

**ALIANZA MUNICIPAL DE
SERVICIOS INTEGRADOS, INC.**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
JUNE 30, 2025 AND 2024**

ALIANZA MUNICIPAL DE SERVICIOS INTEGRADOS, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

For the years ended June 30, 2025 and 2024

**(With the Independent Auditors' Report and the Reports Required
by the Government Auditing Standards and the Uniform Guidance)**

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Certified Public Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

To the Governing Board of
Alianza Municipal de Servicios
Integrados, Inc.
Caguas, Puerto Rico

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Alianza Municipal de Servicios Integrados, Inc. (AMSI)**, a non-profit organization, which comprise the Statement of Financial Position as of June 30, 2025 and 2024, and the related Statement of Activities and Changes in Net Assets, Functional Expenses and Cash Flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the **AMSI** as of June 30, 2025 and 2024, and the results of its operations, changes in net assets and its 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 audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the **AMSI** and to meet our other ethical responsibilities, in accordance with the 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 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 **AMSI's** ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditors' 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 auditors' 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgement 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 **AMSI'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 **AMSI'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.

R & S, CPA'S, PSC

RODRIGUEZ & SANTIAGO, CPA'S, PSC

San Juan, Puerto Rico
October 23, 2025



DPSC325-106

Alianza Municipal de Servicios Integrados,
Inc.

ALIANZA MUNICIPAL DE SERVICIOS INTEGRADOS, INC.**STATEMENTS OF FINANCIAL POSITION**

June 30, 2025 and 2024

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	2025	2024
ASSETS		
Cash	\$ 1,129,977	\$ 171,725
Federal grants receivable	2,148,813	2,672,162
Contract service fees receivables and others, net	1,765,216	3,368,482
Prepaid expenses	2,339	4,328
Capital assets, net	1,191,073	1,130,564
Operating lease – right of use assets	4,680,317	413,224
Finance lease – right of use assets	39,159	57,595
Other assets	<u>21,910</u>	<u>21,910</u>
Total assets	<u>\$ 10,978,804</u>	<u>\$ 7,839,990</u>
LIABILITIES		
Line of credit	-	250,000
Accounts payable	1,722,250	2,345,599
Accrued liabilities	832,674	606,112
Deferred grant revenue	-	17,187
Compensated absences	475,732	691,117
Operating lease liabilities	4,680,317	413,224
Finance lease liabilities	<u>40,713</u>	<u>59,040</u>
Total liabilities	<u>7,751,686</u>	<u>4,382,279</u>
NET ASSETS		
Without donor restrictions	<u>3,227,118</u>	<u>3,457,711</u>
Total liabilities and net assets	<u>\$ 10,978,804</u>	<u>\$ 7,839,990</u>

See the accompanying notes to the financial statements.

ALIANZA MUNICIPAL DE SERVICIOS INTEGRADOS, INC.**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**
For the years ended June 30, 2025 and 2024

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	2025	2024
REVENUES AND SUPPORT		
Contributions of cash and other financial assets:		
Federal grants	\$ 17,637,142	\$ 12,772,110
State grants	12,800	15,000
Municipal grant	100,000	100,000
Contributions of nonfinancial assets	267,197	147,952
Contract service fees and commissions	5,465,576	6,394,794
Other income	<u>394,741</u>	<u>414,406</u>
Total revenues and support	<u>23,877,456</u>	<u>19,844,262</u>
EXPENSES		
Workforce assistance programs		
Youth	2,038,094	2,226,320
Adults	1,589,728	1,722,236
Dislocated	12,327,169	7,050,811
Other	1,250,179	1,929,830
Temporary employment agency	4,654,637	5,119,351
Management and general	<u>2,248,242</u>	<u>1,926,228</u>
Total expenses	<u>24,108,049</u>	<u>19,974,776</u>
CHANGE IN NET ASSETS	(230,593)	(130,514)
NET ASSETS AT BEGINNING OF YEAR	<u>3,457,711</u>	<u>3,588,225</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,227,118</u>	<u>\$ 3,457,711</u>

See the accompanying notes to the financial statements.

