



OUR HARD WORK IS PAYING OFF.

The Puerto Rico Science, Technology & Research Trust fulfilled its mission last year to drive and support the development of our island's contribution to these high-impact industries.

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VISION

To take advantage of Puerto Rico's competitiveness in the fields of life sciences and high technology in order to increase capital investment in research, development and technology; and to bring about results as we effectively transform our island into a world leader in these industries.

MISSION

To foster science and technology research and development projects; to provide financial support for the infrastructure needs of scientists and researchers in Puerto Rico; and to provide the necessary tools to market their discoveries to the world.



ALBERTO BACÓ BAGUÉ

**MESSAGE FROM
THE PRESIDENT
OF THE BOARD**

The time has come to think on different ways to achieve economic progress. With the Puerto Rico Science, Technology and Research Trust we are working on the development of what is called the intangible infrastructure for our economy, that being the knowledge-driven areas, including education and technology, which diversify economic growth and improve efficiency.

What this means is that Puerto Rico is assuming a different strategy to attract investment in the research and development sector. This new vision pretends to diversify our economy from being simply a manufacturing hub, to being an environment where companies will also discover and develop products and processes as well.

The Puerto Rico Science, Technology and Research Trust's mission is to define and implement the Commonwealth of Puerto Rico's public policy pertaining to science and technology research and development, and to serve as the key agent to promote investment and financing of these activities that will translate into the economic, social and educational wellbeing of the Island.

The good news is that this is already happening. The Trust's Business Incubator Program is already open in the Innovation Center and is working with new technology startups. This year the city of San Juan will be part of Code for America, a program in which ten cities are selected to develop software solutions to local problems in public services. And in the last months eight scientists and innovators received intellectual property assistance from the Trust in assessing the patentability of their inventions.

We are focused on rekindling the enthusiasm and innovation that characterized our economic development in the past. Back then, we created an innovative economic development model that has been replicated successfully in many countries. Now we will be innovative again with tools that allow us to work with the new realities and needs of our times. It has been said that science can give answers for the big problems of the humanity, including the economic issues. The Trust will help us find those answers.



IVÁN RÍOS MENA

**MESSAGE FROM
THE ACTING
EXECUTIVE DIRECTOR**

Researchers, as well as science and technology entrepreneurs, require a social and economic ecosystem to develop and thrive in Puerto Rico. This ecosystem needs nurturing from physical and human infrastructure resources, as well as training opportunities and financial access, in order to contribute to the island's economic development and to the science community itself.

Government, private enterprises, and non-profit entities such as the Trust all have to work hard to develop those resources and improve the status quo. The Trust has a clear mission to contribute to that collaborative effort: to be the leader

of Puerto Rico's innovation ecosystem. It aims to do so through a set of defined mechanisms that are always evolving and which the Trust will solidify during 2014, based on this year's platform.

First, it has to provide more opportunities for elementary and high school students to have a greater exposure to basic science and technology resources and skills. By exposing them to it more often and at a younger age, science becomes a viable career path for more Puerto Ricans. Therefore, there is a larger pool of talent that will contribute to the island's economic development and scientific scene.

Second, it should develop Puerto Rico's basic science physical and human infrastructure.

Third, the Trust should develop or promote systems that attract more high-level researchers to Puerto Rico, and convince them to stay on the island in the first place.

Fourth, it needs to facilitate mechanisms that turn basic science and technology concepts into products and services. This is where scientific and technological innovation translates into wealth and economic development, and is part of the much-mentioned technology transfer process.

Lastly, the Trust aims to attract outside companies and projects that add value to Puerto Rico's economic development and that foster new science and technology jobs.

This past year has been instrumental in creating a solid financial and economic base for the Trust to be able to fulfill this mission and put get those mechanisms running to yield results. We've developed internal and external policies and processes that create value for the scientific, academic, and entrepreneurial communities. We have structured a Council of Trustees with highly dedicated

and committed work groups. We have opened up the Trust to the local technology ecosystem and have placed ourselves squarely into the heart of that community.

The Trust has taken significant steps toward developing a true Science City, with new projects in the Molecular Science Building, the Comprehensive Cancer Center, the Innovation Center, and a pipeline of other initiatives. For all those reasons, we are sure that 2014 will be a breakthrough year for the Trust to be a true player in the science and technology fields, and to fulfill its maximum potential.

BOARD OF TRUSTEES



DANIEL COLÓN
Private Trustee

Dr. Colón Ramos is an Associate Professor of Cellular Neuroscience at Yale University and co-founder of Ciencia Puerto Rico. His lab at Yale studies the development and function of the nervous system, and their work has been recognized by a number of awards, including the Sloan Fellowship for “outstanding promise”, an award given to recognize the best researchers of the United States and Canada. Ciencia Puerto Rico is a non-profit organization that promotes scientific research and education in the Puerto Rican archipelago.



JOSÉ LASALDE
Private Trustee

Dr. Lasalde is the former Acting President of the University of Puerto Rico (UPR). He is also the UPR’s Vice President of Research and Technology, as well as a Professor in its Biology Department, the Comparative Medicine Department, and the Institute of Neurobiology of the UPR’s School of Medicine. He has extensive postdoctoral training from Stanford University, University of Puerto Rico, and the University of California-Davis.



ANTONIO GARCÍA PADILLA
Private Trustee

Mr. García Padilla, a driving force behind the creation of the Trust, is a former President of the UPR (2001-2009), as well as a former Dean of the UPR School of Law. With a legal education background from the UPR (Juris Doctor) and Yale Law School (LL.M), he served as law clerk in the Supreme Court of Puerto Rico, and later in the United States Court of Appeals for the First Circuit.



GIL MEDINA
Private Trustee

Mr. Medina, a licensed attorney, CPA, and real estate broker, was New Jersey's former Secretary of Commerce. He also served as the co-founder, president, or general counsel for many technology and biotechnology startups. Because of his successful career in government and business sectors, Mr. Medina was named one of Hispanic Business Magazine's 100 Most Influential Hispanics. He has ample experience serving as a Trustee for the Trust.



JOAQUÍN VISO
Private Trustee

Mr. Viso founded MOVA Pharmaceutical Corporation in 1986, and serves as its President and CEO. Prior to this, worked for GlaxoSmithKline, where he held various senior management positions, including President and General Manager of SmithKline's operations in Puerto Rico. Mr. Viso holds a Bachelor of Science in Mechanical Engineering from the University of Puerto Rico and a Master of Science in Engineering from the University of Michigan. He is also acts as the Chairman for MC-21 Corporation, Alara Pharmaceutical Corporation and Grupo VL, Inc.

BOARD OF TRUSTEES



ESTEBAN SANTOS
Private Trustee

Mr. Santos is the Senior Vice President of Manufacturing Operations at Amgen Inc., where he is responsible for Amgen’s global commercial manufacturing operations. As a Puerto Rican who ranks among the top 16 executives at among Amgen’s top 16 executives worldwide, Santos offers extensive experience and access to networks that are instrumental for the Trust. He has also been part of several initiatives geared toward improving biotechnology education on the island. Santos has an Electrical Engineering BSEE from the UPR-Mayagüez and an MS in Management from the Rensselaer Polytechnic Institute in New York.



ALBERTO BACÓ BAGUÉ
Ex-Officio Trustee

Mr. Bacó Bagué is the Secretary of the Department of Economic Development and Commerce. He is an attorney, Certified Public Accountant and entrepreneur with over 40 years of experience in law firms, international accounting companies and government agencies. Throughout his career, he has shown special interest in supporting the development of venture capital in Puerto Rico, being himself a co-investor in diverse projects. Mr. Bacó was President of the Government Development Bank of PR. He succeeded in the private sector as an independent consultant. He was also President and CEO of Marvel International and Bo-hío International. He is Chairman and member of the board of the local Young Presidents Organization; and sat on the board of W Holding and Westernbank, Government Development Bank, PRASC and Holding Corp. He now serves the public to promote the economic development of the island. Mr. Bacó graduated Magna Cum Laude with a BA and got his Juris Doctor degree from the UPR.



