



PUERTO RICO SCIENCE, TECHNOLOGY AND
RESEARCH TRUST AND ITS SUBSIDIARIES
(A Puerto Rico Not-For-Profit Organization)

Basic Consolidated Financial Statements
June 30, 2022 and 2021



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INDEPENDENT AUDITORS' REPORT

To: The Board of Trustees of
Puerto Rico Science, Technology and Research Trust

Opinion

We have audited the consolidated financial statements of Puerto Rico Science, Technology and Research Trust, a Puerto Rico not-for-profit organization, and its Subsidiaries (together the Trust), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Trust as of June 30, 2022 and 2021, and the changes in its 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 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Trust 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 Trust's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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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 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 Trust'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 Trust'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.

San Juan, Puerto Rico
October 28, 2022.



Stamp No. E513007 was affixed to
the original of this report.

**PUERTO RICO SCIENCE, TECHNOLOGY AND
RESEARCH TRUST AND ITS SUBSIDIARIES**



CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

	2022	2021
ASSETS:		
Cash	\$ 31,853,570	\$ 23,530,989
Accounts receivable, net of allowance for doubtful accounts of \$31,491 in 2022	489,616	869,527
Prepaid expenses	15,386	71,861
Due from governmental entities	1,003,365	5,428,877
Investments	4,168,344	4,273,838
Convertible promissory notes receivable, net	932,018	1,315,000
Other assets	26,261	29,483
Endowment fund	44,792,997	54,081,742
Property and equipment, net	2,888,038	1,863,868
Building, net	11,210,118	6,847,334
Land and property for research, development and infrastructure project related to science and technology	18,100,307	18,100,307
Land development costs	11,329,395	11,329,395
Construction in progress - Science City	11,159,421	11,153,287
	<u>\$ 137,968,836</u>	<u>\$ 138,895,508</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Program service payable	\$ 1,055,050	\$ 1,641,363
Accounts payable	2,862,532	2,156,775
Refundable advances	4,819,763	-
Accrued expenses	445,334	520,304
Other liabilities	180,419	154,022
	<u>9,363,098</u>	<u>4,472,464</u>
NET ASSETS:		
Without donor restrictions:		
Undesignated	60,303,822	57,337,560
Designated by the Board of Trustees for endowment	44,792,997	54,081,742
	<u>105,096,819</u>	<u>111,419,302</u>
With donor restrictions:		
Purpose restrictions	5,408,612	4,903,435
Perpetual in nature	18,100,307	18,100,307
	<u>23,508,919</u>	<u>23,003,742</u>
	<u>128,605,738</u>	<u>134,423,044</u>
	<u>\$ 137,968,836</u>	<u>\$ 138,895,508</u>

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

**PUERTO RICO SCIENCE, TECHNOLOGY AND
RESEARCH TRUST AND ITS SUBSIDIARIES**



CONSOLIDATED STATEMENTS OF ACTIVITIES
For the years ended June 30, 2022 and 2021

	2022		
	Without donor restrictions	With donor restrictions	Total
REVENUES, SUPPORT AND OTHERS:			
State grants and assessments	\$ 13,197,510	\$ -	\$ 13,197,510
Federal grants	21,240,735	-	21,240,735
Private grants and sponsorships	535,295	1,779,507	2,314,802
Donations and contributions	31,098	-	31,098
Clinical trials	95,411	-	95,411
Rental income	343,310	-	343,310
Net return (loss) on investments	(10,712,192)	136,627	(10,575,565)
Net return on endowment fund	719,535	-	719,535
Other income	238,582	-	238,582
	<u>25,689,284</u>	<u>1,916,134</u>	<u>27,605,418</u>
Net assets released from restrictions:			
Satisfaction of program restrictions	1,410,957	(1,410,957)	-
	<u>27,100,241</u>	<u>505,177</u>	<u>27,605,418</u>
OPERATING EXPENSES:			
Program and services:			
Research and data	4,389,909	-	4,389,909
Public health initiative	16,685,285	-	16,685,285
Technology transfer and commercialization	5,595,357	-	5,595,357
Science City development	583,654	-	583,654
	<u>27,254,205</u>	<u>-</u>	<u>27,254,205</u>
Supporting services:			
Management and administrative	6,168,519	-	6,168,519
	<u>33,422,724</u>	<u>-</u>	<u>33,422,724</u>
CHANGE IN NET ASSETS	<u>(6,322,483)</u>	<u>505,177</u>	<u>(5,817,306)</u>
NET ASSETS, beginning of year	<u>111,419,302</u>	<u>23,003,742</u>	<u>134,423,044</u>
NET ASSETS, end of year	<u>\$ 105,096,819</u>	<u>\$ 23,508,919</u>	<u>\$ 128,605,738</u>

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**PUERTO RICO SCIENCE, TECHNOLOGY AND
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CONSOLIDATED STATEMENTS OF ACTIVITIES
For the years ended June 30, 2022 and 2021

Continued...

