Professional Contract Services, Inc. and Subsidiary

Consolidated Financial Report
June 30, 2022

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Independent Auditor's Report

Board of Directors
Professional Contract Services, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Professional Contract Services, Inc. and Subsidiary (collectively, the Organization), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the Organization, as of June 30, 2022 and 2021, and the respective changes in their net asset and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States (*Government Auditing Standards)*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization’s ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2022, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Organization's internal control over financial reporting and compliance.

RSM US LLP

Austin, Texas
November 3, 2022

Professional Contract Services, Inc. and Subsidiary

Consolidated Statements of Financial Position
June 30, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	$ 17,626,781	$ 8,012,627
Accounts receivable:		
Contracts	30,718,111	41,366,165
Other	7,363	5,527
Total accounts receivable	30,725,474	41,371,692
Investments	77,057,626	81,479,347
Prepaid expenses and other assets	1,712,673	1,247,872
Property and equipment:		
Service and transportation equipment	8,728,093	7,269,829
Furniture and office equipment	2,323,933	958,556
Buildings	23,645,194	4,169,075
Land	381,016	381,016
Construction in progress	-	9,824,356
	35,078,236	22,602,832
Less accumulated depreciation	8,889,833	7,826,614
Total property and equipment, net	26,188,403	14,776,218
Security deposits	22,157	22,007
Total assets	$ 153,333,114	$ 146,909,763
Liabilities and Net Assets		
Line of credit	$ -	$ 3,000,000
Construction note payable	-	4,540,142
Accounts payable	4,853,591	5,546,128
Accrued payroll and related liabilities	8,153,536	7,584,526
Other accrued liabilities	2,766,804	3,711,839
Deferred compensation liability	400,220	178,934
Note payable	16,300,000	-
Total liabilities	32,474,151	24,561,569
Net assets:		
Without donor restrictions	120,858,963	122,348,194
Total liabilities and net assets	$ 153,333,114	$ 146,909,763

See notes to consolidated financial statements.

Professional Contract Services, Inc. and Subsidiary

Consolidated Statements of Activities
Years Ended June 30, 2022 and 2021

	2022	2021
Changes in net assets without donor restrictions:		
Revenues and gains:		
Direct government service contract revenue:		
Net government service contract revenue	**$ 157,924,383**	$ 151,451,147
Interest income	**32,052**	16,534
Gain on disposition of property and equipment	**15,275**	103,789
Investment (loss) income, net	**(10,054,019)**	17,283,071
Other—prompt pay discount	**101,776**	122,866
Other income	**167,980**	179,738
Total revenues and gains	**148,187,447**	169,157,145
Expenses:		
Direct government service contract expenses:		
Healthcare environmental and custodial services	**57,740,368**	56,082,171
Total facilities management	**37,415,071**	37,472,856
Full food and dining	**15,218,618**	16,305,329
Other	**19,989,221**	15,942,777
Total direct government service contract expenses	**130,363,278**	125,803,133
Supporting services:		
General and administrative	**19,313,400**	17,895,543
Total expenses	**149,676,678**	143,698,676
Change in net assets	**(1,489,231)**	25,458,469
Net assets:		
Beginning	**122,348,194**	96,889,725
Ending	**$ 120,858,963**	$ 122,348,194

See notes to consolidated financial statements.

Professional Contract Services, Inc. and Subsidiary

Consolidated Statement of Functional Expenses
Year Ended June 30, 2022

	Direct Government Service Contract Expenses						
	Health Care Environmental and Custodial Services	Total Facilities Management	Full Food and Dining	Other	Total	General and Administrative	Total
Salaries	$ 28,605,612	$ 13,992,169	$ 5,874,677	$ 12,387,174	$ 60,859,632	$ 10,053,182	$ 70,912,814
Subcontract	11,034,851	12,815,831	5,985,853	509,272	30,345,807	795,408	31,141,215
Employee benefits, health and welfare	9,679,587	2,775,366	2,352,068	2,876,498	17,683,519	2,936,598	20,620,117
Supplies	3,132,985	5,344,759	390,512	1,436,230	10,304,486	61,610	10,366,096
Taxes:						-	
Payroll	2,312,319	1,122,389	496,816	985,864	4,917,388	655,263	5,572,651
Other	7,709	-	-	5,080	12,789	-	12,789
Legal and professional	19,908	2,549	7,370	124,225	154,052	1,831,951	1,986,003
Insurance	758,325	561,599	40,955	261,710	1,622,589	633,283	2,255,872
Rental	1,050,053	42,888	1,690	529,685	1,624,316	127,559	1,751,875
Depreciation	339,470	241,849	-	219,482	800,801	374,514	1,175,315
Small tools and equipment	252,147	73,188	6,176	199,158	530,669	114,198	644,867
Travel, entertainment and meals	28,736	724	-	58,144	87,604	518,647	606,251
Telephone and paging	143,431	78,655	22,828	125,078	369,992	99,875	469,867
Uniforms and safety expense	90,777	77,543	31,138	53,195	252,653	16,884	269,537
Repairs and maintenance	79,782	160,660	5,826	66,248	312,516	18,385	330,901
Automobile expenses	156,778	74,250	1,278	109,188	341,494	23,985	365,479
Advertising and marketing	15,294	6,677	906	7,444	30,321	31,167	61,488
Other—miscellaneous	216	19,051	-	845	20,112	170,028	190,140
Donations	-	-	-	-	-	486,431	486,431
Dues and subscriptions	18,565	16,661	349	16,539	52,114	172,987	225,101
Utilities	2,161	5,937	-	12,728	20,826	70,455	91,281
Unallowable	-	-	-	-	-	-	-
Bank charges	1,455	-	-	-	1,455	41,212	42,667
Freight and postage	10,207	2,326	176	5,434	18,143	16,645	34,788
Interest	-	-	-	-	-	63,133	63,133
Total expenses by function	$ 57,740,368	$ 37,415,071	$ 15,218,618	$ 19,989,221	$ 130,363,278	$ 19,313,400	$ 149,676,678

