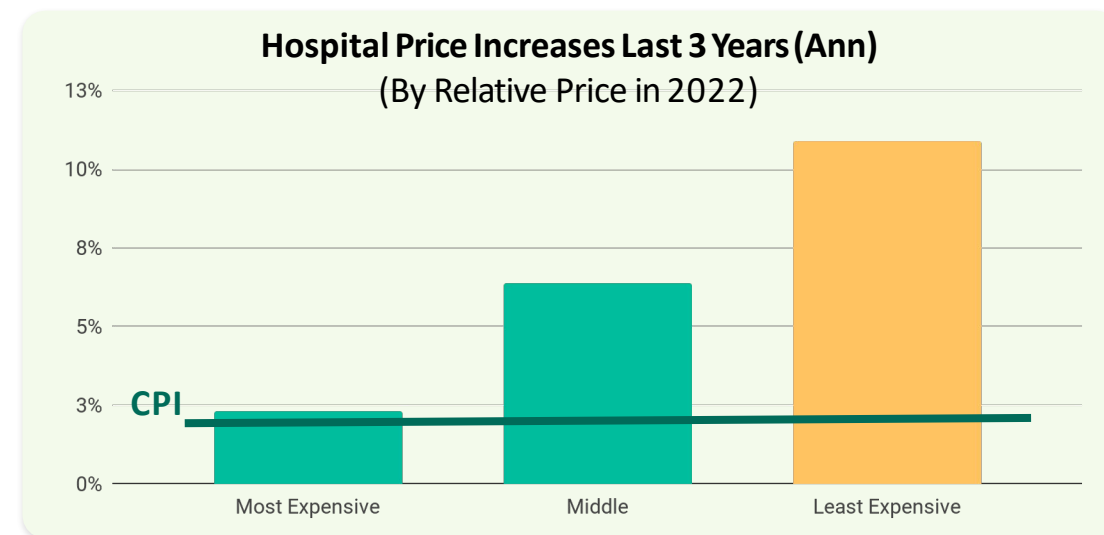
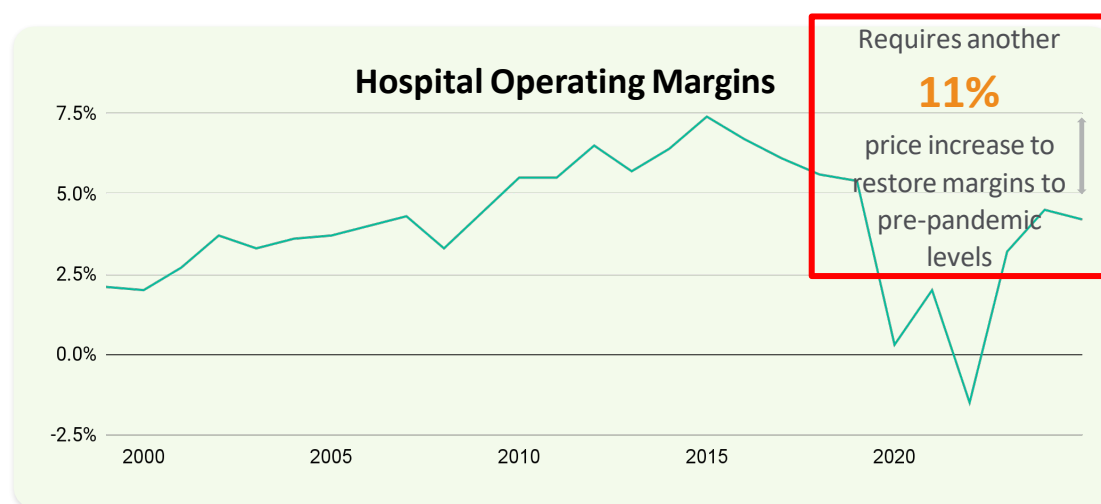
Skyrocketing Claims, driven by

- 1 Hospital Pricing Power
- 2 Underperforming PPO Networks
- 3 Pharmacy Cost Drivers
- 4 Poor State of Health
- 5 Large Claim Frequency & Severity

Renegotiated network contracts

Many hospitals have renegotiated their contracts to increase overall costs, due to decreasing margins and added transparency of PPO contract rates

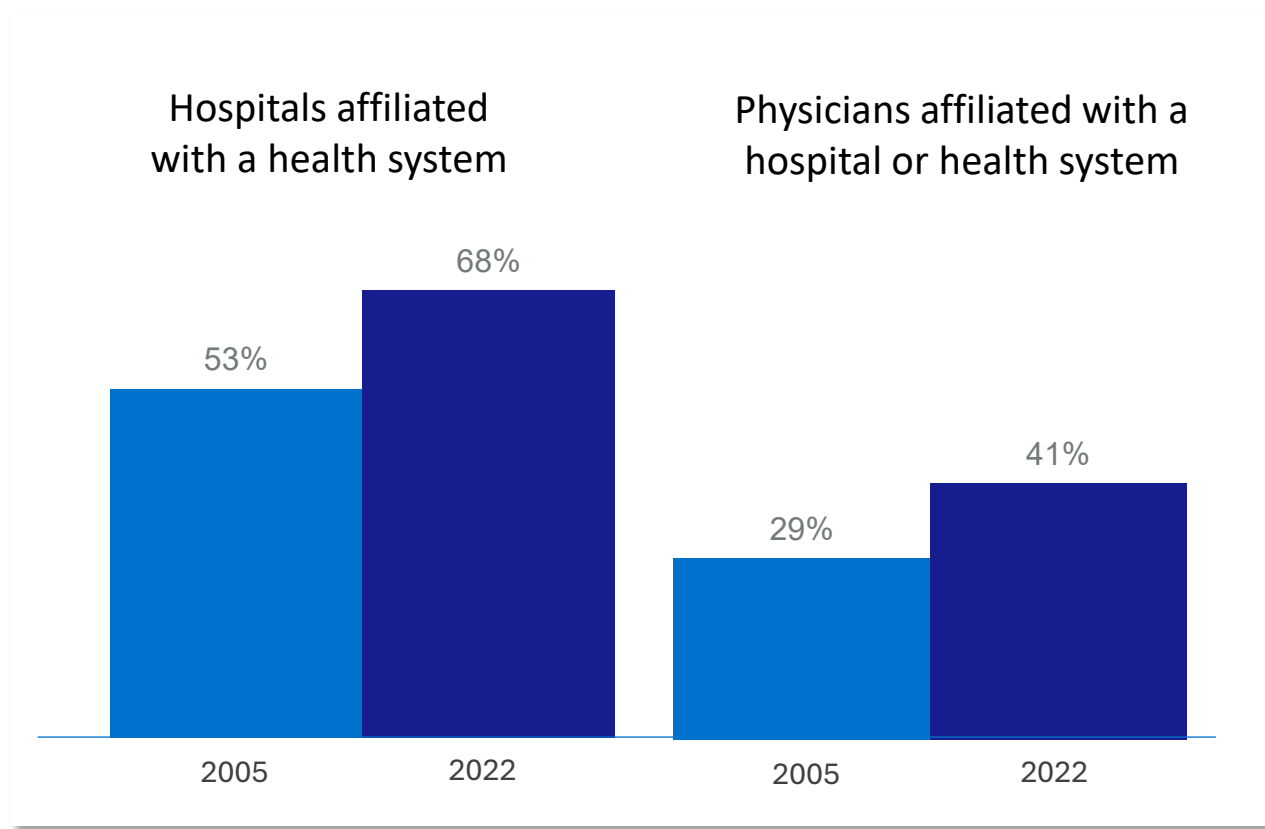
- Hospital contracts typically negotiated every 3 years
- Most have been renegotiated in the post-COVID lower margin environment
- Transparency data from machine readable files have enabled lower-cost hospitals to see and capture rate increase opportunities



Source: Garner, What's Driving the Healthcare Cost Crisis?