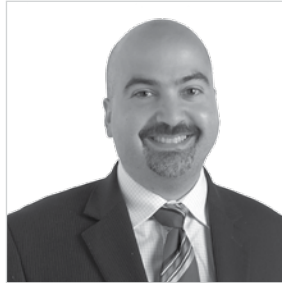
ANTONIO L. MEDINA COMAS P.E.
Ex-Officio Trustee

Mr. Medina Comas is the Executive Director of the Puerto Rico Industrial Development Company (PRIDCO). His mission is position Puerto Rico as a global leader in the knowledge and innovation economy, in order to drive economic development and new jobs for the island. He has spent a great part of his career to executing strategic projects, and occupying different positions at Merck, Sharp & Dome for more than 20 years. From the Americas, to Europe and Asia, Medina Comas has brought results while performing several functions, most recently as Chief Finance Officer at Merck, Sharp & Dome in Brazil. He holds a master’s degree in Business Administration (MBA) from the Wharton School of Business of the University of Pennsylvania, and master’s and bachelor degrees from the Rensselaer Polytechnic Institute in New York.



JOSÉ PAGÁN-BEAUCHAMP
Ex-Officio Trustee

Mr. Pagán-Beauchamp is the President of the Government Development Bank of Puerto Rico (GDB). He has worked in public and private financing, investment banking, corporate finances, accounting, insurance, financial consulting and project management. He has also held key positions in several investment banks, municipal bond underwriters, insurance companies and consulting firms, such as: Citibank, Salomon Smith Barney, The First Boston Corporation, MAPFRE, and Ernst & Whinney. He was also Director of the Business Administration Department of the Sacred Heart University. He holds an MBA in Finance from the New York University Graduate School of Business Administration, a BA in Engineering and Applied Sciences from Yale University, and a master's in Computer Science from the Polytechnic University of Puerto Rico.



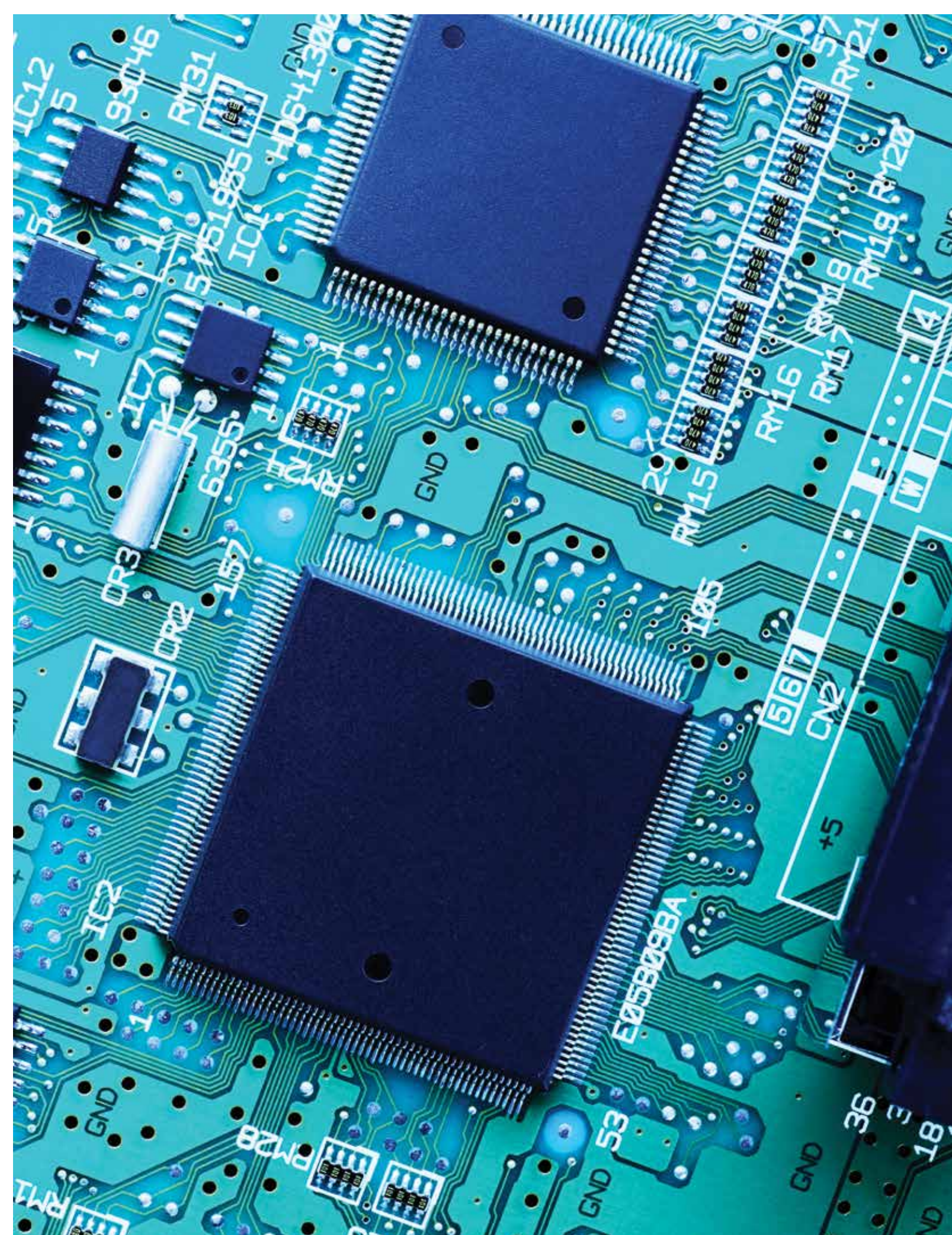
CARLOS RIVAS
Director, Office of
Management and Budget

Mr. Rivas returned to public service after having been the General Manager for UPM Group and Principal with Advent Morro Equity Partners. From 2005 to 2008, prior to his tenure with UPM Group, he served as the Executive Director of the Puerto Rico Housing Finance Authority. Mr. Rivas' private sector experience includes working as an associate at McKinsey & Company and Davis, Polk & Wardwell. Mr. Rivas' experience in public service also includes serving as a Deputy Advisor on Economic Development and as Executive Aide to the Governor and the Chief of Staff, focusing on public finance, economic development and budget issues. Rivas holds a law degree from Stanford University and a bachelor's degree in economics from Princeton University.



UROYOÁN R. WALKER RAMOS
President of the University of
Puerto Rico (UPR)

Mr. Walker-Ramos serves as President of the Boards of Directors of the Molecular Science Building, the UPR Hospital and the UPR Board. He is also a board member of the Comprehensive Cancer Center. He began in the UPR as a Professor of Mathematics at the Mayagüez Campus and has been a key player in its recent development. As an Associate Director for the Office of Graduate Studies, he led the change from paper to electronic process. He also began the compilation, analysis and divulging of the graduate data, as well as the digital repository of master's and doctoral thesis and dissertations. As Associate Dean for Administrative Affairs, he surveyed all campus infrastructure and environmental issues. He was also the Director of the Operations and Logistics Division of the Organizing Committee of the XXI Central American and the Caribbean Sports Games, Mayagüez 2010. Mr. Walker-Ramos holds a bachelor's degree in Science in Pure Mathematics from the UPR's Mayagüez Campus, plus a master's in Science and a Doctorate in Pure Mathematics from Louisiana State University.



1

SCIENCE CITY

SCIENCE CITY'S DEVELOPMENT IS ONE OF THE TRUST'S EMBLEMATIC ENDEAVORS. IT IS A STRATEGICALLY DESIGNED MIXED-USE, 69.9-ACRE PLOT OF LAND IN THE HEART OF SAN JUAN, PUERTO RICO'S CAPITAL. SCIENCE CITY IS THE MOTOR THAT DRIVES THE TRUST'S INITIATIVES AND WHERE TRUE RESULTS ARE BORN.



+ THE INNOVATION CENTER BUILDING

At a cost of approximately \$2.7 million, the Innovation Center Building was inaugurated on December, 2012, becoming the first real estate development completed and located on Puerto Rico's Science District. Besides acting as the Trust's headquarters, this structure now serves as a solid base of operations that fosters a permanent science and technology development ecosystem. It provides space for the incubation of local hi-tech startups and strategic service providers, creating a synergistic effect and accelerating the commercialization of new technologies.