	2021		
	Without donor restrictions	With donor restrictions	Total
REVENUES, SUPPORT AND OTHERS:			
State grants and assessments	\$ 10,000,000	\$ -	\$ 10,000,000
Federal grants	13,038,277	2,641,645	15,679,922
Private grants and sponsorships	70,417	1,228,991	1,299,408
Donations and contributions	39,061	-	39,061
Clinical trials	196,733	-	196,733
Rental income	348,742	-	348,742
Net return on investments	9,884,534	819,453	10,703,987
Net return on endowment fund	444,934	-	444,934
Other income	932,018	-	932,018
	<u>34,954,716</u>	<u>4,690,089</u>	<u>39,644,805</u>
Net assets released from restrictions:			
Satisfaction of program restrictions	3,445,654	(3,445,654)	-
	<u>38,400,370</u>	<u>1,244,435</u>	<u>39,644,805</u>
OPERATING EXPENSES:			
Program and services:			
Research and data	2,211,591	-	2,211,591
Public health initiative	14,115,201	-	14,115,201
Technology transfer and commercialization	4,760,460	-	4,760,460
Science City development	413,330	-	413,330
	<u>21,500,582</u>	<u>-</u>	<u>21,500,582</u>
Supporting services:			
Management and administrative	4,523,902	-	4,523,902
	<u>26,024,484</u>	<u>-</u>	<u>26,024,484</u>
	<u>12,375,886</u>	<u>1,244,435</u>	<u>13,620,321</u>
NON-OPERATING INCOME:			
Gain on extinguishment of debt	1,797,415	-	1,797,415
Donation of land	-	2,000,000	2,000,000
	<u>1,797,415</u>	<u>2,000,000</u>	<u>3,797,415</u>
CHANGE IN NET ASSETS	14,173,301	3,244,435	17,417,736
NET ASSETS , beginning of year	<u>97,246,001</u>	<u>19,759,307</u>	<u>117,005,308</u>
NET ASSETS , end of year	<u>\$ 111,419,302</u>	<u>\$ 23,003,742</u>	<u>\$ 134,423,044</u>

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

**PUERTO RICO SCIENCE, TECHNOLOGY AND
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CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

For the years ended June 30, 2022 and 2021

2022

	Program activities				Support activity	Total
	Research and data	Public health initiative	Technology transfer and commercialization	Science City development	Management and administrative	
Program support:						
Capacity building and sponsorships	\$ 95,858	\$ -	\$ 59,303	\$ -	\$ -	\$ 155,161
Research and development grants	1,900,888	10,000	-	-	-	1,910,888
Matching grants	-	-	349,998	-	-	349,998
Parallel 18 grants	-	-	1,948,719	-	-	1,948,719
Other program initiatives	202,224	9,389,016	-	-	-	9,591,240
	<u>2,198,970</u>	<u>9,399,016</u>	<u>2,358,020</u>	<u>-</u>	<u>-</u>	<u>13,956,006</u>
Personnel costs:						
Salaries and wages	1,019,307	3,225,934	1,551,567	134,920	2,106,844	8,038,572
Benefits and payroll taxes	328,176	1,282,122	492,291	60,047	852,751	3,015,387
	<u>1,347,483</u>	<u>4,508,056</u>	<u>2,043,858</u>	<u>194,967</u>	<u>2,959,595</u>	<u>11,053,959</u>
Professional services	<u>445,915</u>	<u>1,467,372</u>	<u>706,881</u>	<u>279,572</u>	<u>935,821</u>	<u>3,835,561</u>
Occupancy expenses:						
Depreciation and amortization	28,494	903,945	640	5,847	258,418	1,197,344
Rent	-	-	164,556	-	27,000	191,556
Repairs and maintenance	681	-	1,704	61,612	272,740	336,737
Security	-	-	-	-	137,299	137,299
Other	10,564	705	371	-	543,554	555,194
	<u>39,739</u>	<u>904,650</u>	<u>167,271</u>	<u>67,459</u>	<u>1,239,011</u>	<u>2,418,130</u>
Travel	18,453	127,755	34,864	12,154	24,384	217,610
Other	339,349	278,436	284,463	29,502	1,009,708	1,941,458
Total operating expenses	<u>\$ 4,389,909</u>	<u>\$ 16,685,285</u>	<u>\$ 5,595,357</u>	<u>\$ 583,654</u>	<u>\$ 6,168,519</u>	<u>\$ 33,422,724</u>

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**PUERTO RICO SCIENCE, TECHNOLOGY AND
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CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the years ended June 30, 2022 and 2021

Continued...

	2021					
	Program activities				Support activity	
	Research and data	Public health initiative	Technology transfer and commercialization	Science City development	Management and administrative	Total
Program support:						
Capacity building and sponsorships	\$ 30,232	\$ -	\$ 44,203	\$ -	\$ -	\$ 74,435
Research and development grants	391,279	35,000	100,000	-	-	526,279
Matching grants	-	-	800,000	-	-	800,000
Parallel 18 grants	-	-	1,023,167	-	-	1,023,167
Other program initiatives	182,404	6,216,039	272	5,263	-	6,403,978
	<u>603,915</u>	<u>6,251,039</u>	<u>1,967,642</u>	<u>5,263</u>	<u>-</u>	<u>8,827,859</u>
Personnel costs:						
Salaries and wages	590,567	4,130,348	1,354,342	123,727	1,565,125	7,764,109
Benefits and payroll taxes	217,263	1,485,563	430,801	48,225	617,636	2,799,488
	<u>807,830</u>	<u>5,615,911</u>	<u>1,785,143</u>	<u>171,952</u>	<u>2,182,761</u>	<u>10,563,597</u>
Professional services	<u>388,378</u>	<u>1,157,508</u>	<u>479,500</u>	<u>226,997</u>	<u>732,840</u>	<u>2,985,223</u>
Occupancy expenses:						
Depreciation and amortization	27,999	413,294	87,673	-	247,147	776,113
Rent	-	-	162,120	-	27,000	189,120
Repairs and maintenance	2,224	-	70	-	258,087	260,381
Security	-	-	-	-	100,740	100,740
Other	11,182	35	524	-	455,942	467,683
	<u>41,405</u>	<u>413,329</u>	<u>250,387</u>	<u>-</u>	<u>1,088,916</u>	<u>1,794,037</u>
Travel	207	212,695	26	2,561	15,852	231,341
Other	369,856	464,719	277,762	6,557	503,533	1,622,427
Total operating expenses	<u>\$ 2,211,591</u>	<u>\$ 14,115,201</u>	<u>\$ 4,760,460</u>	<u>\$ 413,330</u>	<u>\$ 4,523,902</u>	<u>\$ 26,024,484</u>