Market consolidation can significantly increase the cost of healthcare

Health system affiliation often means higher healthcare costs



- An increasing number of hospitals and physicians are affiliated with health systems
- **Why it matters:** hospital mergers can lead to increases ranging from 3% to 65%

Sources: Bipartisan Policy Center, Issue Brief: Health Care Provider Consolidation, January 29, 2026

The role of AI upcoding in health plan spending

What is it?

Upcoding occurs when providers bill for more complex services than the patient received or may have needed – AI may be driving an increase in upcoding

For example

Optimizing bills to charge for services often included in diagnosis-related group bundled payment or using AI to listen to provider encounters and bill for the most complex condition discussed.

In response

Insurance companies have been using AI to downcode en masse as a cost control method.

This has resulted in states enacting or considering legislation against downcoding practices.

Employer impact

AI-driven upcoding could contribute to higher health plan costs if trends continue.

Employer-sponsored plans are increasingly the margin stabilizer as Medicare plans become less profitable

Shrinking Medicare Advantage Margins

- Medicare reimbursements are not keeping pace with medical trend, making Medicare Advantage (MA) plans less profitable for insurance carriers.
- Carriers are reducing MA enrollment by cutting benefits, aggressively repricing, and exiting unprofitable markets.

Greater Focus on Employer Plans

- As carriers pull back from MA, there is a greater focus on employer-sponsored plans to make up the difference, especially self-funded and ASO plans.
- Employers may experience tighter underwriting and pricing discipline.

Renewal Increases by Design

- Renewal pressure is structural, not temporary, driven by carrier portfolio shifts—not just claims experience.
- Cost shifting from providers is accelerating, increasing unit costs and high-cost claim severity for employer-sponsored health plans.

2 Underperforming PPO Networks

PPO networks no longer provide value



Inefficient Networks

Traditional PPOs lost value as networks expanded to include most providers.



Eroded Cost Control

Eroding discounts and disappearing no-audit clauses continue to make it harder to control health plan costs.



Independent Dispute Resolution

OON providers can dispute carrier payments through arbitration.

Eroded cost control

The hidden impact of “no audit” clauses within PPO hospital contracts

What does “no audit” mean?

Although a hospital may guarantee a discount on billed charges, the PPO has **no right** to question the necessity or accuracy of the billing.

Employer Impact

Employers are hiring the PPO to manage costs but don't realize the **PPO has given up control of the billing process.**

The **stop-loss carrier** may review claims and attempt to apply their own payment integrity, reducing the reimbursement and **leaving the employer stuck in the middle.**

Without Audit Rights

The insurance carrier or TPA has very little leverage with the hospital to enforce payment integrity.

Example: A hospital can send a bill for inflated charges and the PPO with no audit rights simply applies the negotiated discount to the inflated charges.

What Employers Should Ask

- Does the stop loss contract guarantee reimbursement when approved by the PPO?
- What is the insurance carrier or TPA doing to mitigate these issues?

3

Pharmacy Cost Drivers

High cost of medications compounded by PBM practices



Specialty Drug

High-cost and new-to-market specialty medications and gene therapies



GLP-1s

Rapid adoption of GLP-1 drugs for diabetes and weight management, combined with high discontinuation rates

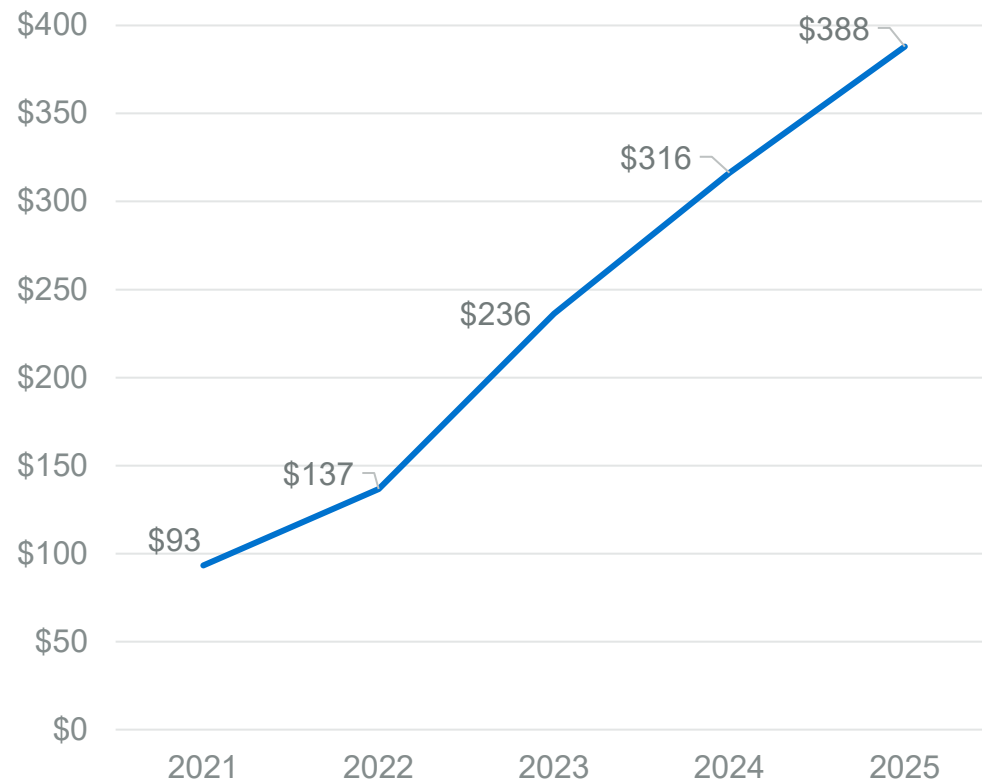


PBM Revenue

Rebates, spread-pricing and other PBM revenue-generating practices contribute to higher Rx and health plan costs

Emerging trends in GLP-1 access and affordability

PMPY Cost of GLP-1 Injectable Medications



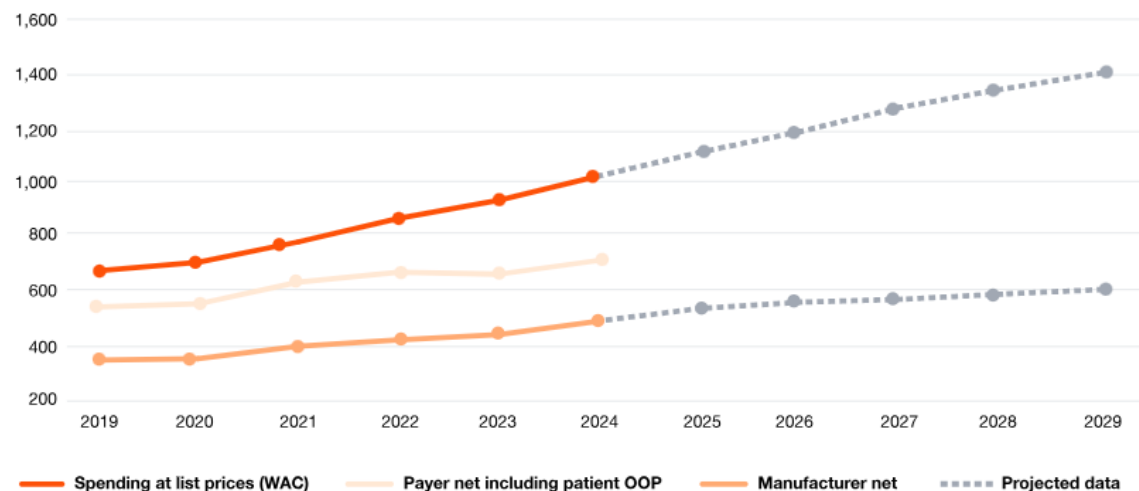
Source: USI 3D Client Data

- Recent developments have made the outlook more complex
 - U.S. obesity rates peaked in 2022 and have begun to decline.
 - The use of injectable GLP-1s for weight loss has more than doubled since 2024.
 - Direct to consumer models are growing in popularity as some patients are willing to pay out of pocket to access GLP-1s and other medications.
 - GLP-1s are being studied and approved for an expanding list of medical conditions like MACE, MASH and obstructive sleep apnea.
 - Several other areas of research include PCOS, inflammatory bowel disease and addiction.