ALIANZA MUNICIPAL DE SERVICIOS INTEGRADOS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2025

	<i>Program Services</i>				<i>Supporting services</i>		<i>Total</i>
	<i>Youth</i>	<i>Adults</i>	<i>Dislocated</i>	<i>Other</i>	<i>Temporary Employment Agency</i>	<i>Management and General</i>	
Salaries	\$ 350,136	\$ 489,116	\$ 2,075,866	\$ 662,247	\$ 3,701,975	\$ 863,433	\$ 8,142,773
Employee benefits	136,713	147,204	563,152	124,894	746,012	201,046	1,919,021
Professional services	69,934	79,831	468,378	247,001	-	192,234	1,057,378
Travel	7,872	10,035	37,980	4,079	-	42,856	102,822
Supplies	3,630	2,821	33,413	48,573	-	17,938	106,375
Utilities	35,141	35,416	191,486	7,208	-	69,533	338,784
Lease expense	47,126	60,004	417,760	10,000	-	17,399	552,289
Activities and program costs	1,359,359	679,489	8,349,906	116,811	593	-	10,506,158
Insurance	5,068	4,252	331	-	-	83,621	93,272
Maintenance	16,377	70,403	132,097	2,346	-	98,383	319,606
Depreciation and amortization	-	-	-	-	-	169,637	169,637
Bad debt expense	-	-	-	-	20,306	-	20,306
Loss on disposal of assets	-	-	-	-	-	1,088	1,088
Interests	-	-	-	-	-	83,633	83,633
Other	6,738	11,157	56,800	27,020	185,751	407,441	694,907
Total operating expenses	\$ 2,038,094	\$ 1,589,728	\$ 12,327,169	\$ 1,250,179	\$ 4,654,637	\$ 2,248,242	\$ 24,108,049

See the accompanying notes to the financial statements.

ALIANZA MUNICIPAL DE SERVICIOS INTEGRADOS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2024

	<i>Program Services</i>				<i>Supporting services</i>		
	Youth	Adults	Dislocated	Other	Temporary Employment Agency	Management and General	Total
Salaries	\$ 557,751	\$ 502,914	\$ 1,590,826	\$ 1,273,892	\$ 4,205,641	\$ 597,448	\$ 8,728,472
Employee benefits	139,574	144,689	427,414	159,846	628,156	131,204	1,630,883
Professional services	22,458	41,987	154,331	135,222	14,448	187,019	555,465
Travel	16,683	15,743	66,173	12,510	-	12,387	123,496
Supplies	1,616	2,102	52,395	88,159	-	24,655	168,927
Utilities	22,714	31,693	139,167	21,176	-	44,897	259,647
Lease expense	56,543	75,702	384,269	19,507	56,691	154,152	746,864
Activities and program costs	1,374,155	842,355	3,986,923	154,091	7,777	-	6,365,301
Insurance	4,904	5,305	59,082	5,200	-	33,740	108,231
Maintenance	20,495	32,740	140,643	2,333	-	82,235	278,446
Depreciation and amortization	-	-	-	-	-	149,310	149,310
Bad debt expense	-	-	-	-	20,887	-	20,887
Loss on disposal of assets	-	-	-	-	-	83,033	83,033
Interests	-	-	-	-	-	15,944	15,944
Other	9,427	27,006	49,588	57,894	185,751	410,204	739,870
Total operating expenses	\$ 2,226,320	\$ 1,722,236	\$ 7,050,811	\$ 1,929,830	\$ 5,119,351	\$ 1,926,228	\$ 19,974,776

See accompanying notes to the financial statements.

ALIANZA MUNICIPAL DE SERVICIOS INTEGRADOS, INC.**STATEMENTS OF CASH FLOWS**

For the years ended June 30, 2025 and 2024

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	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (230,593)	\$ (130,514)
Adjustments to reconcile change in net assets to Net cash provided (used) by operating activities:		
Depreciation and amortization	169,637	149,310
Loss on disposal of capital assets	1,088	83,033
Change in assets and liabilities:		
Accounts receivable	2,126,615	42,470
Prepaid expenses	1,989	4,004
Accounts payable	(623,349)	(186,734)
Accrued liabilities	226,562	(441,511)
Deferred grant revenue	(17,187)	16,004
Compensated absences	<u>(215,385)</u>	<u>(89,545)</u>
Net cash provided (used) by operating activities	<u>1,439,486</u>	<u>(553,483)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property and equipment	<u>(231,234)</u>	<u>(215,286)</u>
Net cash provided (used) by investing activities	<u>(231,234)</u>	<u>(215,286)</u>
CASH FLOWS FROM FINNCING ACTIVITIES:		
Payments on notes payable	-	(1,816)
Payments of finance lease liabilities	<u>(250,000)</u>	<u>250,000</u>
Net cash provided (used) by financing activities	<u>(250,000)</u>	<u>248,184</u>
NET INCREASE (DECREASE) IN CASH	958,252	(520,585)
CASH, AT BEGINNING OF YEAR	<u>171,725</u>	<u>692,310</u>
CASH, AT END OF YEAR	<u>\$ 1,129,977</u>	<u>\$ 171,725</u>
Supplemental disclosure of cash flows information:		
Interest	<u>\$ 83,633</u>	<u>\$ 15,944</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>
Supplemental disclosure of information related to leases:		
Non-cash transactions for right-of use asset acquired in exchange for operating and finance lease liabilities	<u>\$ 4,267,093</u>	<u>\$ 645,484</u>

See accompanying notes to financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

Alianza Municipal de Servicios Integrados, Inc. (AMSI) is a not-for-profit corporation organized in March 7, 2006. **AMSI** is formed by the municipalities of Caguas, Aibonito, Arroyo, Cayey, Gurabo, Trujillo Alto, Aguas Buenas, and Guayama (hereinafter the Municipalities) for the purpose of developing human capital for self-sufficiency and self-management through innovative services and partnerships, according to the changes and trends of the global economy. **AMSI** serves as a service agency designated by the Commonwealth of Puerto Rico to receive and administer funds in accordance with Title I of the Workforce Innovation and Opportunity Act (WIOA). These funds are received from the U.S. Department of Labor, passed-through the Puerto Rico Department of Economic Development and Commerce, an executive agency of the Commonwealth, which formalizes annual contract agreements with local areas, including non-profit organizations, and delegates funds accordingly.

