

**Puerto Rico
Science, Technology
& Research Trust**

ANNUAL REPORT

SUBMITTED TO

**THE HONORABLE ANIBAL ACEVEDO VILA
GOVERNOR OF THE COMMONWEALTH OF PUERTO RICO**

AND

**SECRETARIATS OF THE SENATE AND OF THE HOUSE OF
REPRESENTATIVES OF
THE COMMONWEALTH OF PUERTO RICO**

OCTOBER 28, 2007



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MESSAGE FROM THE EXECUTIVE DIRECTOR

“SCIENCE AS AN AGENT OF CHANGE”

Puerto Rico is a global leader in science and its various disciplines, including, biotechnology, information technology, communications, and engineering, among others. As a pharmaceutical and medical device manufacturing powerhouse, and consistent with the current implementation of public policy aimed at advancing our presence in the global knowledge-based economy, Puerto Rico values science as an agent of change. Thus, by focusing on scientific research and development (R&D), we will create better jobs and more opportunities for our economic advancement and improved quality of life.

Puerto Rico already possesses the basic ingredients for success in the life science sector:

- An average of 9,000 university students graduate yearly with degrees in the fields of science and/or engineering;
- Over 20 of the world's leading pharmaceutical companies have either corporate offices and/or manufacturing plants in the Island;
- One quarter of the world's biologics manufacturing capacity is located in the Island;
- 50% of the medical devices sold in the U.S., and 13 of the 20 leading US prescription drugs are manufactured in Puerto Rico;
- Skilled workforce in pharmaceutical, medical devices and biotechnology industries account for 40,000 direct jobs and 100,000 indirect jobs in supporting areas such as, legal services, regulatory compliance and banking; and
- Over \$4 billion invested in the Island during the last 4 years in the life science sector alone.

The Puerto Rico Science, Technology and Research Trust was created in 2004 to develop and implement the Island's R & D public policy, as well as finance the necessary infrastructure. Our flagship project will consist in developing a *Science City* in the heart of San Juan which will serve to connect existing knowledge-based activities, to provide needed laboratory infrastructure, and to further capitalize the Trust Fund. In turn, the Trust Fund will help subsidize individual and institutional research, as well as strengthen science at the university and high school levels. Moreover, the Trust will fund and operate a technology transfer office which will serve the entire Island.

In sum, I am confident that the groundwork laid out by the Trust thus far, together with the initiatives planned for the next year will lead Puerto Rico to the forefront of the global knowledge-based economy.

Warmest regards,

A handwritten signature in blue ink, reading "Luis E. Rodríguez-Rivera". The signature is fluid and cursive, with a long horizontal stroke at the end.

Luis E. Rodríguez-Rivera, Esq.

Executive Director, Puerto Rico Science, Technology and Research Trust



Puerto Rico Science, Technology and Research Trust

Background

The Commonwealth of Puerto Rico ("Puerto Rico") has decided to strengthen its economic development strategy by promoting knowledge-based economic activities. Diversifying and modernizing our economy, strengthening our human capital skills in science and technology, and investing in scientific research and development are essential components in order to continue our leadership in the global knowledge or innovation-based economy.

Many international jurisdictions, as well as several states of the United States, are investing billions of dollars in these areas in order to attract and retain the world's best talents, and continue increasing their competitiveness and growing their economies.

Within this context, the Puerto Rico Government determined that the creation of a non-traditional organization was necessary in order to effectively develop and implement public policy for the development of a knowledge-based economy. Thus, an independent body, supported by government but free from partisan politics, was preferred as the vehicle to define and implement this change -- the idea of the Puerto Rico Science, Technology and Research Trust (the "Trust") was born.

Creation of the Trust

On August 18, 2004, Act Number 214 ("Act 214") was approved authorizing the creation of the Trust through a public deed as a non for profit trust. The Trust would be created to, among other duties:

- (i) establish an alliance between the public and private sectors to promote and develop research, science and technology;
- (ii) act as an agent to promote investment and financing of activities that strengthen science, technology and research in Puerto Rico, expected to have a positive impact in the economic, social and educational development;
- (iii) be a liaison between the Government, the Academia and the Industry;
- (iv) promote the transfer of technology and commercialization of local creations, ideas and products; and

- (v) finance, sponsor and create strategies to draw to Puerto Rico world-class researchers, scientists, both individuals and entities, and make of Puerto Rico the home of new discoveries and initiatives.

Pursuant to Act 214, the President of the University of Puerto Rico and the Secretary of the Department of Economic Development and Commerce executed before Notary Public Jaime Arturo Riera Seivane public deed number twenty three (23) (the "Constituting Deed") whereby the Trust was created in December 2004. The Constituting Deed, as the main document of the Trust, delineates the powers and duties of the Trustees and the Trust and includes provisions pertaining to the internal organization of the Trust.

As per the spirit of Act 214, the Trust should be maintained as an autonomous entity. The seed funding for the trust fund (the "Trust Fund") shall be nourished annually from the following sources: (i) 20% of the Economic Development Special Fund administered by the Puerto Rico Industrial Development Company, (ii) \$5,000,000 annual appropriation beginning in fiscal year 2005-2006, proceeding from the balance of the moneys collected on account of the federal excise taxes sent to the Department of the Treasury each fiscal year, according to Section 7652(a)(3) of the United States Internal Revenue Code of 1986, and (iii) private donations. Also, upon its creation, as a one time non-recurring funding, Act 214 ordered the transfer of the following amounts to the Trust: the remaining funds non disbursed (as of the approval of Act 214) by the Puerto Rico Industrial Development Company to the University of Puerto Rico for the "Centenary of the University of Puerto Rico Scientific Research Fund" and a special one-time appropriation of \$5,000,000 from the Public Improvements Fund.

Finally, Act 214 includes certain powers that the Trust will be granted but delegates in the grantors/settlors of the Constituting Deed the task to delineate the powers that the Trustees will have. The Council of Trustees is then the body entrusted with the essential task of governing the Trust, establishing the general policy of the Trust to fulfill the objectives of the Act and the Constituting Deed, approving the strategic plan(s) of the Trust, determining the eligibility of benefited entities and projects, and authorizing disbursement of funds and implementing the public policy of the Trust, among others.

Act 214 and the Constituting Deed provide that the Trust will be directed by a Council of Trustees comprising of eleven (11) members, five of whom shall be the Secretary of the Department of Economic Development and Commerce, the President of the University of Puerto Rico, the President of the Government Development Bank for Puerto Rico, the Executive Director of the Puerto Rico Industrial Development Company and the Executive Director of the Office of Management and Budget, who shall be *ex officio* trustees. The remaining six (6) members shall be private citizens and shall be initially designated by the *ex officio* members, and subsequently, their vacancies shall be selected by the vote of the majority of the Council members. Three (3) of the six (6) private citizens must be or must have been members of the university community as professors or researchers, three (3) must belong to the private sector in the field of high technology. Two (2) of the six (6) private citizens must be internationally recognized in their field and two (2) of the private citizens must be generally familiar with the biological sciences and

matters of health as well as with information and communications technologies, the recent research trends in those areas and the technical and scientific mechanisms used to translate new knowledge into applications that would foster economic development.

Since the constitution of the Trust in December 2004, the *ex officio* members of the Council of Trustees engaged in identifying the best possible internationally recognized professors, researchers and/or executives to become private citizen Trustees. Below the reader will find information about each private citizen recruited to be a member of the Council of Trustees. Furthermore, the Executive Director was appointed in August 2006.

Once the first \$5,000,000 in funds mandated by Act 214 entered the Trust Fund in July 2006 and the Executive Director was appointed in August 2006, the executive team of the Trust took-off the monumental task mandated to it as described above. In August 2007, the Trust completed its first year of operations. Thus, this Annual Report constitutes the first report to be submitted in accordance with Act 214.

Our Trustees

The Trust has attracted a group of very distinguished professionals in their areas of professional practice and who have agreed to become members of the Puerto Rico Science, Technology and Research Trust's Council of Trustees. A summary of achievements of the private citizen trustees follows:

Private Citizen Members:



Dr. Lester Martínez-López, former US Army Medical Research and Materials Command Commanding General

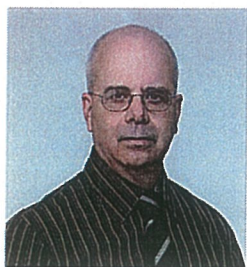
As commander of USAMRMC, Dr. Martínez-López was in charge of medical research and investigation initiatives that greatly benefited the U.S. Army and the Department of Defense. USAMRMC divides its research efforts into four areas: infectious disease research, battle injury treatment, operational medicine research, chemical and biological defense research. USAMRMC also manages specialized medical programs, including research related to breast, prostate, and ovary cancer, neurofibromatosis, telemedicine, and military health. Dr. Martínez-López had under his command the daily operations of six major USAMRMC research laboratories, all of which made up a large part of the Army's scientific and technological capacity. Under his direction, USAMRMC strengthened its reputation in biomedical research, contract research programs, and many

collaborative efforts with the most prestigious research and development companies. With USAMRMC, Dr. Martínez-López managed an agency with a \$1.6 billion budget and more than 5,000 employees around the world. He is considered a pioneer in the development and global implementation of Information and Technology Management, which provides service in electronic medical records management, medical logistics systems, robotics, and other applications. He graduated from the University of Puerto Rico's School of Medicine and completed his master's degree in Public Health at Johns Hopkins University. He has been a medical doctor since 1978 and he is a Fellow of the American Academy of Family Practice and Board Certified in Aerospace Medicine.



Dr. Fabrizio Bonanni, AMGEN Global Operations *Executive Vice President*.

