

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST AND SUBSIDIARIES

(A Puerto Rico Not-For-Profit Organization)

Basic Consolidated Financial Statements
June 30, 2020 and 2019



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying 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 statements of financial position as of June 30, 2020 and 2019, 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).

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Puerto Rico Science, Technology and Research Trust and its Subsidiaries as of June 30, 2020 and 2019, 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.

San Juan, Puerto Rico
October 23, 2020.



Stamp No. E431669 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, 2020 and 2019**

	2020	2019
ASSETS:		
Cash	\$ 33,040,055	\$ 29,632,070
Accounts receivable	703,527	1,864,680
Prepaid expenses	175,763	107,735
Due from governmental entities	1,128,892	4,978,063
Investments	6,235,611	35,953,708
Convertible promissory notes receivable	560,000	375,000
Other assets	29,483	19,484
Endowment fund	35,609,069	-
Property and equipment, net	676,294	450,237
Building, net	6,120,644	6,071,064
Land and property for research, development and infrastructure project related to science and technology	16,100,307	16,100,307
Land development costs	11,329,395	11,329,395
Construction in progress - Science City	11,148,356	11,149,857
	<u>\$ 122,857,396</u>	<u>\$ 118,031,600</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Program service payable	\$ 1,634,879	\$ 717,037
Accounts payable	1,965,232	2,271,267
Accrued expenses	454,658	448,240
Other liabilities	11,019	8,500
Loan payable	1,786,300	-
	<u>5,852,088</u>	<u>3,445,044</u>
NET ASSETS:		
Without donor restrictions:		
Undesignated	61,636,932	94,667,109
Designated by the Board of Trustees for endowment	35,609,069	-
	<u>97,246,001</u>	<u>94,667,109</u>
With donor restrictions:		
Purpose restrictions	3,659,000	3,819,140
Perpetual in nature	16,100,307	16,100,307
	<u>19,759,307</u>	<u>19,919,447</u>
	<u>117,005,308</u>	<u>114,586,556</u>
	<u>\$ 122,857,396</u>	<u>\$ 118,031,600</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, 2020 and 2019

	2020		
	Without donor restrictions	With donor restrictions	Total
REVENUES, SUPPORT AND OTHERS:			
State grants and assessments	\$ 12,248,663	\$ -	\$ 12,248,663
Federal grants	11,871,209	-	11,871,209
Private grants and sponsorships	276,951	2,454,626	2,731,577
Donations and contributions	101,209	-	101,209
Clinical trials	64,742	-	64,742
Rental income	268,753	-	268,753
Interest income	116,187	-	116,187
Net return (loss) on investments	2,707,091	(133,086)	2,574,005
Net return on endowment fund	212,635	-	212,635
Other income	181,205	-	181,205
	28,048,645	2,321,540	30,370,185
Net assets released from restrictions:			
Satisfaction of program restrictions	2,481,680	(2,481,680)	-
	30,530,325	(160,140)	30,370,185
OPERATING EXPENSES:			
Program and services:			
Research and data	4,879,203	-	4,879,203
Public health initiative	12,485,395	-	12,485,395
Technology transfer and commercialization	6,234,079	-	6,234,079
Science City development	303,268	-	303,268
	23,901,945	-	23,901,945
Supporting services:			
Management and administrative	4,049,488	-	4,049,488
	27,951,433	-	27,951,433
CHANGE IN NET ASSETS	2,578,892	(160,140)	2,418,752
NET ASSETS , beginning of year	94,667,109	19,919,447	114,586,556
NET ASSETS , end of year	\$ 97,246,001	\$ 19,759,307	\$ 117,005,308

Continues . . .

**PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
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**CONSOLIDATED STATEMENTS OF ACTIVITIES
For the years ended June 30, 2020 and 2019**

Continued . . .