1

SCIENCE CITY

+ THE COMPREHENSIVE CANCER CENTER

On May 10, 2013, the Trust's Board of Directors approved a resolution that acknowledges the incorporation of the Comprehensive Cancer Center (CCC) to the Science District. The CCC will be built on the Puerto Rico Medical Center's premises and will connect to the Trust's premises through a bridge over the PR-52 highway. An agreement was signed to allow the CCC's contractors to access the Trust's premises in order to manage the project on site.

+ LAS MALVINAS DEMOLITION

At a cost of \$3,779,157.30, the development of the Science City's Urban Infrastructure Project called for the demolition of "Las Malvinas", a total of 67 structures, including the maximum security headquarters of the former "Oso Blanco" State Penitentiary. The project, which began in July, 2012, is expected to conclude by October, 2013. It included safely removing and disposing asbestos and lead from the structures, demolishing buildings and foundations, recycling steel and aluminum, and shredding construction concrete debris.

+ “LAS AMAPOLAS” DEMOLITION AND LAND TRANSFER

Negotiations were reinitiated with the Puerto Rico Department of Housing and the U.S. Department of Housing and Urban Development (HUD) to obtain approval for the demolition of certain buildings that were part of the former public housing complex known as “Las Amapolas”. It also called for the transfer of the lands to the Trust as part of the Science City’s Master Development Plan. The abandoned complex is located across the De Diego Ave. entrance of the former Oso Blanco State Penitentiary Complex. It is projected to become the main entrance to Science City from PR-1’s intersection with the PR-52 highway.

2

FUNDING AND PROVIDED RESOURCES

+ FUNDING FOR TECHNOLOGY DEVELOPMENT AND COMMERCIALIZATION PROJECTS

During FY2012-13, the Trust granted and awarded a total of \$1.7 million in funding to promote, invest and finance science and technology projects with a clear aim toward commercialization. A total of nine projects benefitted from this funding assistance, with awards ranging from \$15,000 to \$889,000. Following are some of the noteworthy investees:

CDI Laboratories, Inc.	\$889,695
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GOAL: To support and leverage a \$12-million, 5-year-pilot-project sub-award, in conjunction with the National Institute of Health, for the development and commercialization of protein microarrays and the generation of highly-specific monoclonal antibodies.

Cutting Edge Superconductors, Inc.	\$50,000
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GOAL: To acquire equipment to conduct R&D for prototype development of MgB₂ wires for next-generation, cryogenic-free magnetic resonance imaging (MRI) machines. This funding helped the company to obtain an SBIR Phase I certification from the National Science Foundation.

Caribbean Biotechnologies, Inc.	\$102,000
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GOAL: To run a medical device development project consisting of an optical sensor for instantaneous detection of M. Tuberculosis bacterium.

Fundación de Investigación, Inc.	\$135,000
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GOAL: To develop biomarkers that diagnose liver fibrosis.

Ponce School of Medicine	\$125,640
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GOAL: To develop endometriosis diagnostics assay biomarkers.

+ MATCHING FUNDS THAT SUPPORT SCIENCE AND TECHNOLOGY PROJECTS

SBIR/STTR Matching Funds

The Trust provides \$100,000 in matching funds for local Phase I awardees of Small Business Innovation Research (SBIR) and Small Business and Technology Transfer (STTR) funds. During this reporting period, Cutting Edge Superconductors, Inc. (CES) was awarded a \$150,000/Phase I SBIR grant from the Nations Science Foundation, which will be leveraged through the cash match of \$100,000 from the Trust.

The aim of this Phase I SBIR is to conduct R&D in order to develop materials for superconducting wires, which lie at the heart of MRI machines and generate the magnetic fields needed to perform scans of a person's body. The company will conduct its R&D along with Luvata, a wire manufacturer based in Austria, and has the endorsement and support of General Electric, a main manufacturer of MRI machines worldwide.



Accelerator for Clean Technologies (ACT)

The Trust awarded a \$350,000 grant to the Sistema Universitario Ana G. Mendez to support and match a federal award from the US Department of Commerce's Economic Development Administration for the construction and implementation of the Accelerator for Clean Technologies (ACT) at the Puerto Rico Energy Center.

The ACT is a 4-year, \$4.8 million endeavor. Its objective is to generate wealth and specialized employment by facilitating financial, technical, and strategic assistance to entrepreneurs, inventors, and innovative business owners to develop and commercialize their clean technology ideas. Construction of the ACT is set to begin on December, 2013. ACT's management is already preparing operational, application and management procedures to assist potential tenants.

The Puerto Rico Photonics Institute

The Trust awarded a \$210,000 grant to the Sistema Universitario Ana G. Méndez to provide matching funds for its newly created Puerto Rico Photonics Institute, located on the premises of the Arecibo Observatory. This grant will support the strategy for developing photonics field on the island, specifically the optical remote sensing field. This grant supplements a total funding of \$1.6 million provided by other institutions, including MIT Draper Labs, the Puerto Rico Industrial Development Company (PRIDCO), and a private company in the aerospace sector.

Specialized Neuroscience Research Program

The Trust awarded \$250,000 to the Universidad Central del Caribe to provide cash match funds for their newly established Specialized Neuroscience Research Program (SNRP), a program funded by the National Institute of Neurological Disorders and Stroke (NINDS) of the US National Institute of Health. This funding will enable the UCC to enhance the SNRP's laboratory infrastructure, recruit distinguished neuroscientists and advance education opportunities by providing stipends to prominent Ph.D. students.

+ CENTENARY FUNDS

In compliance with Act No. 232, the Trust has under its custody monies set aside for the Scientific Investigation Fund for the Centenary of the University of Puerto Rico (UPR). This fund was created to improve the infrastructure, activities and environment of the UPR's research activities. During the FY2012-13, the Trust awarded the university a total of \$5.118 million for projects and sponsorships that were agreed upon between the Trust and the UPR. These awards include:



MOLECULAR SCIENCE BUILDING

The Molecular Science Building

On August 2012, the Trust awarded \$4.3 million for the development and Phase I construction of a small animal research facility at the Molecular Science Building.

The Center for Collaborative Research on Health Disparities

A multi-year initiative awarded by the US National Institute of Health's (NIH) Research Center in Minority Institution (RCMI) Program. The project spans from fiscal years 2012-13 to 2015-16. The Trust awarded a cash match of \$238,000 to support this initiative.

Dr. Sherly Pardo's Laboratory

The Trust provided a \$100,000 grant to Dr. Sherly Pardo at the UPR's Medical Science Campus for laboratory infrastructure. The aim is to support Dr. Pardo's efforts in stem cell research.

Dr. Miguel Otero's Laboratory

The Trust provided a \$100,000 grant to Dr. Miguel Otero at the UPR's Medical Science Campus for laboratory infrastructure. The aim is to support Dr. Otero's research efforts in immune therapies.

+ IN-KIND ASSISTANCE

The Trust provides a wide array of services for qualified startups, scientists and inventors. It helps them develop, protect and commercialize new technologies through a cadre of experienced intellectual property and technology commercialization professionals. The services are paid directly by the Trust. Eligible applicants may request assistance online through the Trust's website.

During FY2012-13, a total of 8 scientists and innovators received intellectual property assistance to help assess the patentability of their inventions and/or define a strategy to pursue their intellectual property rights. Assessed technologies included: a novel composition of matter for drugs targeting neurodegenerative diseases, molecular diagnostics, suture anchor medical device and a system for vertical agriculture.

_20	RESULTS
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3

TECH SUMMIT

⁺ Along with the Office of the CIO, the Trust sponsored and coordinated the TECH SUMMIT Technology Conference 2013, which took place on June 6, 2013 at the Puerto Rico Convention Center.

This event brought together leading government officials, industry entrepreneurs, principal technology partners, NGOs and members of academia to discuss current and future challenges faced by the government throughout the different technology sectors. It helped the community explore how we can transform traditional government services into a scalable product development as an engine for economic growth.

