Professional Contract Services, Inc. and Subsidiary

Consolidated Financial Report
June 30, 2024

Contents

RSM US LLP

Independent Auditor's Report

Board of Directors
Professional Contract Services, Inc.

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, 2024 and 2023, 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 financial position of the Organization as of June 30, 2023 and 2022, and the 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). 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 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, 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.

RSM US LLP

Austin, Texas
October 31, 2024

Professional Contract Services, Inc. and Subsidiary

Consolidated Statements of Financial Position
June 30, 2024 and 2023

	2024	2023
Assets		
Cash and cash equivalents	$ 21,170,405	$ 17,138,797
Accounts receivable:		
Contracts	42,196,915	32,159,346
Other	73,313	52,599
Total accounts receivable	42,270,228	32,211,945
Investments	115,253,741	93,343,561
Prepaid expenses and other assets	1,963,919	1,997,636
Property and equipment:		
Service and transportation equipment	10,207,023	8,777,880
Furniture and office equipment	2,153,017	2,099,095
Buildings	19,501,827	19,362,855
Land	381,016	381,016
	32,242,883	30,620,846
Less accumulated depreciation	9,481,846	7,909,855
Total property and equipment, net	22,761,037	22,710,991
Security deposits	16,979	22,507
Operating lease right-of-use assets, net	6,510,565	288,204
	6,527,544	310,711
Total assets	$ 209,946,874	$ 167,713,641
Liabilities and Net Assets		
Accounts payable	$ 7,059,726	$ 5,124,687
Accrued payroll and related liabilities	10,241,472	8,950,774
Other accrued liabilities	2,759,070	2,339,771
Deferred compensation liability	1,275,610	889,208
Note payable, net of loan issuance costs	15,241,825	15,689,316
Operating lease liability, net	6,614,622	292,637
Total liabilities	43,192,325	33,286,393
Net assets:		
Without donor restrictions	166,754,549	134,427,248
Total liabilities and net assets	$ 209,946,874	$ 167,713,641

See notes to consolidated financial statements.

Professional Contract Services, Inc. and Subsidiary

Consolidated Statements of Activities
Years Ended June 30, 2024 and 2023

	2024	2023
Changes in net assets without donor restrictions:		
Revenues and gains:		
Direct government service contract revenue:		
Net government service contract revenue	**$ 197,958,426**	$ 164,702,605
Interest income	**125,186**	106,504
Gain (loss) on disposition of property and equipment	**66,855**	(1,898,686)
Investment income, net	**13,881,511**	9,712,968
Other—prompt pay discount	**73,409**	78,037
Other income	**178,643**	272,875
Total revenues and gains	**212,284,030**	172,974,303
Expenses:		
Direct government service contract expenses:		
Health care environmental and custodial services	**62,637,420**	59,196,976
Total facilities management	**50,701,402**	41,785,002
Full food and dining	**16,812,788**	13,619,416
Other	**26,173,566**	21,185,652
Total direct government service contract expenses	**156,325,176**	135,787,046
Supporting services:		
General and administrative	**23,631,553**	23,618,972
Total expenses	**179,956,729**	159,406,018
Change in net assets	**32,327,301**	13,568,285
Net assets:		
Beginning	**134,427,248**	120,858,963
Ending	**$ 166,754,549**	$ 134,427,248

See notes to consolidated financial statements.