As required by WIOA regulations, **AMSI** is governed by a Board of Chief Elected Officials and a Local Workforce Development Board (LWDB). The Board of Chief Elected Officials, comprised of the Mayors of each member Municipalities, has designated **AMSI** as the local grant recipient of funds and appoints an Executive Administrator for the organization. The Mayor of the Municipality of Caguas serves as the President, and the mayors of Gurabo and Arroyo serves as Vice-president and Secretary, respectively until the expiration of their terms in 2025. The LWDB is composed of representatives from the private, educational, labor and community groups, and economic development agencies to provide strategic planning, policy development and oversight to the program activities as stated in the local annual plan. Members are selected every two years as stated by WIOA regulations. **AMSI's** Executive Administrator is directly responsible to the Board of Chief Elected Officials and to the LWDB.

AMSI administers the WIOA federal program for the purpose of increasing the employment, retention, earnings, and occupational skill attainment of US workers, particularly those individuals with barriers to employment. WIOA programs administered by **AMSI** are divided into: Youth Activities Program, Adult Activities Program, and Dislocated Worker Program:

Youth Activities Program - The program delivers a comprehensive array of services that focus on assisting out-of-school youth and in-school youth having barriers to employment to empower them for post-secondary education, employment opportunities, attain educational and skills training credentials, and secure employment with career/promotional opportunities.

Adult Activities Program - The program serves adult individuals and helps employers meet their workforce needs. It enables workers to obtain good jobs by providing them with job search assistance and training opportunities. The Adult Program will ensure that both unemployed and other job seekers have access to high-quality workforce services, and that priority for services will be given to those who are public assistance recipients, low-income individuals, and/or basic skills deficient. In addition, the program will provide individuals with disabilities access to high quality workforce services and prepare them for competitive or integrated employment.

Dislocated Worker Program - The program helps dislocated workers become reemployed. It provides them with job search assistance, career services, and training that builds their skills to meet labor market needs. Dislocated Worker services are targeted to workers who are unemployed or have lost a job through no fault of their own, or who have exhausted their Unemployment Compensation.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Organization (Continued)

In addition to the WIOA federal program, since June 11, 2008, AMSI has been operating a Temporary Employment Agency Program (TEA). The program provides extended services to the labor force and employers. This service is provided through a cooperative agreement with the LWDB and AMSI's local area management. Currently AMSI is also operating other programs funded by state and federal contributions as well as providing services to commercial entities.

Basis of Financial Statements Presentation and Significant Accounting Policies:

The accompanying financial statements have been prepared on the accrual method of accounting in accordance with generally accepted accounting and reporting practices for Not-for-Profit entities in the United States. In preparing these financial statements, management had to make estimates and assumptions that affected the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities as of the statement of financial position date, and the revenues and expenses for the years then ended. Such estimates are based on historical experience and other assumptions that are considered appropriate in the circumstances. However, actual results could differ from those estimates under different assumptions and conditions. The accounting policies described are those that could have a material impact on the reader's understanding of the **AMSI's** basis of financial statement presentation and require significant estimates and judgment on the part of management. The **AMSI** also has other important policies which are detailed in the following pages that also require the use of estimates and judgments.

Most Significant Accounting Policies

Revenues
Contributions
Donated services
Contracts and grants
Accounts receivable and allowance
for doubtful accounts
Expense recognition and functional allocation
Net assets

Revenues

AMSI receives its grants primarily from the U.S. Department of Labor passed through from the P.R. Department of Economic Development and Commerce and other federal and state agencies. Based on ASU No. 2018-08 "Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made", **AMSI** classifies amounts received as a contribution (nonreciprocal transactions) or as exchange (reciprocal) transactions and determines whether a contribution is conditional or not. Therefore, grants or contracts are either recorded as contributions or exchange transactions based on criteria contained in the grant award and guidelines established by this ASU. **AMSI's** main revenue recognition policies are as follows:

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues (Continued)

Grant awards that are contributions (Federal, state and municipal grants) - Unconditional grants and contracts contributions are reported as an increase in net assets with donor restrictions depending on the nature of the grantor imposed-restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions in the statements of activities.

