



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

Basic Consolidated Financial Statements
June 30, 2023



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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, which comprise the consolidated statement of financial position as of June 30, 2023, the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Puerto Rico Science, Technology and Research Trust and its Subsidiaries as of June 30, 2023, and the changes in its net assets and its cash flows for the year 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 Puerto Rico Science, Technology and Research Trust and its Subsidiaries 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.

Emphasis of Matters

As discussed in Note 1 to the consolidated financial statements, on July 1, 2022, Puerto Rico Science, Technology and Research Trust and its Subsidiaries adopted the ASC Topic 842, *Leases*, issued by the Financial Accounting Standards Board. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the consolidated financial statements, the net assets as of June 30, 2022 have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Puerto Rico Science, Technology and Research Trust and its Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 Puerto Rico Science, Technology and Research Trust and its Subsidiaries' 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Puerto Rico Science, Technology and Research Trust and its Subsidiaries' 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 31, 2023.

Stamp No. E554046 was affixed to
the original of this report.

A handwritten signature in blue ink, appearing to read "RSM Puerto Rico", is written over the text of the stamp number.

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



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2023

ASSETS:

Cash	\$ 21,109,811
Accounts receivable, net of allowance for doubtful accounts of \$58,337	488,982
Prepaid expenses	45,037
Due from governmental entities	1,649,372
Investments	4,176,405
Notes receivable, net	419,415
Other assets	27,261
Endowment fund	47,201,182
Property and equipment, net	2,278,702
Right-of-use asset for operating lease, net of accumulated amortization of \$34,198	215,939
Building, net	14,517,984
Land and property for research, development and infrastructure project related to science and technology	18,100,307
Land development costs	11,794,958
Construction in progress - Science City	11,148,357
	<u>\$ 133,173,712</u>

LIABILITIES AND NET ASSETS

LIABILITIES:

Program service payable	\$ 1,280,346
Accounts payable	2,385,558
Refundable advances	2,753,965
Accrued expenses	479,296
Operating lease liability	216,086
Other liabilities	178,616
	<u>7,293,867</u>

NET ASSETS:

Without donor restrictions:	
Undesignated	49,601,974
Designated by the Board of Trustees for endowment	47,201,182
	<u>96,803,156</u>
With donor restrictions:	
Purpose restrictions	10,976,382
Perpetual in nature	18,100,307
	<u>29,076,689</u>
	<u>125,879,845</u>
	<u>\$ 133,173,712</u>

The accompanying notes are an integral part of this consolidated statement of financial position.

**PUERTO RICO SCIENCE, TECHNOLOGY AND
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CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2023

	Without donor restrictions	With donor restrictions	Total
REVENUES, SUPPORT AND OTHERS:			
State grants and assessments	\$ 7,285,080	\$ -	\$ 7,285,080
Federal grants	10,596,966	1,532,478	12,129,444
Private grants and sponsorships	768,048	1,368,831	2,136,879
Donations and contributions	26,684	-	26,684
Clinical trials	91,014	-	91,014
Rental income	282,279	-	282,279
Interest Income	493,695	-	493,695
Net return on investments	170,610	80,719	251,329
Net return on endowment fund	2,099,356	-	2,099,356
Other income	249,179	-	249,179
	<u>22,062,911</u>	<u>2,982,028</u>	<u>25,044,939</u>
Net assets released from restrictions:			
Satisfaction of program restrictions	1,633,780	(1,633,780)	-
	<u>23,696,691</u>	<u>1,348,248</u>	<u>25,044,939</u>
OPERATING EXPENSES:			
Program and services:			
Research and data	4,131,052	-	4,131,052
Public health initiative	11,005,778	-	11,005,778
Technology transfer and commercialization	6,684,998	-	6,684,998
Science City development	108,396	-	108,396
	<u>21,930,224</u>	<u>-</u>	<u>21,930,224</u>
Supporting services:			
Management and administrative	5,840,608	-	5,840,608
	<u>27,770,832</u>	<u>-</u>	<u>27,770,832</u>
CHANGE IN NET ASSETS	<u>(4,074,141)</u>	<u>1,348,248</u>	<u>(2,725,893)</u>
NET ASSETS , beginning of year (as restated)	<u>100,877,297</u>	<u>27,728,441</u>	<u>128,605,738</u>
NET ASSETS , end of year	<u>\$ 96,803,156</u>	<u>\$ 29,076,689</u>	<u>\$ 125,879,845</u>

The accompanying notes are an integral part of this consolidated statement.