Dr. Bonanni was recently appointed Executive Vice-President of Amgen's global operations. Prior to that, Dr. Bonanni was responsible for Amgen's worldwide manufacturing operations. Previously, he was head of quality and compliance and corporate compliance officer for the company. Amgen, as the world's largest biotechnology company, discovers, develops and delivers innovative human therapeutics. A biotechnology pioneer since 1980, Amgen was one of the first companies to realize the new science's promise by bringing safe and effective medicines from lab, to manufacturing plant, to patient. Before joining Amgen, Dr. Bonanni was corporate vice president for regulatory and clinical affairs for Baxter International Inc., a global manufacturer of health care products. At Baxter, Bonanni served in several manufacturing and QA/RA management roles in Europe and in the US. Bonanni is one of the key authors of Amgen's corporate strategy for growth and development in operations. Under his leadership, Amgen has invested and is investing billions of dollars in capacity expansions and upgrades at its sites in California, Colorado, Rhode Island, Puerto Rico, and Ireland. On behalf of Amgen, he has made a commitment to invest \$1 billion in Puerto Rico throughout the next four years in order to expand the company's manufacturing capabilities on the island. Bonanni truly believes in Puerto Rico's potential as one of the world's leading research, development, and manufacturing hubs. Evidence of this is Amgen's investment in bio-pharmaceutical science at its Juncos site and the company's participation in creating the biotechnology manufacturing program at the University of Puerto Rico's Mayagüez Campus. Bonanni has served as a Trustee of the California Science Center Foundation and is currently a Trustee of the Museum of Contemporary Art of Los Angeles.



Dr. Paul Lizardi, Yale University *Professor of Pathology* and Agilix Corporation Scientific Advisory Board *Cofounder*.

Dr. Lizardi is a professor of pathology, biophysics and molecular biochemistry in the Department of Pathology at Yale University's School of Medicine. He is considered one of the leading experts in the study of cancer genetics and epigenetics (the study of reversible changes in genetic regulation). He is also well known for his technological innovations in the amplification of DNA. The work conducted in his laboratory has generated more than 30 patents in the field of Rolling Circle Amplification Technology (RCAT), in signal/guide molecular technology, the amplification of isothermal genomes, and GenCompass technology. His lab has also made significant contributions in the fields of cancer diagnostics and the development of therapeutic instruments. His professional interests include cancer biology, epigenetic abnormalities, analysis of molecular alterations in cancer development, quantitative biology, genome operating systems, and the role of science and public policy, among others. In 1999, the *Nature Biotechnology* journal named Dr. Lizardi as one of the scientific researchers with greatest impact in the field of technological innovation due to his advances in the detection of DNA mutation in human genomes. He has served on professional organizations such as the American Chemical Society, American Association for the Advancement of Science, and the Editorial Board of *Laboratory Investigation*. Dr. Lizardi holds a bachelor's degree from the University of Puerto Rico, a PhD from Rockefeller University in New York, and postdoctoral studies from the Carnegie Institution of Washington in Baltimore.



Dr. Emma Fernández-Repollet, *Vice-President of Research and Technology of the University of Puerto Rico.*

Dr. Fernández is considered a leading academic expert in her field. Her professional interests include research administration and pharmacology. Her passion for science stems from a desire and curiosity for knowing how the human body works and how it is both participant and creator of technological advancements. Dr. Fernández-Repollet received her B.A. in Education from the University of Puerto Rico Rio Piedras Campus, her M.S. and Ph.D. in Physiology from the University of Puerto Rico Medical Sciences Campus, and a postdoctoral training in renal physiology at Duke University and the University of North Carolina at Chapel Hill. She joined the faculty of the Department of Pharmacology at the University of Puerto Rico Medical School in 1982. Her academic experience includes teaching medical, graduate and dental students, as well as maintaining an active federally funded research program focusing on developing research infrastructure since 1986. Grant funds to this program since its inception exceeds \$40 million and are currently \$2 million per year. She is also the Principal Investigator of a Science Education Partnership Award from National Center for Research Resources, with the goal to stimulate the interest of K-12 students in biomedical research. Dr. Fernández-Repollet has occupied her current position as Vice President for Research and Technology at the University of Puerto Rico since 2003. She also oversees the University of Puerto Rico Centennial Fund Initiative, a government-funded program designed to support the development of research infrastructure, the recruitment of competitive investigators, and the creation of a technology transfer unit. She is also co-inventor in two patents on the area of flow cytometry. Dr. Fernández-Repollet has served on a number of review groups and advisory committees of the National Institutes of Health, including the committee for developing the National Center for Research Resources Strategic Plan for 2004-2008. She was also the President of the National Research Centers in Minority Institutions (RCMI) Program Directors Association from 2003-2006 and Secretary of the Board of Directors of the Center for Quantitative Cytometry from 1990-2004. She currently serves as Vice President of INDUNIV, an industry-university research consortium and is a member the Board of Directors of the Alliance for the Economic Development of Puerto Rico.



Dr. Mariano García-Blanco, MD, PhD, Duke University *Professor of Molecular Genetics and Microbiology* and Duke Center for RNA Codirector.

Dr. García-Blanco is currently a professor of molecular genetics and microbiology, professor of medicine, and director of the Duke Center for RNA Biology at Duke University's Medical Center. He is also a professor at the Graduate Medical Sciences, a joint venture of Duke University and the National University of Singapore, where his laboratory investigates the development of novel therapeutics for dengue. He also serves as adjunct professor at the School of Medicine at the University of Puerto Rico's Medical Sciences campus. His laboratory is currently researching the regulation of genetic units in human and viral genomes. They are also studying certain areas related to prostate cancer and regulating the gene associated with HIV-1, among others. His professional interests include RNA metabolism, genetic therapy and alternatives splicing of RNAs. Dr. García - Blanco holds an A.B. in biochemical sciences from Harvard College, an M.D. in medicine, and PhDs in molecular biophysics and biochemistry from Yale University.



Gil Medina, former *Secretary of Commerce* of the State of New Jersey and current *Executive Managing Director* Cushman and Wakefield, Inc in New Jersey.

Gil Medina is an attorney and CPA who has developed extensive expertise in sales, technology, regulatory and administrative matters. He served for seven years as the Secretary of Commerce for the State of New Jersey. After public service, he became the Vice-President of Marketing for a Voice-Over-Internet-Protocol (VoIP) company and the President of a biotechnology start-up. He subsequently joined the global commercial real estate company, Cushman & Wakefield, Inc., as Director of Technology Enterprise Group, specializing in developing and implementing comprehensive real estate services for government, private and public scientific research organizations and corporations. He currently serves as the firm's Executive Managing Director and is responsible for managing the firm's New Jersey operations. Mr. Medina is also a member of various organizations, including Rutgers University School of Business Advisory Board, Board of Trustees of the New Jersey District Council of the Urban Land Institute, Board of

Trustees of the Biotechnology Council of New Jersey and Board of Trustees of the New Jersey Health Care Quality Institute. Other professional achievements include:

- The President of Brazil conferred upon Gil the Rank of Commander in the Order of Cruzeiro do Sul. This is the highest honor bestowed on foreign nationals by the Republic of Brazil in recognition of valuable services rendered to the Republic and its citizens.
- Elected Delegate-at-Large to the 1996 and 2000 Republican National Conventions.
- Co-Chairman of the New Jersey State Republican Committee.
- Served on the Informal Experts Group on IP Telephony of the International Telecommunication Union's World Policy Forum on IP Telephony. He was the presenter at the Policy Forum.
- Resource person for the ITU, the Federal Communications Commission and the US Department of State on telecommunications policy.
- In 2003 he received at the Biotechnology Council of New Jersey a Distinguished Service Award.
- Received awards from various important trade associations, among others: the Biotechnology Industry Organization (State Executive of the Year) and the National Association of Industrial and Commercial Properties (Industry Service Award).
- In 2004 he was appointed to the Small Business Administration's National Advisory Council by SBA's Administrator.
- Advisor to state governments on economic development policy: New Jersey, New York, Oklahoma, Pennsylvania.

Ex Officio Members of the Council of Trustees:

- University of Puerto Rico President, Antonio García Padilla, Esq.
- Department of Economic Development and Commerce Secretary, Hon. Ricardo Rivera Cardona
- Puerto Rico Industrial Development Company Executive Director, Boris Jaskille, Esq.
- Government Development Bank for Puerto Rico Interim President, Jorge Irizarry
- Office of Management and Budget Director, Jose Guillermo Dávila

Short Term Agenda of the Trust: Investing in our Future

In the short term, the Trust has focused on the following agenda:

- Strengthening public and private contributions to the Trust Fund.—See “*The Puerto Rico Science City*” and “*Outreach Program and Other Plans for Fiscal Year 2007-2008*” below.
- Promoting the collaboration between government, academic and industrial sectors.—See “*High School Science Laboratories Program*” below.
- Developing and promoting a culture and infrastructure that will recognize the value of science and technology in the economic and social development of Puerto Rico.—See “*Knowledge Corridor*” below.
- Promoting technology transfer and the commercialization of products and ideas that result from local research.—See “*Technology Transfer Unit*” below.
- Financing and creating coherent strategies to attract world leading researchers to Puerto Rico and create new initiatives.—See “*Research Grants Program*” and “*Academic Research Subsidy Program*” below.