All other grantor-restricted contributions that are restricted by the grantor are reported as an increase in net assets without donor restrictions if the restrictions expire in the fiscal year in which the grants or contracts are recognized. Conditional grants are recognized only when the conditions on which they depend are substantially met and the grant becomes unconditional. Amounts received in excess of expenses are recorded as refundable advances in the accompanying statement of financial position.

Grant awards that are exchanges - Grants and contracts income received in exchange for specific services provided are recognized at the time **AMSI** provides the services to which the grants and contracts are limited. Amounts received in advance of services being provided are recorded as deferred revenue in the accompanying statements of financial position.

Contract service fees and commissions - **AMSI** has fixed-price agreements with private and governmental entities, generally for a one-year term, to provide temporary employment agency services to its customers. Revenue is recognized as the performance obligation is satisfied. Performance obligation is based on the nature of the services provided and satisfied over the time as control of the promised services is transferred to customers. Under these agreements, control of the promised services is transferred by **AMSI** as the temporary employee dedicates the working hours to the customer.

AMSI elects the *Right to Invoice* practical expedient to recognize revenue to the extent to which it has a right to consideration from a customer. The amount reflects the consideration **AMSI** expects to be entitled to, in exchange for those services completed to date. **AMSI** also elected to exclude certain disclosures about remaining performance obligations in the contracts, as provided in the practical expedient. Therefore, contract fee is recognized as revenue when billed, based on hours of services provided by the temporary employee to a customer. Sales (and similar) taxes, imposed on our sales and collected from customers, are excluded from revenues.

Transaction price is generally stated in the contract based on a cost-plus formula. There is no judgment involved in the price allocation process because **AMSI** only delivers a single performance obligation at a contractual fixed price.

Contracts with private customers provide for variable consideration in case of late payments which are subject to an additional fee and interest over any overdue balance. This additional fee is recorded as revenue at the point in time it occurs. Credit losses from contracts with customers are mitigated by discontinuing services in the event of non-payment and by imposing these additional fees and interest in the event of late payment. At year-end, the amount of additional fees recorded as revenues and credit losses incurred are not significant to the financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues (Continued)

Consideration is not affected for a financing component since agreements are generally for a one-year term. The contract does not provide for returns or refunds or similar obligations but provides for replacement of employees provided to customers in case of absences, vacations and illness. Neither contract with governmental customers nor with private customers provides for collections in advance.

Contributions

All contributions are considered to be available for unrestricted use, unless specifically restricted by donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported in the statement of operations and changes in net assets as contributions with donor restrictions. Unconditional promises to give cash and other assets are reported at estimated fair value at the date the promise is received. Conditional promises to give are recognized when the conditions, as stipulated by the donor, are substantially met. The gifts are reported as contributions with donor restrictions in the statement of operations if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of operations and changes in net assets as net assets release from restrictions. Donor-restricted contributions for which restrictions are met within the same year are reflected as contributions without donor restrictions in the accompanying financial statements.

Donated services

Donated services are recognized as contributions and measured at fair value in the financial statements if the services (a) create or enhance non-financial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the **AMSI** if not provided by donation. A substantial number of unpaid volunteers have made significant contributions of their time to the **AMSI's** program services, and these services have been recorded at fair value in the "Statement of Activities and Changes in Net Assets".

Contracts and grants

Contract and grant funds, which are restricted as to their use, are recognized as revenue only to the extent that expenditures incurred satisfy their restricted purposes. Receipts in excess of expenditures are included in the financial statements as deferred contracts and grant revenue. Reimbursable expenditures, for which payment has not been received as of the financial statement date, are reported as contracts and grants receivable.

Accounts receivable and allowance for doubtful accounts

Receivables are stated net of estimated allowances for uncollectible accounts, if any, which are determined upon past collection experience and current economic conditions. After all reasonable collection efforts have been exhausted in accordance with **AMSI's** policies, account receivable is written off and charged against the allowance for doubtful accounts. Bad debt expense is presented as part of operating expenses and not as a reduction of revenues.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts receivable and allowance for doubtful accounts (Continued)

Federal grants receivable - Represent amounts owed to AMSI for the reimbursement of expenditures incurred Pursuant to WIOA program or other federal programs.

Contract service fees receivable – Represent billed and unbilled amounts due for performance obligations already satisfied, owed to **AMSI** for temporary employment services provided to both private and governmental customers for the referrals of skill and non-skill jobseekers. Amounts recognized are **AMSI's** unconditional rights to consideration since only the passage of time is required before payment of that consideration is due.

Contribution receivable - Contributions are recognized when, in substance, are unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Expense recognition and functional allocation

Expenses are recognized when the related liability is incurred. The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Program service expenses are the costs related to providing **AMSI's** programs and services and which mainly consist of WIOA programs and the temporary employment agency program, or the costs of the activities for which purpose the organization exists.

Management and general expenses relate to the overall direction of **AMSI**. Compensation and benefits expenses are allocated based on estimates of time and effort, as well as depreciation and amortization and occupancy, which are allocated on a square footage basis. Telephone costs are allocated based online counts by functional category.