Professional Contract Services, Inc. and Subsidiary

Consolidated Statement of Functional Expenses
Year Ended June 30, 2024

	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	$ 32,329,568	$ 19,163,682	$ 7,751,922	$ 15,959,760	$ 75,204,932	$ 12,002,764	$ 87,207,696
Subcontract	10,813,339	16,763,627	5,370,363	539,921	33,487,250	614,797	34,102,047
Employee benefits, health and welfare	10,506,346	3,678,188	2,493,932	3,229,124	19,907,590	3,374,017	23,281,607
Supplies	3,271,887	7,785,661	392,557	1,345,621	12,795,726	71,830	12,867,556
Taxes:							
Payroll	2,585,292	1,521,052	631,513	1,294,704	6,032,561	879,452	6,912,013
Other	2,237	-	-	10,106	12,343	-	12,343
Legal and professional	22,995	18,093	12,103	180,820	234,011	2,197,383	2,431,394
Insurance	857,622	698,078	61,159	474,594	2,091,453	684,967	2,776,420
Rental	1,120,949	114,933	142	2,007,044	3,243,068	131,856	3,374,924
Depreciation	409,415	233,296	4,078	317,871	964,660	836,268	1,800,928
Small tools and equipment	102,900	183,193	12,462	172,893	471,448	62,786	534,234
Travel, entertainment and meals	105,357	4,155	21	69,818	179,351	803,988	983,339
Telephone and paging	144,405	81,500	24,579	151,095	401,579	80,253	481,832
Uniforms and safety expense	74,473	166,714	53,192	109,423	403,802	6,663	410,465
Repairs and maintenance	109,247	153,424	3,244	116,743	382,658	54,029	436,687
Automobile expenses	154,178	71,564	609	104,382	330,733	36,424	367,157
Advertising and marketing	2,711	1,145	-	909	4,765	338,003	342,768
Other—miscellaneous	-	12,077	170	-	12,247	105,713	117,960
Donations	-	-	-	-	-	508,286	508,286
Dues and subscriptions	19,422	38,894	407	31,825	90,548	174,056	264,604
Utilities	-	8,729	-	52,602	61,331	98,172	159,503
Bank charges	-	-	-	-	-	17,535	17,535
Freight and postage	5,077	2,871	335	4,303	12,586	23,621	36,207
Interest	-	526	-	8	534	528,690	529,224
Total expenses by function	$ 62,637,420	$ 50,701,402	$ 16,812,788	$ 26,173,566	$ 156,325,176	$ 23,631,553	$ 179,956,729

See notes to consolidated financial statements.

Professional Contract Services, Inc. and Subsidiary

Consolidated Statement of Functional Expenses
Year Ended June 30, 2023

	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	$ 29,728,718	$ 14,604,668	$ 6,096,199	$ 13,230,041	$ 63,659,626	$ 11,706,882	$ 75,366,508
Subcontract	11,375,037	14,868,342	4,535,672	564,121	31,343,172	601,808	31,944,980
Employee benefits, health and welfare	9,724,250	2,890,794	2,057,122	2,888,586	17,560,752	3,515,620	21,076,372
Supplies	3,125,711	6,843,614	352,348	1,280,621	11,602,294	148,710	11,751,004
Taxes:							
Payroll	2,341,682	1,183,845	489,974	1,035,220	5,050,721	772,023	5,822,744
Other	7,123	-	-	10,106	17,229	-	17,229
Legal and professional	17,992	2,290	668	148,075	169,025	2,029,181	2,198,206
Insurance	772,398	611,689	41,281	414,487	1,839,855	699,227	2,539,082
Rental	1,063,689	48,512	1,171	530,989	1,644,361	159,968	1,804,329
Depreciation	382,956	189,502	-	284,629	857,087	960,477	1,817,564
Small tools and equipment	114,966	104,027	654	193,255	412,902	76,946	489,848
Travel, entertainment and meals	49,405	9,120	-	84,550	143,075	720,577	863,652
Telephone and paging	160,333	78,778	22,119	171,156	432,386	95,062	527,448
Uniforms and safety expense	61,195	95,888	18,412	59,243	234,738	10,901	245,639
Repairs and maintenance	80,579	121,141	2,813	96,638	301,171	186,910	488,081
Automobile expenses	149,252	70,579	480	103,849	324,160	40,850	365,010
Advertising and marketing	4,253	673	-	2,271	7,197	176,733	183,930
Other—miscellaneous	6,121	24,186	-	37,448	67,755	399,299	467,054
Donations	-	-	-	-	-	461,859	461,859
Dues and subscriptions	20,943	21,539	168	27,574	70,224	180,180	250,404
Utilities	411	10,974	-	14,671	26,056	91,006	117,062
Bank charges	-	-	-	-	-	39,529	39,529
Freight and postage	9,962	4,635	333	8,116	23,046	14,587	37,633
Interest	-	206	2	6	214	530,637	530,851
Total expenses by function	$ 59,196,976	$ 41,785,002	$ 13,619,416	$ 21,185,652	$ 135,787,046	$ 23,618,972	$ 159,406,018

See notes to consolidated financial statements.