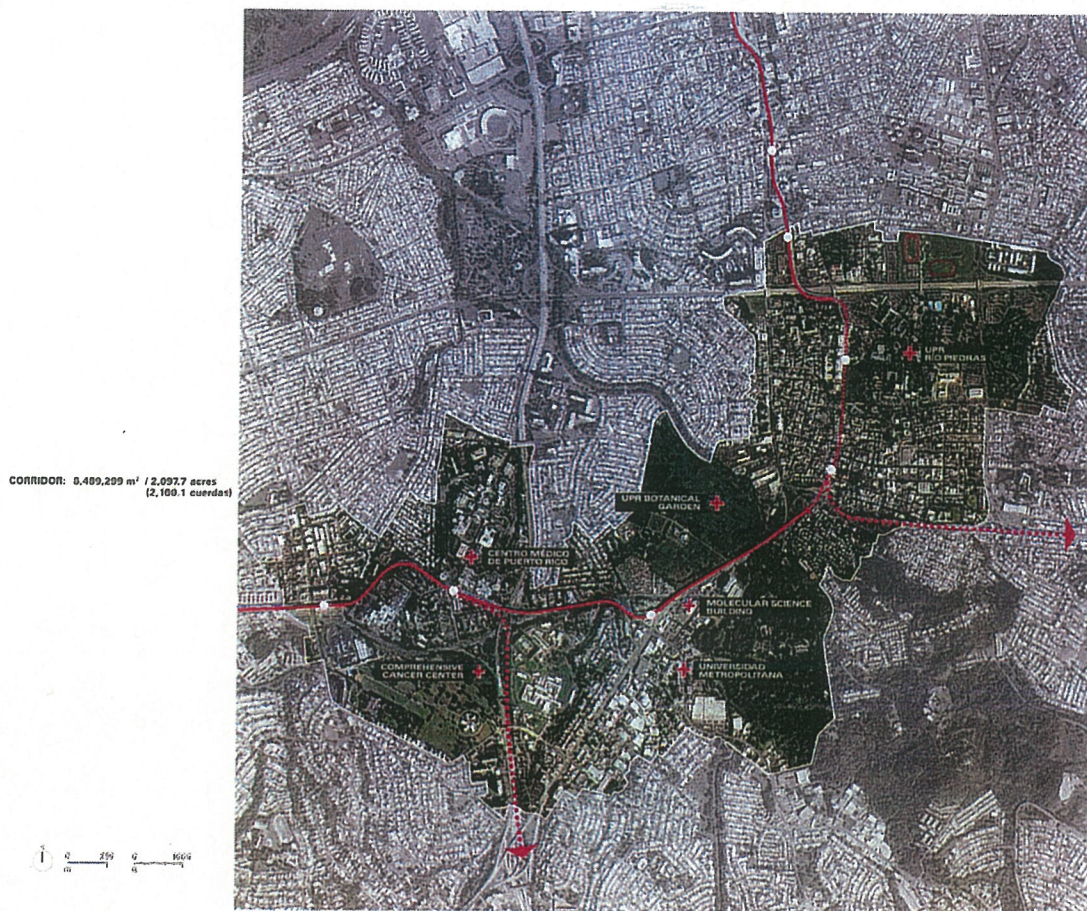
Furthermore, the commitment of the Trust, with the assistance of all relevant sectors, including Government, Industry, Academia and our civil society, is to have a positive impact in the retention of the talent that is educated in the Island and attracting the return of those who have emigrated due to lack of specialized opportunities within our boundaries. 33% of all medical graduates from the University of Puerto Rico Medical Science Campus go to the mainland US to complete their residences; 40% of all University of Puerto Rico Graduates in Engineering are hired by multinational corporations from the mainland US; 50% of Puerto Ricans graduating with a PhD in Puerto Rico or in the mainland US are employed by the Academia or Industry outside the Island.

The continued exodus of some of the best talent in high technology fields deprives Industry and Academia in Puerto Rico of the critical human resources necessary to advance an established life science economy. Research performed by Trust consultants demonstrates that this talent will return under the right conditions. The Knowledge Corridor, and within it the Science City, would be a valuable initial step in building upon Puerto Rico’s most valuable natural resources—its people.

The Knowledge Corridor

Through the Bio-Island initiative, the Government of Puerto Rico has made a commitment to the advancement of a “Knowledge Economy” in Puerto Rico – a new economy of education, research, ideas, innovation and technological creativity. The aim of the Knowledge Corridor is to fuel economic growth and innovation by capitalizing upon Puerto Rico’s growing life science industries. Investment and development in this area will strengthen and expand the Island’s place in the global

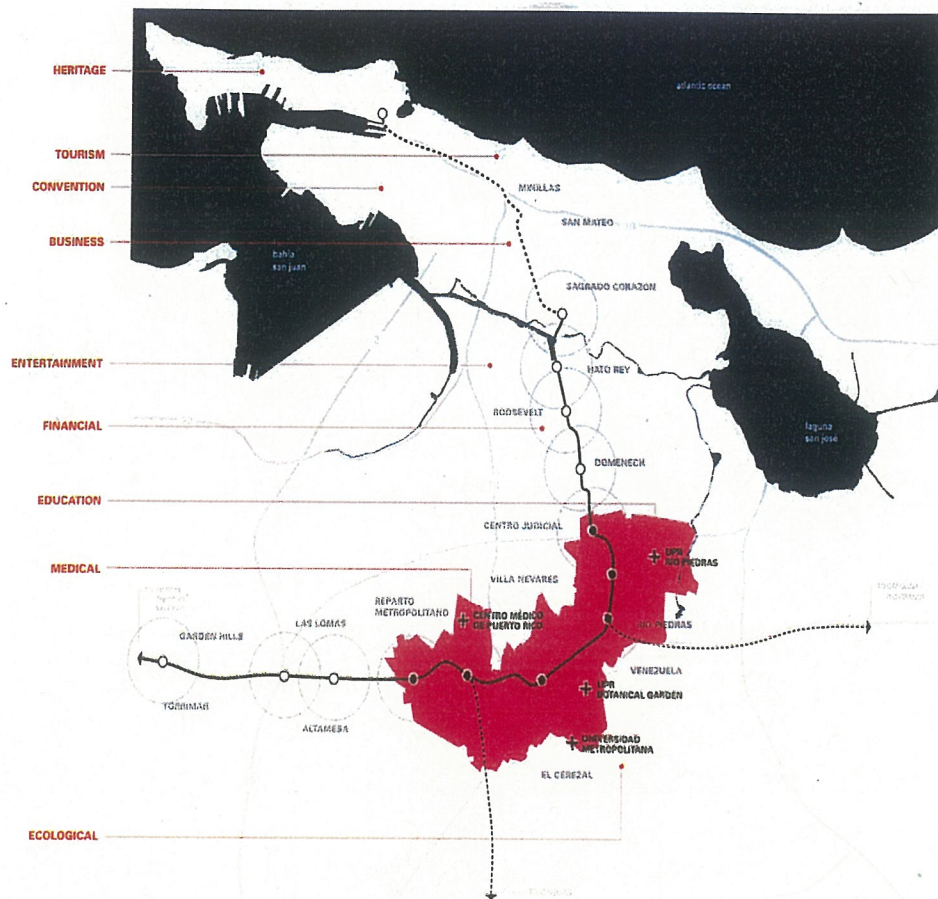
economy, attracting and retaining new scientific talent as well as generating capital and innovative ideas for use throughout the world.



Air View of the Knowledge Corridor 2000 Acres

The Knowledge Corridor is comprised of a nearly 2000 acre district in which lie the University of Puerto Rico's Río Piedras and Medical Sciences campuses; the Puerto Rico Medical Center campus; the University of Puerto Rico's Botanical Gardens; the Universidad Metropolitana campus; and various publicly-owned potential development sites for life science industries, education and new lifestyle neighborhoods. Further, the Knowledge Corridor district is aligned along the Tren Urbano mass transportation system, between Piñero Station in the North and San Francisco Station in the South West. Its agenda is also to attract intellectual talent and investment capital to Puerto Rico in order to capitalize on a growing life science market. This capital is no longer interested solely in isolated science parks set in bucolic suburban settings, but is now moving towards urban locations offering unique and appealing lifestyle opportunities that promote interaction as well as intellectual and social exchange. In order to attract this capital, the Knowledge Corridor must provide a distinct mix of programs that build upon one another to create exceptional

urban spaces and places within which this interactivity can become manifest and flourish.



Knowledge Corridor Location and Projected Connectivity

In this context, the Trust has engaged in, and will continue the development of, its flagship project—the **Puerto Rico Science City**.

The Puerto Rico Science City

By providing a clear strategic agenda for future development at the Science City, the Trust will establish a comprehensive life science cluster in San Juan able to facilitate the development of a new economic vision for Puerto Rico – a 21st Century Global Knowledge Economy.

In order to spur the development of the Science City while also capitalizing the Trust, on October 22, 2007, the Trust received from the Government of Puerto Rico a parcel

of approximately 70 *cuerdas* of land previously used as the Rio Piedras Correctional Facility in San Juan.



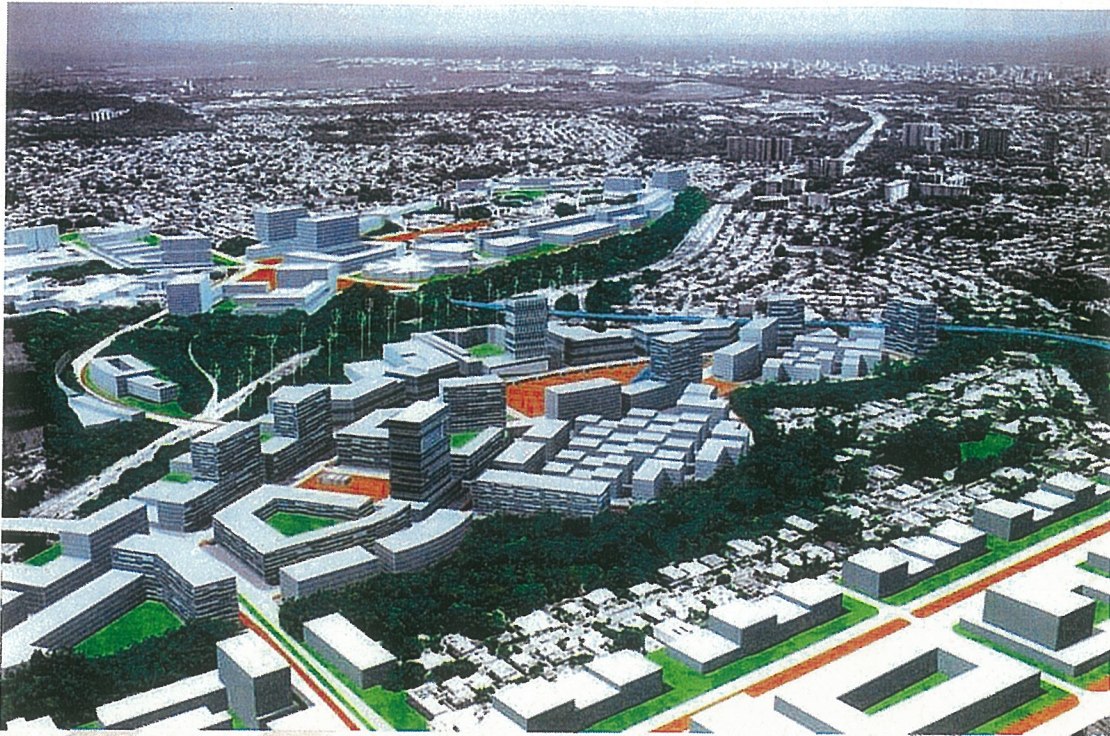
The Governor, students, members of the Council of Trustees and other government officials are witness to the execution of the Transfer Deed from the Commonwealth of Puerto Rico to the Trust