See notes to consolidated financial statements.

Professional Contract Services, Inc. and Subsidiary

Consolidated Statement of Functional Expenses
Year Ended June 30, 2021

	Direct Government Service Contract Expenses						
	Health Care Environmental and Custodial Services	Total Facilities Management	Full Food and Dining	Other	Total	General and Administrative	Total
Salaries	$ 27,773,632	$ 14,182,460	$ 5,775,463	$ 9,443,951	$ 57,175,506	$ 9,649,084	$ 66,824,590
Subcontract	10,870,791	12,220,076	7,117,798	440,152	30,648,817	260,879	30,909,696
Employee benefits, health and welfare	9,202,461	2,800,150	2,434,182	2,173,408	16,610,201	2,711,274	19,321,475
Supplies	3,015,384	5,664,252	350,059	1,359,503	10,389,198	40,073	10,429,271
Taxes:							
Payroll	2,266,181	1,128,242	466,597	758,026	4,619,046	630,688	5,249,734
Other	7,215	-	-	4,394	11,609	-	11,609
Legal and professional	20,353	2,617	3,764	32,483	59,217	2,526,201	2,585,418
Insurance	816,756	635,337	56,091	268,246	1,776,430	618,545	2,394,975
Rental	1,076,667	64,091	1,662	452,337	1,594,757	124,875	1,719,632
Depreciation	298,669	262,348	7,267	156,828	725,112	199,028	924,140
Small tools and equipment	235,390	91,272	15,126	412,877	754,665	84,109	838,774
Travel, entertainment and meals	24,472	1,210	-	25,262	50,944	122,908	173,852
Telephone and paging	137,146	84,139	18,335	89,608	329,228	84,765	413,993
Uniforms and safety expense	129,651	103,382	55,043	40,858	328,934	26,597	355,531
Repairs and maintenance	64,076	71,994	2,795	86,336	225,201	19,589	244,790
Automobile expenses	120,470	58,509	914	61,107	241,000	10,590	251,590
Advertising and marketing	5,208	3,975	-	16,403	25,586	24,989	50,575
Other—miscellaneous	340	9,663	-	90,080	100,083	203,181	303,264
Donations	-	-	-	-	-	300,200	300,200
Dues and subscriptions	7,659	20,792	38	7,692	36,181	138,877	175,058
Utilities	955	13,936	-	17,711	32,602	40,019	72,621
Unallowable	-	52,004	-	25	52,029	-	52,029
Bank charges	-	-	-	-	-	34,414	34,414
Freight and postage	8,695	2,407	195	5,490	16,787	14,867	31,654
Interest	-	-	-	-	-	29,791	29,791
Total expenses by function	$ 56,082,171	$ 37,472,856	$ 16,305,329	$ 15,942,777	$ 125,803,133	$ 17,895,543	$ 143,698,676

See notes to consolidated financial statements.

Professional Contract Services, Inc. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended June 30, 2022 and 2021