**PUERTO RICO SCIENCE, TECHNOLOGY AND
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CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2023

	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	\$ 184,982	\$ -	\$ 62,650	\$ -	\$ -	\$ 247,632
Research and development grants	864,059	-	324,188	-	-	1,188,247
Matching grants	-	-	412,500	-	-	412,500
Parallel 18 grants	-	-	2,204,787	-	-	2,204,787
Other program initiatives	387,913	3,561,627	780	-	-	3,950,320
	<u>1,436,954</u>	<u>3,561,627</u>	<u>3,004,905</u>	<u>-</u>	<u>-</u>	<u>8,003,486</u>
Personnel costs:						
Salaries and wages	1,277,888	2,965,572	1,645,678	17,538	2,197,879	8,104,555
Benefits and payroll taxes	497,560	1,312,069	573,674	3,965	1,029,077	3,416,345
	<u>1,775,448</u>	<u>4,277,641</u>	<u>2,219,352</u>	<u>21,503</u>	<u>3,226,956</u>	<u>11,520,900</u>
Professional services	<u>429,537</u>	<u>1,194,968</u>	<u>779,238</u>	<u>66,264</u>	<u>685,577</u>	<u>3,155,584</u>
Occupancy expenses:						
Depreciation and amortization	27,446	1,331,921	3,705	1,816	266,338	1,631,226
Rent	-	1,000	212,090	-	74,446	287,536
Repairs and maintenance	1,123	-	1,165	16,356	286,977	305,621
Security	-	-	-	-	185,313	185,313
Other	3,984	28	14,172	-	529,298	547,482
	<u>32,553</u>	<u>1,332,949</u>	<u>231,132</u>	<u>18,172</u>	<u>1,342,372</u>	<u>2,957,178</u>
Travel	54,318	102,363	115,233	-	63,813	335,727
Other	402,242	536,230	335,138	2,457	521,890	1,797,957
Total operating expenses	<u>\$ 4,131,052</u>	<u>\$ 11,005,778</u>	<u>\$ 6,684,998</u>	<u>\$ 108,396</u>	<u>\$ 5,840,608</u>	<u>\$ 27,770,832</u>

The accompanying notes are an integral part of this consolidated statement.

**PUERTO RICO SCIENCE, TECHNOLOGY AND
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CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended June 30, 2023

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (2,725,893)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Bad debts expense	295,399
Unrealized loss on investments	88,476
Realized loss on investments, net	187,401
Capitalized income on Endowment fund	(2,099,356)
Unrealized gain on Endowment fund	(139,021)
Depreciation and amortization	1,631,226
Amortization of right-of-use asset for operating lease	34,198
Changes in operating assets and liabilities-	
Increase in assets:	
Accounts receivable	(26,212)
Prepaid expenses	(29,651)
Due from governmental entities	(646,007)
Other assets	(1,000)
Increase (decrease) in liabilities:	
Program service payable	225,296
Accounts payable	(1,072,015)
Refundable advances	(2,065,798)
Accrued expenses	33,962
Operating lease liability	(34,051)
Other liabilities	(1,803)
Net cash used in operating activities	<u>(6,344,849)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Advances under notes receivable	134,050
Proceeds from sale and redemption of investments	301,062
Purchase of investments	(475,000)
Contributions to Endowment fund	(169,808)
Purchase of property and equipment	(831,238)
Additions to building	(3,129,880)
Additions to land development	(228,096)
Net cash used in investing activities	<u>(4,398,910)</u>

NET DECREASE IN CASH (10,743,759)

CASH, beginning of year 31,853,570

CASH, end of year \$ 21,109,811

The accompanying notes are an integral part of this consolidated statement.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2023

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 \$6,340,000 or 31% out of the monies deposited in the Special Fund for Economic Development (FEDE for its Spanish acronym) managed by the Puerto Rico Industrial Development Company (PRIDCO) for the fiscal years ended June 30, 2017 through 2019, (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 of 1986, as amended, and (iv) private grants and donations, other government funds, and legislative appropriations. Effective for the fiscal year ended June 30, 2020 and thereafter, FEDE was superseded by the Economic Incentive Fund (EIF), created under Act 60 titled “*Código de Incentivos de Puerto Rico*”. Section 5010.01 of Act 60 bestows upon the Secretary of the Department of Economic Development and Commerce (DEDC) total discretion upon the use of the EIF.