In anticipation of that transfer, during the past year the Trust has worked on defining the physical design vision for the Science City to be located in that parcel. The master plan which will result from these efforts will outline the redevelopment of the lands contained within the former Rio Piedras Correctional Facility, as well as provide an urban design framework demonstrating the development project's adjacencies and relationship to other institutions and current projects within the Knowledge Corridor, such as Centro Médico, the proposed Comprehensive Cancer Center, and the new Molecular Sciences Building in Cupey.



View of the transferred parcel as it currently stands

The ultimate idea for the Science City is to develop a state of the art enclave that integrates educational and research campuses with commercial laboratories, vibrant mixed use urban neighborhoods, efficient transportation networks and dynamic public open spaces. In that context, the Science City will consist of a mega mixed use urban project that will focus on the transformation of an obsolete site into an innovative life science environment. In addition to 1,000,000 square feet of laboratory space, the project will include other uses necessary to develop a vibrant urban community, including, residential, commercial, academic and civic spaces. This mixed use will distinguish the Science City from other life science developments. When combined with cultural and lifestyle amenities, such as charismatic public open spaces, diverse neighborhoods like Rio Piedras, a science related charter school and an international research institute, the Science City at Oso Blanco will stand out among its peers.



View of the Science City projected development

Ultimately, scientists, corporations, researchers and related potential tenants are looking for recognized centers of innovations and academic excellence; government incentives that work on multiple levels of a corporation's operation; the presence of a defined industry cluster that provides the critical mass of infrastructure, facilities, people and amenities; and locations that offer attractive live/work options to draw global talent. Such is the projected plan for the Science City.

This fiscal year, upon the transfer of the Oso Blanco parcel, the Trust will commence a schedule-driven implementation plan aimed at starting construction activities in two (2) years.

Other Ongoing Projects of the Trust:

Technology Transfer Unit

Unfortunately, in Puerto Rico coexists a patent-neglect culture at the government level (evidenced by outdated laws) and a lack of funding for intellectual property protection and commercialization. Only about 3 patents are awarded a year. It is imperative that a mind-set of commercialization replaces this current approach if we are to transform our economy into a knowledge-based economy. In this context, the Trust has committed to join the University of Puerto Rico and the Puerto Rico Industrial Development Company in adopting another project seminal to its commitment to knowledge, research and economic development: the creation of a Technology Transfer Unit for Puerto Rico. This unit would constitute a streamlined and effective structure for the commercialization of science and technology research,

which may be used by academic institutions and by private parties to protect intellectual property, improve production capacity, and develop new products. This is indispensable to promote and showcase inventions, patents and research performed by faculty, students and young entrepreneurs in Puerto Rico who could take advantage of new opportunities by adopting a culture in which they organize enterprises based on their own research.

The Trust is currently searching for specialized professionals in the field of Technology Transfer. Although these are highly difficult recruiting positions, our goal is to complete these during the upcoming year.

High School Science Laboratories Program

The Trust is advising a working group comprised of the Puerto Rico Infrastructure Financing Authority ("PRIFA"), the University of Puerto Rico and the Department of Education in a project to equip all high schools in the public education system with science laboratories to increase quantitative and qualitative curricular scientific activities. The working group has created a plan to put this project into effect. The Trust has taken on the duty to coordinate the efforts of the working group members with the 78 Municipalities and to obtain public and private funding to build and equip these laboratories. The goal is to gather at least \$10,000,000, which funds will match funding to be provided by the Municipalities and by private contributions.

As part of the High School Science Laboratories Program, the University of Puerto Rico, through the ALACIMA Project (*Alianza para el Aprendizaje de Ciencias y Matemáticas*), aims to provide comprehensive and systemic support to schools and to make of each science and math teacher an expert in its area, bringing quality education to all students. Schools with laboratories will receive training in the areas of biotechnology, biology, physics, chemistry, and general science.

Formal contract negotiations are under way between PRIFA and the Municipalities of Cayey, Bayamón, Coamo, Caguas, Guaynabo, Mayagüez, Ponce, Toa Baja, Dorado, Sabana Grande, Maunabo, Barceloneta, Manatí, Lajas, San Germán, Naranjito, Cataño, Villalba, Luquillo, Vieques and Yauco. In the upcoming year, the Trust will work with other interested Municipalities in order to formalize additional agreements.

Research Grants Program

The Trust is structuring a grants program aimed at promoting high-level scientific research in Puerto Rico. More specifically, the Research Grants Program would offer matching funds to improve the competitive position of promising research proposals that are submitted to the National Science Foundation and/or the National Institute of Health, and that represent areas of interest to the development of Puerto Rico's knowledge-based economy.

The Research Grants Program will be available for researchers in public and private universities, colleges, and affiliated non-profit research institutions located in Puerto Rico. Other similar programs will be considered for private institution researchers.

Academic Researcher Subsidy Program

The Trust is structuring a researcher subsidy program aimed at promoting the recruitment of world-class researchers by universities and colleges located in Puerto Rico. In particular, the Academic Researcher Subsidy Program would support universities and colleges that recruit world-class researchers by subsidizing portions of their salaries and/or laboratory equipment needed for their particular research necessities.

The Academic Researcher Subsidy Program will be available for public and private universities, colleges, and affiliated non-profit research institutions located in Puerto Rico. Other similar programs will be considered for the recruitment of world-class researchers by private institutions.

Plans for Year 2007-2008

Continued Implementation of Current Agenda and Plans

During this current Fiscal Year, the Trust will continue implementing the development plans for the Science City, the Technology Transfer Unit, the High School Science Laboratories Program, the Research Grants Program and the Academic Researcher Subsidy Program. We will also continue focusing on finding private funding, donations and investors for the development of these and other projects, including funding and awarding grants and subsidies to individual and institutional researchers and scientists.

As to the Science City, in the upcoming months the Trust will work in completing the previously mentioned master plan for the site, as well as implementing necessary pre-development activities, such as the preparation of an Environmental Impact Statement and the rezoning of the parcel through a "*Consulta de Ubicación*". These pre-development activities will serve to eliminate investment risks which, in turn, will result in adding value to the 70 *cuerdas* parcel recently donated to the Trust for the development of the Science City. Moreover, we will work on a financing strategy and business plan for said development.

Outreach Program and Other Plans

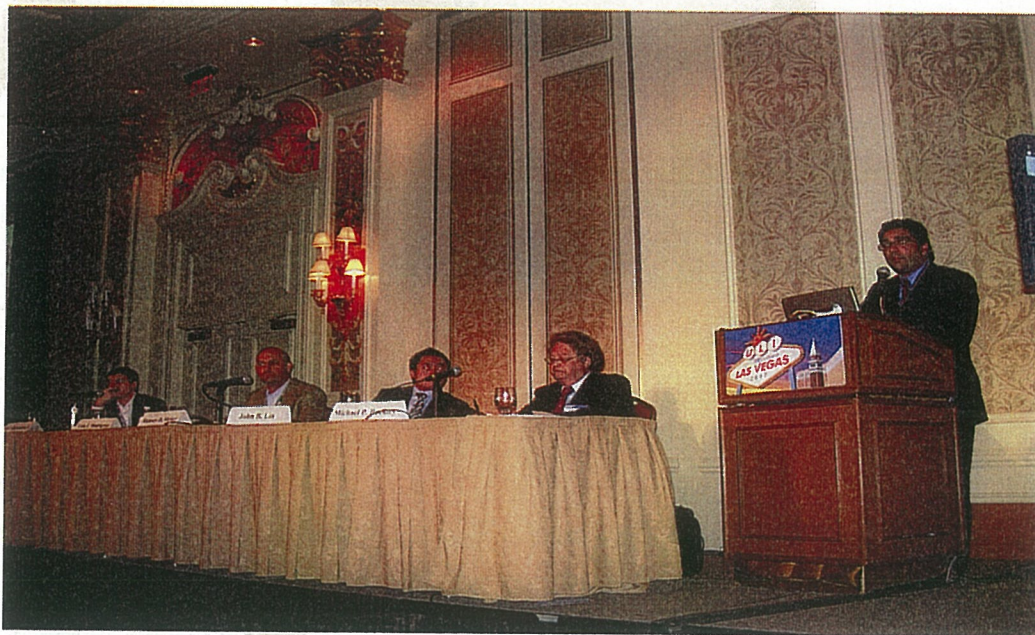
Paramount to identifying and enrolling investors and donors for the Trust and its projects, as well as incorporating the Academia, Government, and non-profit and private sector organizations into the development of an R & D public policy for Puerto Rico, is the development and implementation of an effective outreach program. The Trust has developed and put into action such program.