Pharmacy cost increases not slowing down

Prescription drugs are the fastest growing costs within a health plan and now account for as much as 30% of employer healthcare spend

Prescription drug spending 2019 – 2029 (\$ in billions)



Source: PwC, Medical cost trend: behind the numbers 2026 (based on IQVIA data)

Primary cost drivers

Specialty Prescriptions

60%
of total U.S.
drug spend



VS



3%
of total
prescriptions



Gene Therapy

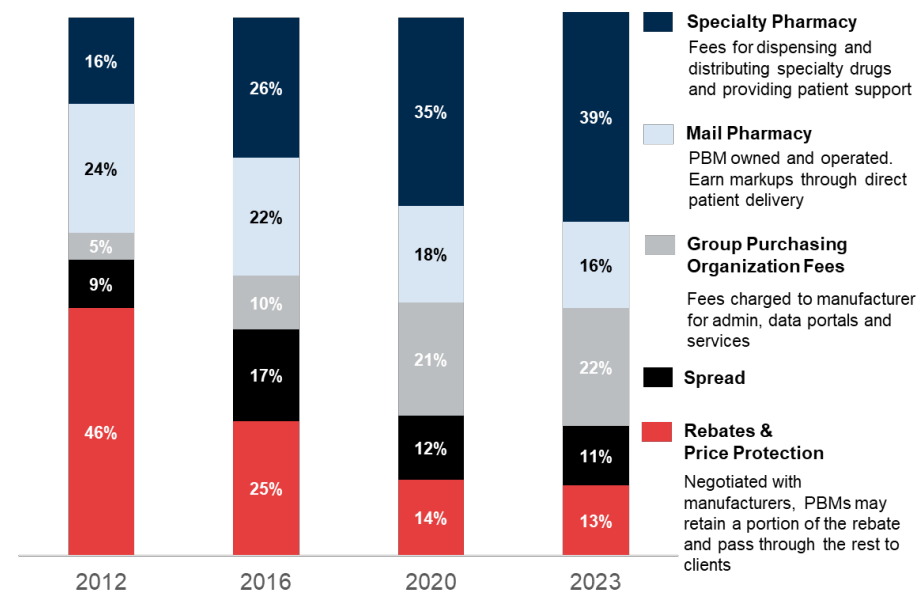
Gene therapies costs between \$1M and \$4M. The FDA expects to approve 5 to 10 gene therapies annually.

PBM revenue

Vertical integration will continue to drive carrier revenue and allow carriers access to revenue sources previously earned by third-party PBM providers

Parent/Owner	CVS Health Corporation	The Cigna Group	UnitedHealth Group, Inc.	Humana Inc.	MedImpact Holdings, Inc.	19 BlueCross BlueShield plans.
Drug Private Labeler	Cordavis Limited	Quallent Pharmaceuticals	NUVAILA			
Health Care Provider	Minute Clinic, Signify Health	Evernorth Care Group	Optum Health	CenterWell		
Pharmacy Benefit Manager	 34%	 23%	 22%	 7%	 5%	 3%
"PBM GPO"/Rebate Aggregator	Zinc Health Services	Ascent Health Services	Emisar Pharma Services	Ascent (via contract)	Prescient Holdings Group LLC	Ascent (minority owner)
Pharmacy - Retail	CVS Pharmacy					
Pharmacy - Mail Order	CVS Caremark Mail Service Pharmacy	Express Scripts Pharmacy	Optum Rx Mail Service Pharmacy	CenterWell Pharmacy	Birdi, Inc.	Express Scripts Pharmacy (via contract)
Pharmacy - Specialty	CVS Specialty Pharmacy	Accredo	Optum Specialty Pharmacy	CenterWell Specialty Pharmacy	Specialty by Birdi	Accredo (via contract)
Health Insurer	Aetna	Cigna Healthcare	UnitedHealthcare	Humana		19 BlueCross BlueShield plans

Source of PBM Gross Profits by Business Activity



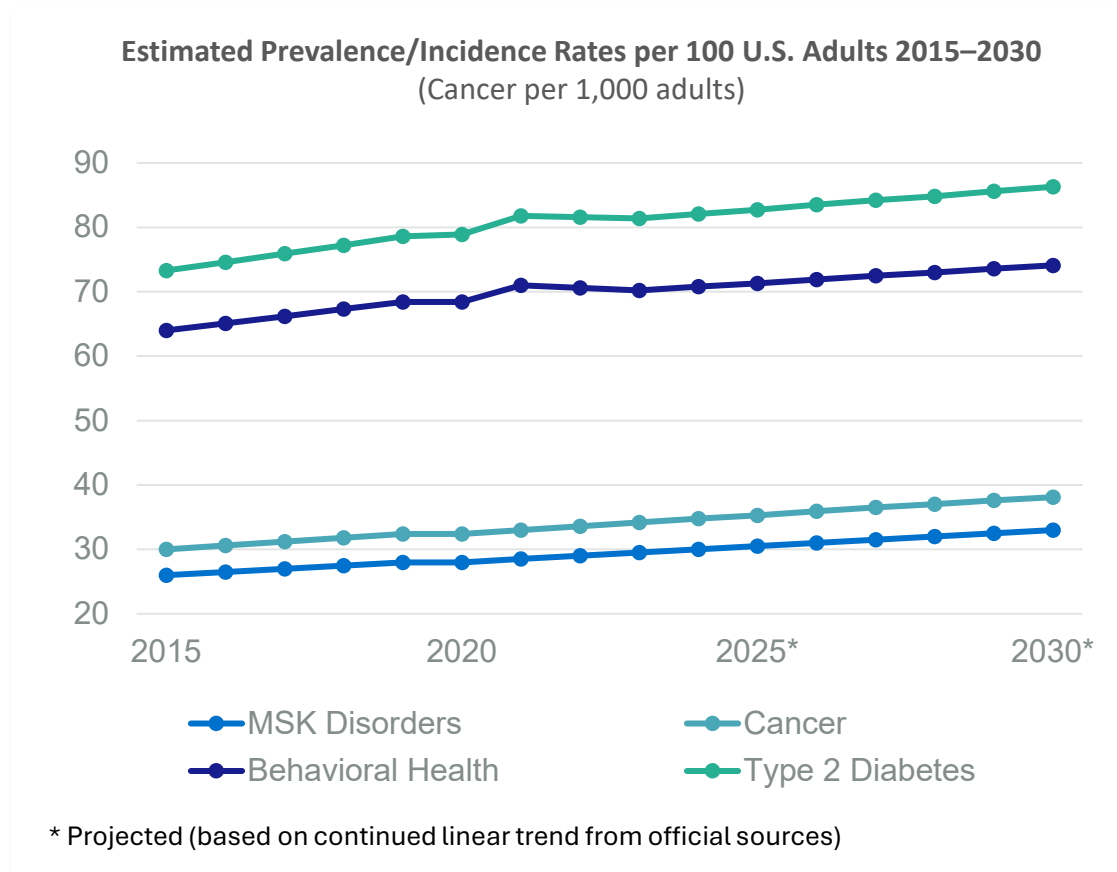
Graph and descriptions adapted from:
 1. Nephron Research PBM Gross Profit Model, August 2023
 2. Advisory Board