	2019		
	Without donor restrictions	With donor restrictions	Total
REVENUES, SUPPORT AND OTHERS:			
State grants and assessments	\$ 16,759,924	\$ -	\$ 16,759,924
Federal grants	7,837,675	124,970	7,962,645
Private grants and sponsorships	408,684	2,957,448	3,366,132
Donations and contributions	46,631	-	46,631
Clinical trials	215,139	-	215,139
Rental income	331,057	-	331,057
Interest income	179,885	-	179,885
Other income	228,221	-	228,221
Net investment loss	<u>(8,562,596)</u>	<u>(553,326)</u>	<u>(9,115,922)</u>
	17,444,620	2,529,092	19,973,712
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>3,096,175</u>	<u>(3,096,175)</u>	<u>-</u>
	<u>20,540,795</u>	<u>(567,083)</u>	<u>19,973,712</u>
OPERATING EXPENSES:			
Program and services:			
Research and data	1,530,644	-	1,530,644
Public health initiative	9,504,182	-	9,504,182
Technology transfer and commercialization	5,164,645	-	5,164,645
Science City development	<u>266,011</u>	<u>-</u>	<u>266,011</u>
	16,465,482	-	16,465,482
Supporting services:			
Management and administrative	<u>3,791,868</u>	<u>-</u>	<u>3,791,868</u>
	<u>20,257,350</u>	<u>-</u>	<u>20,257,350</u>
	<u>283,445</u>	<u>(567,083)</u>	<u>(283,638)</u>
NON-OPERATING INCOME:			
Gain on settlement of RSA	3,087,580	324,085	3,411,665
Forgiveness of debt	<u>622,113</u>	<u>-</u>	<u>622,113</u>
	<u>3,709,693</u>	<u>324,085</u>	<u>4,033,778</u>
CHANGE IN NET ASSETS	3,993,138	(242,998)	3,750,140
NET ASSETS , beginning of year	<u>90,673,971</u>	<u>20,162,445</u>	<u>110,836,416</u>
NET ASSETS , end of year	<u>\$ 94,667,109</u>	<u>\$ 19,919,447</u>	<u>\$ 114,586,556</u>

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

**PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
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CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the years ended June 30, 2020 and 2019

	2020					
	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	\$ 96,575	\$ 20,000	\$ 145,490	\$ -	\$ -	\$ 262,065
Research and development grants	3,348,312	-	46,193	-	-	3,394,505
Matching grants	-	-	445,770	-	-	445,770
Parallel 18 grants	-	-	2,701,877	-	-	2,701,877
Other program initiatives	94,764	2,448,010	50,000	-	-	2,592,774
	<u>3,539,651</u>	<u>2,468,010</u>	<u>3,389,330</u>	<u>-</u>	<u>-</u>	<u>9,396,991</u>
Personnel costs:						
Salaries and wages	600,310	6,279,768	1,151,571	75,568	1,222,096	9,329,313
Benefits and payroll taxes	226,203	1,667,067	423,844	22,189	498,982	2,838,285
	<u>826,513</u>	<u>7,946,835</u>	<u>1,575,415</u>	<u>97,757</u>	<u>1,721,078</u>	<u>12,167,598</u>
Professional services	<u>212,964</u>	<u>546,273</u>	<u>539,591</u>	<u>191,017</u>	<u>774,237</u>	<u>2,264,082</u>
Occupancy expenses:						
Depreciation and amortization	25,460	150,122	94,998	-	222,213	492,793
Rent	-	-	162,120	-	24,205	186,325
Repairs and maintenance	-	-	420	5,700	214,069	220,189
Security	-	-	-	-	139,446	139,446
Other	2,048	15	886	-	378,911	381,860
	<u>27,508</u>	<u>150,137</u>	<u>258,424</u>	<u>5,700</u>	<u>978,844</u>	<u>1,420,613</u>
Travel	22,554	122,591	100,052	2,456	31,122	278,775
Other	250,013	1,251,549	371,267	6,338	544,207	2,423,374
Total operating expenses	<u>\$ 4,879,203</u>	<u>\$ 12,485,395</u>	<u>\$ 6,234,079</u>	<u>\$ 303,268</u>	<u>\$ 4,049,488</u>	<u>\$ 27,951,433</u>

Continues . . .

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**CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the years ended June 30, 2020 and 2019**

Continued . . .