Last year, on the academic front, the Trust actively participated in colloquiums with academic researchers and administrators, both in Puerto Rico and abroad. We have also interviewed with the technology transfer directors of the Massachusetts Institute of Technology (MIT), Harvard University and the University of North Carolina, among others.

Our outreach efforts have also included reaching out to heads of government agencies, private industries and financial institutions, local mayors and legislators, non-profit organizations, such as INDUNIV, Technology Entrepreneurs of Puerto Rico and Fundación Ana G. Méndez, industry trade associations, including the Pharmaceutical Industry Association (PIA), Association of General Contractors, and the Puerto Rico Manufacturer's Association, among others, and several community and neighborhood organizations.

Furthermore, we have participated in prestigious conferences to promote Puerto Rico as a destination for high-level science R & D. Among the conferences we have participated in are: the 2007 Biotechnology Industry Organization (*Bio*) Conference held in Boston, MA; and, the Urban Land Institute's 2007 Annual Meeting in Las Vegas, Nevada.

As part of our participation in the Urban Land Institute Annual Meeting, the Executive Director was invited as a panelist to discuss the subject of large scale mixed-use projects of high quality and front-edge architectural profiles. Each project in the Meeting represented a repositioning of previously under-utilized sites that will now combine mixed-use with special emphasis on public spaces and other amenities.



Executive Director Luis E. Rodríguez at the Urban Land Institute Annual Meeting

The Trust has also visited and established working relationships with the North Carolina Research Triangle Park Foundation and the New Jersey Technology Centre.

During the upcoming year, we will continue these outreach efforts with all sectors and stakeholders, in order to incorporate their recommendations and concerns into our work. Also, the Trust will continue its participation in trade and development conferences to position the Island as a protagonist in the global knowledge-based economy.

Furthermore, the Trust intends to develop during this coming year Puerto Rico's R & D public policy and priority research areas as well as establish an advisory committee composed of private and public academic researchers and administrators in order to receive more input and advice from the academic sector which will further assist us in developing Puerto Rico's R & D public policy.

Administrative Matters

The Trust is in the process of creating a well-planned and lean administrative structure, adopting relevant modern rules and regulations and establishing its organizational agenda. Currently two individuals under the leadership of the Executive Director and the Trustees perform all the duties assigned to the Trust.

At this stage, therefore, the Trust has only contracted the indispensable services to start running its operations, namely, legal counsel (Pietrantoní Méndez & Alvarez), accountants (Colón Jiménez & Asociados) and external auditors (RSM-ROC). The Council of Trustees also has contracted external legal counsel (Picó & Blanco).

The Trust anticipates the creation of not more than five (5) positions in Fiscal Year 2007-2008, including an internal accountant and a comptroller, to complement the work currently performed by the Executive Director and his limited staff and a director for the Technology Transfer Unit. For the development of the Science City, the Trust is also contemplating engaging professional specialized services in the area of science infrastructure development to assist the Trust in creating a Development Business Plan for the Science City.

Moreover, the Trust will search for professional services in order to implement its Science City pre-development efforts, its outreach activities, its Research Grants and Subsidy Programs and its Technology Transfer initiative, among others.

EXHIBITS

Exhibit A---Audited Financial Statements 2006

Exhibit B---Audited Financial Statements 2007

Exhibit C--- Insert included in *Scientific America* November 2007 Issue

Exhibit D--- News Clippings

Enclosed also find disk entitled *What is?*

EXHIBIT A

Audited Financial Statements 2006

RSM! ROC & Company

Certified Public Accountants & Consultants

Puerto Rico Science, Technology and Research Trust

A Component Unit of the Commonwealth of Puerto Rico

Basic Financial Statements and Management's Discussion and Analysis
June 30, 2006



Commonwealth of Puerto Rico
GOVERNMENT OF PUERTO RICO
GOVERNMENT OF PUERTO RICO

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A Component Unit of the Commonwealth of Puerto Rico

Basic Financial Statements and Management's Discussion and Analysis
June 30, 2006

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RSM ROC & Company

Certified Public Accountants & Consultants

RSM ROC & Company
PO Box 10528
San Juan, PR 00922-0528
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www.rocpr.net

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of Puerto Rico Science, Technology and Research Trust (the Trust), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2006, which collectively comprise the Trust's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Trust's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis of designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Puerto Rico Science, Technology and Research Trust as of June 30, 2006, and its changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

San Juan, Puerto Rico
October 22, 2007.

RSM ROC & Company

Stamp No. 2265629 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

As management of Puerto Rico Science, Technology and Research Trust (the Trust), we offer readers of the Trust's financial statements this narrative overview and analysis of the Trust's financial performance during the fiscal year ended June 30, 2006. Please read it in conjunction with the Trust's basic financial statements including the notes thereto, which follow this section.

(1) Financial highlights:

- The Trust's assets increased by \$38 million over the course of the year's operations, ending with net assets of \$44 million, mainly due to increase in temporary restricted assets of \$32 million.
- Funds recorded for the Scientific Investigation Fund for the Centenary of the University of Puerto Rico (the University) for the fiscal year totaled \$32 million during 2006.
- The Trust's operating expenses consist of payments for programs and activities permitted by the enabling legislation. General activities during 2006 totaled \$77 thousand.

(2) Overview of the financial statements:

This report includes this management's discussion and analysis report, the independent auditors' report, and the basic financial statements of the Trust. The basic financial statements also include notes that explain in more detail some of the information in the basic financial statements.

(3) Required financial statements:

- The statement of net assets provides information about the nature and amounts of resources and the Trust's obligations.
- Current year's revenues and expenses are accounted for in the statement of activities. This statement measures the results of the Trust's operations over the past year.
- Governmental funds financial statements present the financial position and results of operations for the Trust's two governmental fund types using a current financial resources measurement focus. The statement of revenue, expenditures, and changes in fund balance can be used to determine, for example, whether and how the Trust met its debt service requirements for the year.

(4) Financial analysis of the Trust:

One of the most important questions asked about the Trust's finances is "Is the Trust as a whole better or worse as a result of this year's activities?" The statement of net assets and the statement of activities report information about the Trust's activities in a way that will help answer this question. These two statements report the net assets of the Trust and the changes in them.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

One can think of the Trust's net assets — the difference between assets and liabilities — as one way to measure financial health or financial position. Over time, increases or decreases in the Trust's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed government legislation.

(5) **Government-wide financial analysis:**

The government wide financial statements were designed so that the user could determine whether the Trust is in a better or worse financial condition from the prior year. The following is a condense summary of net assets for the Trust compared to prior year (amounts in thousands):

| | June 30, | | Change | |
|------------------------|-----------|---------------------|-----------|---------|
| | 2006 | (Unaudited) 2005 | Amount | Percent |
| Current assets | \$ 11,884 | \$ 5,456 | \$ 6,428 | 118 % |
| Restricted | 32,000 | - | 32,000 | - |
| Total assets | 43,884 | 5,456 | 38,428 | 704 % |
| Liabilities | 16 | - | 16 | - |
| Net assets: | | | | |
| Temporarily restricted | 32,000 | - | 32,000 | - |
| Unrestricted | 11,868 | 5,456 | 6,412 | 118 % |
| | \$ 43,868 | \$ 5,456 | \$ 38,412 | 704 % |

As noted above, the Trust's net assets increased by \$38.4 million, from net assets of \$5 million in 2005 to \$44 million in 2006. This increase results from a major fact: during 2006, the Trust received, in addition to the money received from the unrestricted fund, other revenue from the Scientific Investigation Fund for the Centenary of the University of Puerto Rico for the amount of \$32 million.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

Condensed program revenues, expenses, and change in net assets are presented below (amounts in thousands):

| Function/program | June 30, | | Change | |
|-----------------------------------|------------------|-----------------|------------------|--------------|
| | 2006 | Unaudited 2005 | Amount | Percent |
| Expenditures: | | | | |
| General activities | \$ 77 | \$ - | \$ 77 | - |
| | <u>77</u> | <u>-</u> | <u>77</u> | <u>-</u> |
| General revenues: | | | | |
| Contributions | 6,868 | 5,456 | 1,412 | 26 % |
| Interest income | 1 | - | 1 | - |
| Temporary restricted contribution | <u>32,000</u> | <u>-</u> | <u>32,000</u> | <u>-</u> |
| | <u>38,869</u> | <u>5,456</u> | <u>33,413</u> | <u>612 %</u> |
| Change in net assets | <u>\$ 38,792</u> | <u>\$ 5,456</u> | <u>\$ 33,336</u> | <u>612 %</u> |

While comparative statements of net assets show the changes in financial position, the statement of activities provides answers as to the nature and source of these changes. As noted, the increase in net assets of \$33 million is the result of two major situations: (1) the increase in revenues: \$32 million received from the temporarily restricted Scientific Investigation Fund for the Centenary of the University and (2) the increase of \$1.5 million in revenues from Puerto Rico Industrial Development Company.

(6) Governmental fund financial analysis:

The Trust's governmental funds reported fund balances of \$5 million as of June 30, 2006. The increase in fund balance in the governmental funds is mainly due to the net effect of the income from the cash receipt from the Excise tax during fiscal year 2006.