Source: National Cooperative Rx

4

Poor State of Health

Overall health in the U.S. is on the decline



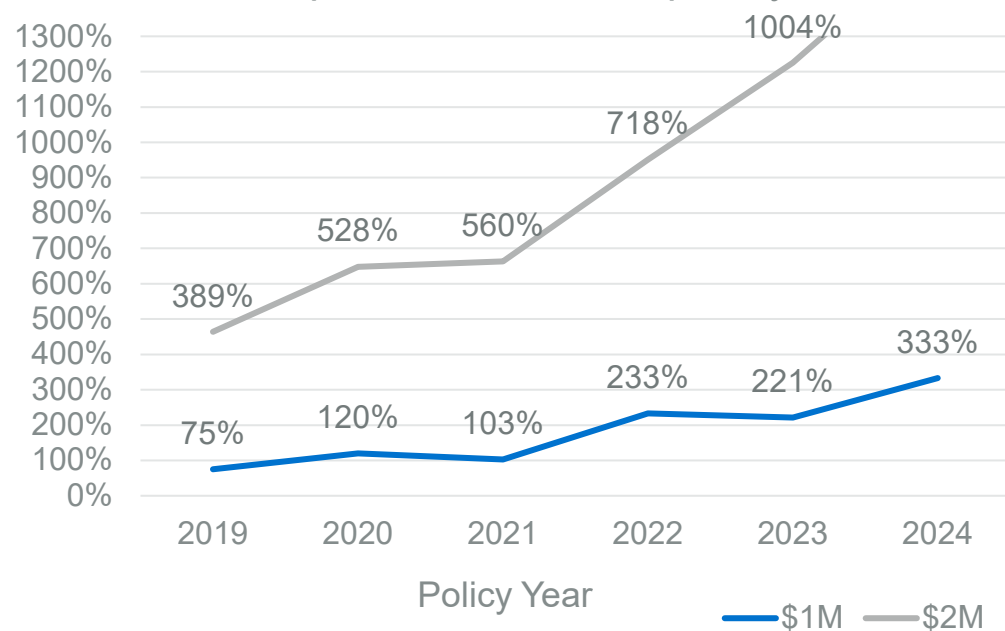
- The health status of the U.S. population continues to decline
- Although obesity may have plateaued, it is still a significant driver of overall claim costs
- There has been a surprising increase in heart disease and cancer incidents for those under 40 years old
- Behavioral health utilization has expanded into the older age segments not previously impacted

5

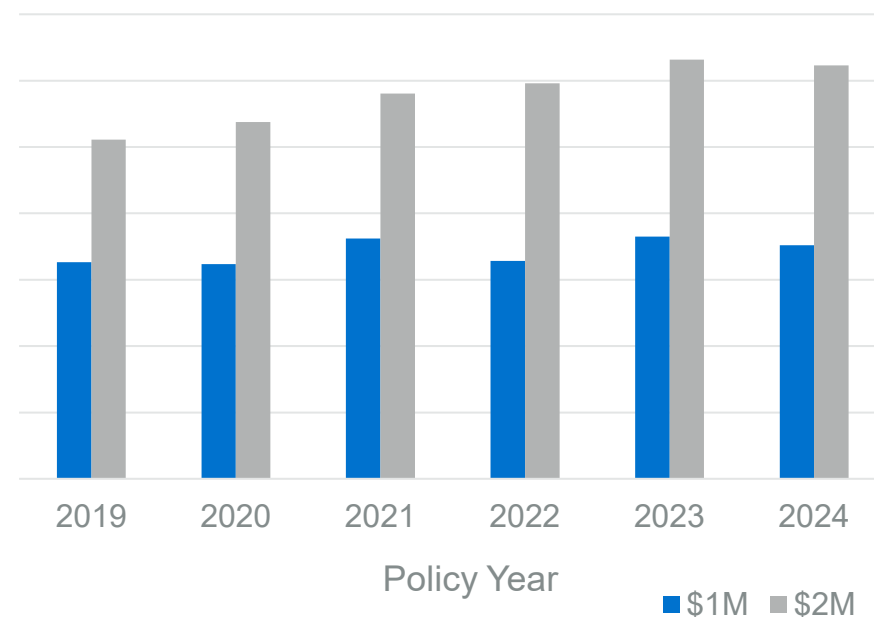
Large Claims Severity & Frequency

Large claimants impacting both fully insured and self funded plans have risen dramatically over the past 7 years, significantly increasing pooling charges and reinsurance rates

Stop Loss Claims Frequency



Average Stop Loss Claim Severity



Source: Tokyo Marine HCC 2025 Annual Market Report

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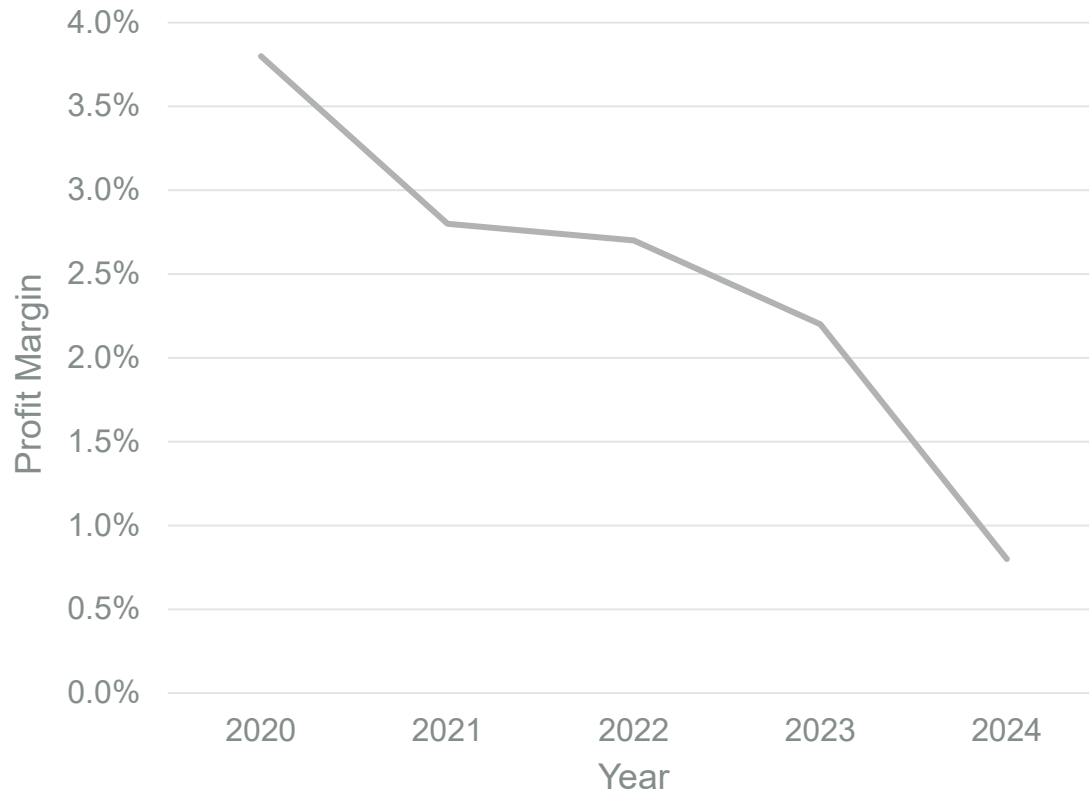
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HOW DID WE GET HERE?

Foundational Challenges to the Carrier Model

The current state of commercial health insurance

Carrier Profit Margin



Source: NAIC

- Revenue for the U.S. health insurance industry grew steadily from \$1.2 trillion in 2022 to \$1.5 trillion in 2025, outpacing inflation¹
- However, since peaking in 2020, profit margins have taken a steep decline due to hospital renegotiated contracts, Medicare/Medicaid reimbursement rates, large claim frequency and severity

Decreasing margins have driven several outcomes

- Increased contract disputes among networks and hospitals
- The race for vertical integration of pharmacy, behavioral health, and medical providers to capture additional revenue sources
- Non-negotiable fully insured renewal rate increases

Sources:

¹ IBISWorld, Health & Medical Insurance in the U.S. (2025); NAIC Annual Health Industry Commentary; BLS Consumer Price Index

² NAIC, 2024 Health Industry Commentary; KFF analysis of NAIC financial filings

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Commercial Health Insurance carriers in a state of flux



Anthem

- Settled a \$12.88 Million class action lawsuit regarding mental health and substance abuse claims
- Pathway EPO Network focused – Children's in network as of April 2026



Cigna

- Evernorth Health includes Express Scripts/Behavioral Health-utilization mgmt.
- 6-8% savings moving to local + narrow network
- Tier 1 providers Network