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

**PUERTO RICO SCIENCE, TECHNOLOGY AND
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CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (5,817,306)	\$ 17,417,736
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Bad debts expense	106,491	150,000
Gain on conversion of notes receivable	(47,012)	-
Unrealized (gain) loss on investments	51,191	(650,120)
Realized loss on investments, net	75,000	111,275
Capitalized income on Endowment fund	(719,535)	(444,934)
Unrealized (gain) loss on Endowment fund	10,738,870	(9,687,537)
Loss on sale of property and equipment	209	-
Depreciation and amortization	1,197,343	776,113
Land received as donation	-	(2,000,000)
Gain on extinguishment of debt	-	(1,797,415)
Changes in operating assets and liabilities-		
Decrease (increase) in assets:		
Accounts receivable	348,420	(166,000)
Prepaid expenses	56,475	103,902
Due from governmental entities	4,425,512	(4,299,985)
Other assets	3,222	-
Increase (decrease) in liabilities:		
Program service payable	(586,313)	6,484
Accounts payable	705,757	191,543
Refundable advances	4,819,763	-
Accrued expenses	(74,970)	76,761
Other liabilities	26,397	14,003
Net cash provided by (used in) operating activities	<u>15,309,514</u>	<u>(198,174)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Advances under convertible notes receivable	102,982	(905,000)
Proceeds from sale and redemption of investments	375,037	2,927,823
Purchase of investments	(143,722)	(427,205)
Contributions to Endowment fund	(730,590)	(8,340,202)
Purchase of property and equipment	(2,033,051)	(1,646,015)
Addition to construction in progress - building	(4,551,455)	(915,362)
Addition to construction in progress - Science City	(6,134)	(4,931)
Net cash used in investing activities	<u>(6,986,933)</u>	<u>(9,310,892)</u>
NET INCREASE (DECREASE) IN CASH	8,322,581	(9,509,066)
CASH, beginning of year	<u>23,530,989</u>	<u>33,040,055</u>
CASH, end of year	<u><u>\$ 31,853,570</u></u>	<u><u>\$ 23,530,989</u></u>

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



PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2022 and 2021

1) Organization and summary of significant accounting policies:

- A) Organization – Puerto Rico Science, Technology and Research Trust (the Trust) is a not-for-profit organization created on August 18, 2004 by Act No. 214, as amended (the Act 214), of the Legislature of the Commonwealth of Puerto Rico (the Commonwealth). The purpose of the Trust is to foster, and fund research, development and infrastructure projects related to science and technology that will promote the economic, social or educational development of the Commonwealth and to operate exclusively for charitable, educational and scientific purposes. The Act 214 also designates the Trust as a Public Health Institute, an Educational Organization and allows the Trust to act as fiscal agent to pursue certain federal funding opportunities on behalf of the Commonwealth. The Act 214 also enables the Trust to establish a research institute through which researchers from public and private research institutions might affiliate with and enables the Trust to evaluate competitive grant proposals and/or act as fiscal sponsor to pursue funding opportunities on behalf of these institutions.

The projects of the Trust are financed as follows: (i) the greater of \$7,130,000 or 35% out of the monies deposited in the Special Fund for Economic Development managed by the Puerto Rico Industrial Development Company (PRIDCO) for the fiscal year ended June 30, 2021 and thereafter, with annual increase of the greater of 3% or 35% out of the monies deposited in the Special Fund for Economic Development managed by PRIDCO, (ii) the monies of Scientific Investigation Fund for the Centenary of the University of Puerto Rico (Centenary Fund), (iii) \$5,000,000 annually from the balance of collections of federal excise taxes in accordance with Section 7652(a)(3) of the United States Internal Revenue Code 1986, as amended, and (iv) private grants and donations, other government funds, and legislative appropriations.

The Act 214, as amended on August 2017, provides that the Board of Trustees is to be composed of eleven (11) trustees, two (2) of whom shall be members *ex officio* including the Secretary of the Department of Economic Development and Commerce and other government agency representative to be appointed by the Governor of the Commonwealth; and nine (9) members from the private sector.

Since September 2016, the Trust has been awarded, as prime recipient and subrecipient, with federal funds from the US Department of Health and Human (DHHS) - Center for Disease Prevention and Control, the DHHS - National Institutes of Health, the US Department of Commerce – Economic Development Administration, the US Department of the Treasury, and the US Department of Agriculture. In addition, during the years ended June 30, 2022 and 2021, the Trust has been the primary recipient, or acted as fiscal sponsor, for the implementation of privately funded initiatives, mostly related to recovery efforts after the passing of Hurricane Maria in Puerto Rico in September 2017 and the organization's Public Health Institute initiative.

Subsidiaries – The Trust has established the following subsidiaries by virtue of Article 5(26) of Act 214, as amended, whereby the Trust may organize subsidiaries or affiliates subject to its total or partial control to carry out any assignment from the Trust's Board of Trustees for the best interest of the Trust:

- The Puerto Rico Consortium for Clinical Investigation, Inc. (PRCCI) – A not-for-profit entity organized on January 20, 2016. PRCCI began operations on April 1, 2016 and its purpose is to improve the impact, quality, and speed of clinical research activity conducted in Puerto Rico, especially in the fields of oncology, infectious diseases, neurological disorders and cardio-metabolism. To achieve its mission, PRCCI partners with clinical research sites across Puerto Rico to ensure access to a diverse patient population. PRCCI's operations are sustained through a combination of revenues obtained from clinical research sponsors, grants and contracts with state and private entities, and contributions from the Trust.



PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2022 and 2021

- PRST, Inc. (PRST) – A not-for-profit entity organized on December 28, 2016. The purpose of PRST is to act as a Qualified Promoter as defined in Section 2034.01 of the newly enacted Incentives Code of Puerto Rico. A Qualified Promoter is authorized by the Department of Economic Development and Commerce to engage in the promotion of new companies established in Puerto Rico and to obtain decrees under Act No. 20 of 2012, to establish and expand their export services.

These consolidated financial statements include the accounts of the Trust and its Subsidiaries (collectively referred as the Trust and its Subsidiaries) as of and for the years ended June 30, 2022 and 2021.