(7) Request for information:

This financial report is designed to provide those interested with a general overview of the Trust's finances and to enhance the Trust's accountability for the funds it receives. Questions about this report or requests for additional information should be addressed to Puerto Rico Science, Technology and Research Trust, PO Box 362350, San Juan, Puerto Rico, 00936-2350.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A Component Unit of the Commonwealth of Puerto Rico

STATEMENT OF NET ASSETS
June 30, 2006

ASSETS:

| | | |
|--|----|-------------------|
| Cash | \$ | 15,856 |
| Accrued interest receivable | | 58 |
| Account receivable - governmental entities | | 11,867,668 |
| Restricted assets - | | |
| Temporarily restricted assets - account receivable governmental entity | | <u>32,000,000</u> |
| | | <u>43,883,582</u> |

LIABILITIES:

| | |
|------------------|---------------|
| Accounts payable | <u>15,839</u> |
| | <u>15,839</u> |

NET ASSETS:

| | |
|------------------------|----------------------|
| Temporarily restricted | 32,000,000 |
| Unrestricted | <u>11,867,743</u> |
| | <u>\$ 43,867,743</u> |

The accompanying notes are an integral part of this statement.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A Component Unit of the Commonwealth of Puerto Rico

STATEMENT OF ACTIVITIES
For the year ended June 30, 2006

| Functions/Programs | Expenses | Program Revenues Investment Earnings | Net expenses and changes in net assets (deficit) |
|--------------------------------------|------------------|---|---|
| GOVERNMENTAL ACTIVITIES: | | | |
| General government | \$ 77,092 | \$ - | \$ (77,092) |
| | <u>\$ 77,092</u> | <u>\$ -</u> | <u>(77,092)</u> |
| GENERAL REVENUES: | | | |
| Contributions | | | 6,867,668 |
| Interest income | | | 1,291 |
| Temporarily restricted contribution | | | <u>32,000,000</u> |
| | | | <u>38,868,959</u> |
| CHANGE IN NET ASSETS | | | 38,791,867 |
| NET ASSETS, beginning of year | | | <u>5,075,876</u> |
| NET ASSETS, end of year | | | <u>\$ 43,867,743</u> |

The accompanying notes are an integral part of this statement.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST

A Component Unit of the Commonwealth of Puerto Rico

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2006

| | <u>General Fund</u> | <u>Scientific Investigation Fund for the Centenary of the University</u> | <u>Total Governmental Funds</u> |
|---|---------------------|--|---|
| ASSETS: | | | |
| Interest-bearing deposits with Government Development Bank for Puerto Rico | \$ 15,856 | \$ - | \$ 15,856 |
| Account receivable - governmental entities | 5,000,000 | - | 5,000,000 |
| Accrued interest receivable | 58 | - | 58 |
| | <u>\$ 5,015,914</u> | <u>\$ -</u> | <u>\$ 5,015,914</u> |
| LIABILITIES AND FUND BALANCES: | | | |
| Accounts payable | \$ 15,839 | \$ - | \$ 15,839 |
| FUND BALANCES: | | | |
| Unreserved and undesignated | 5,000,075 | - | 5,000,075 |
| | <u>5,000,075</u> | <u>-</u> | <u>5,000,075</u> |
| | <u>\$ 5,015,914</u> | <u>\$ -</u> | <u>\$ 5,015,914</u> |

The accompanying notes are an integral part of this statement.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A Component Unit of the Commonwealth of Puerto Rico

**RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS (LIABILITIES)**

June 30, 2006

**AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF
NET ASSETS ARE DIFFERENT BECAUSE:**

| | | |
|---|-----------|--------------------------|
| FUND BALANCES OF GOVERNMENTAL FUNDS | \$ | 5,000,075 |
| Receivable from governmental entities will not be received in the current period, and therefore is not reported in the fund financial statements. | | 6,867,668 |
| Receivable from restricted funds will not be received in the current period, and therefore is not reported in the fund financial statements. | | <u>32,000,000</u> |
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | \$ | <u>43,867,743</u> |

The accompanying notes are an integral part of this statement.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A Component Unit of the Commonwealth of Puerto Rico

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS**

For the year ended June 30, 2006

| | General Fund | Scientific Investigation Fund for the Centenary of the University | Total Governmental Funds |
|---|---------------------|---|--------------------------------|
| REVENUES: | | | |
| Contributions | \$ 5,000,000 | \$ - | \$ 5,000,000 |
| Interest Income | <u>1,291</u> | <u>-</u> | <u>1,291</u> |
| | <u>5,001,291</u> | <u>-</u> | <u>5,001,291</u> |
| EXPENDITURES: | | | |
| General government | <u>77,092</u> | <u>-</u> | <u>77,092</u> |
| | <u>77,092</u> | <u>-</u> | <u>77,092</u> |
| EXCESS OF REVENUES OVER EXPENDITURES AND NET CHANGE IN FUND BALANCES | <u>4,924,199</u> | <u>-</u> | <u>4,924,199</u> |
| | 4,924,199 | - | 4,924,199 |
| FUND BALANCES, beginning of year | <u>75,876</u> | <u>-</u> | <u>75,876</u> |
| FUND BALANCES, end of year | <u>\$ 5,000,075</u> | <u>\$ -</u> | <u>\$ 5,000,075</u> |

The accompanying notes are an integral part of this statement.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A Component Unit of the Commonwealth of Puerto Rico

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF
ACTIVITIES**

For the year ended June 30, 2006

**AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF
ACTIVITIES ARE DIFFERENT BECAUSE:**

| | |
|---|-----------------------------|
| NET CHANGE IN FUND BALANCE OF GOVERNMENTAL FUNDS | \$ 4,924,199 |
| Net change in receivable from governmental entities reported as revenue in the statement of activities, but not reported in the fund financial statement since it does not provide current financial resources. | 1,867,668 |
| Net change in receivable from restricted funds reported as revenue in the statement of activities, but not reported in the fund financial statement since it does not provide current financial resources. | <u>32,000,000</u> |
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u>\$ 38,791,867</u> |

The accompanying notes are an integral part of this statement.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST

A Component Unit of the Commonwealth of Puerto Rico

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

1) **Reporting entity:**

Puerto Rico Science, Technology and Research Trust (the Trust) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth), created by Act No. 214 of the Legislature of the Commonwealth on August 18, 2004 (the Act). The purpose of this Trust is to foster and fund research, development and infrastructure project 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. These projects are to be financed as follows: (i) twenty percent of the money deposited in the Special Fund for Economic Development managed by the Puerto Rico Industrial Development Company (PRIDCO), (ii) the moneys of Scientific Investigation Fund for the Centenary of the University of Puerto Rico, (iii) a special appropriation of five million dollars from the Improvements Fund, (iv) a five million dollars from the balance of collections of federal excise taxes in accordance with Section 7652(a)(3) of the United States Internal Revenue Code 91986, as amended, (v) and private donations, other government funds, and legislative appropriations.

The Act provides that the Board of Trustees, composed of 11 trustees, five of whom shall be members *ex officio*: the Secretary of the Economic Development and Commerce Department, the President of the University of Puerto Rico, the President of the Government Development Bank, the Executive Director of the Puerto Rico Industrial Development Company, the Director of the Office of Management and Budget, and six Trustees individuals appointed by the Board of Trustees as required by the Act, will act as the trustee of the Trust. The Trust is exempt from taxation in Puerto Rico, pursuant to the Act.

2) **Summary of significant accounting policies:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates.

Following is a description of the Trust's most significant accounting policies:

(a) ***Government-wide and fund financial statements***

Government-Wide Financial Statements – The statement of net assets and the statement of activities report information on all non-fiduciary activities of the Trust. The Trust's activities have only governmental activities. Governmental activities are financed through revenue from the Act, intergovernmental revenue and other financing sources.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A Component Unit of the Commonwealth of Puerto Rico

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

The statement of net assets presents the Trust's assets and liabilities, with the difference reported as net assets. Net assets are reported in two categories:

- Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often are designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on use that are imposed by management, but such constraints may be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include: (1) earnings on investments and (2) grants and contributions that are temporarily restricted and unrestricted to meeting the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues are reported as general revenues.

Governmental Fund's Financial Statements – Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All funds of the Trust are major funds.

(b) *Measurement focus, basis of accounting and financial statement presentation*

The accounts of the Trust are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenue, and expenditures, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Basis of accounting refers to when revenue and expenditures, or expenses, are recognized in the accounts and reported in the financial statements. Bases of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Government-Wide Financial Statements – Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Grants and similar items are recognized as revenue as soon as all of the eligibility requirements imposed by the provider have been met.

Governmental Fund's Financial Statements – The governmental fund's financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become measurable and available.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A Component Unit of the Commonwealth of Puerto Rico

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

Revenue resulting from the Act is recognized on an annual basis, upon collection. Interest income is recognized when earned, since it is available and measurable. Expenditures are recorded when the related liability is incurred. An exception to this general rule includes principal and interest on general long-term debt, which is recognized when due. Revenues are considered to be available when it is collectible within the current period soon enough thereafter to pay liabilities of the current period. For this purpose, the Trust considers revenues to be available if they are collected within 90 days at the end of the current fiscal year-end.

(c) *Fund accounting*

The financial activities of the Trust are recorded in individual funds, each of which is deemed to be a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the Trust that are reported in the accompanying basic financial statements have been classified into the following major governmental funds:

- *General Fund* – The General Fund is the general operating fund of the Trust that is used for all financial resources, except those required to be accounted for in another fund. This fund is used to account 100 percent of the proceeds from the Act to be used for corporate projects and activities (30% to 40%), academic research (30% to 40%), and research infrastructure (20% to 30%).
- *Scientific Investigation Fund for the Centenary of the University* – This fund is used to account for University of Puerto Rico activities and projects related to academic research, recruit and retention of researchers, infrastructure, and technology transfer activity.

(d) *Budgetary accounting*

The Trust is not required by the Act to submit a budget for approval by the Legislature of the Commonwealth; consequently, no formal budgetary accounting procedures are followed.

