

***Rums of Puerto Rico Fund***  
***(A Fund of the Commonwealth of Puerto Rico)***

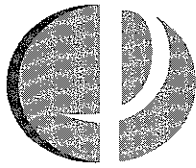
*Basic Financial Statements as of and for the Year  
Ended June 30, 2010 and Independent Auditors'  
Report*

***Rums of Puerto Rico Fund***  
***(A Fund of the Commonwealth of Puerto Rico)***  
***As of and for the Year Ended June 30, 2010***

---

**Table of Contents**

	<b>Page</b>
Independent Auditors' Report	1
Management's Discussion and Analysis	2
Basic Financial Statements:	
Statement of Net Assets and Governmental Fund Balance Sheet	6
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Net Assets	7
Notes to the Basic Financial Statements	8



**PARISSI P.S.C.**  
Certified Public Accountants, Tax & Business Advisors

### Independent Auditors' Report

To the Board of Directors of the  
Puerto Rico Industrial Development Company  
San Juan, Puerto Rico

We have audited the accompanying basic financial statements of the Rums of Puerto Rico Fund (the Fund), a Fund of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Fund's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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.

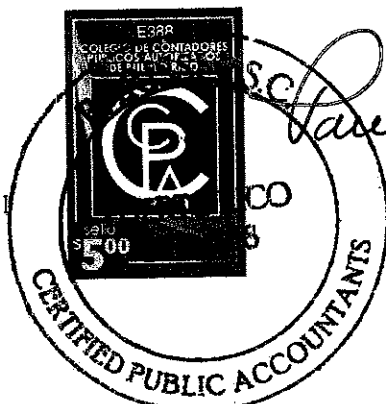
As discussed in Note 1, the financial statements present only the Rums of Puerto Rico Fund, a Fund of the Commonwealth of Puerto Rico and do not purport to, and do not, present the financial position of the Commonwealth of Puerto Rico as of June 30, 2010, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund information for the Rums of Puerto Rico as of June 30, 2010, and the respective changes in financial position of those activities and fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 5 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

February 15, 2011

Stamp No. E388 was affixed  
to the original of this report.  
License No. 88 Exp. December 1, 2011



***Rums of Puerto Rico Fund***  
***(A Fund of the Commonwealth of Puerto Rico)***  
*Management's Discussion and Analysis*  
*Year Ended June 30, 2010*

---

**Overview of the Financial Statements**

Following is an overview and analysis of the financial activities of the Rums of Puerto Rico Fund (the Fund) for the fiscal year ended June 30, 2010. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. It is intended to serve as an introduction to the Fund's financial statements, which are comprised of the basic financial statements and the notes to the financial statements. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole.

**Government Wide Highlights**

The Statement of Net Assets and Governmental Fund Balance Sheet present information on all of the Fund's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities, result in increased net assets, which also indicates an improved financial position.

The Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Net Assets present information showing how the Fund's net assets are reported as soon the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

**Fund Highlights**

The Fund's financial statements provide more detailed information about the Fund's most current financial resources. Funds are accounting devices that the Fund uses to keep track of specific sources of funding and spending for particular purposes.

The Fund's basic service is included in a governmental fund, which is used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide statements, the governmental funds are prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach, the financial statements focus on near-term inflows and outflows of external resources, as well as on balances of expendable resources available at year end. Consequently, the governmental fund statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Fund's programs. Because this information does encompass the additional long-term focus of the government-wide statements, there are no differences between the government-wide and fund statements.

The governmental fund statements focus on only one major fund. The Fund's major fund is the general fund (which accounts for the main operating activities of the Fund).

The notes to the basic financial statements provide additional information that is essential to the full understanding of the data provided in the basic financial statements.

***Rums of Puerto Rico Fund***  
***(A Fund of the Commonwealth of Puerto Rico)***  
*Management's Discussion and Analysis*  
*Year Ended June 30, 2010*

---

**Financial Analysis of the Fund (In thousands):**

Net assets – The condensed net assets information of the Fund is presented below:

	2010	2009	Change	
			In dollars	Percentage
Assets	\$ 23,536	26,919	(3,383)	-12.57%
Liabilities	3,750	6,672	(2,922)	-43.79%
Net assets, unrestricted	19,786	20,247	(461)	-2.28%
Total liabilities and net assets	\$ 23,536	26,919	(3,383)	-12.57%

**Analysis of Net Assets at June 30, 2010 and 2009**

The Rums of Puerto Rico Fund (the Fund) was created through Law 143 of June 30, 1969 and is a fund of the Commonwealth of Puerto Rico, (the Commonwealth). It is administered by the Puerto Rico Industrial Development Company (PRIDCO), a component unit of the Commonwealth. The Fund was created to promote the sales of Puerto Rican Rums in the United States. As per the provisions of Title 26 of the United States Internal Revenue Code, all excises taxes collected on rum imported into the United States which has been produced in Puerto Rico shall be reimbursed to the Commonwealth. These monies are used by the Commonwealth for infrastructure projects and continuing marketing and promotion efforts of the Puerto Rican rums in the United States, among other uses related to the socioeconomic development of Puerto Rico.