- B) Summary of significant accounting policies – The Trust and its Subsidiaries prepare its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for not-for-profit organizations. The significant accounting policies used by the Trust and its Subsidiaries are as follows:

Principles of consolidation – The accompanying consolidated financial statements include the accounts of the Trust and its Subsidiaries, as described in Note 1A. Intercompany transactions and accounts have been eliminated in consolidation.

Basis of presentation – The consolidated financial statements of the Trust and its Subsidiaries report information regarding its financial position and activities according to the following net assets classifications:

- Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These assets may be used at the discretion of the Trust and its Subsidiaries' management and the Board of Trustees.
- Net assets with donor restrictions – Net assets that are subject to stipulations imposed by donors and some grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Trust and its Subsidiaries or by passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities. However, if a restriction is fulfilled in the same period in which the contribution is received, the Trust and its Subsidiaries report the support as without donor restrictions.

As of June 30, 2022 and 2021, the Trust and its Subsidiaries' net assets with donor restrictions include the following:

Purpose restrictions:

- Federal funds that are restricted for the implementation of programmatic initiatives, and funds from private sources that are restricted for the implementation of initiatives related to recovery efforts after the passing of Hurricane Maria through Puerto Rico on September 20, 2017 and the Coronavirus Pandemic (COVID-19).

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2022 and 2021

- Monies for the Scientific Investigation Fund for the Centenary of the University of Puerto Rico. This fund was created to improve the infrastructure, activities and environment of investigative activities of the University of Puerto Rico and to facilitate the commercialization of the innovations that are developed there. Among the activities to be supported are the recruitment and retention of researchers and the promotion of technology transfer.

Perpetual in nature:

- Consist of a land, described in Note 11 that was contributed with the restriction of using it for the purpose described in Act 214, as amended, through the implementation of a Master Plan.

Accounting estimates – The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, at the date of financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allowance for doubtful accounts – The Trust and its Subsidiaries provide an allowance for doubtful accounts equal to the amount of estimated uncollectible amounts. The estimate is based on the review of the current status of donor pledges, contributions and grants.

Investments – Investments represent a Puerto Rico government bond, private equity securities and Simple Agreements for Future Equity (SAFE) investments, that are recorded at its fair value. Net investment return (loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Fair value measurements – Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The valuation techniques are based upon observable or unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the entity's market assumptions. Market or observable inputs are the preferred source of values, followed by assumptions based on hypothetical transactions in the absence of market input. These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3 – Significant inputs to the valuation model are unobservable.

The Trust and its Subsidiaries maintain policies and procedures to value financial instruments using the best and most relevant data available.

Property and equipment – Property and equipment are stated at cost, or if donated, at the fair value at date of receipt. Maintenance and repair costs that do not improve or extend the useful life of the respective assets are expensed as incurred. Costs of renewals and betterments which extend the useful life of the respective assets are capitalized.



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Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, as follows:

Description	Estimated Useful Life
Furniture and fixtures	5 years
Computer and laboratory equipment	3 to 5 years
Leasehold improvements	Lease term

At the time property and equipment is sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the books and the resulting gain or loss, if any, is credited or charged to operations.

Building – Is carried at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the useful life of 35 years. Maintenance and repair costs that do not improve or extend the useful life of the building are expensed as incurred while the costs of renewals and betterments which extend its useful life are capitalized. When the asset is sold or disposed of, the cost of the asset and the related accumulated depreciation are removed from the books and the resulting gain or loss, if any, is credited or charged to operations.

Accounting for the impairment or disposal of long-lived assets – The Trust and its Subsidiaries' long-lived assets held and used in operations are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Assets are considered to be impaired if the carrying amount of the asset exceeds the sum of the undiscounted cash flow expected to result from the use and eventual disposition of 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 its fair value. Assets to be disposed of, other than by sale, continue to be classified as held and used until they are disposed of. Assets to be disposed of by sale are classified as held for sale in the period in which certain criteria are met and reported at the lower of the carrying amount or fair value. At the time such criteria are no longer met, such assets are reclassified as assets held and used in operations.

Land development costs – Represent costs for a land site consultation approval, certification of environmental compliance, architectural design, and other costs incurred in connection with land received by the Trust and its Subsidiaries for the construction of its facilities.

Contributions and support revenue – The Trust and its Subsidiaries mainly derive its revenues from state and federal grants, contributions received from the government, corporations, sponsors and individuals. The Trust and its Subsidiaries recognize contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Grants, contribution, and conditional promises to give with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met. All revenues and contributions are considered to be available for unrestricted use, unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as donor-restricted support that increases the net assets with donor restrictions class. However, if a restriction is fulfilled in the same period in which the contribution is received, the Trust and its Subsidiaries report the support as an increase in net assets without donor restrictions. The Trust and its Subsidiaries also reports donor restricted contributions that were initially conditional as increases in net assets without donor restrictions if both the donor-imposed restriction and the condition are met in the same period. The Trust and its Subsidiaries has a similar policy for reporting gains and investment income that are limited to specific uses by donor-imposed restrictions and the restrictions on the gains and income are met in the same reporting period as the gains and income are recognized.

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A portion of the Trust and its Subsidiaries' revenue is derived from cost-reimbursable federal and state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Trust and its Subsidiaries has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the statements of financial position.

Contributed services – Contributions of services are only recognized if services received: (a) create or enhance non-financial assets or would typically need to be purchased if not provided by donation, (b) require specialized skills and are provided by individuals possessing those skills. The contribution revenue for services received is recognized at the fair value of those services. There were no contributed services during the years ended June 30, 2022 and 2021.