The Act 214, as amended in 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 year ended June 30, 2023, 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, 2023

- 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 year ended June 30, 2023.

- 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 Trust and its Subsidiaries. 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, 2023, 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).
- 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.



PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST AND ITS SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023**

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 certain 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. 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

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2023

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 report 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.

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 have incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statements of financial position.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2023

In-Kind contributions – Contributed nonfinancial assets include donated professional services, donated equipment, and other in-kind contributions which are recorded at the respective fair values of the goods or services received. There were no in-kind contributions during the year ended June 30, 2023.

Leases – In February 2016, the FASB issued new guidance related to accounting for leases, ASC Topic 842, which requires lessees to record assets and liabilities reflecting the leased assets and lease obligations, respectively, while following the dual model for recognition in statements of income requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). The Trust and its Subsidiaries adopted the new standard effective July 1, 2022, as allowed, using the modified retrospective approach.

The Trust and its Subsidiaries elected the practical expedients of not reassessing whether any expired or existing contracts are or contain leases, not reassessing the lease classification for any expired or existing leases and not reassessing any initial direct costs for existing leases. In addition, the Trust and its Subsidiaries elected the practical expedient to not separate lease and non-lease components for all of our asset classes. A permitted accounting policy election was made to not apply the new guidance to leases with an initial term of 12 months or less. Those lease payments are recognized in the statement of operations and retained earnings on a straight-line basis over the lease term. As of July 1, 2022, the adoption of the standard did not result in the recognition of a lease liability or a right-of-use, or ROU, asset. A lease entered during the year ended June 30, 2023, however, was recognized under the new accounting standard resulting in the recognition of a ROU asset and a lease liability for \$250,137 at the inception of the lease. The standard does not materially affect the results of operations, cash flows and liquidity. See Note 14 for further information.

In addition, under Topic 842, lessors will only capitalize incremental direct leasing costs. As a result, starting July 1, 2022, the Company no longer capitalizes non-incremental direct costs. These costs are expensed as incurred and are included within general and administrative expenses on the statement of operations.

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 year ended June 30, 2023, 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 public's 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.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2023

- *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.
- *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 year ended June 30, 2023.

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, 2019 to 2023.

Advertising and promotion – The Trust and its Subsidiaries charge to operations advertising and promotion costs as they are incurred. During the year ended June 30, 2023, the Trust and its Subsidiaries incurred in advertising and promotion expenses of approximately \$181,000.

2) Correction of prior year net assets classification:

During the year ended June 30, 2023, the Trust and its Subsidiaries corrected the classification of the beginning net assets classification in order to properly present the funds received from the US Department of Commerce - Economic Development Administration (EDA) grant as net assets with donor restriction.

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According to the grant, the funds are to be used for the construction of a building to provide space to high-technology ventures to conduct research and development and manufacturing activity for a period of 20 years from the date of its completion. Accordingly, the net assets classes as of June 30, 2022, are presented as restated in the accompanying consolidated statement of activities.

The effect of the restatement on the net assets classification as of June 30, 2022, is as follows:

Description	Net assets without donor restrictions	Net assets with donor restrictions
As previously reported	\$ 105,096,819	\$ 23,508,919
Funds received with purpose restrictions	(4,219,522)	4,219,522
	<u>\$ 100,877,297</u>	<u>\$ 27,728,441</u>

3) 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, 2023, the Trust and its Subsidiaries' cash deposits exceeded the insured limits of FDIC and SIPC by approximately \$19,407,000.

For the year ended June 30, 2023, grants and contributions from state and federal entities represent approximately 78% out of total revenues. The balance due from these state and federal entities represent approximately 75% of total accounts receivable.