(e) *Restricted assets*

Certain resources are set aside for the Scientific Investigation Fund for the Centenary of the University of Puerto Rico. These assets are classified as restricted assets on the accompanying Statement of Net Assets – Governmental Activities and Balance Sheet – Governmental Funds.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A Component Unit of the Commonwealth of Puerto Rico

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

The GASB has issued the following accounting pronouncements that have effective dates after June 30, 2006:

- (a) ***GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans***, which is effective for periods beginning after December 15, 2005, December 15, 2006, or December 15, 2007, depending on the level of total annual revenues.
- (b) ***GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions***, which is effective for periods beginning after December 15, 2006, December 15, 2007 or December 15, 2008, depending on the level of total annual revenues.
- (c) ***GASB Statement No. 47, Accounting for Termination Benefits***, which is effective in two parts. For termination benefits provided through an existing defined benefit other postemployment benefits plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45. For all other termination benefits, this Statement is effective for financial statements for periods beginning after June 15, 2005.
- (d) ***GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues***, which is effective for financial statements for periods beginning after December 15, 2006.
- (e) ***GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations***, which is effective for financial statements for periods beginning after December 15, 2007.
- (f) ***GASB Statement No. 50, Pension Disclosures, An Amendment of GASB Statements No. 25 and No. 27***, which is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which is effective for periods which the financial statements and required supplemental information contain information resulting from actuarial valuations as of June 15, 2007, or later.
- (g) ***GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets***, which is effective for financial statements for periods beginning after June 15, 2009.
- (h) ***GASB Technical Bulletin No. 2006-1, Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D***, which is effective simultaneously with the implementation of GASB Statements No. 43 and 45.

The impact of these pronouncements in the Trust's financial statements has not yet been determined.

3) Custodial credit risk:

In the event of a bank failure, the Trust's deposit may not be returned to it. The Trust does not have a deposit policy for custodial credit risk. As of June 30, 2006, all of the Trust's bank balance, aggregating approximately \$5,000,000, was exposed to custodial credit risk since such deposits, all of which are maintained at the Bank, are uninsured and uncollateralized.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A Component Unit of the Commonwealth of Puerto Rico

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2006

4) Transactions with Government Development Bank for Puerto Rico:

As of June 30, 2006, the depository bank balance represents interest-bearing demand deposits with the Bank. The Bank is another component unit of the Commonwealth.

5) Subsequent events:

On October 1, 2007, the Trust received an unrestricted contribution of \$5.2 million from a third party.

On October 22, 2007, the Trust received approximately 70 acres of prime real estate in the metropolitan area of San Juan, which includes the former Rio Piedras Correctional Facilities (Oso Blanco Penitentiary) that will become a focal point for the development of scientific research laboratories and a scientific community dubbed "Science City" and integrated into an extensive urban development project known as the San Juan Knowledge Corridor.

EXHIBIT B

Audited Financial Statements 2007

RSM! ROC & Company

Certified Public Accountants & Consultants

Puerto Rico Science, Technology and Research Trust

A Component Unit of the Commonwealth of Puerto Rico

Basic Financial Statements and Management's Discussion and Analysis

June 30, 2007



Puerto Rico
Science, Technology
& Research Trust

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A Component Unit of the Commonwealth of Puerto Rico

Basic Financial Statements and Management's Discussion and Analysis
June 30, 2007

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RSM ROC & Company

Certified Public Accountants & Consultants

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of Puerto Rico Science, Technology and Research Trust (the Trust), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2007, which collectively comprise the Trust's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Trust's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis of designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Puerto Rico Science, Technology and Research Trust as of June 30, 2007, and its changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

San Juan, Puerto Rico
October 22, 2007.

RSM ROC & Company

Stamp No. 2265630 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007

As management of Puerto Rico Science, Technology and Research Trust (the Trust), we offer readers of the Trust's financial statements this narrative overview and analysis of the Trust's financial performance during the fiscal year ended June 30, 2007. Please read it in conjunction with the Trust's basic financial statements including the notes thereto, which follow this section.

(1) Financial highlights:

- The Trust's assets increased by \$8.8 million over the course of the year's operations ending with net assets of \$53 million, mainly due to increase in unrestricted assets of \$8.8 million from a total of \$12 million at beginning of year.
- Funds recorded for the Scientific Investigation Fund for the Centenary of the University of Puerto Rico (the University) for the fiscal year totaled \$32 million during 2007.
- The Trust's operating expenses consist of payments for programs and activities permitted by the enabling legislation. General activities during 2007 totaled \$312 thousand an increase of \$235 thousand, 305% over the \$77 thousand expended during 2006.

(2) Overview of the financial statements:

This report includes this management's discussion and analysis report, the independent auditors' report, and the basic financial statements of the Trust. The basic financial statements also include notes that explain in more detail some of the information in the basic financial statements.

(3) Required financial statements:

- The statement of net assets provides information about the nature and amounts of resources and the Trust's obligations.
- Current year's revenues and expenses are accounted for in the statement of activities. This statement measures the results of the Trust's operations over the past year.
- Governmental funds financial statements present the financial position and results of operations for the Trust's two governmental fund types using a current financial resources measurement focus. The statement of revenue, expenditures, and changes in fund balance can be used to determine, for example, whether and how the Trust met its debt service requirements for the year.

(4) Financial analysis of the Trust:

One of the most important questions asked about the Trust's finances is "Is the Trust as a whole better or worse as a result of this year's activities?" The statement of net assets and the statement of activities report information about the Trust's activities in a way that will help answer this question. These two statements report the net assets of the Trust and the changes in them.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007

One can think of the Trust's net assets — the difference between assets and liabilities — as one way to measure financial health or financial position. Over time, increases or decreases in the Trust's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed government legislation.

(5) Government wide financial analysis:

The government wide financial statements were designed so that the user could determine whether the Trust is in a better or worse financial condition from the prior year. The following is a condense summary of net assets for the Trust compared to prior year (amounts in thousands):

| | June 30, | | Change | |
|------------------------|-----------|-----------|----------|---------|
| | 2007 | 2006 | Amount | Percent |
| Current assets | \$ 20,697 | \$ 11,884 | \$ 8,813 | 74 % |
| Restricted | 32,000 | 32,000 | - | 0 % |
| Total assets | 52,697 | 43,884 | 8,813 | 20 % |
| Liabilities | 39 | 16 | 23 | 144 % |
| Net assets: | | | | |
| Temporarily restricted | 32,000 | 32,000 | - | 0 % |
| Unrestricted | 20,657 | 11,868 | 8,789 | 74 % |
| | \$ 52,657 | \$ 43,868 | \$ 8,789 | 20 % |

As noted above, the Trust's net assets increased by \$8.8 million, from net assets of \$44 million in 2006 to \$53 million in 2007. This increase results from the money received from the unrestricted fund.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007

Condensed program revenues, expenses, and change in net assets are presented below (amounts in thousands):

| Function/program | June 30, | | Change | |
|-----------------------------------|-----------------|------------------|--------------------|----------------|
| | 2007 | 2006 | Amount | Percent |
| Expenditures: | | | | |
| General activities | \$ 312 | \$ 77 | \$ 235 | 305 % |
| | <u>312</u> | <u>77</u> | <u>235</u> | <u>305 %</u> |
| General revenues: | | | | |
| Contributions | 8,887 | 6,868 | 2,019 | 29 % |
| Interest income | 215 | 1 | 214 | 213 % |
| Temporary restricted contribution | <u>-</u> | <u>32,000</u> | <u>(32,000)</u> | <u>(100) %</u> |
| | <u>9,102</u> | <u>38,869</u> | <u>(29,767)</u> | <u>(77) %</u> |
| Change in net assets | <u>\$ 8,790</u> | <u>\$ 38,792</u> | <u>\$ (30,002)</u> | <u>(78) %</u> |

While comparative statements of net assets show the changes in financial position, the statement of activities provides answers as to the nature and source of these changes. As noted, the decrease in net assets of \$30 million is the result of the decrease in revenues of \$32 million received from the temporarily restricted Scientific Investigation Fund for the Centenary of the University during 2006.

(6) Governmental fund financial analysis:

The Trust's governmental funds reported fund balances of \$10 million as of June 30, 2007, which is \$5 million more than prior year. The increase in fund balance in the governmental funds is mainly due to the net effect of the income from the cash received from the excise tax during fiscal year 2007.

(7) Request for information:

This financial report is designed to provide those interested with a general overview of the Trust's finances and to enhance the Trust's accountability for the funds it receives. Questions about this report or requests for additional information should be addressed to Puerto Rico Science, Technology and Research Trust, PO Box 362350, San Juan, Puerto Rico, 00936-2350.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A Component Unit of the Commonwealth of Puerto Rico

STATEMENT OF NET ASSETS
June 30, 2007

ASSETS:

| | |
|--|-------------------|
| Cash | \$ 4,923,549 |
| Accrued interest receivable | 18,306 |
| Account receivable - governmental entities | 15,755,057 |
| Restricted assets - | |
| Temporarily restricted assets - account receivable governmental entity | <u>32,000,000</u> |
| | <u>52,696,912</u> |

LIABILITIES:

| | |
|------------------|---------------|
| Accounts payable | <u>39,498</u> |
| | <u>39,498</u> |

NET ASSETS:

| | |
|------------------------|----------------------|
| Temporarily restricted | 32,000,000 |
| Unrestricted | <u>20,657,414</u> |
| | <u>\$ 52,657,414</u> |

The accompanying notes are an integral part of this statement.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A Component Unit of the Commonwealth of Puerto Rico

STATEMENT OF ACTIVITIES
For the year ended June 30, 2007

| Functions/Programs | Expenses | Program Revenues Investment Earnings | Net expenses and changes in net assets (deficit) |
|--------------------------------------|-------------------|---|---|
| GOVERNMENTAL ACTIVITIES: | | | |
| General government | \$ 312,475 | \$ - | \$ (312,475) |
| | <u>\$ 312,475</u> | <u>\$ -</u> | <u>(312,475)</u> |
| GENERAL REVENUES: | | | |
| Contributions | | | 8,887,389 |
| Interest income | | | <u>214,757</u> |
| | | | <u>9,102,146</u> |
| CHANGE IN NET ASSETS | | | 8,789,671 |
| NET ASSETS, beginning of year | | | <u>43,867,743</u> |
| NET ASSETS, end of year | | | <u>\$ 52,657,414</u> |