Functional allocation of expenses and operational expenditures – The costs of providing the Trust and its Subsidiaries' programs and other activities have been summarized on a functional basis in the accompanying consolidated statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. During the years ended June 30, 2022 and 2021, certain costs have been allocated among the following programs and support activities:

- *Research and data*: includes expenses aimed to improve, analyze and/or strengthen the local research and development (R&D) infrastructure and the breadth of science and technology activity in Puerto Rico. It also includes support activities to strengthen science, technology, engineering and mathematics (STEM). Expenses within this function include: clinical trials, grants to support laboratory infrastructure, research grants, research institute and educational organization initiatives, grants to attract or retain distinguished researchers, studies to determine R&D, innovation, knowledge economy activity in the Island; and, salaries and professional services to support this area.
- *Public health initiative*: includes expenses incurred regarding the *Puerto Rico Public Health Trust*, an initiative established by the Trust and its Subsidiaries to act as Public Health Institute (PHI). Acting as a PHI, the Trust implements programs which aim is to improve public health capacity, systems and outcomes by fostering innovation, leveraging resources and building partnerships to improve the publics' health. Expenses within this function include: integrated vector management initiatives, farmers support, health-outcome-and-measures research and studies, and salaries and professional services to support this area.
- *Technology transfer and commercialization*: includes expenses incurred in initiatives to support technology transfer and commercialization and direct investments in technology development projects which have a clear commercialization aim. Expenses within this function include: intellectual property assistance, sponsorship, grants for technology developments; investment in technology commercialization accelerators and startup incubators, salaries and professional services to support this area.
- *Science City development*: includes non-capitalizable expenditures necessary for the on-going development and construction of sites at the Science City. These expenditures include salary and professional services to support this area, planning and assessment projects, security services to enable construction work, etc.
- *Management and administrative*: includes all administrative expenses incurred to support all functional areas as described above which are not directly allocable to any of them. These expenses include administrative staff salaries, accounting fees, depreciation and amortization, utilities, etc.

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- *Fundraising*: includes expenses incurred in soliciting contributions, gifts, grants, etc. These expenses include publicizing and conducting fundraising campaigns, soliciting grants from foundations and government agencies, costs of participating in federated fundraising campaigns, preparing and distributing fundraising manuals, instructions and other materials. The Trust and its Subsidiaries did not engage in any fundraising activity during the years ended June 30, 2022 and 2021.

Certain categories of expenses are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include mainly salaries, fringe benefits and payroll taxes, which are allocated on the basis of time and effort.

Income taxes – The Trust and its Subsidiaries are exempt from Puerto Rico income taxes under the provisions of Act 214, as amended, and from federal taxes under the provisions of Section 501(c) of the Internal Revenue Code. Accordingly, no provision for income taxes has been recorded in the accompanying consolidated financial statements.

The Trust and its Subsidiaries follow the guidance for uncertainty in income taxes issued by the Financial Accounting Standards Board (FASB). Management evaluated the Trust and its Subsidiaries' tax positions and concluded that the Trust and its Subsidiaries had taken no uncertain tax positions that require adjustments or disclosure in the consolidated financial statements.

All applicable tax returns have been appropriately filed by the Trust and its Subsidiaries. The Trust and its Subsidiaries' open audit periods are fiscal years ended June 30, 2018 to 2022.

Advertising and promotion – The Trust and its Subsidiaries charge to operations advertising and promotion costs as they are incurred. During the years ended June 30, 2022 and 2021, the Trust and its Subsidiaries incurred in advertising and promotion expenses of approximately \$148,000 and \$143,000, respectively.

Accounting standards with future applicability – In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The guidance in ASU 2016-02 supersedes the leasing guidance in Topic 840, *Leases*. An entity may adopt the Topic 842 either (1) retrospectively to each prior reporting period presented in the financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. Expanded disclosures with additional qualitative and quantitative information will also be required. The FASB has also issued several updates to ASU 2016-02. The standard will be effective for annual reporting periods beginning after December 15, 2021.

In January 2020, the FASB issued ASU 2020-01, *Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*, which clarify certain interactions between the guidance to account for certain equity securities under Topic 321, the guidance to account for investments under the equity method of accounting in Topic 323, and the guidance in Topic 815, which could change how an entity accounts for an equity security under the measurement alternative or a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with Topic 825, *Financial Instruments*. These amendments improve current GAAP by reducing diversity in practice and increasing comparability of the accounting for these interactions. For non-public entities, the amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. Early adoption is permitted. The amendments in ASU 2020-01 should be applied prospectively.

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In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958) - Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The objective of the amendments in ASU 2020-07 is to increase transparency of contributed nonfinancial assets for not-for-profit entities through enhancements in presentation and disclosure requirements. Not-for-profit entities will now be required to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial contributions. Not-for-profit entities will also be required to disclose various information related to contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. The amendments in ASU 2020-07 should be applied on a retrospective basis and are effective for fiscal years beginning after June 15, 2021. Early adoption is permitted.

The Trust and its Subsidiaries are evaluating the impact of these guidance on its financial statements.

2) Concentrations of credit risks:

Financial instruments, which potentially subject the Trust and its Subsidiaries to concentration of credit risks, consist of cash deposits and accounts receivable.

The Trust and its Subsidiaries maintains its cash deposits in various financial institutions. The cash deposits, at times, may exceed the amount insured by the Federal Deposit Insurance Corporation (FDIC) of \$250,000 per financial institution or the amount protected by the Securities Investor Protection Corporation (SIPC) of \$250,000 per brokerage firm. As of June 30, 2022 and 2021, the Trust and its Subsidiaries' cash deposits exceeded the insured limits of FDIC and SIPC by approximately \$30,124,000 and \$21,919,000, respectively.

For the years ended June 30, 2022 and 2021, grants and contributions from state and federal entities represent approximately 90% and 65%, respectively, out of total revenues. The balance due from these state and federal entities represent approximately 67% and 93%, respectively, of total accounts receivable.