Net Assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net Assets without donor restrictions – Net assets without donor restrictions are resources available to support operations. The only limits on the use of net assets without donor restrictions are the broad limits resulting for the nature of the **AMSI**, the environment in which its operates, the purposes specified in it corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

Net assets with donor restrictions – Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the **AMSI**, unless the donor provides more specific directions about the period of its use.

It also includes resources whose use by the **AMSI** is limited by donor-imposed restrictions that neither expired by being used in accordance with a donor's restriction nor by the passage time.

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities and changes in net assets unless the use of the related resources is subject to donor restrictions. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net losses on endowment investments reduce net assets without donor restrictions to the extent that net gains of the fund from prior years are unspent and classified there; remaining losses are classified as decreases in net assets without donor restrictions. If an endowment fund has no net gains from prior years, such as when a fund in newly established, net losses are classified as decreases in net assets without donor restrictions.

Other Significant Accounting Policies

Other accounts receivable
Capital assets
Cash equivalents
Advertising costs
Donor-restricted gifts
Tax status
Leases
Risk management

Other accounts receivable

Other accounts receivable are reported at the amount that the **AMSI** expects to collect from outstanding balances. Differences between the amount due and the amount that the **AMSI** expects to collect are reported in the results of operations of the year in which those differences are determined with an offsetting entry to a valuation allowance for accounts receivable. Balances that still outstanding after the **AMSI** has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Management believes that all outstanding receivables are collectible in full, therefore no allowance for uncollectible receivables has been provided.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets

AMSI capitalized all capital asset acquisitions in excess of \$100 and an estimated useful life of more than two years. Capital assets are stated at historical cost when purchased. Donations of equipment are recorded as support at their estimated fair value at the date of donation. Such donations and property acquired are reported as support without donor restrictions unless the donor or grantor has restricted the asset to a specific purpose. Assets donated or acquired with explicit restrictions regarding their use and contributions of cash received for fixed asset acquisitions will be recorded as net assets with donor restrictions. AMSI reports expirations of restrictions when the acquired or donated long-lived assets are placed in service. At that time net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions. Repair and maintenance are expensed as incurred.

Capital assets are carried at cost less depreciation. Depreciation is computed using the straight-line method over the estimated useful lives, which range between 5 to 10 years.

AMSI reviews for the impairment of long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of an asset to future net cash flow expected to be generated by the asset. If such assets are impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Cash equivalents

For the purposes of the statement of cash flows, the AMSI considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Advertising costs

The AMSI's policy is to expense advertising costs in the period in which are incurred.

Donor-restricted gifts

Unconditional promises to give cash and other assets to the AMSI are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax status

AMSI is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and Section 1101 of the 2011 Puerto Rico Internal Revenue Code. Accordingly, the financial statements do not reflect a provision for income taxes. In addition, it is also exempt from property and municipal license taxes.

Accounting principles generally accepted in the United States of America requires **AMSI's** management to evaluate its income tax position each year to determine whether **AMSI's** tax position is more-likely-than-not to be sustained if examined by applicable taxing authorities. Management has analyzed the tax positions taken and has concluded that as of June 30, 2025 and 2024 there are no other uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. **AMSI** is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. **AMSI's** management believes it is no longer subject to income tax examinations for years prior to 2020.

Leases

Topic 842 sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both lessors and lessees.

The accounting applied as a lessor is almost unchanged from that applied under previous GAAP. Operating leases remain classified as such, and lease income will continue to be recognized on a generally straight-line basis over the lease term. The guidance requires lessees to apply a two-method approach, classifying leases as either finance or operating leases based on the principle of whether the lease is effectively a financed purchase.

Lessees are required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months. Right-of-use assets and lease liabilities are recognized based on the present value of future minimum lease payments over the lease term at commencement date. If the lease agreements do not provide an explicit rate, AMSI management will use the U.S. Treasury risk-free rate based on the applicable at commencement date in determining the present value of future payments.

In the statement of financial position, operating leases are included in operating lease - right-of-use assets and operating lease liability. Finance leases are included in finance lease - right-of-use assets and financing lease liability. Right-of-use assets represents **AMSI's** rights to use lease asset over the term of the lease. Lease liabilities represent the contractual obligation of **AMSI** to make lease payments over the lease term. For operating leases, lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. For finance leases, lease expense is composed of interest expense and amortization expense. The lease liability of finance leases is subsequently measured at amortized cost using the interest rate method. The right-of-use asset from financing leases is amortized on a straight-line basis and is include as depreciation and amortization expense.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (Continued)

Topic 842 included certain practical expedients that can be elected for new leases that are executed after the adoption of the new pronouncement. **AMSI** elected the practical expedient of not separating lease and related non-lease components. Also, **AMSI** elected as an accounting policy to not recognize lease liabilities and right-of-use assets for any future short-term leases (i.e., leases with a lease term of 12 months or less). Instead, payments for these short-term leases will be recognized as expenses. **AMSI** adopted Topic 842 on July 1, 2022 using the optional transition method. Under this transition method, the application date shall be the beginning of the reporting period. For leases existing at the effective date, reporting comparative periods presented in the year of adoption would continue to be in accordance with prior Topic 840, including the disclosure requirements of that Topic. Also, **AMSI** elected the package of three transition practical expedients and therefore did not reassess whether an arrangement is or contains a lease, reassess lease classification, and reassess what qualifies as an initial direct cost.