4) Liquidity and availability:

As of June 30, 2023, 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	Amount
Cash	\$ 21,109,811
Accounts receivable	488,982
Due from governmental entities	1,649,372
Investments	4,176,405
Endowment fund	<u>47,201,182</u>
	74,625,752
Less amount not available to be used within one year:	
Net assets with donor restrictions	<u>(5,224,382)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 69,401,370</u>

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5) Investments:

As of June 30, 2023, investments consisted of the following:

Description	Cost	Fair value
Fixed income:		
Puerto Rico government bond	\$ 2,044,237	\$ 1,692,598
Private equity securities	1,783,807	1,783,807
SAFE investments	700,000	700,000
	<u>\$ 4,528,044</u>	<u>\$ 4,176,405</u>

6) 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.

As of June 30, 2023, the Trust and its Subsidiaries' investments are classified as follows:

Description	Level 1	Level 2	Level 3	Total
Fixed income:				
Puerto Rico government bond	\$ -	\$ 1,692,598	\$ -	\$ 1,692,598
Private equity securities	-	-	1,783,807	1,783,807
SAFE investments	-	-	700,000	700,000
	<u>\$ -</u>	<u>\$ 1,692,598</u>	<u>\$ 2,483,807</u>	<u>\$ 4,176,405</u>

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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	Private equity securities	SAFE investments	Total
Balance at July 1, 2022	\$ 1,636,208	\$ 450,000	\$ 2,086,208
Purchases	175,000	300,000	475,000
Conversion of SAFE investments to private equity securities	50,000	(50,000)	-
Conversion of note receivable to private equity securities	110,000	-	110,000
Realized losses	(187,401)	-	(187,401)
Balance at June 30, 2023	<u>\$ 1,783,807</u>	<u>\$ 700,000</u>	<u>\$ 2,483,807</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, 2023:

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

7) Notes receivable:

As of June 30, 2023, the Trust is the holder of the following promissory notes:

Description	Amount
5% interest bearing promissory note, due in May 30, 2024.	\$ 25,000
5% interest bearing promissory notes, convertible to shares of common stock of the issuers. The notes are due in December 2023.	125,000
5% interest bearing promissory notes, convertible to shares of common stock of the issuers. The notes were due in August 2022. The notes are currently in the process of either conversion or payment.	175,000
5.25% interest bearing promissory note, due on June 30, 2024.	74,329
5% interest bearing promissory note, due on July 5, 2023.	6,000
5% interest bearing promissory note, due on June 30, 2023.	14,086
5% interest bearing promissory note, convertible to shares of common stock of the issuer. The note is due in May 2024.	25,000

Continues...



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Description	Amount
Continued...	
3% interest bearing promissory note, convertible to shares of common stock of the issuer. The note is due in December 2023.	75,000
7% interest bearing promissory note, convertible to shares of common stock of the issuer. The note is due in December 2023.	75,000
10% interest bearing promissory note, convertible to shares of common stock of the issuer. The note was due in August 2022. A repayment agreement is currently in progress.	50,000
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
	<u>719,415</u>
Less: Allowance for doubtful accounts	<u>(300,000)</u>
	<u>\$ 419,415</u>

8) 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.

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.

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As of June 30, 2023, 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 year ended June 30, 2023, consisted of the following:

Description	Amount
Endowment fund at beginning of year	\$ 44,792,997
Investment return:	
Investment income, net	2,099,356
Net appreciation	139,021
Total investment return	2,238,377
Contributions	169,808
Endowment fund at end of year	<u>\$ 47,201,182</u>

9) Property and equipment:

As of June 30, 2023, property and equipment consisted of the following:

Description	Cost	Accumulated depreciation and amortization	Book value
Furniture and fixtures	\$ 346,281	\$ 159,092	\$ 187,189
Computer and equipment	4,896,498	2,839,156	2,057,342
Leasehold improvements	829,068	826,013	3,055
Vehicle	59,025	27,909	31,116
	<u>\$ 6,130,872</u>	<u>\$ 3,852,170</u>	<u>\$ 2,278,702</u>

10) Building:

As of June 30, 2023, building consisted of the following:

Description	Amount
<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.	\$ 4,632,321
<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.	3,558,446
<i>Forward Center Building</i> - A three-story building partially funded by EDA grant. In connection with the EDA grant imposed restrictions, the property shall only be used to provide space to high-technology ventures to conduct research and development and manufacturing activity for a period of 20 years from the date of its completion.	7,684,408
	15,875,175
Less: Accumulated depreciation	<u>(1,357,191)</u>
	<u>\$ 14,517,984</u>



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11) 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.