3) Liquidity and availability:

As of June 30, 2022 and 2021, financial assets available for general expenses, that is, without donor restriction or other limiting their use, within one year of the financial position date, comprises the following:

Description	2022	2021
Cash	\$ 31,853,570	\$ 23,530,989
Account receivable	489,616	869,527
Due from governmental entities	1,003,365	5,428,877
Investments	4,168,344	4,273,838
Endowment fund	<u>44,792,997</u>	<u>54,081,742</u>
	82,307,892	88,184,973
Less amount not available to be used within one year:		
Net assets with donor restrictions	<u>(5,408,612)</u>	<u>(4,903,435)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 76,899,280</u>	<u>\$ 83,281,538</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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4) Investments:

As of June 30, 2022 and 2021, investments consisted of the following:

Description	2022	
	Cost	Fair value
Fixed income:		
Puerto Rico government bond	\$ 2,345,299	\$ 2,082,136
Private equity securities	1,636,208	1,636,208
SAFE investments	450,000	450,000
	<u>\$ 4,431,507</u>	<u>\$ 4,168,344</u>

Description	2021	
	Cost	Fair value
Fixed income:		
Puerto Rico government bond	\$ 2,651,613	\$ 2,439,642
Private equity securities	1,299,196	1,299,196
SAFE investments	535,000	535,000
	<u>\$ 4,485,809</u>	<u>\$ 4,273,838</u>

5) Fair value measurement:

For certain of the Trust and its Subsidiaries' financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities, the carrying amounts approximate fair market value due to their short-term maturities.

Below is a description of the methodology used for instruments recognized at fair value, including the classification of such transactions in accordance with the valuation hierarchy.

Puerto Rico government bond – The fair value of this bond is obtained from third party pricing service providers that use a pricing methodology based on an active exchange market and quoted market prices for similar securities. This bond is classified as Level 2.

Private equity securities and SAFE investments – The objective of these investments is to achieve current income by providing debt and equity financing alternatives to targeted privately-held companies that are mostly organized or engaged in trade or business in Puerto Rico. These investments are classified in Level 3 since its market value was determined based on unobservable inputs that are significant to the market value measurement.



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As of June 30, 2022, and 2021, the Trust and its Subsidiaries' investments are classified as follows:

Description	2022			Total
	Level 1	Level 2	Level 3	
Fixed income:				
Puerto Rico government bond	\$ -	\$ 2,082,136	\$ -	\$ 2,082,136
Private equity securities	-	-	1,636,208	1,636,208
SAFE investments	-	-	450,000	450,000
	<u>\$ -</u>	<u>\$ 2,082,136</u>	<u>\$ 2,086,208</u>	<u>\$ 4,168,344</u>

Description	2021			Total
	Level 1	Level 2	Level 3	
Fixed income:				
Puerto Rico government bond	\$ -	\$ 2,439,642	\$ -	\$ 2,439,642
Private equity securities	-	-	1,299,196	1,299,196
SAFE investments	-	-	535,000	535,000
	<u>\$ -</u>	<u>\$ 2,439,642</u>	<u>\$ 1,834,196</u>	<u>\$ 4,273,838</u>

The change in carrying values associated with investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3), are as follows:

Description	2022		Total
	Private equity securities	SAFE investments	
Balance at July 1, 2021	\$ 1,299,196	\$ 535,000	\$ 1,834,196
Purchases	75,000	-	75,000
Conversion of SAFE investments to private equity securities	85,000	(85,000)	-
Conversion of note receivable to private equity securities	252,012	-	252,012
Realized losses	(75,000)	-	(75,000)
Balance at June 30, 2022	<u>\$ 1,636,208</u>	<u>\$ 450,000</u>	<u>\$ 2,086,208</u>



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Description	2021		
	Private equity securities	SAFE investments	Total
Balance at July 1, 2020	\$ 1,174,196	\$ 340,000	\$ 1,514,196
Purchases	125,000	270,000	395,000
Realized losses	-	(75,000)	(75,000)
Balance at June 30, 2021	<u>\$ 1,299,196</u>	<u>\$ 535,000</u>	<u>\$ 1,834,196</u>

The table below presents qualitative information for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of June 30, 2022 and 2021:

Description	Valuation Technique	Unobservable Input
Private equity securities	Acquisition cost	None
SAFE investments	Acquisition cost	None

6) Convertible promissory notes receivable:

As of June 30, 2022 and 2021, the Trust is the holder of the following convertible promissory notes:

Description	2022	2021
5% interest bearing promissory notes, convertible to shares of common stock of the issuers. The notes were due in August 2022. During the year ended June 30, 2022, \$80,000 were converted and the remaining notes are currently in the process of either conversion or payment.	\$ 547,689	\$ 780,000
2% interest bearing promissory note, convertible to shares of common stock of the issuer. The note was due in April 2021 and a repayment agreement is in progress.	74,329	75,000
7% interest bearing promissory note, convertible to shares of common stock of the issuer. The note was converted during the year ended June 30, 2022.	-	25,000
2% interest bearing promissory note, convertible to shares of common stock of the issuer. The note was converted during the year ended June 30, 2022.	-	100,000
6% interest bearing promissory note, convertible to shares of common stock of the issuer. The note was due in November 2022 but was written off during the year ended June 30, 2022.	-	75,000

Continues . . .



**PUERTO RICO SCIENCE, TECHNOLOGY AND
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Description	2022	2021
Continued . . .		
3% interest bearing promissory note, convertible to shares of common stock of the issuer. The note was originally due in January 2020 and was extended to December 2022.	75,000	75,000
7% interest bearing promissory note, convertible to shares of common stock of the issuer. The note was originally due in April 2022 and was extended to December 2022.	75,000	75,000
3% interest bearing promissory note, convertible to shares of common stock of the issuer. During the year ended June 30, 2022, the note was amended to change the interest rate to 10% and extend the due date to August 2022. A repayment agreement is currently in progress.	50,000	50,000
5% interest bearing promissory note, convertible to shares of common stock of the issuer. The note was due in June 2020 and was written off during the year ended June 30, 2022.	-	25,000
Promissory note convertible to shares of common stock of the issuer. The note bears interest at 8% during the first year and at 12.5% thereafter, until maturity in July 2022. The note was extended to January 2023.	110,000	110,000
5% interest bearing promissory note, convertible to shares of common stock of the issuer. The note was due in January 2021 and a repayment agreement is in progress.	75,000	75,000
	1,007,018	1,465,000
Less: Allowance for doubtful accounts	(75,000)	(150,000)
	\$ 932,018	\$ 1,315,000

The notes are converted upon the occurrence of certain events, including the issuer's failure to pay in full the principal and accrued interest upon its maturity or a change of control transaction.