Puerto Rico's Governor, Hon. Alejandro García Padilla, and the island's Chief Information Officer (CIO), Giancarlo Gonzalez, welcomed industry professionals to this first annual event. They discussed relevant key technology and entrepreneurship issues, including Puerto Rico's technology infrastructure challenges and opportunities regarding telecommunications, data centers and software development; technology's role when it comes to improving citizen services, government efficiency and transparency; the transformation of providing government IT services as a source of venture capital for economic development; and the economic incentives of Puerto Rico's tax decree.



4

SCIENTIFIC INVESTIGATORS TAX INCENTIVES ACT (LAW 101)

+ Public Law 101 (2008), as amended, allows qualified researchers to seek tax exemptions for up to \$195,000 for income generated from eligible research conducted at a local university, or a \$250,000 tax exemption if the research activity is conducted within the Science District.

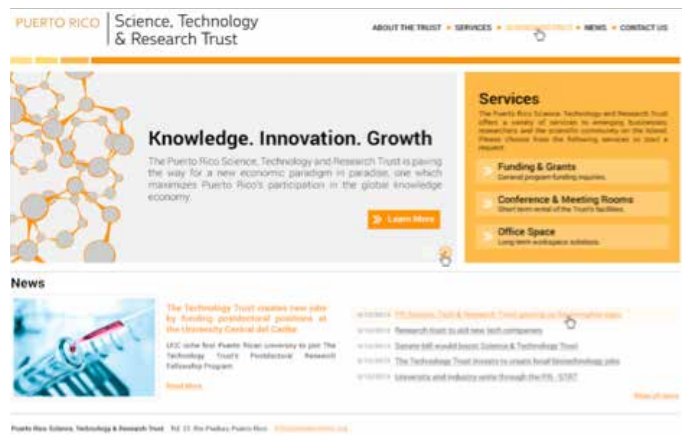
The Trust is pleased to inform that it has taken care of the excessive backlog of applications dating back to 2008 for the first time since its enactment. All tax exemption applications received by the Trust for tax years 2008 through 2012 have been approved as of August, 2013. Therefore, all approved tax exemption applications are now in the hands of the Treasury Department for final approval.

What's more, during the 2012 taxable year, the Trust received 53 tax exemption applications for review and approved all 53 for submission to the Treasury Department for final action and approval. These requests represent over \$25 million^[1] in research grants awarded to 6 local universities and \$1,773,926.13 in tax benefits for researchers as a whole. The University of Puerto Rico's Medical Science Campus is the biggest beneficiary at \$1,129,297.16 in tax exemptions.^[2]

[1] Fair estimate given the information provided; understated following the conservative principle.

[2] This represents 63.66% (\$1,129,297.16/\$1,773,926.13), of the entire Law 101 cases for tax year 2012.

+ WEBSITE DEVELOPMENT



A temporary website has been launched to maintain the Trust's presence while a new website is underway. It is set to be operational by October, 2013. It is designed to maintain a professional, clean and accessible environment with a smooth navigational feeling where users can surf freely, viewing all the user-friendly, automated application forms for the array of services the Trust provides. The goal for this new website is to serve as a screening base for all the parties interested in the Trust's services to be able to conduct as much preliminary business and file applications online. This model saves time for the Trust's personnel to warrant off applicants that do not follow the Trust's mission, allowing them to use that time to properly attend qualified applicants. ^[1]

[1] This is a *work in progress*, and not an actual screen shot of the final Trust's website.

+ FISCAL MANAGEMENT

During the 2012-13 fiscal year, the Trust implemented an accounting system that allows it, for the first time since its inception, to manage its fiscal and accounting responsibilities in-house. In general, this system enables the Trust to:

- (1) Effectively and efficiently manage fiscal operation by enabling the Trust to generate fiscal data in real time, enable the preparation of operational and consolidated budgets, and perform the analysis of budgets vs. actual figures;
- (2) Issue quarterly and annual financial statements in compliance with FASB #117 Financial Statements of Non-for-Profits Organizations; and,
- (3) Comply with requirements of existing and potential external funding providers by maintaining a separate financial structure to manage restricted funds.

One of the most important management tools generated through the accounting system is the *Statement of Functional Expenses*, which presents a proper allocation of Trust's program support and expenses per each of the three operational segments (*Research and Data, Technology Transfer and Commercialization and Science City*) and Management.

The following table shows a summary of this statement as of June 30, 2013 (expressed in '000s):

_24	RESULTS
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	Research and Data	Technology Transfer and Commercialization	Science City Development	Operational Expenditures	Total
PROGRAM SUPPORT					
Sponsorships	\$ 34,900	\$ -	\$ -	\$ -	\$ 34,900
Incubators Support	-	361,756	-	-	361,756
Centenary Fund					
Grants	5,118,000	-	-	-	5,118,000
R&D Projects Grants	494,311	913,640	-	-	1,407,951
Matching Grants	-	400,000	-	-	400,000
In Kind Services	-	11,003	-	-	11,003
Total Program Support Expenses	5,647,211	1,686,399	-	-	7,333,610
PERSONNEL COSTS					
Salaries and Wages	26,674	5,073	64,244	104,969	200,960
Benefits and Payroll Taxes	2,897	591	22,394	32,443	58,325
Total Personnel Costs	29,571	5,664	86,638	137,412	259,285
Professional Services	132,326	356,280	136,201	658,768	1,283,575
OCCUPANCY EXPENSES					
Travel	-	5,414	-	-	5,414
Other Operating Expenses	633	2,678	-	236,567	239,878
Total expenses from operations	\$ 5,809,741	\$ 2,056,435	\$ 541,320	\$ 1,416,269	\$ 9,823,765

As illustrated above, for the period of FY2012-13, the Trust incurred a total of \$7.334 million in program support expenses that directly benefitted the scientific community, inventors and entrepreneurs. This support was done in the form of sponsorships, support for local incubators, funding to enhance research capabilities and infrastructure, in-kind services and grants to support technology development and commercialization. The expenses incurred in Program Support represent 75% out of the total of \$9.824 expenses incurred in the period. For further financial information, refer to Audited Financial Statements included as part of the Annual Report.

5

THE PUERTO RICO INNOVATION INSTITUTE FOR A TECHNOLOGY- INSPIRED ECONOMY

+ A Phase I study commissioned on October, 2012, along with the Georgia Institute of Technology (Georgia Tech), to plan and strategize the establishment of the *Puerto Rico Innovation Center for Technology Inspired Economic Development* (“the Center”). The study’s aim was to present recommendations to enable the creation of an initiative to foster to R&D collaborations between local researchers and industry leveraging by taking advantage of the strong presence of the pharmaceutical and other industrial sectors in Puerto Rico.

The Phase I study was successfully concluded as of June 30, 2013 with the presentation of its final report. In summary, the report shows that Puerto Rico has pockets of exemplary activities in research and economic development and these, in turn, need access to an infrastructure to nurture and sustain them, as well as roadmaps and models for gaining that access. A cohesive strategy tying research activities with industry needs would eliminate barriers to coordinated R&D for the island’s future needs.