United Healthcare

- Profitability Most Important
- Surest - Steerage to High Value
- Nexxus – Tiered provider Narrow Network



AETNA

- CVS Focused
- Medicare Advantage increased utilization



Employer Cost-Control Strategies

Spectrum of Solutions

Traditional

- Fully Insured
- Carved-in Rx/PBM
- Fully bundled ASO
- PPO Networks
- Discount on bill charges
- “Big 4” carrier disease management (Big 4)
- Plan design changes/buy-downs
- HDHP with HSA/HRA
- Contribution changes
- Broker inertia

PLAY IT SAFE

Middle of the Road

- Narrow networks
- Incentivized physician choice (Garner, Surest, SimplePay, Nexus, etc.)
- ICHRAs
- Carved-out stop loss
- Carved-out PBM
- Captives
- “Big 4” carrier-owned TPAs
- Benchmarking

PROGRESSIVE

Non-Traditional

Most-likely will require Independent TPAs

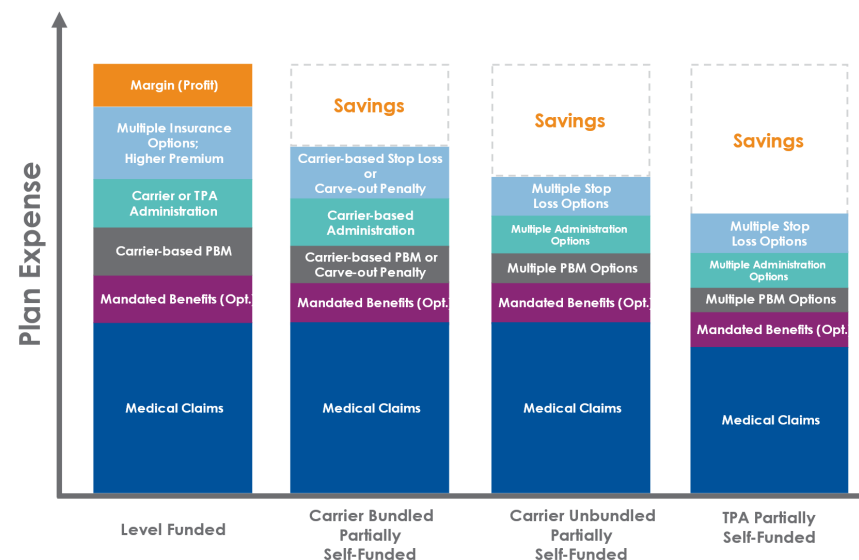
- Direct hospital contracting
- RBP
- Plan design exclusions
- Enhanced stop-loss
- Per-pill Rx pricing and DTC programs
- Direct/technology-enhanced primary care
- Care navigation

INNOVATIVE



Evaluating Plan Components

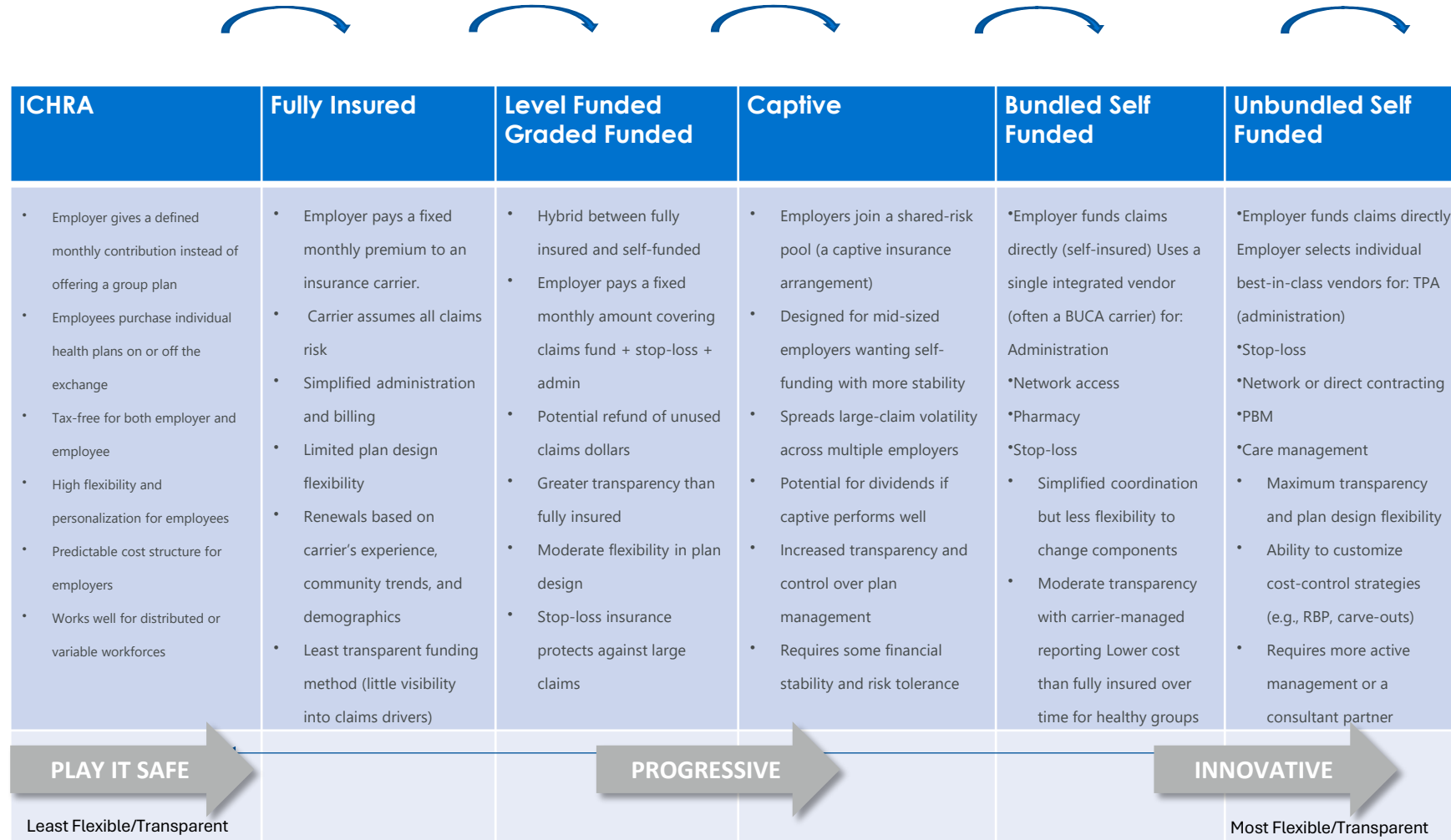
Bundled self-funded plans lack transparency and drive significant profit for insurance carriers.
Unbundling of services promotes savings by reducing individual component costs.



- Moving across the spectrum of funding alternatives increases flexibility to market each individual component of a self-funded program.
- Independent purchase of plan components allows employer to choose based on price and quality.
- *Save 10% 15% on each individually marketed component*
 - This is in addition to tax and fee savings attributed to self-funded plans.

Progressing to the right increases opportunity to reduce each plan component cost.