7) Endowment fund:

During the year ended June 30, 2020, the Trust and its Subsidiaries established an investment fund that has a perpetual investment horizon and is tax exempt. Its main purpose is to provide for long-term sustainable growth, while addressing any current operational expenses and those public financial responsibilities established by applicable law, rules and regulations.

The endowment fund includes funds designated by the Board of Trustees to function as endowments, including reserves created by the Trust and its Subsidiaries to assist in assuring its sustainability and its projects into perpetuity. The endowment fund might be nurtured as well of donations from individuals, private corporations and the U.S. government. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.



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The Trust and its Subsidiaries have adopted an investment policy for endowment assets, as approved by the Board of Trustees, that attempts to provide a predictable stream of funding while seeking to maintain their purchasing power. Under this policy, total investments' return should exceed the rate of inflation, as measured by the Consumer Price Index plus 3%, net of fees, expenses and taxes. This objective should be achieved in such a manner that the fund is protected from unwarranted market risk. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Trust and its Subsidiaries rely on a total return strategy in which investments' return is achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Trust and its Subsidiaries targets a diversified asset allocation and provides its managers appropriate guidelines to achieve its long-term objective within prudent risk constraints. The preferred asset mix, expressed in lower-upper limits, is: 10%-70% global equities, 10%-40% global fixed income, 0%-25% alternative investments and 0%-5% cash and equivalents.

As of June 30, 2022 and 2021, the endowment fund is presented in the net assets without donor restrictions as designated by the Board of Trustees. Changes in the endowment fund for the years ended June 30, 2022 and 2021, consisted of the following:

Description	2022	2021
Endowment fund at beginning of year	\$ 54,081,742	\$ 35,609,069
Investment return (loss):		
Investment income, net	719,535	444,934
Net appreciation (decrease)	(10,738,870)	9,687,537
Total investment return (loss)	(10,019,335)	10,132,471
Contributions	730,590	8,340,202
Endowment fund at end of year	\$ 44,792,997	\$ 54,081,742

8) Property and equipment:

As of June 30, 2022 and 2021, property and equipment consisted of the following:

Description	Cost	June 30, 2022 Accumulated depreciation and amortization	Book value
Furniture and fixtures	\$ 195,979	\$ 119,530	\$ 76,449
Computer and equipment	4,235,162	1,478,928	2,756,234
Leasehold improvements	829,068	796,054	33,014
Vehicle	39,425	17,084	22,341
	<u>\$ 5,299,634</u>	<u>\$ 2,411,596</u>	<u>\$ 2,888,038</u>



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Description	Cost	June 30, 2021	
		Accumulated depreciation and amortization	Book value
Furniture and fixtures	\$ 123,050	\$ 105,115	\$ 17,935
Computer and laboratory equipment	2,282,560	617,554	1,665,006
Leasehold improvements	829,068	678,367	150,701
Vehicle	39,425	9,199	30,226
	<u>\$ 3,274,103</u>	<u>\$ 1,410,235</u>	<u>\$ 1,863,868</u>

9) Building:

As of June 30, 2022 and 2021, building consisted of the following:

Description	2022	2021
<i>Innovation Center Building</i> - A three-story building that houses the Trust's headquarters and provides space for both, the incubation of local hi-tech startups and strategic service providers, creating a synergistic effect to accelerate the commercialization of technologies.	\$ 3,114,055	\$ 3,114,055
<i>Puerto Rico Environmental Quality Board's Laboratory</i> - Building that houses the laboratory facilities of the Puerto Rico Environmental Quality Board and the laboratory facilities of the Puerto Rico Vector Control Unit.	<u>3,546,932</u>	<u>3,546,932</u>
	6,660,987	6,660,987
Less: Accumulated depreciation	<u>(1,166,539)</u>	<u>(977,868)</u>
	5,494,448	5,683,119
Construction in progress	<u>5,715,670</u>	<u>1,164,215</u>
	<u>\$ 11,210,118</u>	<u>\$ 6,847,334</u>

As of June 30, 2022 and 2021, the construction in progress is related to the construction of the Forward Center Building, a 30,000 square feet, three-story building to be located at the Science City. This construction is partially funded by the US Department of Commerce - Economic Development Administration.

10) Land and property for research, development and infrastructure project related to science and technology:

On October 22, 2007, the Trust received prime real estate in the metropolitan area of San Juan, which includes the former Río Piedras Correctional Facilities (Oso Blanco State Penitentiary). The land and property were valued based on a market appraisal opinion report, dated October 20, 2008.

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As established by Act 214, as amended, the Trust and its Subsidiaries plan to develop the land of Oso Blanco State Penitentiary site into a research park, which combines residential, retail, educational, and civic facilities with laboratory and research and development facilities with the purpose of facilitating the development of infrastructure favorable to the research and development of science and technology. Costs related to the design, development and improvements of the campus are capitalized as incurred.

In July 2020, the Trust and its Subsidiaries received 8.3 acres of land from the Puerto Rico Department of Transportation and Public Works (DTPW). The Trust and its Subsidiaries donated this land on fiscal year ended June 30, 2017 to DTPW to enable the agency to seek financing from the Federal Highway Administration (FHA) for the construction of the Science City Boulevard. Since the financing from the FHA did not materialize, the land was transferred back to the Trust and its Subsidiaries. The donated acres of land were recognized at the fair value at the date of receipt.

The land was restricted by donor for research, development and infrastructure project related to science and technology.