Professional Contract Services, Inc. and Subsidiary

Consolidated Statements of Cash Flows
Years Ended June 30, 2024 and 2023

		2024		2023
Cash flows from operating activities:				
Change in net assets	**$**	**32,327,301**	$	13,568,285
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation		**1,800,928**		1,817,564
Amortization of debt issuance costs		**8,880**		8,877
Amortization of right-of-use asset, operating		**1,331,534**		269,485
(Gain) loss on disposition of property and equipment		**(66,855)**		1,898,686
Realized and unrealized gains on investments, net		**(12,503,775)**		(8,333,041)
Changes in operating assets and liabilities:				
Accounts receivable		**(10,058,283)**		(1,486,471)
Prepaid expenses and other assets and security deposits		**33,717**		(284,963)
Security deposit		**5,528**		(350)
Accounts payable		**1,935,039**		271,096
Accrued payroll and related liabilities		**1,290,698**		797,238
Other accrued liabilities		**419,299**		(427,033)
Lease liability—operating		**(1,231,910)**		(265,052)
Deferred compensation liability		**386,402**		488,988
Net cash provided by operating activities		**15,678,503**		8,323,309
Cash flows from investing activities:				
Purchase of property and equipment		**(1,852,622)**		(405,580)
Proceeds from sale of property and equipment		**68,503**		166,742
Purchases of investments		**(41,915,769)**		(31,623,656)
Proceeds from sales of investments		**32,509,364**		23,670,762
Net cash used in investing activities		**(11,190,524)**		(8,191,732)
Cash flows from financing activities:				
Payments of notes payable		**(456,371)**		(619,561)
Net cash used in financing activities		**(456,371)**		(619,561)
Net increase (decrease) in cash and cash equivalents		**4,031,608**		(487,984)
Cash and cash equivalents:				
Beginning		**17,138,797**		17,626,781
Ending	**$**	**21,170,405**	$	17,138,797
Supplemental disclosures of cash flow information:				
Cash paid for interest	**$**	**529,224**	$	530,851
Addition to right-of-use asset for operating lease	**$**	**7,553,895**	$	557,689
Addition to lease liability	**$**	**7,553,895**	$	557,689
Cash paid on lease liability	**$**	**1,775,626**	$	296,052

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 enhancing the lives of people with disabilities through employment, advocacy, and partnerships. These employment opportunities are provided by federal, state and local government service contracts through SourceAmerica and WorkQuest (formerly TIBH Industries, Inc.). Contract services are provided in numerous states, including Arkansas, California, Colorado, Georgia, Illinois, Kentucky, Michigan, Oklahoma, Texas, Virginia, Washington and West Virginia.

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 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.

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

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.

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

Net assets with donor restrictions: Net assets are 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, 2024 and 2023.

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.

Allowance for credit losses: 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 credit losses. The Organization adopted ASC 326, Financial Instruments—Credit Losses, as of January 1, 2023, with the cumulative-effect transition method with the required prospective approach. The measurement of expected credit losses under the current expected credit loss (CECL) methodology is applicable to financial assets measured at amortized cost, which include trade receivables, contract assets and noncurrent receivables. An allowance for credit losses under the CECL methodology is determined using the loss-rate approach and measured on a collective (pool) basis when similar risk characteristics exist. Where financial instruments do not share risk characteristics, they are evaluated on an individual basis. The CECL allowance is based on relevant available information, from internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. The Organization had no losses on accounts receivable for the years ended June 30, 2024 and 2023.

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.

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

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 statements of activities.

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 is 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.

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, 2024 and 2023.

Debt issuance costs: Legal, accounting, printing and other expenses associated with the debt issuance are being amortized using the effective-interest method over the 20-year term of the debt and are netted with notes payable on the accompanying consolidated statements of financial position. Amortization expense was $8,880 and $8,877 for the years ended June 30, 2024 and 2023, respectively.

Right-of-use assets: Right-of-use (ROU) assets consist of the initial lease liability, any payments made to the lessor at or before the commencement date minus any incentives received, and initial direct costs. ROU assets on operating type leases are amortized over the lease term in conjunction with the amortization of the lease liability in order to achieve a straight-line expense recognition.

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

Leases: The Organization determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when: (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

The Organization recognizes most leases on its statement of financial position as an ROU asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Leases are classified as either finance leases or operating leases based on certain criteria. Classification of the lease affects the pattern of expense recognition in the statement of activities.

The Organization made an accounting policy election available not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or June 1, 2022, for existing leases upon the adoption of ASC 842, Leases). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives received. To determine the present value of lease payments, The Organization made an accounting policy election available to nonpublic companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed-rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

The Organization has made an accounting policy election to account for lease and nonlease components in its contracts as a single lease component for its real estate, vehicle and equipment asset classes. The nonlease components typically represent additional services transferred to the Organization, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Lease liabilities: Long-term leases are recognized at the present value of all lease payments using a risk-free rate comparable with that of the individual lease terms.

Revenue recognition on service contracts: 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.

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

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 (CLINs) 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.

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 does not 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, 2022, were as follows:

	2024	2023	2022
Accounts receivable	$ 40,087,987	$ 30,002,468	$ 26,913,357
Unbilled receivables	$ 2,182,241	$ 2,209,477	$ 3,812,117

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

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 $6,161,732 and $5,084,572 in commission expenses to SourceAmerica and WorkQuest under the terms of their respective arrangements during the years ended June 30, 2024 and 2023, 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, 2024, approximately 55% (58% in 2023) 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 carry forward not more than 180 hours of unused PTO as of June 30, 2024 (180 hours as of June 30, 2023 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 $3,130,000 and $2,836,000, as of June 30, 2024 and 2023, respectively, which is included in accrued payroll and related liabilities.