Continuum of Healthcare Finance

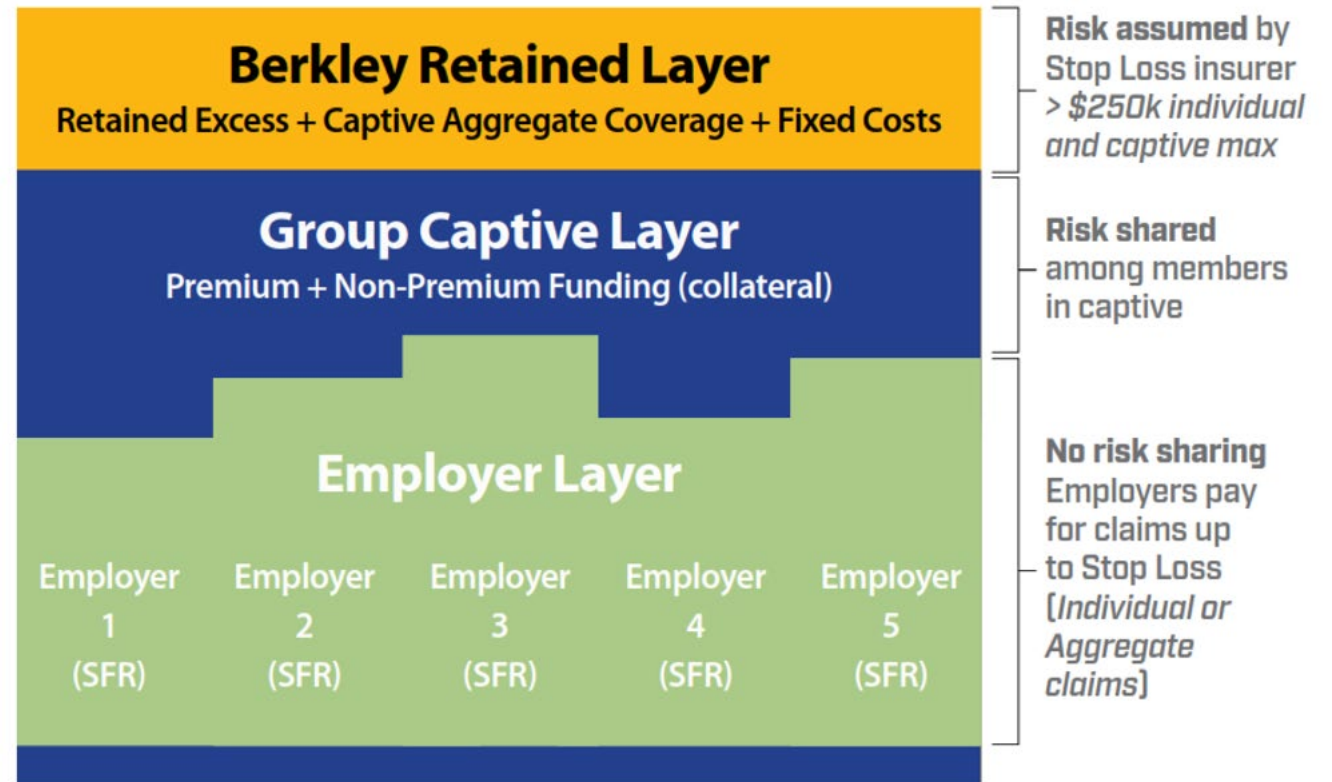


erved.

Captive Solution Example

Retain. Share. Transfer.

Risk Layers and Claims Exposure



Strategies to Manage Rising Healthcare Costs



Plan Design & Contribution

Optimize plan design, network & contribution strategies to better manage costs.

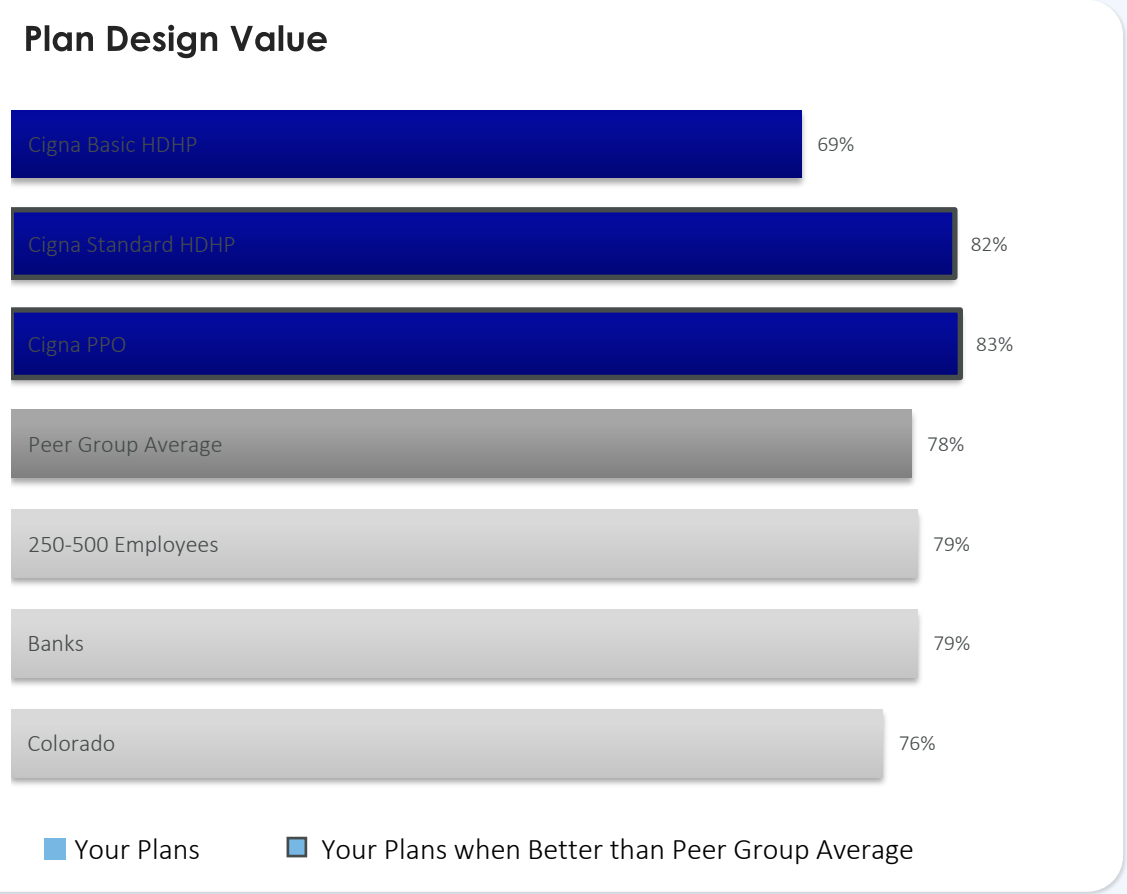
- Offer plans that provide truly meaningful choice
- Adjust contribution strategies to favor lower-cost plan options, which can help ensure participation while reducing employer spending.
- Narrow the provider network for greater savings and explore value-based or incentivized provider networks for more cost-effective care.
- Working spouse surcharge or exclusion.

2026 USI Benefits Benchmarking Survey

Open Now

Benefits benchmarking allows you to compare plan design, funding approach, contribution strategies and usage patterns with other similar employers to identify targeted opportunities for your organization to reduce costs without sacrificing competitiveness.

Plan Design Value – Plan Richness



 **GOAL:** Offer at least one plan that's richer than the Peer Group Average.

 **RESULT:** You have met or exceeded this goal; you have 2 plans that are higher than the benchmark.

Note: "ID" means there was insufficient data to calculate the benchmarks for that data point.

Employees want access to at least one medical plan that covers as much or more than what they can find at an average employer in their industry or geography.