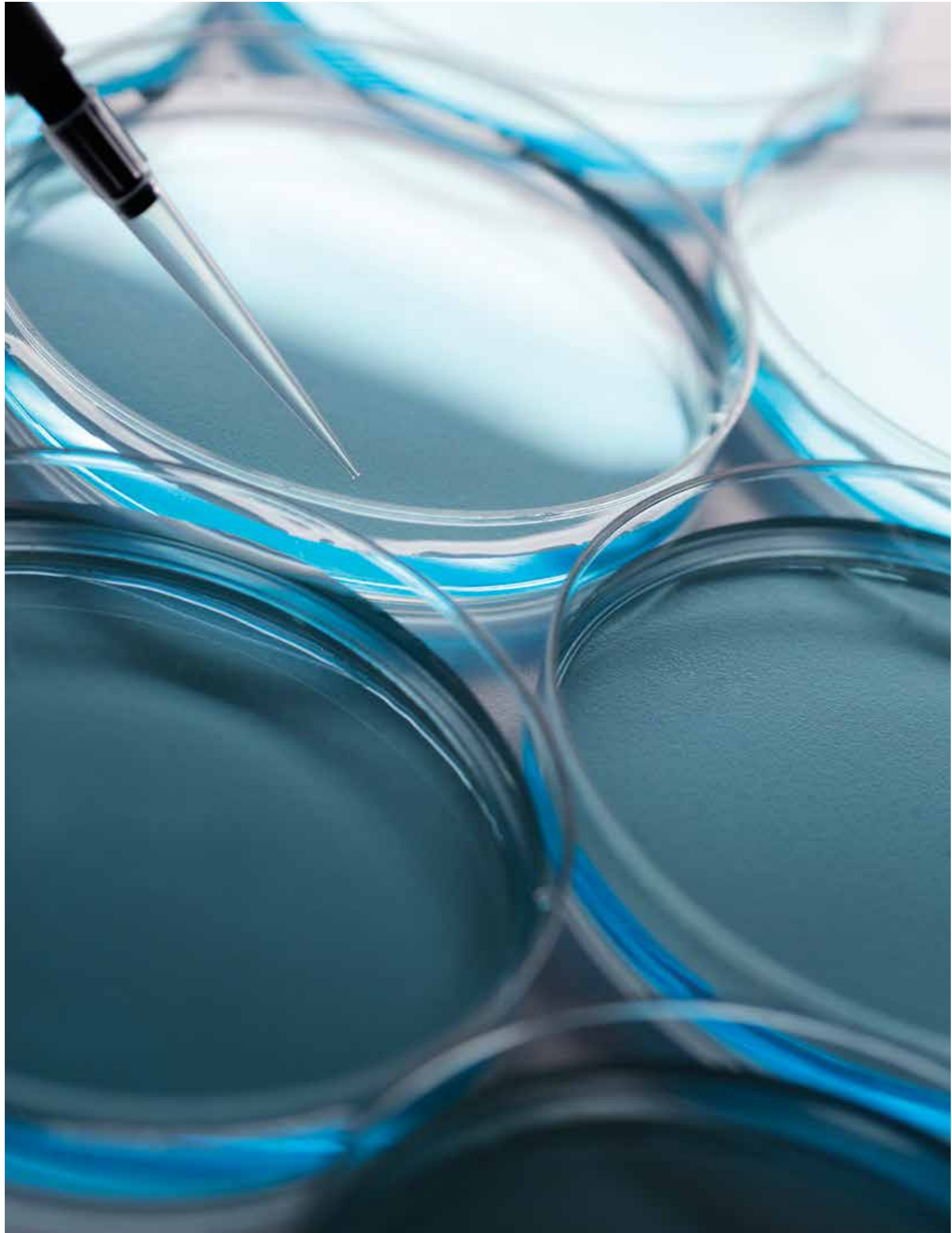
The proposed action plan suggests the creation of significant activities aligned around the following four major tenets for the innovation ecosystem operationalized by the Trust:

- + A well-developed research administrative management and stewardship models that support a sustainable innovation ecosystem
- + Creation of sustained programs for applied and basic research that align with industry needs
- + Financially self-sufficient educational development activities for the workforce, including new graduate degrees and professional education that link to global networks of shared expertise and learning systems
- + Economic development and entrepreneurship activities that leverage national and international best practices

6

THE BIO INTERNATIONAL CONVENTION

- ⁺ During April 22-25, 2013, the Trust participated in the BIO International Convention held in Chicago, IL. As in previous years, the Trust shared the Puerto Rico Pavilion booth with the Puerto Rico Industrial Development Company (PRIDCO). The Convention enables the Trust to present conference attendees with information about its mission, programs and services available to this important and strategic industry segment for Puerto Rico.



+ OFFICE OF THE CIO OF PUERTO RICO

Emerging technologies in the information technology sector are one the key future drivers of economic development. As such, the Trust and the government's Chief Information Officer entered into an alliance to jointly identify and evaluate information technology projects of high economic impact. This could help generate new marketable technologies. This partnership will lay the groundwork for the Trust to expedite proposals based on standardized metrics and indicators for science and technology.

The collaboration between the two entities includes defining the strategy to support business incubators and the adoption of performance metrics of the projects in incubation phase. In addition, the agreement provides for the creation of a database of Puerto Rico's intellectual capital, to include the intellectual capital of universities and corporations, incubators, laboratories and other entities related to scientific and technological development.

+ FOUNDERS INSTITUTE OF PUERTO RICO

The Trust entered into an alliance with the Founders Institute of Puerto Rico to foster the creation of startups in the field of information technology. Through this alliance, the Trust will provide financial support to a group of 30 attendees to enable these to participate in a training and educational event called the Founders Institute of Puerto Rico. The objective is to provide a four-month program to existing and prospective entrepreneurs to enable these to launch their startup ventures, facilitating attendees' access to expert training, feedback and support from experienced startup CEOs. The Program is comprised of a total of fourteen training sessions and a final graduation session, to be delivered from June 12 to October 2, 2013.

MANAGEMENT AND OPERATIONS

+ REQUEST FOR PROPOSAL PROCESS

Pursuant to Act 214 of 2004, the Trust is to act as an agent for promoting, investing and financing activities that will strengthen science and technology and research and development efforts in Puerto Rico in order to boost the economic development of Puerto Rico. In light of its mission, and for the first time since its inception in 2004, the Trust will issue Request for Proposals (RFP) during FY2013-14 as a solicited proposal mechanism to entice the science and technology community in Puerto Rico to submit proposals for funding consideration.

The main objectives of the RFP process are to:

- (a) increase the financing available for science and technology development activities in Puerto Rico;
- (b) support the commercialization of products and services based on science, technology or research; and
- (c) foster private investments in science and technology research or development activities and projects.

The Trust intends to allocate approximately \$6 million to conduct one RFP process per semester with the goal of awarding a total of 30 grants, ranging from \$150,000 to \$200,000. These grants will mainly be for projects that are proposing the development and commercialization within the following strategic science and technology areas: Information and communications technology; Aerospace; Biotechnology and Life-Sciences; Medical Devices; Clean Technologies and/ or Renewable Energy; Electronics; as well as other areas that the Trust, in its discretion, determines that will result in the growth of research, development and commercialization of science and technology in Puerto Rico.

OTHER MANAGEMENT AREAS

+ LIST OF CONTRACTS

CONTRACT NUMBER	AWARDED TO	DATE FROM	TO	AMOUNT	PROVIDED SERVICES
2013-000001	Pietrantoni, Méndez & Alvarez	7/1/2012	6/30/2013	\$350,000.00	Professional Services
2013-000002	Eric Cornavaca	7/16/2012	12/31/2012	\$160,000.00	Professional Services
2013-000002	Eric Cornavaca	12/31/2012	6/30/2013	\$138,200.00	Professional Services
2013-000003	Victor M Rivera Burgos	7/16/2012	6/30/2013	\$100,000.00	Professional Services
2013-000004	Gilberto Márquez	7/16/2012	6/30/2013	\$100,000.00	Professional Services
2013-000005	Picó & Blanco	7/31/2012	6/30/2013	\$150,000.00	Professional Services
2013-000006	Miriam Laracuente	8/3/2012	6/30/2013	\$100,000.00	Professional Services
2013-000007	Universidad de Puerto Rico (Molecular Science Building)	8/22/2012	8/31/2015	\$4,300,000.00	Centenary Funds
2013-000008	Universidad de Puerto Rico (Institute of Neurobiology)	11/29/2012	6/30/2013	\$300,000.00	Centenary Funds
2013-000009	José Luis Mendoza & Co	9/28/2012	6/30/2013	\$25,000.00	Accounting Services
2013-000010	Aquino, Córdova & Alfaro Group	9/26/2012	6/30/2013	\$17,900.00	Professional Services
2013-000012	Sofía Saez Matos	10/18/2012	2/28/2013	\$15,000.00	Professional Services
2013-000013	Bioprocess Development and Training Complex	11/1/2012	6/30/2013	\$240,000.00	Incubation Support
2013-000014	ASAP Solution Inc	12/20/2012	6/30/2013	\$75,000.00	Professional Services
2013-000015	Stronghold System Solution Corp	12/3/2012	6/30/2013	\$37,500.00	Professional Services
2013-000016	Kaumudi Joshipura	5/10/2013	5/31/2014	\$76,000.00	Grant
2013-000017	Pharma Quest	1/30/2013	12/31/2013	\$250,000.00	Grant
2013-000021	Cutting Edge Superconductors	2/27/2013	12/31/2013	\$50,000.00	Grant
2013-000022	Care Solutions Corp	1/30/2013	12/31/2013	\$15,000.00	Grant
2013-000024	Caribbean Biotechnologies	2/28/2013	12/31/2013	\$102,000.00	Grant
2013-000025	Belinda Pastrana	1/16/2013	4/15/2013	\$60,000.00	Grant
2013-000026	Goás PSC	1/31/2013	6/30/2013	\$40,000.00	Accounting Services
2013-000027	Mendin Duquela & Zapata	2/11/2013	6/30/2013	\$40,000.00	Professional Services
2013-000033	Sistema Universitario Ana G Méndez & Energy Center	1/28/2013	12/31/2013	\$350,000	Cash Match Grant
2013-000034	Eduardo Rosa-Molinar (UPR)	4/30/2013	4/31/2014	\$284,311.00	Grant
2013-000036	Mendin Duquela & Zapata	3/19/2013	6/30/2013	\$25,000.00	Professional Services
2013-000037	Georgia Tech Research Corporation	10/10/2012	6/30/2013	\$284,040.00	Professional Services
2013-000038	Interlink	8/21/2013	8/31/2013		Professional Services