Advertising costs: Advertising costs are charged to expense as incurred. Advertising costs totaled approximately $343,000 and $184,000 for the years ended June 30, 2024 and 2023, 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 consolidated statements of activities. The consolidated 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.

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, 2024 and 2023, 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, 2021.

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

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 derecognition 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, 2024 and 2023.

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

Subsequent events: The Organization has evaluated subsequent events through October 31, 2024, the date on which the consolidated financial statements were available to be issued.

Note 2. Revenue From Contracts With Customers

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

	2024	2023
Gross revenue	$ 204,120,158	$ 169,787,177
Less commissions	6,161,732	5,084,572
Net revenue recognized over time	$ 197,958,426	$ 164,702,605

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

	2024	2023
Health care environmental and custodian services	$ 81,415,109	$ 76,536,821
Total facilities management contracts	64,265,703	48,267,577
Full food and dining	21,626,643	16,409,182
Other	30,650,971	23,489,025
	$ 197,958,426	$ 164,702,605

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

	2024	2023
Health care environmental and custodian services	$ 14,457,307	$ 16,288,396
Total facilities management contracts	16,559,108	9,056,741
Full food and dining	4,140,915	3,035,063
Other	7,039,585	3,779,146
	$ 42,196,915	$ 32,159,346

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 consolidated balance sheet date at June 30, 2024 and 2023, comprise the following:

	2024	2023
Cash and cash equivalents	$ 21,170,405	$ 17,138,797
Accounts receivable	42,270,228	32,211,945
Investments	115,253,741	93,343,561
	178,694,374	142,694,303
Less amounts unavailable for general expenditure within one year:		
Investments not available for withdrawal within a year	8,626,483	7,721,598
Financial assets available to meet general expenditures within one year	$ 170,067,891	$ 134,972,705

The Organization maintains available cash and short-term investments to meet approximately 30 days of normal operating expenses, which are on average, approximately $13 to $15 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

The ASC Topic, 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 the ASC Topic, 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.

Note 4. Investments at Fair Value (Continued)

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, 2024 and 2023.

The following tables represent assets measured at fair value on a recurring basis as reported on the consolidated statements of financial position as of June 30, 2024 and 2023, and by level within the fair value measurement hierarchy:

	June 30, 2024			
	Level 1	Level 2	Level 3	Total
Equity securities	$ 30,230,926	$ -	$ -	$ 30,230,926
Mutual funds	61,783,116	-	-	61,783,116
	$ 92,014,042	$ -	$ -	92,014,042
Investments measured at NAV:				
Alternative investments				23,239,699
Total investments measured at NAV				23,239,699
Total investments				$ 115,253,741

	June 30, 2023			
	Level 1	Level 2	Level 3	Total
Equity securities	$ 24,051,582	$ -	$ -	$ 24,051,582
Mutual funds	47,497,062	-	-	47,497,062
	$ 71,548,644	$ -	$ -	71,548,644
Investments measured at NAV:				
Alternative investments				21,794,917
Total investments measured at NAV				21,794,917
Total investments				$ 93,343,561

Note 4. Investments at Fair Value (Continued)

The following table provides additional information that will help describe the nature and risk of the investments held at June 30, 2024 and 2023, 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, 2024 and 2023.

	Redemption Frequency*	Redemption Notice Period	Fair Value at June 30 2024	Fair Value at June 30 2023
Multistrategy hedge funds (a)	Monthly	45 days	$ 6,912,241	$ 6,521,734
Multistrategy hedge funds (a)	Quarterly	45 days	2,279,347	2,604,781
Multistrategy hedge funds (a)	Quarterly	45 days	5,421,629	4,945,982
Fund of Funds (b)	Rolling 3 Year	65 days	6,833,887	6,109,023
Fund of Funds (b)	Quarterly	95 days	1,792,595	1,613,397
Total			$ 23,239,699	$ 21,794,917

*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.