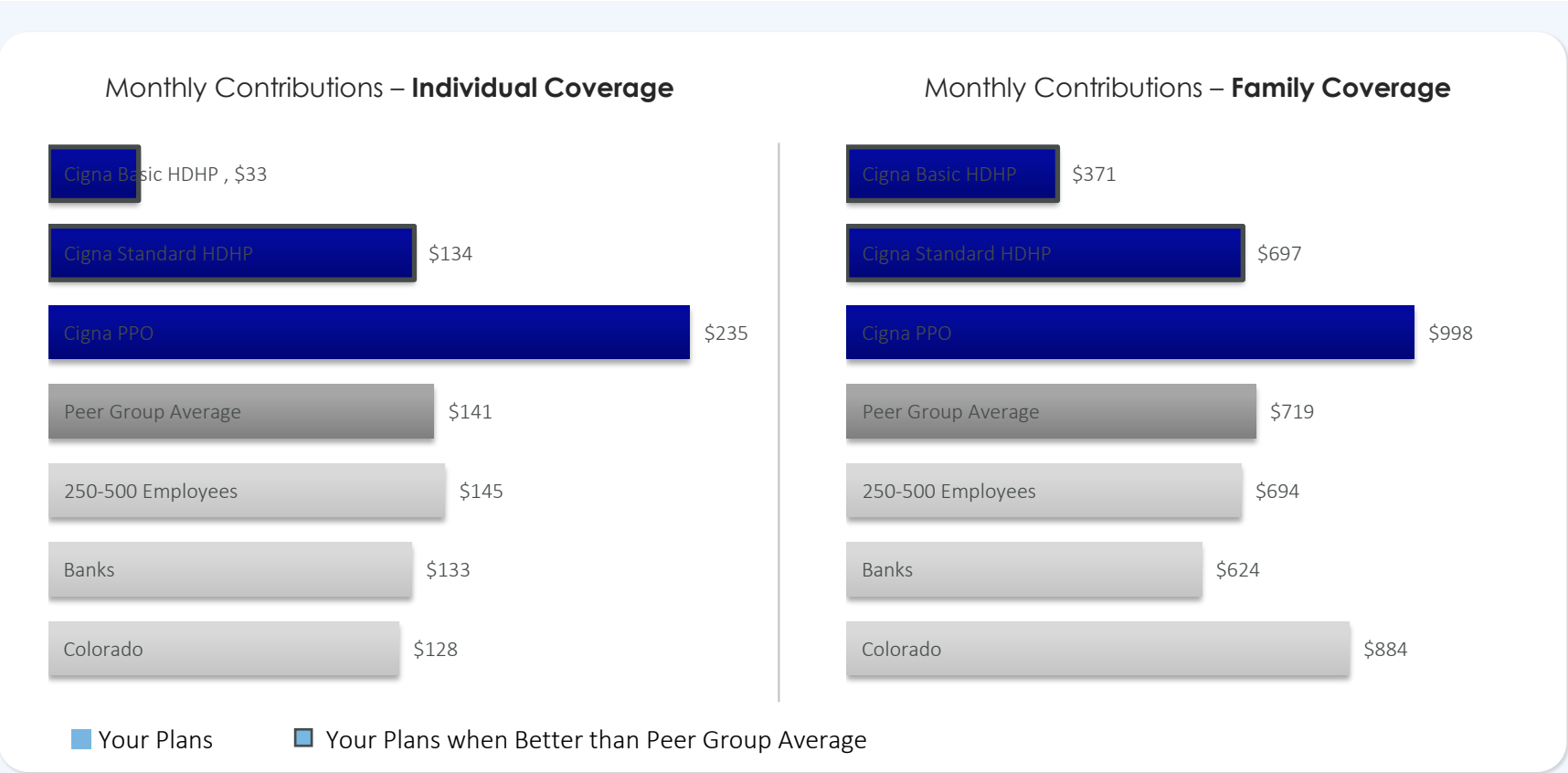
Plan design value calculations reflect the average amount of total healthcare spend covered by the plan.

It includes the benefit of employer-funded accounts, such as HSAs or HRAs which can offset out-of-pocket spend.

Note: Plan design values may not be an exact match to estimates from USI's Actuarial Value Calculator.

Employee Payroll Contributions

Payroll contributions are a primary driver of employee satisfaction with the benefit plan. USI identifies opportunities to improve competitiveness or reduce expense.



 **GOAL:** Offer at least one plan that is priced lower than the Peer Group Average for singles, families.

 **RESULT:** One or more plans are competitive for both singles and families.

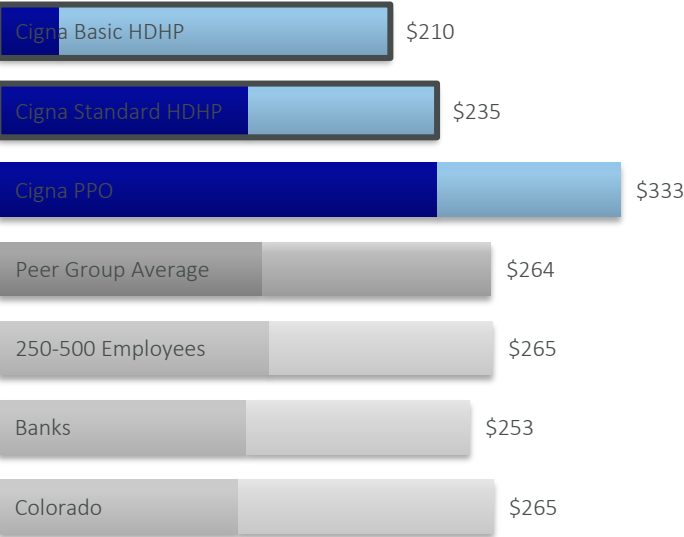
Note: "ID" means there was insufficient data to calculate the benchmarks for that data point.
Benchmark contributions are for a 40-year-old non-smoker, making \$65,000 a year, meeting all wellness requirements.

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Total Employee Cost

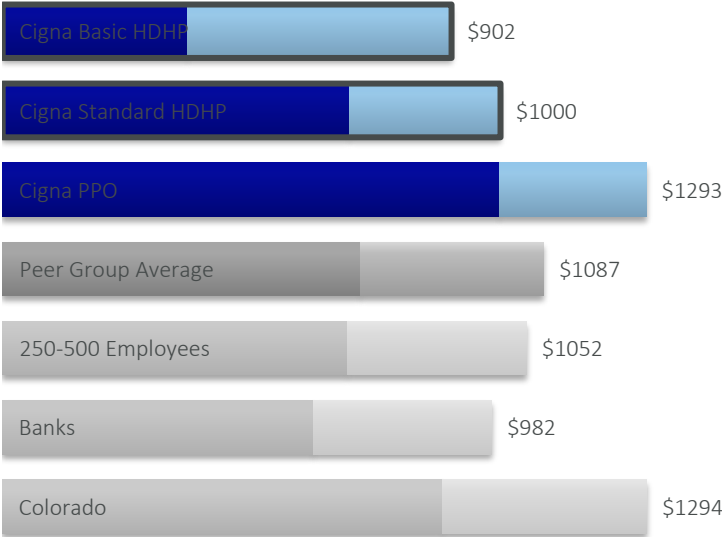
Plan richness determines the employees' out-of-pocket costs. Combined with the payroll contributions, you get the **total expected cost of healthcare for your average employee**.

Average Total Monthly Cost **Individual Coverage**



■ Employee Payroll Contribution
■ Employee Out-of-Pocket Cost (deductible, copay, coinsurance)