The accompanying notes are an integral part of this statement.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A Component Unit of the Commonwealth of Puerto Rico

BALANCE SHEET- GOVERNMENTAL FUNDS

June 30, 2007

| | General Fund | Scientific Investigation Fund for the Centenary of the University | Total Governmental Funds |
|---|---------------------|--|--------------------------------|
| ASSETS: | | | |
| Interest-bearing deposits with Government Development Bank for Puerto Rico | \$ 4,923,549 | \$ - | \$ 4,923,549 |
| Account receivable - governmental entities | 5,000,000 | - | 5,000,000 |
| Accrued interest receivable | 18,306 | - | 18,306 |
| | <u>\$ 9,941,855</u> | <u>\$ -</u> | <u>\$ 9,941,855</u> |
| LIABILITIES AND FUND BALANCES: | | | |
| Accounts payable | \$ 39,498 | \$ - | \$ 39,498 |
| FUND BALANCES: | | | |
| Unreserved and undesignated | 9,902,357 | - | 9,902,357 |
| | <u>9,902,357</u> | <u>-</u> | <u>9,902,357</u> |
| | <u>\$ 9,941,855</u> | <u>\$ -</u> | <u>\$ 9,941,855</u> |

The accompanying notes are an integral part of this statement.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A Component Unit of the Commonwealth of Puerto Rico

**RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS**

June 30, 2007

**AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF
NET ASSETS ARE DIFFERENT BECAUSE:**

| | |
|--|-----------------------------|
| FUND BALANCES OF GOVERNMENTAL FUNDS | \$ 9,902,357 |
| Receivable from governmental entities will not be received in the current period, and therefore is not reported in the fund financial statements. | 10,755,057 |
| Receivable from restricted funds will not be received in the current period, and therefore is not reported in the fund financial statements. | <u>32,000,000</u> |
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u><u>\$ 52,657,414</u></u> |

The accompanying notes are an integral part of this statement.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST

A Component Unit of the Commonwealth of Puerto Rico

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the year ended June 30, 2007

| | <u>General Fund</u> | <u>Scientific Investigation Fund for the Centenary of the University</u> | <u>Total Governmental Funds</u> |
|---|---------------------|--|---|
| REVENUES: | | | |
| Contributions | \$ 5,000,000 | \$ - | \$ 5,000,000 |
| Interest Income | 214,757 | - | 214,757 |
| | <u>5,214,757</u> | <u>-</u> | <u>5,214,757</u> |
| EXPENDITURES: | | | |
| General government | <u>312,475</u> | <u>-</u> | <u>312,475</u> |
| | <u>312,475</u> | <u>-</u> | <u>312,475</u> |
| EXCESS OF REVENUES OVER EXPENDITURES AND NET CHANGE IN FUND BALANCES | <u>4,902,282</u> | <u>-</u> | <u>4,902,282</u> |
| | 4,902,282 | - | 4,902,282 |
| FUND BALANCES, beginning of year | <u>5,000,075</u> | <u>-</u> | <u>5,000,075</u> |
| FUND BALANCES, end of year | <u>\$ 9,902,357</u> | <u>\$ -</u> | <u>\$ 9,902,357</u> |

The accompanying notes are an integral part of this statement.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A Component Unit of the Commonwealth of Puerto Rico

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF
ACTIVITIES**

For the year ended June 30, 2007

**AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF
ACTIVITIES ARE DIFFERENT BECAUSE:**

| | |
|---|----------------------------|
| NET CHANGE IN FUND BALANCE OF GOVERNMENTAL FUNDS | \$ 4,902,282 |
| Net change in receivable from governmental entities reported as revenue in the statement of activities, but not reported in the fund financial statement since it does not provide current financial resources. | <u>3,887,389</u> |
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u>\$ 8,789,671</u> |

The accompanying notes are an integral part of this statement.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST

A Component Unit of the Commonwealth of Puerto Rico

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

1) **Reporting entity:**

Puerto Rico Science, Technology and Research Trust (the Trust) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth), created by Act No. 214 of the Legislature of the Commonwealth on August 18, 2004 (the Act). The purpose of this Trust is to foster and fund research, development and infrastructure project 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. These projects are to be financed as follows: (i) twenty percent of the money deposited in the Special Fund for Economic Development managed by the Puerto Rico Industrial Development Company (PRIDCO), (ii) the moneys of Scientific Investigation Fund for the Centenary of the University of Puerto Rico, (iii) a special appropriation of five million dollars from the Improvements Fund, (iv) a five million dollars from the balance of collections of federal excise taxes in accordance with Section 7652(a)(3) of the United States Internal Revenue Code 91986, as amended, (v) and private donations, other government funds, and legislative appropriations.

The Act provides that the Board of Trustees, composed of 11 trustees, five of whom shall be members *ex officio*: the Secretary of the Economic Development and Commerce Department, the President of the University of Puerto Rico, the President of the Government Development Bank, the Executive Director of the Puerto Rico Industrial Development Company, the Director of the Office of Management and Budget, and six Trustees individuals appointed by the Board of Trustees as required by the Act, will act as the trustee of the Trust. The Trust is exempt from taxation in Puerto Rico, pursuant to the Act.

2) **Summary of significant accounting policies:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates.

Following is a description of the Trust's most significant accounting policies:

(a) ***Government-wide and fund financial statements***

Government-Wide Financial Statements – The statement of net assets and the statement of activities report information on all non-fiduciary activities of the Trust. The Trust's activities have only governmental activities. Governmental activities are financed through revenue from the Act, intergovernmental revenue and other financing sources.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A Component Unit of the Commonwealth of Puerto Rico

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

Revenue resulting from the Act is recognized on an annual basis, upon collection. Interest income is recognized when earned, since it is available and measurable. Expenditures are recorded when the related liability is incurred. An exception to this general rule includes principal and interest on general long-term debt, which is recognized when due. Revenues are considered to be available when it is collectible within the current period soon enough thereafter to pay liabilities of the current period. For this purpose, the Trust considers revenues to be available if they are collected within 90 days at the end of the current fiscal year-end.

(c) *Fund accounting*

The financial activities of the Trust are recorded in individual funds, each of which is deemed to be a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the Trust that are reported in the accompanying basic financial statements have been classified into the following major governmental funds:

- *General Fund* – The General Fund is the general operating fund of the Trust that is used for all financial resources, except those required to be accounted for in another fund. This fund is used to account 100 percent of the proceeds from the Act to be used for corporate projects and activities (30% to 40%), academic research (30% to 40%), and research infrastructure (20% to 30%).
- *Scientific Investigation Fund for the Centenary of the University* – This fund is used to account for University of Puerto Rico activities and projects related to academic research, recruit and retention of researchers, infrastructure, and technology transfer activity.

(d) *Budgetary accounting*

The Trust is not required by the Act to submit a budget for approval by the Legislature of the Commonwealth; consequently, no formal budgetary accounting procedures are followed.

(e) *Restricted assets*

Certain resources are set aside for the Scientific Investigation Fund for the Centenary of the University of Puerto Rico. These assets are classified as restricted assets on the accompanying Statement of Net Assets – Governmental Activities and Balance Sheet – Governmental Funds.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A Component Unit of the Commonwealth of Puerto Rico

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

The GASB has issued the following accounting pronouncements that have effective dates after June 30, 2007:

- (a) ***GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions***, which is effective for periods beginning after December 15, 2006, December 15, 2007 or December 15, 2008, depending on the level of total annual revenues.
- (b) ***GASB Statement No. 47, Accounting for Termination Benefits***, which is effective in two parts. For termination benefits provided through an existing defined benefit other postemployment benefits plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45. For all other termination benefits, this Statement is effective for financial statements for periods beginning after June 15, 2005.
- (c) ***GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues***, which is effective for financial statements for periods beginning after December 15, 2006.
- (d) ***GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations***, which is effective for financial statements for periods beginning after December 15, 2007.
- (e) ***GASB Statement No. 50, Pension Disclosures, An Amendment of GASB Statements No. 25 and No. 27***, which is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which is effective for periods which the financial statements and required supplemental information contain information resulting from actuarial valuations as of June 15, 2007, or later.
- (f) ***GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets***, which is effective for financial statements for periods beginning after June 15, 2009.
- (g) ***GASB Technical Bulletin No. 2006-1, Accounting and Financial Reporting by Employers and OPEB Plans for Payments from the Federal Government Pursuant to the Retiree Drug Subsidy Provisions of Medicare Part D***, which is effective simultaneously with the implementation of GASB Statements No. 43 and 45.

The impact of these pronouncements in the Trust's financial statements has not yet been determined.

3) Custodial credit risk:

In the event of a bank failure, the Trust's deposit may not be returned to it. The Trust does not have a deposit policy for custodial credit risk. As of June 30, 2007, all of the Trust's bank balance, aggregating approximately \$5,000,000, was exposed to custodial credit risk since such deposits, all of which are maintained at the Bank, are uninsured and uncollateralized.

4) Transactions with Government Development Bank for Puerto Rico:

As of June 30, 2007, the depository bank balance represents interest-bearing demand deposits with the Bank. The Bank is another component unit of the Commonwealth.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST
A Component Unit of the Commonwealth of Puerto Rico

NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2007

5) Subsequent events:

On October 1, 2007, the Trust received an unrestricted contribution of \$5.2 million from a third party.

On October 22, 2007, the Trust received approximately 70 acres of prime real estate in the metropolitan area of San Juan, which includes the former Rio Piedras Correctional Facilities (Oso Blanco Penitentiary) that will become a focal point for the development of scientific research laboratories and a scientific community dubbed "Science City" and integrated into an extensive urban development project known as the San Juan Knowledge Corridor.