11) Construction in progress - Science City:

The Trust and its Subsidiaries' main infrastructure-related initiative is the Science City, located in a 69-acre mixed-use land located in San Juan, in a dense concentration of hospitals, universities, and other science and technology resources. The aim for the development of the Science City is to strengthen Puerto Rico's research infrastructure and enable its use as a tool to develop, attract, and retain a vibrant research ecosystem.

Since the year ended June 30, 2016, the Trust and its Subsidiaries are executing a plan of action with the ultimate goal of facilitating such an innovation ecosystem, including the identification of a Master Development Partner (MDP) to lease, finance, develop, and manage the Science City project. To facilitate the identification and attraction of a MDP, the Trust and its Subsidiaries have invested approximately \$11,150,000 in critical infrastructure comprised of the construction of the Laboratory Road and major improvements for the interconnection of Highway 21 and 28 to the Science City. These projects will be further developed and finalized after the identification of the MDP.

12) Gain on extinguishment of debt:

On May 1, 2020, the Trust and its Subsidiaries received a loan of approximately \$1,786,000, under the Payroll Protection Program, created by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The money received from the loan was used for certain eligible expenses such as payroll costs, group health care benefits, rent, and utilities, among others. During the year ended June 30, 2021, the Trust and its Subsidiaries complied with the restrictions and conditions included in the CARES Act and the loan balance of \$1,797,415, including interest accrued at 1%, was fully forgiven and presented as non-operating income in the consolidated statements of activities.

13) Rental income:

The Trust and its Subsidiaries lease building spaces under operating lease agreements. The lease agreements are for periods of one year with a renewal option for an additional year on month to month basis.

In addition, as of June 30, 2022 and 2021, the Trust and its Subsidiaries leases a facility under a lease agreement that expired on June 30, 2021. After the expiration date, the lease is on a month to month basis. The monthly rental payments approximate \$18,000.



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For the years ended June 30, 2022 and 2021, revenues on rental agreements amounted to approximately \$343,000 and \$349,000, respectively. Future minimum collections related to the lease agreements after June 30, 2022, are approximately \$9,500.

14) Operating lease agreements:

The Trust and its Subsidiaries entered into a lease agreement for the use of the facilities. The agreement calls for escalating monthly rental payments ranging from \$13,510 to \$14,321 through June 2025. Total rent expense related to this agreement for the years ended June 30, 2022 and 2021, amounted to approximately \$165,000 and \$162,000, respectively.

In addition, the Trust and its Subsidiaries entered into a lease agreement for the use of a two-story office building and one annex in Ponce, Puerto Rico. The agreement calls for monthly rental payments of \$7,500 through September 2021. After the expiration date, the lease is on a month to month basis. Total rent expense related to this agreement for each of the years ended June 30, 2022 and 2021, amounted to approximately \$90,000.

Future minimum lease payments subsequent to June 30, 2022, are as follows:

Year ending June 30,	Amount
2023	\$ 250,758
2024	168,480
2025	85,032
Total future minimum lease payments	<u>\$ 504,270</u>

15) Retirement plan:

The Trust and its Subsidiaries have established a defined contribution retirement plan (the Plan) that covers all full-time employees who have reached 21 years of age, without requiring eligibility service requirements. Under the Plan, participants may contribute an amount not exceeding \$15,000 per year. The Trust and its Subsidiaries is not required to make matching contributions but reserves its right to start making matching contributions based on a maximum of 3% out of each dollar contributed by the employee, up to 10% of compensation. The Trust and its Subsidiaries may contribute a discretionary amount in addition to the matching contribution for all eligible participants. Amounts contributed by the Trust and its Subsidiaries are 100% vested after an employee completes one (1) year of service. Total contributions made by the Trust and its Subsidiaries during the years ended June 30, 2022 and 2021, amounted to approximately \$197,000 and \$151,000, respectively.

16) Commitments:

The Trust has entered in certain commitments to invest in various private equity funds. These commitments and the investment as of June 30, 2022, are as follows:

Entity	Commitment	Investment
Parliament Credit Opportunities Fund, LLC	\$ 500,000	\$ 350,000
Semillero Investment Fund I, LLC	500,000	495,081
Semillero Investment Fund II, LLC	1,000,000	296,266
Bluhaus Small Business Fund, L.P.	250,000	150,000
	<u>\$ 2,250,000</u>	<u>\$ 1,291,347</u>

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST AND ITS SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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17) Risk and uncertainty:

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including Puerto Rico. While it is unknown how long these conditions will last and what the complete financial effect will be to the entity, to date, the Trust and its Subsidiaries have not experienced material impact on financial results.

18) Supplemental disclosures for the statements of cash flows:

A) Non-cash from investing and financing transactions – During the years ended June 30, 2022 and 2021, non-cash investing and financing transactions were as follows:

Description	2022	2021
Extinguishment of debt	\$ -	\$ 1,797,415
Land received as donation	\$ -	\$ 2,000,000
Unpaid equipment	\$ -	\$ 129,000
SAFE investments converted in private equity securities	\$ 85,000	\$ -
Note receivable converted into investment in private equity securities	\$ 205,000	\$ -

B) Other cash flows information – During the years ended June 30, 2022 and 2021, the Trust and its Subsidiaries made no interest payments.

19) Reclassifications:

Certain reclassifications were made to the June 30, 2021 financial statements to conform them to the June 30, 2022 financial statement presentation. The reclassifications had no effect on the reported change in net assets for the year ended June 30, 2021.

20) Subsequent events:

In July 2022, the US Department of Health and Human Services (US DHHS)'s Centers for Disease Control and Prevention awarded a \$5,754,654 grant to implement a project titled *Enhancing Global Health Security: Strengthening Public Health Surveillance Systems and Preparedness Globally*. The program expires in September 2023.

In August 2022, the US DHHS's Centers for Disease Control and Prevention awarded a \$1,704,710 grant to implement a project titled *Enhancing Regional Capacity for Vector Surveillance and Control in the US territories in the Caribbean*. The program expires in September 2023.

Subsequent events were evaluated through October 28, 2022, the date on which the consolidated financial statements were available to be issued.