		2022		2021
Cash flows from operating activities:				
Change in net assets	$	**(1,489,231)**	$	25,458,469
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Depreciation		**1,175,315**		924,140
Amortization of debt issuance costs		**-**		-
Gain on disposition of property and equipment		**(15,275)**		(103,789)
Realized and unrealized losses (gains) on investments, net		**10,783,028**		(16,884,141)
Changes in operating assets and liabilities:				
Accounts receivable		**10,646,218**		(16,099,564)
Prepaid expenses and other assets and security deposits		**(464,951)**		(502,368)
Accounts payable		**(692,537)**		1,319,490
Accrued payroll and related liabilities		**569,010**		363,668
Other accrued liabilities		**(945,035)**		1,169,752
Deferred compensation liability		**221,286**		(242,082)
Net cash provided by (used in) operating activities		**19,787,828**		(4,596,425)
Cash flows from investing activities:				
Purchase of property and equipment		**(12,413,185)**		(10,454,722)
Proceeds from sale of property and equipment		**18,500**		135,408
Purchases of investments		**(30,032,069)**		(20,550,350)
Proceeds from sales of investments		**23,670,762**		20,132,158
Net cash used in investing activities		**(18,755,992)**		(10,737,506)
Cash flows from financing activities:				
Proceeds from issuance of term loan		**16,300,000**		-
Advances on line of credit		**8,000,000**		3,000,000
Payments on line of credit		**(11,000,000)**		-
Proceeds from construction note payable		**11,599,966**		4,540,142
Payments on construction note payable		**(16,140,108)**		-
Payments of debt issuance costs		**(177,540)**		-
Net cash provided by financing activities		**8,582,318**		7,540,142
Net increase (decrease) in cash and cash equivalents		**9,614,154**		(7,793,789)
Cash and cash equivalents:				
Beginning		**8,012,627**		15,806,416
Ending	**$**	**17,626,781**		8,012,627
Supplemental disclosures of cash flow information:				
Cash paid for interest	**$**	**63,133**		29,791
Schedule of non-cash investing and financing activities:				
Transfers of construction-in-process to buildings	**$**	**19,298,579**		-
Interest capitalized to construction in progress	**$**	**320,032**		-

See notes to consolidated financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Professional Contract Services, Inc., (PCSI) is a Texas nonprofit corporation with the primary purpose of providing employment opportunities for persons with significant disabilities. These employment opportunities are provided by federal, state and local government service contracts through SourceAmerica and TIBH Industries, Inc. (TIBH). Contract services are provided in numerous states, including Texas, Colorado, Kentucky, Oklahoma, Utah, Virginia, Washington, Michigan and Georgia.

On June 25, 2015, PCSI established PCSI Texas LLC, a wholly owned subsidiary incorporated in the state of Texas, to operate as a "functionally related business," as defined in Section 4942G(4) of the Internal Revenue Code (IRC), as part of PCSI's overall strategy to improve employment opportunities for persons with significant disabilities.

PCSI and PCSI Texas LLC (LLC) are collectively referred to as the Organization within the consolidated financial statements.

The primary services that the Organization provides are healthcare environmental and custodial services, total facilities management, full food and dining, and other services.

Healthcare environmental and custodial services: Across the United States, the Organization cleans and sanitizes 6.5 million square feet of floor space. The facilities the Organization serves range from 300,000 to 3.5 million square feet.

Total facilities management: The Organization has provided facilities management service since 1997 and manages 20 million square feet of facilities, supporting plant operations that range from heating and cooling systems to emergency generators to fire suppression and alarm systems. The facilities the Organization manages include hospitals, offices, airplane hangars and other complex specialty buildings. The average facility managed is over one million square feet.

Full food and dining: The Organization prepares and serves thousands of United States service men and women in multiple dining facilities on a daily basis. Personnel work closely with customers to develop meals and menus from fresh, wholesome ingredients. The Organization delivers variety full food and dining services to satisfy the appetite, meet nutritional needs and accommodate special diets. The Organization's comprehensive dining services offer every phase of food purchasing, preparation, service and sale. Meal service options include field mess, box lunches and catering for holidays and special events. The Organization makes desserts, pastries and decorated foods and tables. In addition, the Organization provides kitchen and dining services that include dish washing, cleaning and sanitizing hard surfaces and delivering complete floor care. The Organization also maintains commercial kitchen equipment fully operational with cost-effective service, maintenance and repair.

Other: Other services include fleet management, grounds and landscaping, administrative and mail, warehousing and logistics and contact center support.

A summary of the Organization's significant accounting policies follows:

Basis of accounting: The accompanying consolidated financial statements have been prepared on the accrual basis of accounting applicable to not-for-profit organizations in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Basis of presentation: The consolidated financial statement presentation follows recommendation under the Not-for-Profit Entities topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Under this topic within the ASC, the Organization is required to report information regarding its financial position and activities based on the existence or absence of donor or grantor-imposed restrictions.

Principles of consolidation: The consolidated financial statements include the accounts of PCSI and its wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates: The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in intercompany balances and transactions have been eliminated in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents: Cash and cash equivalents consist of cash deposits and short-term, highly liquid investments with original maturities of three months or less at the date of acquisition. Cash equivalents are stated at cost, which approximates market value.

Accounts receivable: Receivables primarily consist of amounts due on business contracts from the federal government and are carried at the transaction price which includes any implicit price concessions reflected in the allowance for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using the historical experience applied to an aging of accounts. There was no recorded allowance for the years ended June 30, 2022 and 2021. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The Organization had no losses on accounts receivable for the years ended June 30, 2022 and 2021. Customers are invoiced based on the contractual agreement between the parties, typically on a monthly basis with net-30 day terms.

Unbilled accounts receivable are included in receivables and consist of services performed prior to billing the federal and state government. Billings usually occur in the month after the services are performed or in accordance with specific contractual provisions.