2019

	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	\$ 77,150	\$ 300	\$ 141,550	\$ -	\$ -	\$ 219,000
Incubators support	-	-	6,082	-	-	6,082
Research and commercialization grants	16,007	-	-	-	-	16,007
Matching grants	-	-	171,231	-	-	171,231
Parallel 18 grants	-	-	2,181,385	-	-	2,181,385
Other program initiatives	-	2,432,079	1,943	-	-	2,434,022
	<u>93,157</u>	<u>2,432,379</u>	<u>2,502,191</u>	<u>-</u>	<u>-</u>	<u>5,027,727</u>
Personnel costs:						
Salaries and wages	533,337	3,819,910	921,059	29,231	1,149,279	6,452,816
Benefits and payroll taxes	152,991	978,634	274,311	9,752	506,478	1,922,166
	<u>686,328</u>	<u>4,798,544</u>	<u>1,195,370</u>	<u>38,983</u>	<u>1,655,757</u>	<u>8,374,982</u>
Professional services	144,176	302,967	490,094	212,553	682,240	1,832,030
Occupancy expenses:						
Depreciation and amortization	17,864	21,179	94,236	-	189,202	322,481
Rent	-	-	152,215	-	15,584	167,799
Repairs and maintenance	-	-	7,548	6,800	238,314	252,662
Security	-	1,834	-	-	177,531	179,365
Other	-	615	1,885	-	275,900	278,400
	<u>17,864</u>	<u>23,628</u>	<u>255,884</u>	<u>6,800</u>	<u>896,531</u>	<u>1,200,707</u>
Travel	77,197	172,140	210,473	4,192	92,703	556,705
Other	511,922	1,774,524	510,633	3,483	464,637	3,265,199
Total operating expenses	<u>\$ 1,530,644</u>	<u>\$ 9,504,182</u>	<u>\$ 5,164,645</u>	<u>\$ 266,011</u>	<u>\$ 3,791,868</u>	<u>\$ 20,257,350</u>

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

**PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
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CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 30, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,418,752	\$ 3,750,140
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debts expense in convertible promissory notes receivable	75,000	-
Gain on conversion of notes receivable	(6,904)	-
Gain on settlement of RSA	-	(3,411,665)
Unrealized loss on investments	2,339,199	9,890,566
Realized gain on investments, net	(1,134,162)	-
Investment received in lieu of interest payment	(169,116)	-
Capitalized investment income	(212,635)	-
Unrealized gain on Endowment fund	(630,184)	-
Depreciation and amortization	492,792	322,481
Property and equipment received as donation	(39,425)	-
Changes in operating assets and liabilities-		
Decrease (increase) in assets:		
Accounts receivable	1,161,153	(731,937)
Prepaid expenses	(68,028)	9,406
Due from governmental entities	3,849,171	(2,074,304)
Other assets	(9,999)	(6,951)
Increase (decrease) in liabilities:		
Program service payable	917,842	(147,952)
Accounts payable	(306,035)	(2,975,713)
Accrued expenses	6,418	229,381
Other liabilities	2,519	(2,600)
Net cash provided by operating activities	<u>8,686,358</u>	<u>4,850,852</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Redemption of certificates of deposits	-	6,786,666
Collection of promissory notes receivable	-	150,000
Advances under convertible notes receivable	(335,000)	-
Proceeds from sale and redemption of investments	28,879,080	192,617
Purchase of investments	(115,000)	(225,000)
Purchase of Endowment fund	(34,766,250)	-
Purchase of property and equipment	(489,261)	(256,473)
Addition to construction in progress - building	(238,242)	(462,505)
Net cash provided by (used in) investing activities	<u>(7,064,673)</u>	<u>6,185,305</u>
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:		
Proceeds from loan payable	<u>1,786,300</u>	<u>-</u>
NET INCREASE IN CASH	3,407,985	11,036,157
CASH, beginning of year	<u>29,632,070</u>	<u>18,595,913</u>
CASH, end of year	<u>\$ 33,040,055</u>	<u>\$ 29,632,070</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, 2020 and 2019

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 to be financed as follows: (i) the greater of \$6,340,000 or 31% out of the monies deposited in the Special Fund for Economic Development managed by the Puerto Rico Industrial Development Company (PRIDCO) for the fiscal years ended June 30, 2020 and 2019 (ii) the monies of Scientific Investigation Fund for the Centenary of the University of Puerto Rico (Centenary Fund), (iii) a special appropriation of \$5,000,000 from the Improvements Fund, (iv) \$5,000,000 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, (v) 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, 2020 and 2019, 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.

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, 2020 and 2019

- 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 businesses.

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, 2020 and 2019.

- 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 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 have been prepared in accordance with U.S. generally accepted accounting principles (US GAAP), which require reporting 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 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, 2020 and 2019, the Trust and its Subsidiaries' net assets with donor restrictions include the following:

Purpose restrictions:

- Federal funds for the implementation of programmatic initiatives, and funds from private sources for the implementation of initiatives related to recovery efforts after the passing of Hurricane Maria through Puerto Rico on September 20, 2017.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2020 and 2019

- 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 10 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 US 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 market 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 maintains 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.



PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2020 and 2019

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 derive its revenues from state and federal grants, contributions received from the government, corporations, sponsors and individuals. Grants and contributions subject to routine performance requirements by the Trust and its Subsidiaries are recorded when first awarded. Conditional promises to give, that is, those 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, 2020 and 2019.

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, 2020 and 2019, 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. During the year ended June 30, 2016, the Trust and its Subsidiaries implemented Parallel 18 (P18), a startup creation initiative. The purpose of P18 is to provide startups, selected competitively from Puerto Rico and abroad, with funding, complete support system, and an acceleration program with high-level resources and access to a global network of mentors. The P18 program is financed by the support from the Economic Development and Commerce Department, the Puerto Rico Industrial Development Company, and the Trust.
- *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.

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- *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 years ended June 30, 2020 and 2019.

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.

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, 2020 and 2019, the Trust and its Subsidiaries incurred in advertising and promotion expenses of approximately \$160,000 and \$232,000, respectively.

Adoption of accounting standards – In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU 2018-08 has different effective dates for resource recipients and resource providers. Where the Trust and its Subsidiaries is the resource recipient, the ASU 2018-08 is applicable to contributions received for annual periods beginning after December 15, 2018. Where the Trust and its Subsidiaries is a resource provider, the ASU 2018-08 is effective for annual periods beginning after December 15, 2019 and interim periods within annual periods beginning after December 15, 2020. During the year ended June 30, 2020, the Trust and its Subsidiaries adopted the ASU 2018-08 for resource recipients.

During the year ended June 30, 2020, the Trust and its Subsidiaries adopted the FASB ASC-321 *Investments - Equity Securities*. The guidance establishes standards of financial accounting and reporting for investments in equity securities and other ownership interests in an entity. The standard is effective for fiscal years beginning after December 15, 2018.



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Recent accounting pronouncements – In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This new accounting standard that requires recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. The FASB has also issued several updates to ASU 2014-09. The new standard supersedes US GAAP guidance on revenue recognition and requires the use of more estimates and judgments than the present standards. It also requires additional disclosures. This standard is effective for annual reporting periods beginning on or after December 15, 2019, using either of two methods: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09; or (b) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. 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 August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019.

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 US 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.

The Trust and its Subsidiaries is 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, 2020 and 2019, the Trust and its Subsidiaries' cash deposits exceeded the insured limits of FDIC and SIPC by approximately \$31,339,000 and \$27,975,000, respectively.

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For the years ended June 30, 2020 and 2019, grants and contributions from state and federal entities represent approximately 79% and 83%, respectively, out of total revenues. The balance due from these state and federal entities represent approximately 79% and 84%, respectively, of total accounts receivable.

3) Liquidity and availability:

As of June 30, 2020 and 2019, 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	2020	2019
Cash	\$ 33,040,055	\$ 29,632,070
Account receivable	703,527	1,864,680
Due from governmental entities	1,128,892	4,978,063
Investments	6,235,611	35,953,708
Endowment fund	<u>35,609,069</u>	<u>-</u>
	76,717,154	72,428,521
Less amount not available to be used within one year:		
Net assets with donor restrictions	<u>(3,920,749)</u>	<u>(3,819,140)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 72,796,405</u>	<u>\$ 68,609,381</u>

4) Investments:

As of June 30, 2020 and 2019, the investments consisted of the following:

Description	2020	
	Cost	Fair value
Fixed income:		
Puerto Rico government bond	\$ 7,060,614	\$ 4,721,415
Private equity securities	1,174,196	1,174,196
SAFE investments	<u>340,000</u>	<u>340,000</u>
	<u>\$ 8,574,810</u>	<u>\$ 6,235,611</u>
Description	2019	
	Cost	Fair value
Fixed income:		
Puerto Rico government bond	\$ 44,451,982	\$ 34,561,416
Private equity securities	1,167,292	1,167,292
SAFE investments	<u>225,000</u>	<u>225,000</u>
	<u>\$ 45,844,274</u>	<u>\$ 35,953,708</u>



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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.