⁺FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Puerto Rico Science, Technology and Research Trust
San Juan, Puerto Rico

We have audited the accompanying balance sheet of Puerto Rico Science Technology and Research Trust (a non-for-profit Puerto Rico organization) as of June 30, 2013, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As explained in Note E, during the year ended June 30, 2008, the Trust received land and property contributed from a third party, which is stated at \$18,000,000 in the accompanying balance sheet. The land and property was valued according to a preliminary market value opinion report, which is based on significant assumptions that may affect the final fair market value. We were unable to satisfy ourselves as to the fair market value by means of other auditing procedures.

Also as described in Note A, the Trust should receive twenty eight percent (28%) of the money deposited in the Special Fund for Economic Development managed by the Puerto Rico Industrial Development Company (PRIDCO). The amount corresponding to the year ended June 30, 2013 was not deposited in the Special Fund for Economic Development by the Treasury Department of Puerto Rico; consequently the amount corresponding to the Trust is undeterminable as of this date. Therefore, such revenues have not been recorded in the accompanying statement of activities and changes in net assets for the year ended June 30, 2013.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the fair market value of land and property and the amount of the twenty eight percent (28%) of the money to be received from the Special Fund, the financial statements referred to above present fairly, in all material respects, the financial position of Puerto Rico Science, Technology and Research Trust as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Carolina, Puerto Rico
September 25, 2013

Stamp number E87002
has been affixed to
the original report

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST (a non-for-profit organization)

BALANCE SHEET / JUNE 30, 2013

ASSETS

Cash	\$ 68,579,854
Accrued interest receivable	6,439
Other assets	550
Convertible Promissory Note Receivable	889,695
Property and equipment, net	5,506
Equipment under capital lease, net of accumulated amortization of \$12,411	24,657
Due from government entity	13,738,958
Restricted cash	6,890,000
Building, net of accumulated depreciation of \$37,700	2,601,249
Land and property for research, development and infrastructure project related to science and technology - restricted	18,000,000
Land development costs	6,477,291
	<u>\$ 117,214,199</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Program service payable	\$ 1,689,474
Accounts payable	702,912
Accrued expenses	7,021
Other liabilities	1,200
Obligation under capital lease	25,282
	<u>2,425,889</u>

COMMITMENT

Unrestricted	86,616,310
Temporarily restricted	10,172,000
Permanently restricted	18,000,000
	<u>114,788,310</u>
	<u>\$ 117,214,199</u>

See accompanying notes to financial statements.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST (a non-for-profit organization)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS / YEAR ENDED JUNE 30, 2013

CHANGES IN NET ASSETS	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT				
Grants	\$14,738,958	\$ -	\$ -	\$14,738,958
Rental Income	2,400	-	-	2,400
Interest Income	76,335	-	-	76,335
Program Service Fees	216	-	-	216
Donations	7,500	-	-	7,500
Conversion of Grant to Convertible Note	889,695	-	-	889,695
Other Income	10,245	-	-	10,245
Total Unrestricted Revenues and Support	<u>15,725,349</u>	<u>-</u>	<u>-</u>	<u>15,725,349</u>
Net Assets released from restrictions Satisfaction of Program Restrictions	<u>5,118,000</u>	<u>(5,118,000)</u>	<u>-</u>	<u>-</u>
Total Revenues	<u>20,843,349</u>	<u>(5,118,000)</u>	<u>-</u>	<u>15,725,349</u>
EXPENSES				
PROGRAM AND SERVICES				
Research & Data	5,809,741	-	-	5,809,741
Tech. Transfer and Commercialization	2,056,435	-	-	2,056,435
Science City Development	541,320	-	-	541,320
Total Programs and Services	<u>8,407,496</u>	<u>-</u>	<u>-</u>	<u>8,407,496</u>
SUPPORTING SERVICES				
Operational Expenditures	1,416,269	-	-	1,416,269
Total Supporting Services	<u>1,416,269</u>	<u>-</u>	<u>-</u>	<u>1,416,269</u>
Total Expenses from Operations	<u>9,823,765</u>	<u>-</u>	<u>-</u>	<u>9,823,765</u>
Change in Net Assets from Operations	<u>11,019,584</u>	<u>(5,118,000)</u>	<u>-</u>	<u>5,901,584</u>
NON OPERATING REVENUE (EXPENSE)				
Loss on Asset Disposition	<u>(33,991)</u>	<u>-</u>	<u>-</u>	<u>(33,991)</u>
Total Non-Operating Revenue (Expense)	<u>(33,991)</u>	<u>-</u>	<u>-</u>	<u>(33,991)</u>
Increase in Net Assets	<u>10,985,593</u>	<u>(5,118,000)</u>	<u>-</u>	<u>5,867,593</u>
Net Assets, beginning of year	<u>75,630,717</u>	<u>15,290,000</u>	<u>18,000,000</u>	<u>108,920,717</u>
Net Assets, end of year	<u>\$86,616,310</u>	<u>\$10,172,000</u>	<u>\$18,000,000</u>	<u>\$114,788,310</u>

See accompanying notes to financial statements.

PUERTO RICO SCIENCE, TECHNOLOGY AND RESEARCH TRUST (a non-for-profit organization)

STATEMENT OF FUNCTIONAL EXPENSES / YEAR ENDED JUNE 30, 2013

	Research and Data	Technology Transfer and Commercialization	Science City Development	Operational Expenditures	Total
PROGRAM SUPPORT					
Sponsorships	\$ 34,900	\$ -	\$ -	\$ -	\$ 34,900
Incubators Support	-	361,756	-	-	361,756
Centenary Fund					
Grants	5,118,000	-	-	-	5,118,000
R&D Projects Grants	494,311	913,640	-	-	1,407,951
Matching Grants	-	400,000	-	-	400,000
In Kind Services	-	11,003	-	-	11,003
Total Program Support Expenses	5,647,211	1,686,399	-	-	7,333,610
PERSONNEL COSTS					
Salaries and Wages	26,674	5,073	64,244	104,969	200,960
Benefits and Payroll Taxes	2,897	591	22,394	32,443	58,325
Total Personnel Costs	29,571	5,664	86,638	137,412	259,285
Professional Services	132,326	356,280	136,201	658,768	1,283,575
OCCUPANCY EXPENSES					
Amortization Expense	-	-	-	16,028	16,028
Depreciation and Amortization expenses	-	-	-	97,065	97,065
Rent	-	-	-	35,151	35,151
Repairs and Maintenance	-	-	194,600	30,428	225,028
Security	-	-	92,608	112,996	205,604
Other Operating Expenses	-	-	31,273	91,854	123,127
Total Occupancy Expenses	-	-	318,481	383,522	702,003
Travel	-	5,414	-	-	5,414
Other Operating Expenses	633	2,678	-	236,567	239,878
Total expenses from operations	\$ 5,809,741	\$ 2,056,435	\$ 541,320	\$ 1,416,269	\$ 9,823,765

See accompanying notes to financial statements.