Concentrations of credit risk: The Organization maintains its cash in bank deposit accounts, which at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant financial risk on cash.

The Organization’s investments are managed and monitored by external investment advisors in accordance with the Organization’s investment policy, which requires diversification of investments. The risks related to the Organization’s investments are managed through diversification of investment holdings.

Investments: Investments in equity securities with readily determinable fair values are stated at fair value based on quoted prices in active markets. Investments in debt securities are stated at fair value based on prices provided by pricing services under modeling techniques.

Investments in pooled equity funds are presented in the accompanying consolidated financial statements at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Unrealized and realized gains (losses) are included in the change in net assets in the accompanying consolidated statement of activities.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The fair value of investments in pooled equity funds is determined using the practical expedient. The practical expedient provides for the use of net asset value (NAV), either reported by the investor fund or as adjusted by the Organization based on additional information provided by the external investment managers.

The fair values of pooled equity funds at the measurement date are based on available information, may involve subjective judgment and do not necessarily represent the amounts that might ultimately be realized, which depend on future circumstances and cannot be reasonably determined until realized. Due to the inherent uncertainty of valuations of the investment funds, the fair values may differ significantly from the values that would have been used had a ready market for the pooled equity funds existed, and the differences could be material.

The Organization has an investment policy, which sets guidelines and constraints to ensure the portfolio is appropriately diversified.

Investment sales and purchases are recorded on a trade-date basis, which results in both investment receivables and payables on unsettled investment trades. Dividend income is recorded based upon the ex-dividend date and interest income is recorded as earned on the accrual basis.

Property and equipment: Property and equipment are stated at cost. The Organization capitalizes expenditures for property and equipment in excess of $2,500. Depreciation is computed on a straight-line method over the estimated useful lives of the assets: service and transportation equipment—three to seven years, furniture and office equipment—three to five years and buildings—30 years.

Construction-in-progress is stated at cost. No depreciation expense is recorded on construction-in-progress until such time as the relevant assets are completed and put into use.

Impairment of long-lived assets: The Organization reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The Organization did not recognize any impairment loss during the years ended June 30, 2022 and 2021.

Net assets: In accordance with the Not-for-Profit Entities topic of the *FASB Accounting Standards Codification* (ASC), the Organization reports information regarding its financial position and activities based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Net assets without donor restrictions—Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

- Net assets with donor restrictions—Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Organization had no net assets with donor restrictions at June 30, 2022 and 2021.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Revenue recognition on service contracts: On July 1, 2020, the Organization adopted ASU 2014-09, *Revenue from Contracts with Customers, (Topic 606)*, using the modified retrospective method applied to those contracts which were not completed as of June 30, 2020. Results for reporting periods beginning July 1, 2020, are presented under Topic 606. No transition adjustment was recognized.

The Organization recognizes revenue using a five-step process that includes: (i) identification of contract with customer; (ii) determination of performance obligations; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Organization satisfies each performance obligation.

The Organization generates revenue through the service contracts for healthcare environmental and custodial services, total facilities management, full food and dining and other services through federal, state, and local government service contracts. For government contracts, future cash flows depend on the Organization's ability to continue to obtain federal, state, and local government contracts, and indirectly on the amount of funding available to these agencies for new and current government projects. Therefore, a portion of the Organization's operations is dependent upon the level and timing of government funding.

The Organization assesses the contract terms at the period in which the parties to the contract have presently enforceable rights and obligations. The contract terms can differ from the stated term in contracts that include certain termination or renewal rights, depending on whether there are penalties associated with those rights. It is customary practice for the Organization to have written agreements with its customers.

Revenue related to services is recognized over time as the customer consumes the benefits of the services the Organization performs. Revenues under cost-reimbursement contracts, including time and material, are recognized as costs are incurred. Revenues under fixed-price contracts that extend for periods in excess of one year are recognized based on an input measure, which is based on labor and material costs incurred to date as they relate to the estimated total cost to complete the contract. Where services represent a stand-ready obligation to provide a series of distinct support periods that are substantially the same and have the same pattern of transfer to the customer, the service is accounted for as a series and revenue is recognized ratably over the contract term, beginning at the point when the customer is able to benefit from the service. Related fulfillment costs are expensed as incurred.

Contract combination: When multiple contracts are entered into under a single master agreement, management reviews the contracts to determine whether (a) the nature of the services provided and if they constitute a single performance obligation, (b) the amount of consideration paid in one contract depends on the price or performance in the other contract, and (c) whether the contracts were negotiated as a package with a single commercial objective.

Transaction price: The transaction price is the amount of consideration to which the Organization expects to be entitled in exchange for transferring goods and services to the customer. Revenue is recorded based on the transaction price, which includes fixed consideration and variable consideration.