Average Total Monthly Cost **Family Coverage**



■ Your Plans
■ Your Plans when Better than Peer Group Average

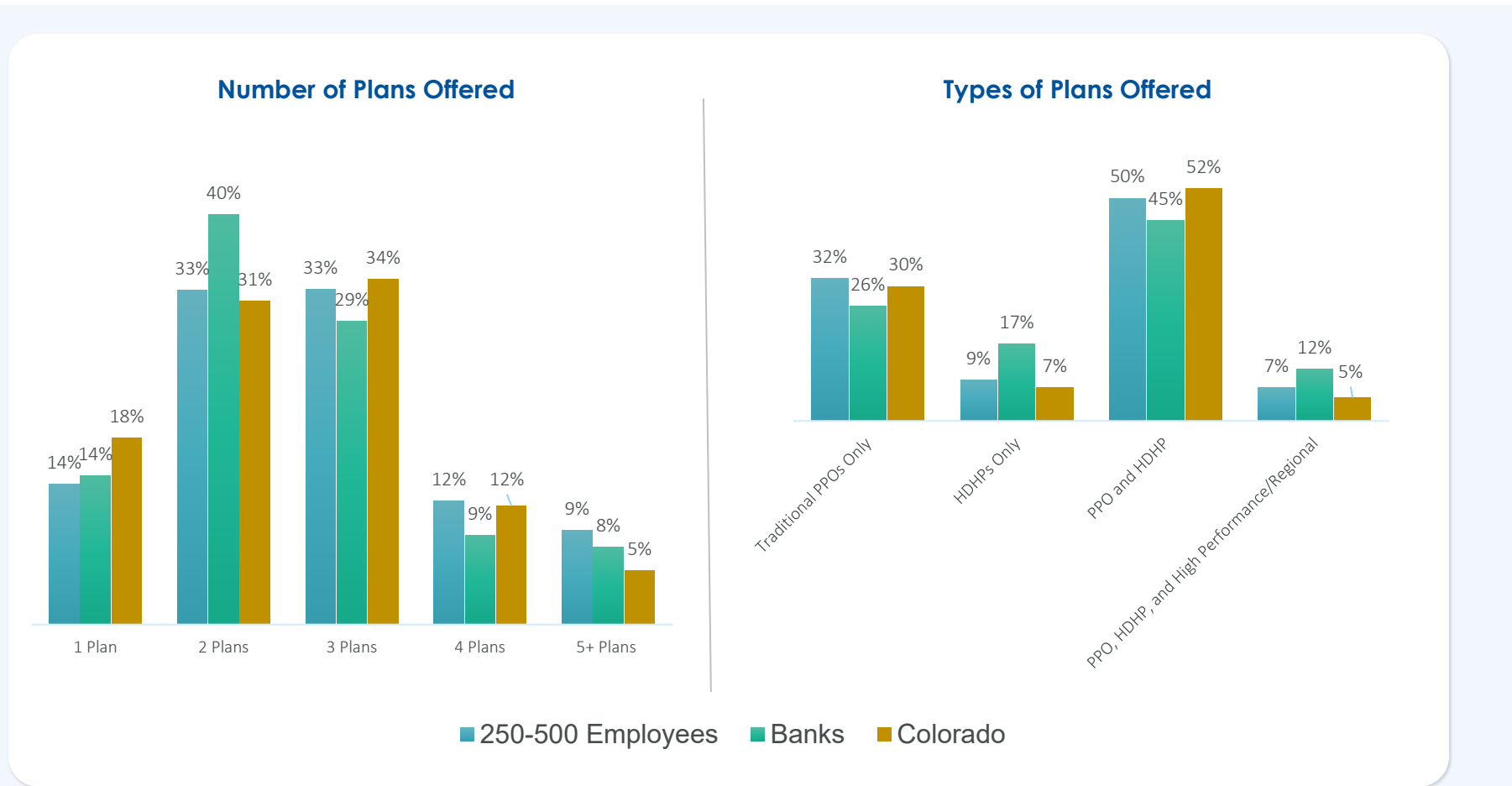
GOAL: Offer at least one plan with a Total Employee Cost lower than the Peer Group Average for singles and for families.

RESULT: One or more plans meet or exceed the goal for both singles and families.

Note: "ID" means there was insufficient data to calculate the benchmarks for that data point.

Plan Offerings

Many employers strive to offer a range of healthcare options to their employees. However, too many options could be confusing or overwhelming.



Note: "ID" means there was insufficient data to calculate the benchmarks for that data point.

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Population Health Management Strategies



Physician Engagement

Primary care is the most economical entry point to address conditions like cancer, diabetes, and heart disease.

Average savings
of 3% to 5%



Cancer Care Management

Significantly improve health outcomes and reduce the impact of catastrophic claims on health plan spending



Diabetes Management

Improve care and reduce the risk of costly complications by aligning plan design with recommended treatment strategies

Average savings
of \$3 per every \$1 spent

Strategies to Manage Rising Healthcare Costs



Incentivized Physician Choice

Reduce healthcare cost by directing employees to high quality, high value providers

- Direct employees high quality, high value providers through digital tools and concierge support services
 - Reduce unnecessary procedures and avoid costly complications
 - Enhanced Care Coordination and Specialty Referral quality
- Engage members to change behavior by leveraging financial incentives (e.g., through plan design and contribution strategy)
- Does not require a medical carrier change

Strategies to Control Pharmacy Spending



Alternative PBMs

Evaluate PBMs that promote biosimilars as part of their standard formulary.



Rx Contract Analysis

Review PBM/ carrier contracts for rebates and other revenue-generating practices & negotiate plan design.

Reduce Rx spending 15% to 20% on average



Independent Prior Authorization

Determine clinical efficacy and necessity of medication and recommend treatment options that better align with plan member needs.

Save ~5% overall on health plan costs

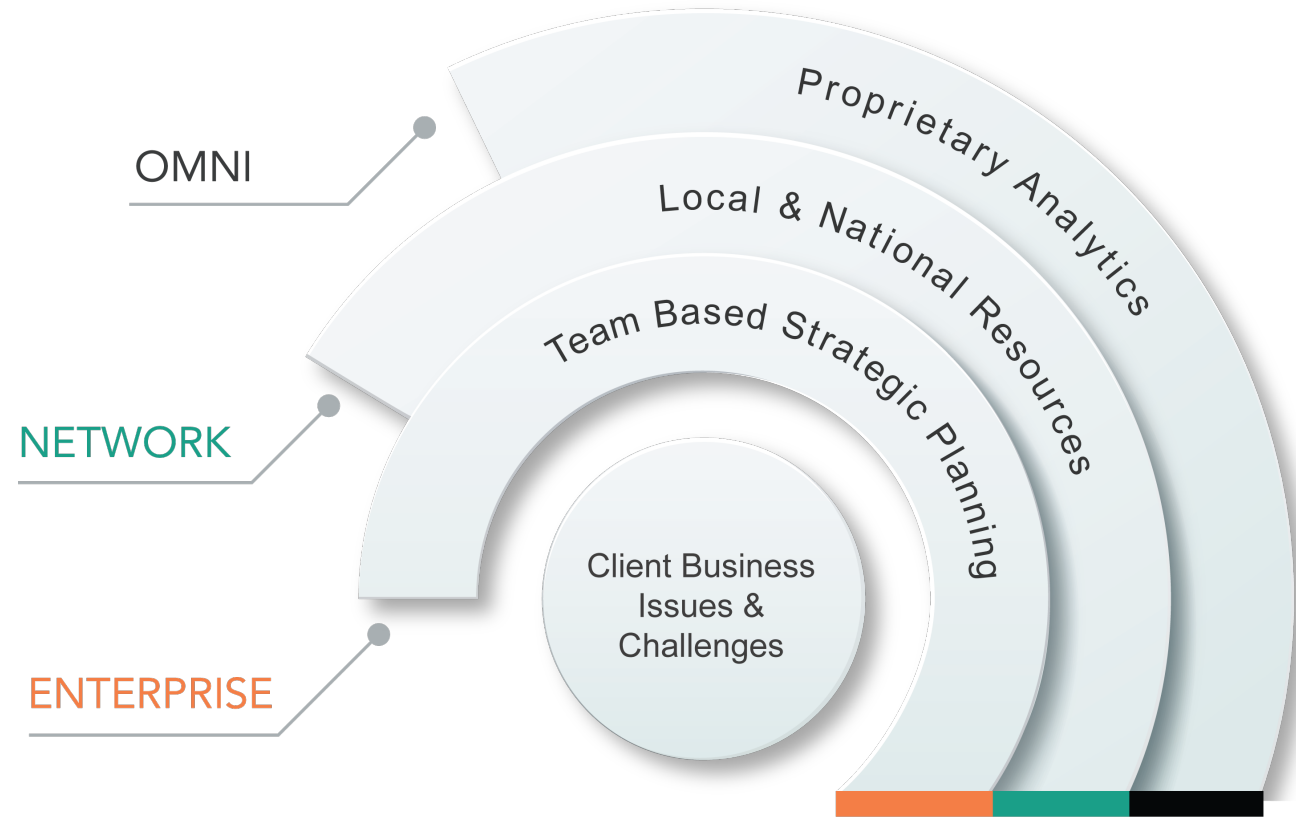
Q&A





USI ONE Advantage®

A set of client customized, actionable, measurable solutions with bottom line impact to your business through cost reduction and coverage enhancement resulting in an improved Total Cost of Risk and Employee Benefit trend advantage.



THANK YOU