Risk management

AMSI carries commercial insurance covering casualty, theft, tort claims, and other losses. **AMSI** carries insurance coverage for death and bodily injuries caused by automobile accidents. This insurance is obtained through the Automobile Accidents Compensation Administration (ACAA), a component unit of the Commonwealth of Puerto Rico (the Commonwealth). **AMSI** obtains workers' compensation insurance coverage through the State Insurance Fund Corporation (SIFC), a component unit of the Commonwealth.

This insurance covers workers against injuries, disability, or death because of work or employment-related accidents or because of illness suffered because of their employment. **AMSI** obtains non-occupational disability, and drivers' insurance coverage for its employees through various insurance programs administered by the Puerto Rico Department of Labor and Human Resources (DOL). These insurance programs cover workers against unemployment and provide supplementary insurance coverage for temporary disability, or death because of work or employment-related accidents or because of illness suffered because of their employment. **AMSI** also obtains medical insurance coverage from two health insurance companies, one for medical and other for dental coverage, for its employees.

AMSI does not carry federal and state unemployment insurance. Instead, **AMSI** refunds the Puerto Rico DOL for unemployment compensation paid to former **AMSI** employees, mostly former TEA employees. It is impracticable to determine the amount to be refunded to the Puerto Rico DOL, accordingly, such costs are recognized when they are billed. **AMSI** has insurance coverage for its facilities, primarily, to provide protection from catastrophic losses. Also, principal officials of the entity are covered under various surety bonds.

Reclassifications

Certain amounts in the 2024 financial statements have been reclassified for comparative purposes to conform with the 2025 financial statements presentation.

2. CONCENTRATION OF CREDIT RISK

Bank accounts:

AMSI maintains its cash in various accounts in a banking institution. Accounts in this type of institutions are insured by the Federal Deposit Insurance Corporation up to **\$250,000**.

Major source of revenues:

The **AMSI** receives a substantial amount of its support from grants received under the Workforce Innovation and Opportunity Act (WIOA) administered by the US Department of Labor (DOL) and passed-through the Puerto Rico Department of Economic Development and Commerce (DEDCC). During the years ended June 30, 2025 and 2024, **AMSI** received approximately **68%** and **56%**, respectively, of total support and revenues from federal funds granted by DOL. A significant reduction or an elimination of this support may have an effect on the **AMSI's** programs and activities

3. RECEIVABLES FROM CONTRACT SERVICE FEES

Contract service fees and other receivables as of June 30, 2025 and 2024 consists of the following:

	2025	2024
Public entities:		
P.R. Department of Education	\$ -	\$ 57,640
P.R. Public Housing Administration (PRPHA)	48,218	48,189
P.R. Housing Department	155,144	238,601
P.R. Housing Finance Authority (PRHFA)	22,058	22,998
P.R. Department of Labor	-	18,628
Municipality of Arroyo	26,219	-
Municipality of Caguas ("Apoyo Criollo Educativo")	<u>24,346</u>	<u>100,626</u>
Sub total	275,986	486,682
Non public entities and other	<u>1,629,165</u>	<u>3,074,819</u>
Total	1,905,150	3,561,501
Allowance for doubtful accounts	<u>(139,934)</u>	<u>(193,261)</u>
Account receivable, net	<u>\$ 1,765,216</u>	<u>\$ 3,368,240</u>

4. FINANCIAL INSTRUMENTS

Financial instruments consist principally of cash, accounts receivable and accounts payable. As of June 30, 2025 and 2024, there are no significant differences between the carrying amount and the fair value on any of these financial instruments.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the years ended June 30, 2025 and 2024

5. CAPITAL ASSETS

Following is a summary of the activity of capital assets during the fiscal year ended June 30, 2025:

	Balance July 1, 2024	Addition	Retirements	Balance June 30, 2025
Computer and peripherals	\$ 265,760	\$ 63,688	\$ -	\$ 329,448
Leasehold improvements	55,955	19,800	-	75,755
Vehicles	94,499	45,763	-	140,262
Office equipment and furniture	1,476,075	99,583	(5,481)	1,570,177
Communication equipment	288,996	2,400	-	291,396
Software	<u>23,189</u>	<u>-</u>	<u>-</u>	<u>23,189</u>
	2,204,474	231,234	(5,481)	2,430,227
Less: accumulated depreciation	<u>(1,073,910)</u>	<u>(169,637)</u>	<u>4,393</u>	<u>(1,239,154)</u>
Capital assets, net	<u>\$ 1,130,564</u>	<u>\$ 61,597</u>	<u>\$ 1,088</u>	<u>\$ 1,191,073</u>