Variable consideration: The consideration promised in a contract with a customer may include both fixed amounts and variable amounts. Variable amounts consist of cost-reimbursable contracts and cost-reimbursable contract line item numbers (CLIN's) within hybrid contracts to the extent that the costs are incurred. The Organization's variable consideration is highly susceptible to factors outside of the Organization's control and as such, the variable consideration is excluded from the transaction price (fully constrained) until the costs are incurred.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Contract balances: The timing of revenue recognition may not align with the funding of the government agency. The Organization records accounts receivable when it has the unconditional right to issue an invoice and receive payment. In the instance the Organization doesn't have the right to invoice but the revenue is able to be recognized, the Organization records a contract asset (unbilled receivable) and the contract revenue (unbilled revenue). Opening balances as of July 1, 2020, were as follows:

Accounts receivable	$ 15,703,495
Unbilled receivables	9,568,633

Cost recognition: Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on incomplete contracts are made in the period in which such losses are determined. Changes in project performance, project conditions, and estimated profitability, including those arising from contract penalty provisions and final contract settlements, may result in revisions to costs and income and are recognized in the period in which the revisions are determined.

The Organization incurred $5,055,653 and $4,867,168 in commission expenses to SourceAmerica and TIBH under the terms of their respective arrangements during the years ended June 30, 2022 and 2021, respectively, which are netted against revenue.

Compensated absences: Employees of the Organization are entitled to paid vacation and paid sick days (paid time off or PTO) depending on job classification, length of service and other factors. At June 30, 2022, approximately 61% (61% in 2021) of the Organization's employees are represented by a number of labor unions. Each union contract contains different provisions for employee-compensated absences. Employees are allowed to carryforward not more than 180 hours of unused PTO as of June 30, 2022 (120 hours as of June 30, 2021 in response to the coronavirus outbreak (COVID-19)). Effective September 15, 2016, employees who have completed one year of service and voluntarily resign from the Organization will be paid 75% of their accrued PTO leave balance. The Organization has recorded a liability for compensated absences for corporate and field employees of approximately $2,340,000, and $2,256,000, as of June 30, 2022 and 2021, respectively, which is included in accrued payroll and related liabilities.

Advertising costs: Advertising costs are charged to expense as incurred. Advertising costs totaled approximately $61,000 and $51,000 for the years ended June 30, 2022 and 2021, respectively.

Functional allocation of expenses: The costs of direct government service contract expenses and general and administrative expenses have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function and report certain categories of expenses that are attributed to more than one program or supporting function. Accordingly, certain costs have been allocated among the government service contracts and supporting services benefited.

Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include overhead, material and handling, and general and administrative which are allocated on the following basis: overhead is allocated based on direct labor; material and handling is allocated on direct materials and subcontracts and general and administrative is allocated to contracts based on total cost excluding materials and subcontracts.

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Income tax status: PCSI is exempt from federal income taxes under IRC section 501(c)(3). The wholly owned subsidiary, PCSI Texas LLC's taxable income or loss is allocated to its member. Therefore, no provision or liability for income taxes has been included in the consolidated financial statements.

Unrelated business income, of which the Organization had none for the years ended June 30, 2022 and 2021, would be subject to federal income taxes. The Organization is generally no longer subject to tax examinations relating to United States federal tax returns for years prior to the year ended June 30, 2019.

The Organization evaluates uncertain tax positions, if any exist, under this provision. The Organization accounts for uncertainty of income taxes based on a more likely than not threshold for the recognition and de-recognition of tax positions, which includes the accounting for interest and penalties relating to tax positions. The Organization currently does not have any tax positions that it would consider uncertain at June 30, 2022 and 2021.

The subsidiary, PCSI Texas LLC, is subject to the Texas gross margin tax.

New accounting pronouncements—issued but not yet adopted: In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases.* Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. In June 2020, the FASB issued ASU 2021-05, which deferred the effective date of ASU No. 2014-09 by one year. The new standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements with certain practical expedients available. The Organization is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

Subsequent events: Management has evaluated subsequent events that occurred after June 30, 2022, and up to November 3, 2022, the date the consolidated financial statements were available to be issued, and no events have occurred through that date that would impact the consolidated financial statements.

Note 2. Revenue From Contracts With Customers

Total revenue recognized is summarized as follows for the years ended June 30:

	2022	2021
Gross revenue	$ 162,980,036	$ 156,318,315
Less commissions	5,055,653	4,867,168
Net revenue recognized over time	$ 157,924,383	$ 151,451,147

Note 2. Revenue From Contracts With Customers (Continued)

The following table represents the Organization's contract revenue by functional category for the years ended June 30:

	2022	2021
Health care environmental and custodian services	$ 72,001,888	$ 69,969,342
Total facilities management contracts	44,022,191	43,193,065
Full food and dining	19,468,062	20,272,094
Other	22,432,242	18,016,646
	$ 157,924,383	$ 151,451,147

The Organization's accounts receivable balances from contracts with customers are summarized as follows at June 30:

	2022	2021
Health care environmental and custodian services	$ 15,917,102	$ 28,211,540
Total facilities management contracts	9,158,317	9,351,187
Full food and dining	1,621,706	928,456
Other	4,020,986	2,874,982
	$ 30,718,111	$ 41,366,165

Note 3. Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date at June 30, 2022 and 2021, comprise the following:

	2022	2021
Cash and cash equivalents	$ 17,626,781	$ 8,012,627
Accounts receivable	30,725,474	41,371,692
Investments	77,057,626	81,479,347
	125,409,881	130,863,666
Less amounts unavailable for general expenditure within one year:		
Investments not available for withdrawal within a year	7,328,940	8,225,271
Financial assets available to meet general expenditures within one year	$ 118,080,941	$ 122,638,395

The Organization maintains available cash and short-term investments to meet approximately 30 days of normal operating expenses, which are on average, approximately $10 to $11 million. Cash in excess of daily requirements is invested in various investments with maturities designed to meet obligations as they come due.

Note 4. Investments at Fair Value

ASC, Fair Value Measurements and Disclosures, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC, Fair Value Measurements and Disclosures, are described below.

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted market prices for the asset or liability that are observable
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, Level 2 inputs must be observable for substantially the full term of the asset or liability.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or other valuation techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques that are used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation techniques and inputs described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes that its valuation methods are appropriate and consistent with other market participants, the use of different techniques and inputs or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There were no transfers between Level 1 and Level 2 for the reported investments. There have been no changes in the techniques and inputs used at June 30, 2022 and 2021.

Note 4. Investments at Fair Value (Continued)

The following table represents assets measured at fair value on a recurring basis as reported on the consolidated statements of financial position as of June 30, 2022 and 2021, and by level within the fair value measurement hierarchy:

	June 30, 2022			
	Level 1	Level 2	Level 3	Total
Equity securities	$ 16,701,464	$ -	$ -	$ 16,701,464
Investments measured at NAV:				
Mutual funds				39,938,998
Alternative investments				20,417,164
Total investments measured at NAV				60,356,162
Total investments				$ 77,057,626

	June 30, 2021			
	Level 1	Level 2	Level 3	Total
Equity securities	$ 22,025,327	$ -	$ -	$ 22,025,327
Investments measured at NAV:				
Mutual funds				41,420,539
Alternative investments				18,033,481
Total investments measured at NAV				59,454,020
Total investments				$ 81,479,347

The following table provides additional information that will help describe the nature and risk of the investments held at June 30, 2022 and 2021, that are recorded at fair value measured using the practical expedient by major class. There are no unfunded commitments associated with these investments as of June 30, 2022 and 2021.

	Redemption Frequency*	Redemption Notice Period	Fair Value at June 30 2022	Fair Value at June 30 2021
Mutual funds	Daily	N/A	$ 39,938,998	$ 41,420,539
Multi-strategy hedge funds (a)	Monthly	45 days	6,192,081	5,668,436
Multi-strategy hedge funds (a)	Quarterly	45 days	2,311,203	-
Multi-strategy hedge funds (a)	Quarterly	45 days	4,584,940	4,147,121
Fund of Funds (b)	Rolling 3 Year	65 days	5,762,498	6,564,868
Fund of Funds (b)	Quarterly	95 days	1,566,442	1,653,056
Total			$ 60,356,162	$ 59,454,020

*Certain investments are subject to a lock-up period.

(a) The funds are designed to have a nondirectional correlation with financial markets and are invested in risk arbitrage, convertible arbitrage and long/short equity and credit.

(b) The funds invest in hedge fund managers that pursue a number of different strategies, including long/short equities, macro and event driven.

Note 4. Investments at Fair Value (Continued)

Investment (loss) income consists of the following for the years ended June 30:

	2022	2021
Interest and dividend income	$ 1,058,774	$ 761,074
Realized and unrealized (losses) gains on investments	(10,783,028)	16,884,141
Investment fees	(329,765)	(362,144)
	$ (10,054,019)	$ 17,283,071

Note 5. Long-Term Debt

Long-term debt consists of the following as of June 30:

		2022	2021
Promissory note with a financial institution, payable in monthly installments of principal and interest payments of $77,409 each commencing on July 1, 2022 until May 31, 2042 when all remaining principal and interest shall be due and payable through maturity; interest is lessor of (i) a rate equal to 2.97%, or (ii) the Maximum Rate; collateralized by the building.	**[1]**	$ 16,300,000	$ -
Promissory note with a financial institution, payable in monthly interest only payments through September 2, 2022; principal and interest payments of $21,363 commence October 2, 2022; the final payment of $3,906,914 due September 2, 2027; interest is lessor of (i) Stated Rate calculated as the Prime Rate minus 0.25% or (ii) the Maximum Lawful Rate; provided the Stated Rate shall never be less than 2.95% or greater than 3.65%; interest rate at June 30, 2021 is 3.0%; collateralized by land, improvements, fixtures, all accounts, contract rights, general intangibles, inventory, equipment, fixtures, and proceeds related to the land.	**[2]**	-	3,000,000
Revolving Line of Credit with a financial institution, interest only payments until payment in full of any outstanding principal at November 30, 2022; interest is lessor of (i) the Maximum Rate or (ii) the sum of the greater of the LIBOR Daily Floating Rate or the Index Floor, plus 1.3%; collateralized by all accounts receivable and equipment.	**[3]**	-	4,540,142
Total long-term debt		16,300,000	7,540,142
Less amounts due within one year		442,764	-
Long-term debt, net of current portion		$ 15,857,236	$ 7,540,142