As of June 30, 2020, and 2019, the Trust and its Subsidiaries' investments are classified as follows:

Description	2020			
	Level 1	Level 2	Level 3	Total
Fixed income:				
Puerto Rico government bond	\$ -	\$ 4,721,415	\$ -	\$ 4,721,415
Private equity securities	-	-	1,174,196	1,174,196
SAFE investments	-	-	340,000	340,000
	<u>\$ -</u>	<u>\$ 4,721,415</u>	<u>\$ 1,514,196</u>	<u>\$ 6,235,611</u>
Description	2019			
	Level 1	Level 2	Level 3	Total
Fixed income:				
Puerto Rico government bond	\$ -	\$ 34,561,416	\$ -	\$ 34,561,416
Private equity securities	-	-	1,167,292	1,167,292
SAFE investments	-	-	225,000	225,000
	<u>\$ -</u>	<u>\$ 34,561,416</u>	<u>\$ 1,392,292</u>	<u>\$ 35,953,708</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	2020		
	Private equity securities	SEFA investments	Total
Balance at July 1, 2019	\$ 1,167,292	\$ 225,000	\$ 1,392,292
Purchases	81,904	115,000	196,904
Realized losses	(75,000)	-	(75,000)
Balance at June 30, 2020	<u>\$ 1,174,196</u>	<u>\$ 340,000</u>	<u>\$ 1,514,196</u>

Description	2019		
	Private equity securities	SEFA investments	Total
Balance at July 1, 2018	\$ 1,167,292	\$ -	\$ 1,167,292
Purchases	-	225,000	225,000
Balance at June 30, 2019	<u>\$ 1,167,292</u>	<u>\$ 225,000</u>	<u>\$ 1,392,292</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, 2020 and 2019:

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



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6) Convertible promissory notes receivable:

As of June 30, 2020 and 2019, the Trust is the holder of the following convertible promissory notes:

Description	2020	2019
6% interest bearing promissory note, convertible to shares of common stock of the issuer. The note was due in August 2018.	\$ -	\$ 75,000
2% interest bearing promissory note, convertible to shares of common stock of the issuer. The note was originally due in July 2019 and was extended to April 2021.	75,000	75,000
5% interest bearing promissory note, convertible to shares of common stock of the issuer. The note was due in July 2019 and converted during the year ended June 30, 2020.	-	75,000
6% interest bearing promissory note, convertible to shares of common stock of the issuer. The note was originally due in November 2018 and was extended to November 2022.	75,000	75,000
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
3% interest bearing promissory note, convertible to shares of common stock of the issuer. The note is due in July 2020.	50,000	-
7% interest bearing promissory note, convertible to shares of common stock of the issuer. The note is due in October 2020.	75,000	-
5% interest bearing promissory note, convertible to shares of common stock of the issuer. The note is due in June 2020 and is currently under negotiation.	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.	110,000	-
5% interest bearing promissory note, convertible to shares of common stock of the issuer. The note is due in January 2021.	75,000	-
	\$ 560,000	\$ 375,000

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.

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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.

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, 2020, 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, 2020, consisted of the following:

Description	Amount
Endowment fund at beginning of year	\$ -
Investment return:	
Investment income, net	212,635
Net appreciation	630,184
Total investment return	842,819
Contributions	34,766,250
Endowment fund at end of year	\$ 35,609,069

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8) Property and equipment:

As of June 30, 2020 and 2019, property and equipment consist of the following:

Description	June 30, 2020		
	Cost	Accumulated depreciation and amortization	Book value
Furniture and fixtures	\$ 123,050	\$ 100,727	\$ 22,323
Computer and laboratory equipment	540,434	245,279	295,155
Leasehold improvements	796,179	475,474	320,705
Vehicle	39,425	1,314	38,111
	<u>\$ 1,499,088</u>	<u>\$ 822,794</u>	<u>\$ 676,294</u>
Description	June 30, 2019		
	Cost	Accumulated depreciation and amortization	Book value
Furniture and fixtures	\$ 109,906	\$ 101,035	\$ 8,871
Computer and laboratory equipment	248,225	122,562	125,663
Leasehold improvements	612,271	296,568	315,703
	<u>\$ 970,402</u>	<u>\$ 520,165</u>	<u>\$ 450,237</u>

9) Building:

As of June 30, 2020 and 2019, building consists of the following:

Description	2020	2019
<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	\$ 3,056,568
<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>
	<u>6,660,987</u>	6,603,500
Less: Accumulated depreciation	<u>(789,196)</u>	<u>(599,033)</u>
	<u>5,871,791</u>	6,004,467
Construction in progress	<u>248,853</u>	<u>66,597</u>
	<u>\$ 6,120,644</u>	<u>\$ 6,071,064</u>

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As of June 30, 2020 and 2019, 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.