6. LINE OF CREDIT

Line of credit agreements

On November 3, 2022 **AMSI** entered into an agreement with a financial institution for a line of credit of **\$250,000** at **4.25%** over prime rate (prime rate **7.50%** and **8.50%** at June 30, 2025 and 2024, respectively) This line of credit is guaranteed with an agreement signed on the same date to assign **AMSI's** present and future accounts receivable on behalf of the creditor. Also, this line of credit is annually renewable and is due on July 30, 2025.

In addition, **AMSI** has a demand line of credit with a credit limit of **\$100,000** at **2.25%** over prime rate with a commercial bank in Puerto Rico. As of June 30, 2025 and 2024, the unused amount of the line of credit amounted to **\$100,000**, respectively.

7. COMPENSATED ABSENCES

Following is a summary of the activity of compensated absences during the fiscal year ended June 30, 2025:

	Balance July 1, 2024	Increase Decrease	Balance June 30, 2025
Vacation leave	\$ 403,622	\$ (151,378)	\$ 252,244
Sick leave	<u>287,495</u>	<u>(64,007)</u>	<u>223,488</u>
	<u>\$ 691,117</u>	<u>\$ 215,385</u>	<u>\$ 475,732</u>

8. REVENUES FOR CONTRACT SERVICE FEES AND COMMISSIONS

The following table shows **AMSI's** revenues for contract service fees and commissions segregated by type of customers served:

	2025	2024
Governmental	\$ 1,063,552	\$ 1,343,444
Private	<u>4,402,024</u>	<u>5,051,350</u>
	<u>\$ 5,465,576</u>	<u>\$ 6,394,794</u>

During the fiscal year, **AMSI** maintained a service agreement with a private organization, which represented the following proportion TEA's annual billing and receivable.

	2025	2024
Accounts receivable	56%	76%
Annual billing	20%	34%

9. CONTRIBUTED NONFINANCIAL ASSET

AMSI recognized contributed nonfinancial assets within revenues. The following table summarizes nonfinancial assets recognized within the statement of activities for the year ended June 30, 2025:

Description	Revenue Recognized	Utilization in Programs/ Activities	Valuation Techniques and Imputs
Office space	\$ 195,500	WIOA activities	AMSI estimated the fair value based on comparable rental space
Utilities	32,200	WIOA activities	Utilities are valued at current cost incurred by contributor
Miscellaneous	<u>39,497</u>	WIOA activities	Miscellaneous contributions are value at current cost incurred by contributor
	<u>\$ 267,197</u>		

10. RELATED PARTY TRANSACTIONS

AMSI's is governed by a Board of Chief Elected Officials composed of Mayors of the eight member municipalities and a Local Workforce Development Board (LWDB). The Municipalities may make contributions for certain origination's operational expenses and may receive employment services from AMSI. The most significant related party transactions as of June 30, 2025 and 2024, are as follows:

	2025	2024
Municipality of Caguas – municipal grant for the payment of rent	<u>\$ 100,000</u>	<u>\$ 100,000</u>
Municipality of Caguas – temporary employment service for “Apoyo Criollo Educativo” (Tutorials) program	<u>\$ 366,371</u>	<u>\$ 697,615</u>
Temporary employment services to Municipality of Caguas	<u>\$ 119,778</u>	<u>\$ 88,615</u>
Temporary employment service to Municipality of Aibonito	<u>\$ 147,291</u>	<u>\$ 96,083</u>
Temporary employment service to Municipality of Arroyo	<u>\$ 184,820</u>	<u>\$ -</u>

AMSI also has a lease agreement with the Municipality of Trujillo Alto for the rental of a municipal facility for the operation of the American Job Center (also known as One Stop Career Center) in that municipality. Annual rent expense for this facility amounted to **\$24,011** during the fiscal years ended June 30, 2025 and 2024.

11. RETIREMENT PLAN

Effective January 1, 2021, AMSI (the Plan Sponsor) established AMSI Employees Retirement Plan (the Plan), a defined and deferred contribution retirement plan covering all AMSI's employees already employed who has completed one year of service and has reached who are 21 years and older.