STATEMENT OF CASH FLOWS / YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in net assets	\$ 5,867,593
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Depreciation and amortization	97,065
Loss on asset disposition	33,991
Use of temporarily restricted for the Centenary Fund	4,400,000
Conversion of grant to convertible note receivable	(889,695)
Changes in assets and liabilities:	
Decrease in:	
Accrued interest receivable	792
Other assets	15,478
Increase (decrease) in:	
Program service payable	1,689,474
Accounts payable	(136,278)
Other liabilities	1,200
	<u>5,212,027</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	11,079,620

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	(5,796)
Building construction	(2,503,471)
Addition to land development cost	(4,221,084)
	<u>(6,730,351)</u>
NET CASH USED IN INVESTING ACTIVITIES	(6,730,351)

CASH FLOWS FROM FINANCING ACTIVITIES

Due from government entity	(9,738,958)
Principal payments of obligation under capital lease	(4,818)
	<u>(9,743,776)</u>
NET CASH USED IN FINANCING ACTIVITIES	(9,743,776)
NET DECREASE IN CASH	(5,394,507)

CASH AT BEGINNING OF YEAR

73,974,361

CASH AT END OF YEAR

\$ 68,579,854

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Puerto Rico Science, Technology and Research Trust (hereinafter referred to as “the Trust”) is a non-for-profit organization, created by Act No.214 of the Legislature of the Commonwealth of Puerto Rico on August 18, 2004 (Act No. 214). The purpose of this Trust is to foster and fund research, development and infrastructure projects related to science and technology that will promote the economic, social or educational development of the Commonwealth and to operate exclusively for charitable, educational and scientific purposes. During October 20, 2011, Act No. 208 was enacted to amend Act No. 214. These projects are to be financed as follows: (i) the greater of \$5,000,000 or 25% percent and \$5,630,000 or 28% percent for FY2011-12 and FY2012-13, respectively, out of the monies deposited in the Special Fund for Economic Development managed by the Puerto Rico Industrial Development Company (PRIDCO), (ii) the monies of Scientific Investigation Fund for the Centenary of the University of Puerto Rico (Centenary Fund), (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, four of whom shall be members *ex officio* representing the government agencies: the Secretary of the Economic Development and Commerce Department, the President of the Government Development Bank, the Executive Director of the Puerto Rico Industrial Development Company and the Director of the Office of Management and Budget, four member *ex officio* from the academy industry, including, the President of the University of Puerto Rico, and three particular citizens who six Trustees Individuals appointed by the Board of Trustees as required by the Act, will act as the Trustees of the Trust.

Summary of significant accounting policies:

Basis of accounting

The Trust prepares its financial statements in accordance with generally accepted accounting principles (GAAP) promulgated in the United States of America for non-for-profit organizations.

Basis of presentation

All not-for-profit organizations are required to present a balance sheet, a statement of activities, and a statement of cash flows. In addition, net assets are classified in one or more of the following categories: unrestricted, temporarily restricted and permanently restricted.

- Unrestricted net assets - are resources available to support operations. These resources are unrestricted as to their use and expendable at the discretion of the Board of Trustees.
- Temporarily restricted net assets - are resources that are restricted by a donor for use for a particular purpose or in a particular future period.
- Permanently restricted net assets - are resources whose use is limited by donor-imposed restrictions that neither expires by being used in accordance with a donor's restriction nor by the passage of time.

The following is a description of the temporarily restricted and permanently restricted net assets as of June 30, 2013:

- Temporarily restricted net assets consist of monies for the Scientific Investigation Fund for The Centenary of the University of Puerto Rico. This fund was created to improve the infrastructure, activities and environment of investigative activities of the University of Puerto Rico and to facilitate the commercialization of the innovations that are developed there. Among the activities to be supported are the recruitment and retention of researchers and the promotion of technology transfer.
- Permanently restricted net assets consist of a land, described on Note E, which was contributed with the restriction of using it according to the purpose of Act No. 214 through the implementation of a Master Plan.

Accounts receivable, convertible promissory note receivable

The Trust provides an allowance for doubtful accounts equal to the amount of estimated uncollectible amounts. The estimate is based on the review of the current status of donor pledges, contributions and grants. It is reasonably possible that the estimate of the required allowance for doubtful accounts will change. As of June 30, 2013, no account has been determined by the Trust as uncollectible.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
CONTINUED

Contributions and support revenue

The Trust derives its revenues from contributions received from the government, corporations, and individuals. All contributions are considered to be available for unrestricted use, unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases the net assets of those net asset classes. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Trust reports the support as unrestricted.

Contributed services

Contributions of services are only recognized if services received: (a) create or enhance non-financial assets or would typically need to be purchased if not provided by donation, (b) require specialized skills and are provided by individuals possessing those skills. The contribution revenue for services received is recognized at the fair value of those services. During the year ended June 30, 2013, the Trust did not receive contributed services.

Property and equipment

Property and equipment are stated at cost. Equipment under capital lease is stated at the net present value of the minimum lease payments at the inception of the lease. Expenditures for major additions and improvements are capitalized, while minor replacements, maintenance, and repairs are charged to expense as incurred.

Depreciation is provided over the estimated useful lives of the assets involved using the straight-line method. Leasehold improvements are amortized over the estimated useful life of the asset or the respective lease term used in determining lease classification, whichever is shorter.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
CONTINUED

Building, property and equipment

The range of estimated useful lives is as follows:

- Leasehold improvements - 5 years
- Furniture, fixtures, and equipment - 5 years
- Computer equipment - 3 years
- Equipment under capital lease - lease term
- Building – 20 to 45 years

The Company continually evaluates property and equipment, including leasehold improvements, to determine whether events or changes in circumstances have occurred that may warrant revision of the estimated useful life.

Land development costs

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

Income taxes

The Trust is exempt from Puerto Rico income taxes under the provisions of Act No. 214. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

The Financial Accounting Standards Board issued a new guidance on accounting for uncertainty in income taxes. The Trust adopted this guidance for the year ended June 30, 2012. Management evaluated the Trust's tax positions and concluded that the Trust had taken no uncertain tax positions that require adjustments to the balance sheet.

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
CONTINUED**

Functional allocation of expenses and operational expenditures

The costs of providing the Trust's programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Effective for the year ended as of June 30, 2013, certain costs have been allocated among the following programs and support activities:

Research and Data: includes expenses aimed to improve, analyze and/or strengthen the local research and development (**R&D**) infrastructure and the breadth of science and technology activity in Puerto Rico. These expenses, however, do not have a direct effect upon technology commercialization efforts. Examples of expenses within this function include: grants to support laboratory infrastructure; grants to attract/retain distinguished researchers; studies to determine R&D/Innovation/Knowledge Economy activity in the Island; and, salaries and/or professional services to support this area

Technology Transfer and Commercialization: includes expenses incurred in initiatives to support technology transfer and commercialization and direct investments in technology development projects which have a clear commercialization aim. Examples of expenses within this function include: intellectual property assistance, grants to further the development of technologies with a clear commercialization aim and plan; investment in technology commercialization accelerators and startup incubators, salaries and/or professional services to support this area.

Science City Development: includes non-capitalizable expenditures necessary for the on-going development and construction of sites at the Science City. These expenditures include salary and/or professional services to support this area; planning and assessment projects; security services to enable construction work, etc.

Operational Expenditures: includes all administrative expenses incurred to support all functional areas as described above which are not directly allocable to any of these. Example of these expenses include: administrative staff salaries, accounting fees, depreciation, utilities, etc.

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
CONTINUED**

Functional allocation of expenses and operational expenditures - continued

Fundraising: includes expenses incurred in soliciting contributions, gifts, grants, etc. Example of these expenses, include: publicizing and conducting fundraising campaigns, soliciting grants from foundations and government agencies, costs of participating in federated fundraising campaigns, preparing and distributing fundraising manuals, instructions and other materials. The Trust did not, however, engaged in any significant fundraising activity during the years ended as of June 30, 2013.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising and promotion

The Trust charges to operations advertising and promotion costs as they are incurred. The Trust did not incur in any significant advertising and promotion activity during the year ended as of June 30, 2013.