Note 5. Long-Term Debt (Continued)

[1] In May 2022, the Organization entered into an agreement with Newark Cultural Education Facilities Finance Corporation, Conduit Issuer (Newark), an unrelated nonprofit and with a financial institution. As part of the agreement, Newark obtained a loan from a financial institution for $16,300,000 and simultaneously agreed to issue a loan in the same amount to the Organization for the refinancing the acquisition, construction, renovation, and equipping of the office building and paying certain expenses in connection with the issuance of the loan. The agreement requires monthly payments of $77,409 commencing July 1, 2022, with the remaining due at maturity. The maturity date is May 31, 2042. Borrowings under the agreement contain certain reporting requirements and debt covenants.

[2] In September 2020, the Organization entered into a construction promissory note with a financial institution. The agreement offers a commitment to lend up to $16,232,614 prior to the expiration date of September 2, 2022. Borrowings under the construction note agreement contain certain reporting requirements and debt covenants. On May 31, 2022, the Organization repaid this debt in full through the issuance of the debt discussed in **[1]**.

[3] In November 2009, the Organization entered into a loan and security agreement with a third-party lender. The agreement, as amended, offers a revolving line of credit up to $10,000,000. In November 2021, the availability date was extended to November 30, 2022. The borrowing capacity is reduced by outstanding letters of credit of $387,897 at June 30, 2022 and 2021. Borrowings under the line of credit contain certain reporting requirements and debt covenants.

Aggregate future maturities of long-term debt are summarized as follows at June 30, 2022:

2023	$ 442,764
2024	456,371
2025	471,598
2026	485,997
2027	500,835
Thereafter	13,942,435
Total maturities of notes payable	$ 16,300,000

Note 6. Retirement Plans

Under the Service Contract Act, the Organization is required to fund a minimum fringe benefit dollar amount for certain employees. Amounts provided exceeding the amount required to purchase an employee's elected health and welfare benefits are transferred to the Professional Contract Services, Inc. Retirement Savings Plan for the benefit of the employee. Effective January 1, 2012, the Organization amended the plan to allow elective deferral contributions by employees. Additionally, the Organization elected to contribute matching contributions to accounts of participating employees. Employer contributions to the plan totaled approximately $3,033,000 and $5,383,000 for the years ended June 30, 2022 and 2021, respectively.

In July 2003, the Organization adopted a nonqualified deferred compensation plan, under IRC section 457(f), covering certain officers. The plan was amended in January 2011 and stated that net earnings and losses shall be credited to the recipient's account from time to time, as determined by the Organization. The Organization accrued amounts annually, as determined and approved by the Board of Directors. To vest in the allocated amounts, the participant must have remained in continuous service as an employee with the Organization. The Organization paid, in a single lump-sum payment, an amount equal to the vested amount within 90 days of the date of vesting. At July 1, 2021 the plan became fully vested and fully vested deferred compensation was paid out in accordance with the plan document.

Note 6. Retirement Plans (Continued)

In December 2021, the Organization adopted a nonqualified deferred compensation plan, under IRC section 457(f), covering certain officers. The Organization accrued amounts annually, as determined and approved by the Board of Directors. To vest in the allocated amounts, the participant must have remained in continuous service as an employee with the Organization. The Organization paid, in a single lump-sum payment, an amount equal to the vested amount within 30 days of the date of vesting These payments are paid from the general assets of the Organization.

Although it is not required to do so, the Organization may elect to invest amounts in order to meet its obligations under this deferred compensation plan. Compensation benefits accrued and deferred under the deferred compensation plan are subject to substantial risk of forfeiture should the participant terminate his or her relationship with the Organization prior to the respective scheduled vesting date, as defined.

As of June 30, 2022 and 2021, the Organization had accrued $400,200 and $178,934 in deferred compensation under the Amended Plan, respectively.

In April 2014, the Organization adopted a nonqualified deferred compensation plan, under IRC section 457(b), covering certain officers and directors. No employer contributions were made to the plan for the years ended June 30, 2022 and 2021.

Note 7. Leases

The Organization leases certain office equipment, vehicles and facilities under operating leases or month-to-month leases. The future annual minimum lease payments due under these noncancelable operating leases as of June 30, 2022, are as follows:

Years ending June 30:		
2023	$	354,556
2024		159,706
2025		47,423
2026		13,701
2027		1,340
	$	576,726

Total rent expense was $1,751,876 and $1,719,633 for the years ended June 30, 2022 and 2021, respectively.