Pursuant to the applicable adoption agreement, participants may elect to have his/her compensation reduced by an amount up to the maximum deferral amount applicable as specified in Section 1081.01 of the Puerto Rico Internal Revenue Code of 2011, as amended. The Employer may match pre-tax contributions in amounts from two percent (2%) to eight percent (8%) of the participant's compensation. Catch-up, after-tax contributions, employer matching contributions and employee's rollover contributions were allowed as well. Participants will be immediately vested in their contributions plus actual earnings thereon. Vesting in the Plan Sponsor's matching of their accounts plus actual earnings thereon will be based on years of continuous service. However, all participants will be 100% vested attaining age 65 (normal retirement age) or after reaching the sixth year of service. Individual accounts will be maintained for each Plan's participant. Participants may direct the trustee to invest any portion of their account in the specific funds selected for investment under the Plan. Each participant's account will be credited with the participant's contribution and allocations of: (a) the Retirement Plan Sponsor's matching contribution, (b) investment earnings, (c) participant forfeitures and charged with an allocation of withdrawals.

The Local Workforce Development Board serves as the Plan's trustee and Empower Retirement is responsible for custodian and recordkeeping services. AMSI's Executive Administrator is responsible for the oversight of the Plan.

Sponsor contributions for the year ended June 30, 2025 and 2024 amounted to **\$124,704** and **\$98,840**, respectively. Also, the Plan participants were 101 and 81 for 2025 and 2024, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the years ended June 30, 2025 and 2024

12. COMMITMENT

Leases

As a result of adoption of Topic 842 (Leases) on July 1, 2022 using the optional transition method, **AMSI** recognizes right-of-use (ROU) assets and lease liabilities for their operating and finance leases. Operating leases consist of various office spaces located on the municipalities of Caguas, Trujillo Alto, Cayey, Guayama, Arroyo and Aguas Buenas. Finance leases consist of various copying machines. The effective date of all leases is July 1, 2022 except for the agreement for a copy machine which is dated October 1, 2022.

The following presents the components of our lease cost for the year ended June 30, 2025:

Lease expenses	Amount
Finance lease expenses	
Amortization of ROU assets	\$ 18,436
Interest on lease liabilities	1,412
Operating lease expense	<u>552,289</u>
Total	<u>\$ 572,137</u>

Future maturities of leases liabilities at June 30, 2025 for the following five (5) years are as follows:

June 30,	Finance	Operating
2026	\$ 18,965	\$ 661,115
2027	18,412	667,895
2028	4,603	670,295
2029	-	672,695
2030	-	517,884
Thereafter	<u>-</u>	<u>2,769,561</u>
Total undiscounted cash flows	41,980	5,959,445
Less: present value discount	<u>(1,267)</u>	<u>(1,279,128)</u>
Total lease liabilities	<u>\$ 40,713</u>	<u>\$ 4,680,317</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

For the years ended June 30, 2025 and 2024

12. COMMITMENT (CONTINUED)

In accordance with the optional transition method, for leases existing at the effective date, reporting comparative periods presented in the year of adoption would continue to be in accordance with prior Topic 840, including the disclosure requirements of that Topic. The following is a schedule, by year, of future minimum rental payments required under any operating lease that has a lease term in excess of one year at June 30, 2025 for the following five (5) years and thereafter:

Year	Central Office	Other Locations	Equipment	Total
2026	\$ 454,284	\$ 206,831	\$ 13,079	\$ 674,194
2027	454,284	213,611	13,079	680,974
2028	454,284	216,011	13,079	683,374
2029	454,284	218,411	13,079	685,774
2029	454,284	49,200	-	503,484
Thereafter	<u>2,763,561</u>	<u>-</u>	<u>-</u>	<u>2,763,561</u>
	<u>\$ 5,034,981</u>	<u>\$ 904,064</u>	<u>\$ 52,316</u>	<u>\$ 5,991,361</u>

13. CONTINGENCIES**Federal and Commonwealth Grants**

Programs supported by Federal and Commonwealth grants are subject to program compliance audits by the grantor agencies to determine compliance with requirements and conditions of such grants. If expenditures are disallowed because of a noncompliance with such requirements, funds may be required to be reimbursed to the applicable grantor agencies. Nevertheless, it is the Management's opinion that no material liabilities from disallowed costs will arise from audits previously performed or to be performed.

14. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table disclosed **AMSI's** financial assets as of June 30, 2025 and 2024, which are available within one year to meet its cash needs:

	2025	2024
Cash	\$ 1,129,977	171,725
Federal grant receivable	2,148,813	2,672,162
Contract fees and other receivable, net	<u>1,765,216</u>	<u>3,368,482</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,044,006</u>	<u>\$ 6,212,369</u>

14. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (CONTINUED)

None of the financial assets are subject to donor or other contractual restrictions, as well as designation from the Board of Chief Elected Officials or the LWDB, that make them unavailable for general expenditures within one year of the statement of financial position date. **AMSI's** has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. **AMSI** does not intend to spend anything other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation process.

As described in **Note 2**, in the event of unanticipated liquidity needs, **AMSI** could draw upon **\$100,000** of an available line of credit and up to **\$250,000** from a credit note.

15. SUBSEQUENT EVENTS

Subsequent events were evaluated through October 23, 2025, which is the date the financial statements were available to be issued. No significant events that should have been recorded or disclosed in the financial statements were noted.