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. As of June 30, 2023, the land was restricted by donor for research, development and infrastructure project related to science and technology.

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

12) 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.

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 a month-to-month basis.

In addition, as of June 30, 2023, the Trust and its Subsidiaries lease a facility for two (2) years expiring during the year ending June 30, 2025. The monthly rental payments are approximately \$21,000.

As of June 30, 2023, future minimum lease payments to be received from these agreements during the remaining non-cancellable term of the lease is as follows:

Year ending June 30,	Amount
2024	\$ 260,100
2025	252,000
	<u>\$ 512,100</u>

For the years ended June 30, 2023, revenues on rental agreements amounted to approximately \$282,000.

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14) Leases:

The Trust and its Subsidiaries lease an office space located in Ponce, Puerto Rico, under an operating lease agreement expiring on December 31, 2025. The remaining term of the agreement calls for monthly rental payments of \$7,500.

For the year ended June 30, 2023, the component of the lease cost is as follows:

Description	Financial Statement Classification	Amount
Operating lease cost	Program and services- Public health initiative	\$ 37,648

The weighted average remaining lease term and discount rate for the Trust and its Subsidiaries' operating lease were as follows as of June 30, 2023:

Description	Years / Discount Rate
Weighted-average remaining lease term in years	2.5
Weighted-average discount rate	3.5%

As of June 30, 2023, maturities of lease liability for the operating leases are as follows:

Year ending June 30,	Amount
2024	\$ 90,000
2025	90,000
2026	45,000
Total lease payments	225,000
Less: Imputed interest	(8,914)
Present value of lease liability	\$ 216,086

For the year ended June 30, 2023, total rent expense amounted to approximately \$603,000.

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 year ended June 30, 2023, amounted to approximately \$220,000.

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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, 2023, are as follows:

Entity	Commitment	Investment
Parliament Credit Opportunities Fund, LLC	\$ 500,000	\$ 350,000
Semillero Investment Fund I, LLC	500,000	499,620
Semillero Investment Fund II, LLC	1,000,000	411,142
Bluhaus Small Business Fund, L.P.	250,000	187,500
Grupo Guayacán, Inc.	1,000,000	12,893
	<u>\$ 3,250,000</u>	<u>\$ 1,461,155</u>

17) Supplemental disclosures for the statement of cash flows:

A) Non-cash from investing and financing transactions – During the year ended June 30, 2023, non-cash investing and financing activities consist of the following:

Description	Amount
Adoption of ASC 842:	
Right-of-use asset for operating lease	\$ 250,137
Lease liability	\$ 250,137
SAFE investments converted in private equity securities	\$ 50,000
Note receivable converted into investment in private equity securities	\$ 110,000
Unpaid additions to building charged against accounts payable	\$ 368,638
Unpaid additions to land development charged against accounts payable	\$ 226,403

B) Other cash flows information – During the year ended June 30, 2023, the Trust and its Subsidiaries made no interest payments.

18) Subsequent events:

In July 2023, the US Department of Health and Human Services (US DHHS)’s Centers for Disease Control and Prevention awarded a yearly grant amount of \$750,000 to implement a project titled *Strengthening Training, Evaluation, and Partnerships in the Prevention and Control of Vector-Borne Diseases*. The program expires in June 2028.

In August 2023, the Trust and its Subsidiaries signed an agreement with the Puerto Rico Department of Economic Development and Commerce (DEDIC) to implement an initiative titled *Proyecto de Innovación Digital Educativo* with the aim of introducing Science, Technology, Engineering and Math (STEM) projects and/or classes into local school curriculums. The agreement provides a total of \$1,919,710 in funds and expires on June 30, 2024.



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In September 2023, the US DHHS's Centers for Disease Control and Prevention awarded a yearly grant amount of \$500,000 to implement a project titled *Caribbean All Hazards Program to Building Resilience Against Climate Effects for the Promotion and Protection of Human Health*. The program expires in September 2025.

Subsequent events were evaluated through October 31, 2023, the date on which consolidated financial statements were available to be issued.