Note 8. Commitments and Contingencies

Certain conditions may exist as of the date of the consolidated financial statements are issued, that may result in a loss to the Organization, but which will only be resolved when one or more future events occur or fail to occur. The Organization’s management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Organization or unasserted claims that may result in such proceedings, the Organization’s legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

Note 8. Commitments and Contingencies (Continued)

If the assessment of a contingency indicates it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Organization's consolidated financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonable possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

The Organization is involved in claims and litigation in the normal course of business. Management believes the applicable insurance coverage is adequate to cover costs of settlement and defense of such claims and litigation.

Note 9. Concentrations

Concentration of credit risks with respect to accounts receivable are considered minimal since the receivables are primarily due for work performed by federal, state and local governments under contract.

As of June 30, 2022 and 2021, approximately 61% of the employees are subject to collective bargaining agreements under 18 different unions (12 different unions in 2021), all of which expire at various times.

While the Organization may engage in multiple service contracts with a single government agency, the Organization defines "Customer" at the service contract level.

Note 10. Major Customers

For the year ended June 30, 2022, approximately 81% of the Organization's contract revenue was related to two customers. As of June 30, 2022, approximately 85% of the Organization's receivable balance was from two customers.

For the year ended June 30, 2021, approximately 84% of Organization's contract revenue was related to two customers. As of June 30, 2021, approximately 93% of Organization's receivable balance was from three customers.

For the years ended June 30, 2022 and 2021, 99% of the Organization's revenue is from federal and state governments.

Professional Contract Services, Inc. and Subsidiary

Federal Awards Compliance Report
Year Ended June 30, 2022

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

Board of Directors
Professional Contract Services, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Professional Contract Services, Inc. and Subsidiary (a nonprofit organization and collectively, the Organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 3, 2022.

Report on Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of This Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Austin, Texas
November 3, 2022

**Report on Compliance for the Major Federal Program;
Report on Internal Control Over Compliance; and Report
on Schedule of Expenditures of Federal Awards Required
by the Uniform Guidance**

Independent Auditor's Report

Board of Directors
Professional Contract Services, Inc.

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program
We have audited Professional Contract Services, Inc. and Subsidiary's (collectively, the Organization) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2022. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

Basis for Opinion on the Major Federal Program
We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*) and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance
Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal program.

Auditor's Responsibilities for the Audit of Compliance
Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Organization as of and for the year ended June 30, 2022, and have issued our report thereon dated November 3, 2022, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Austin, Texas
November 3, 2022

Professional Contract Services, Inc.

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

Federal Grantor	Program Name	Assistance Listing Number	Grant/Contract Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Defense:					
Direct award	Fort Sill	12.U01	W9124L-17-C-0005	$ -	$ 24,881,422
Total U.S. Department of Defense				-	24,881,422
Total expenditures of federal awards				$ -	$ 24,881,422

See notes to schedule of expenditures of federal awards.

Note 1. Summary of Significant Accounting Policies

Reporting entity: The schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Professional Contract Services, Inc. and Subsidiary (collectively, the Organization) under programs of the federal government for the year ended June 30, 2022. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Since the Schedule presents only a selected portion of the operations of the Organization, it is not intended to, and does not, present the financial position, changes in net assets or cash flows of the Organization.

Basis of presentation: The Schedule presents total federal awards expended for the federal contract and assistance listing number in accordance with the requirements of Title 2 U.S*. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Basis of accounting: The expenditures reported on the Schedule are reported on the accrual basis of accounting for the Organization's fiscal year. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 2. Indirect Costs

The Organization has not elected to use the 10% de minimis indirect cost rate as defined by the Uniform Guidance.

Professional Contract Services, Inc. and Subsidiary

Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

Section I—Summary of Auditor's Results

Financial Statements:

Type of report the auditor's report issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America:				Unmodified
Internal control over financial reporting:				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified?		Yes	X	None Reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards:

Internal control over major federal program:				
• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified?		Yes	X	None Reported
Type of auditor's report issued on compliance for the major federal program:				Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)		Yes	X	No

Identification of Major Program:

Assistance Listing Number	Name of Federal Program or Cluster
12.U01	Fort Sill Contract Number W9124L-17-C-0005

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000			
Auditee qualified as low-risk auditee?	X	Yes		No

Section II—Findings Relating to the Financial Statement Audit, as Required to be Reported in Accordance With Generally Accepted Auditing Standards

A. Internal Control

No matters were reported.

B. Compliance Findings

No matters were reported.

Section III—Federal Awards Findings and Questioned Costs

A. Internal Control

No matters were reported.

B. Compliance Findings

No matters were reported.

01 October 2022

Professional Contract Services, Inc.
Summary Schedule of Prior Audit Findings
Year End June 30, 2022

None

Kyle Sumner

Kyle Sumner
Controller