NOTE B - DUE FROM GOVERNMENT ENTITY

Due from government entity consists of the following:

As established in Act No. 232, the Trust is entitled to receive \$40,000,000 in connection with certain stipulated initiatives related to science and technology development and infrastructure projects for the Scientific Investigation Fund for the Centenary of the University of Puerto Rico.

\$ 4,000,000

As established by Act No. 208, which amended Act No. 214, the Trust is to receive the greater of \$5,000,000 or 25% percent for FY2011-12 out of the monies deposited in the Special Fund for Economic Development managed by the Puerto Rico Industrial Development Company.

\$ 9,738,000

\$13,738,958

NOTE C - CONVERTIBLE PROMISSORY NOTE RECEIVABLE

The Trust holds a convertible promissory note payable with the CDI Laboratories, Inc., for the amount of \$889,695. This promissory note entailed an agreed upon conversion of prior support in the form of grants provided to the Company into this debt financing instrument.

This note is to finance Phase II of the Generation and Commercialization of Monoclonal Anti-bodies against the Human Proteome, taking place during 2010, 2011 and 2012. The note shall accrue interest on the unpaid principal balance at a rate of three percent (3%) per annum, computed on the basis of actual date elapsed in a year from the date of the note to the repayment date. The principal amount of the note, plus any unpaid accrued interest, shall be payable upon demand at any time after the maturity date of January 31, 2017. No payments shall be due for the first three (3) years and thereafter all payments shall be amortized on a monthly basis for the remaining two (2) years until the maturity date.

The entire principal balance and accrued interest on this note may be converted into a secure loan, convertible promissory note, convertible note purchase agreement, equity agreement, reimbursement agreement or similar arrangement. The conversion into common shares of the Company is to be calculated by dividing the entire outstanding balance by the fair market value of the common stock as of the maturity date.

NOTE D - BUILDING

As of December 2012, the Trust concluded the rehabilitation and construction work related to the Innovation Center Building, the first real estate development located at the Science District. The Trust capitalized as Building a total of \$2.6 million related to rehabilitation and inspection costs incurred during June through December 2012.

The Innovation Center Building is a three-story building which houses the Trust headquarters and provides space for both, the incubation of local hi-tech startups and strategic service providers, creating a synergistic effect to accelerate the commercialization of technologies.

NOTE E - LAND AND PROPERTY FOR RESEARCH, DEVELOPMENT AND INFRASTRUCTURE PROJECT RELATED TO SCIENCE AND TECHNOLOGY - RESTRICTED

On October 22, 2007, the Trust received 67.88 acres of prime real estate in the metropolitan area of San Juan, which includes the former Río Piedras Correctional Facilities (Oso Blanco State Penitentiary).

The Trust valued the land and property at \$18,000,000 based on a preliminary market value opinion report, dated October 20, 2008, subject to certain extraordinary assumptions, which if not true, could affect the reported condition and value opinion. The main extraordinary assumptions are summarized as follows:

1. The land and property must be developed in accordance with the master plan.
2. There is no contamination in the property and no contaminants have emanated from the property to near bayed properties or bodies of water. The demolition and infrastructure development costs are no other than the ones already considered.
3. The southeast wing of the historic prison building cannot be demolished as proposed in the master plan.

Based on the magnitude of these extraordinary assumptions, management has considered that any variance could affect the preliminary fair market value of the land and property as stated in the financial statements and the results of the operations.

As established by Act No. 208, which amended Act No. 214, the Trust plans to develop the 67.88 acres of Oso Blanco State Penitentiary site into a research park, which combines residential, retail, educational, and civic facilities with laboratory and research and development facilities with the purpose of facilitating the development of infrastructure favorable to the research and development of science and technology. Costs related to the design, development and improvements of the campus are capitalized as incurred.

NOTES TO FINANCIAL STATEMENTS / JUNE 30, 2013

NOTE F – PROPERTY AND EQUIPMENT, AND EQUIPMENT UNDER CAPITAL LEASES

Property and equipment and equipment under capital leases consists of the following:

	Cost	Accumulated Depreciation	Book Value
Furniture and fixtures	\$ 95,152	\$ 89,646	\$ 5,506
Computer equipment	9,726	9,726	-
Equipment under capital leases	<u>37,068</u>	<u>12,411</u>	<u>24,657</u>
	<u>\$ 141,946</u>	<u>\$ 111,783</u>	<u>\$ 30,163</u>

During the reporting period, the Trust wrote-off a total of \$99,142 related to Leasehold Improvements due to the relocation of its headquarters to the Innovation Center Building on December 2012 (see Note D – Building). The write-off resulted in a loss in asset disposal of \$33,991 between the difference of capitalized Leasehold Improvements and the related accumulated depreciation as December 2012.

Depreciation expense for the years June 30, 2013 totaled \$97,065 and it is allocated to operational expenditures on the accompanying statement of activities.

NOTE G - PROGRAM SERVICE PAYABLE

Program service payable consists of a reimbursement payable to Puerto Rico Industrial Development Company (PRIDCO) for the funding of the Bioprocess Development Training and Complex Corporation, on behalf of the Trust. Those disbursements will be made from the monies of the Centenary Fund. The remaining Program Service Payable balance of \$500,000 for this concept was recorded against due from government as of June 30, 2013.

Program service payable also includes accrued obligations related to program support grants awarded during the period through both, Unrestricted and Restricted funds. The balance of Program Service Payable regarding program support grants as of June 30, 2013, is as follows:

Program Support Grants Payable - Unrestricted Funds	\$ 971,474
Program Support Grants Payable - Restricted Funds	<u>718,000</u>
	<u>\$ 1,689,474</u>

NOTE H - OBLIGATIONS UNDER CAPITAL LEASE

The Trust leases certain assets under capital lease agreements expiring at various dates, the latest of which expires in 2018.

Future minimum lease payments for years ending subsequent to June 30, 2013, are as follows:

Year ending June 30,	Amount
2014	\$ 8,497
2015	6,600
2016	6,600
2017	6,600
2018	<u>3,300</u>
Minimum lease payments	31,597
Less amount representing interest	<u>6,315</u>
Present value of minimum lease payments	<u>\$ 25,282</u>

NOTE I - SUPPLEMENTAL INFORMATION OF NON-CASH INVESTING AND FINANCING ACTIVITIES

Program service payable recorded against due from government entity	<u>\$ 500,000</u>
Addition to land development cost through accounts payable	<u>\$ 304,763</u>
Reclassification of land development cost to building	<u>\$ 135,478</u>
Acquisition of equipment through obligations under capital leases	<u>\$ 25,282</u>
Retirement of leasehold improvement	
Cost	<u>\$ 99,142</u>
Accumulated amortization	<u>\$ 65,151</u>
Book value	<u>\$ 33,991</u>

NOTES TO FINANCIAL STATEMENTS / JUNE 30, 2013

NOTE J - COMMITMENT

On June 2012, the Trust entered into a construction agreement for the demolition of Las Malvinas building and other structures located on the Trust premises. Total contract amounted to \$3,779,159. At June 30, 2013, total balance certified by contractors amounted to \$3,516,081.

NOTE K - CONCENTRATION OF CREDIT RISK

As of June 30, 2013, all of the Trust's bank balance, aggregating approximately \$75,500,000, was exposed to custodial credit risk since such deposits, all of which are maintained at the Government Development Bank for Puerto Rico, are uninsured and uncollateralized.

NOTE L - CONTINGENCY

The Trust is a defendant in various lawsuits filed by former executive director for alleged violation of his rights to free speech, unjustified termination of his employment and defamatory and libelous against his person. Outside counsel for the Trust has advised that at this stage in the proceedings they cannot offer an opinion as to the probable outcome. Accordingly, no provision for any liability that may result, if any, has been made in the financial statements.

NOTE M - SUBSEQUENT EVENTS

The Trust has evaluated subsequent events through September 25, 2013, the same date the financial statements were available to be issued.

On September 13, 2013, the Trust collected \$13,738,958 of the balance due from government entity.