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

	2024	2023
Interest and dividend income	$ 1,862,712	$ 1,785,226
Realized and unrealized gains on investments	12,503,775	8,333,041
Investment fees	(484,976)	(405,299)
	$ 13,881,511	$ 9,712,968

Note 5. Long-Term Debt

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

		2024	2023
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]**	$ 15,400,865	$ 15,857,236
Revolving Line of Credit with a financial institution, interest only payments until payment in full of any outstanding principal at November 30, 2024; interest is lesser of (i) the maximum rate or (ii) the Bloomblerg Short-Term Bank Yield Index daily floating rate plus .80%; collateralized by all accounts receivable and equipment.	**[2]**	-	-
Total long-term debt		15,400,865	15,857,236
Less unamortized debt issuance costs		159,040	167,920
Total long-term debt, net		15,241,825	15,689,316
Less amounts due within one year		471,598	456,371
Long-term debt, net of current portion		$ 14,770,227	$ 15,232,945

[1] 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 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 2022, the availability date was extended to November 30, 2024. 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, 2024:

2025	$ 471,598
2026	485,997
2027	500,835
2028	514,996
2029	531,850
Thereafter	12,895,589
	15,400,865
Less notes payable issuance costs, net of amortization	(159,040)
	$ 15,241,825

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 $6,654,000 and $3,252,000 for the years ended June 30, 2024 and 2023, 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. 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, 2024 and 2023, the Organization had accrued $1,275,610 and $889,208 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, 2024 and 2023. There were no deferred compensation asset or liability as of June 30, 2024 and 2023.

Note 7. Leases

The Organization leases certain office equipment and facilities under operating leases. Some leases include one or more options to renew, generally at the Organization's sole discretion, with renewal terms that can extend the lease term. The Organization's operating leases generally do not contain any material restrictive covenants or residual value guarantees.

As of June 30, 2024, the Organization's ROU assets and operating lease liabilities totaled $6,510,565 and $6,614,622, respectively ($228,204 and $292,637, respectively, in 2023). As of June 30, 2024, the weighted-average remaining lease term for operating leases is 3.80 years (1.13 years in 2023). As of June 30, 2024, the weighted-average discount rate for operating leases is 4.16% (2.88% in 2023).

Note 7. Leases (Continued)

Future minimum cash basis lease payments are as follows as of June 30, 2024:

Years ending June 30:	
2025	$ 1,713,859
2026	1,696,300
2027	1,730,010
2028	1,790,560
2029	255,634
Future minimum lease payments	7,186,363
Less imputed interest*	571,741
Operating lease liability, net	$ 6,614,622

*Imputed interest represents the difference between undiscounted cash flows and discounted cash flows.

Lease expense amounted to $3,374,924 and $1,804,329 for the years ended June 30, 2024 and 2023, respectively.

Note 8. Commitment 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.

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 reasonably 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, 2024 and 2023, approximately 55% and 58% of the employees are subject to collective bargaining agreements under 20 different unions, 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, 2024, approximately 80% of the Organization’s contract revenue was related to two customers. As of June 30, 2024, approximately 88% of the Organization’s receivable balance was from two customers.

For the year ended June 30, 2023, approximately 80% of the Organization’s contract revenue was related to two customers. As of June 30, 2023, approximately 87% of the Organization’s receivable balance was from two customers.

For the years ended June 30, 2024 and 2023, 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, 2024

Contents

RSM

RSM US LLP

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 (*Government Auditing Standards*), the consolidated financial statements of Professional Contract Services, Inc. and Subsidiary (the Organization), which comprise the Organization's consolidated statement of financial position as of June 30, 2024, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements), and have issued our report thereon dated October 31, 2024.

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 or significant deficiencies may exist that were not 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
October 31, 2024

**Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on the
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, 2024. 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, 2024.

Basis for Opinion on Each 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 each 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 programs.

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 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, 2024, and have issued our report thereon dated October 31, 2024, 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 are fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Austin, Texas
October 31, 2024

Professional Contract Services, Inc.

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2024

Federal Grantor/Pass-through Grantor/Program or Cluster	Program Name	Federal Assistance Listing Number	Grant/Contract Identifying Number	Total Federal Expenditures	Provided to Subrecipients
U.S. Department of Defense:					
Direct award	Fort Sill	12.U01	W9124L-17-C-0005	$ 10,873,675	$ -
Total U.S. Department of Defense				10,873,675	-
Total expenditures of federal awards				$ 10,873,675	$ -

See notes to schedule of expenditures of federal awards.

Note 1. Basis of Presentation

The accompanying 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, 2024. 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.

Note 2. Summary of Significant Accounting Policies

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 3. 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, 2024

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

(Continued)

Section II—Financial Statement Findings

No matters to report.

Section III—Federal Awards Findings and Questioned Costs

No matters to report.

Professional Contract Services, Inc. and Subsidiary

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2024

The prior year single audit disclosed no findings in the *Schedule of Findings and Questioned Costs* and no uncorrected or unresolved findings exist from the prior audit's *Summary of Prior Audit Findings*.