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, 2020 and 2019, 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 \$11,148,000 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) Loan payable:

On May 1, 2020, the Trust and its Subsidiaries received a loan of approximately \$1,786,000, under the Payroll Protection Program (PPP), created by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The Trust and its Subsidiaries and the Small Business Administration (SBA) jointly guarantee this loan. The money received from the loan will be used for certain eligible expenses such as payroll costs, group health care benefits, rent, and utilities, among others. The Trust and its Subsidiaries must comply with certain restrictions and conditions included in the CARES Act in order for the loan to be fully or partially forgiven. The loan amount not forgiven will bear interest at 1.0% and will be payable commencing on November 1, 2020 up to maturity on April 30, 2022.



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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, 2020 and 2019, the Trust and its Subsidiaries leases a facility for five (5) years expiring during the year ending June 30, 2021. The monthly rental payments approximate \$18,000.

For the years ended June 30, 2020 and 2019, revenues on rental agreements amounted to approximately \$269,000 and \$331,000, respectively.

Future minimum collections related to the lease agreements after June 30, 2020, are approximately \$237,000.

14) Operating lease agreements:

The Trust and its Subsidiaries entered into a lease agreement for the use of the facilities for P18, described in Note 1B. The agreement calls for escalating monthly rental payments ranging from \$11,983 to \$13,510 through December 2020. Total rent expense related to this agreement for the years ended June 30, 2020 and 2019, amounted to approximately \$186,000 and \$168,000, respectively.

On September 17, 2018, 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. Total rent expense related to this agreement for the years ended June 30, 2020 and 2019, amounted to approximately \$63,000 and \$20,000, respectively.

Future minimum lease payments subsequent to June 30, 2020, are as follows:

Year ending June 30,	Amount
2021	\$ 171,060
2022	22,500
Total future minimum lease payments	<u>\$ 193,560</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, 2020 and 2019, amounted to approximately \$107,000 and \$25,000, respectively.



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16) In-kind contributions:

In-kind contributions for the years ended June 30, 2020 and 2019, amounted to approximately \$3,800 and \$3,000, respectively, which consisted mainly of services provided by tenants related to science, technology, and research.

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, 2020 and 2019, non-cash investing and financing transactions were as follows:

Description	2020	2019
Conversion of certificates of deposits to investment in bond	\$ -	\$ 44,644,599
Property and equipment received as donation	\$ 39,425	\$ -
Bond units received in lieu of interest payment	\$ 169,116	\$ -
Note receivable converted into investment in private equity securities	\$ 75,000	\$ -

- B) Other cash flows information – During the years ended June 30, 2020 and 2019, the Trust and its Subsidiaries make no interest payments.

19) Reclassifications:

Certain prior year amounts have been reclassified for consistency with the current year presentation. The reclassifications had no effect on the reported change in net assets.

20) Subsequent events:

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).



PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS June 30, 2020 and 2019

In August 2020, the Puerto Rico Department of Housing, a public agency of the Government of Puerto Rico, and the primary recipient of the Community Development Block Grant - Disaster Recovery (CDBG-DR) funds awarded the Trust and its Subsidiaries with approximately \$30,472,000 to implement the Re-Grow Puerto Rico – Urban Rural Agriculture Program (the Re-Grow Program). The Re-Grow Program aims to build agricultural capacity and meet the needs created by the Hurricanes Irma and María, in a wide variety of viable and sustainable agricultural activities. The Re-Grow Program will focus on small farms and agricultural businesses and non-governmental organizations engaged in sustainable agricultural activities that contribute to the strengthening of the agricultural economy after the hurricanes. The Re-Grow Program expires in August 2023.

In August 2020, the U.S. Department of Agriculture (USDA) granted the Trust and its Subsidiaries with approximately \$998,000 under the Distance Learning and Telemedicine Grant Program (the DLT Program) administered by the Rural Utilities Service. The DLT Program aims to provide telemedicine services to improve the patient's health by permitting two-way, real time interactive communication between the patient and the physician or practitioner at a distant site; and distance learning services based and focused on health education curriculum to encourage people to increase knowledge, develop adequate skills and desirable attitudes to improve and maintain an optimum health status. The DLT Program expires in July 2023.

In September 2020, the Centers for Disease Control and Prevention (CDC) awarded \$885,000 contract (the Contract) to the Trust and its Subsidiaries for the Puerto Rico Vector Control Unit. The aim of the Contract is to conduct a research project named *Determining Aedes Aegypti Density Thresholds Preventing Human Arboviral Infections*. The Contract expires in September 2023.

Subsequent events were evaluated through October 23, 2020, the date on which the consolidated financial statements were available to be issued.