Total assets decreased by approximately \$3.4 million, or 12.57%, mostly due to the decrease in investments in certificates of deposit (included as cash and cash equivalents) which amounted to approximately \$2.3 million (\$10.9 million in 2010 versus \$13.2 million in 2009) and were used to pay off accrued liabilities. Other significant assets include advances made to PRIDCO and the Special Incentives Fund of approximately \$7 million and \$900 thousand, respectively.

Liabilities for 2010 amounted to approximately \$3.7 million, a decrease of approximately \$2.9 million, or 43.79%, mostly as a result of a decrease of approximately \$2.3 million in accounts payable (a \$2.5 million accrual for incentives granted to a local rum manufacturer accrued at June 30, 2009).

*This space has been intentionally left in blank*

***Rums of Puerto Rico Fund***  
***(A Fund of the Commonwealth of Puerto Rico)***  
*Management's Discussion and Analysis*  
*Year Ended June 30, 2010*

The condensed changes in net assets information is presented below:

	2010	2009	Change	
			In dollars	Percentage
Intergovernmental revenue	\$ 26,653	25,000	1,653	6.61%
Non-operating revenue:				
Interest income	159	375	(216)	-57.60%
Other income	106	25	81	324.00%
Total revenue	<u>26,918</u>	<u>25,400</u>	<u>1,518</u>	<u>5.98%</u>
Expenses:				
Marketing	14,458	13,210	1,248	9.45%
Sponsorships and incentives	11,464	10,484	980	9.35%
General and administrative	1,457	1,059	398	37.58%
Total expenses	<u>27,379</u>	<u>24,753</u>	<u>2,626</u>	<u>10.61%</u>
Excess (deficiency) of revenues over expenses	<u>(461)</u>	<u>647</u>	<u>(1,108)</u>	<u>-171.25%</u>
Net assets, beginning of year	<u>20,247</u>	<u>19,600</u>	<u>647</u>	<u>3.30%</u>
Net assets, end of year	\$ <u><u>19,786</u></u>	<u><u>20,247</u></u>	<u><u>(461)</u></u>	<u><u>-2.28%</u></u>

**Analysis of Fiscal Year 2010 and 2009**

For 2010, operating income consisted of a \$26.6 million grant by the Legislature of the Commonwealth. Also, during the year ended June 30, 2010, the non-operating revenue amounted to \$159 thousand, a decrease of approximately \$216 thousand, or 57.60%, mostly related to a \$2 million decrease on investments in certificates of deposit.

Marketing expenses related to the marketing and promotion efforts made in the United States mainland for the sale of rums manufactured in Puerto Rico increased by approximately \$1.2 million, or 9.45%, mostly due to an increase on a marketing contract of approximately \$1.2 million. Sponsorships and incentives awarded increased by approximately \$980 thousand, or 9.35%, mostly due to a \$1 million additional sponsorship and incentives granted which included two incentives of \$500 thousand each granted to two local rum manufacturers.

General and administrative expenses also increased by approximately \$398 thousand or 37.58%, mostly due to an increase on rent expense of \$360 thousand because PRIDCO management restructured rental charges by square feet in the office located in New York City to more accurately reflect actual usage.

***Rums of Puerto Rico Fund***  
***(A Fund of the Commonwealth of Puerto Rico)***  
*Management's Discussion and Analysis*  
*Year Ended June 30, 2010*

---

**Governmental fund**

The focus of the Fund's governmental fund is to provide information on near-term inflows, outflows and balances of resources available for spending. Such information is useful in assessing the Fund's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Fund's net resources available at the end of a fiscal year. For the fiscal year ended June 30, 2010, the governmental fund reported ending fund balance of approximately \$19.8 million, a net decrease of \$461 thousand.

**REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of the Fund's finances and to demonstrate the Fund's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Executive Director's Office, Puerto Rico Industrial Development Company, P.O. Box 362530, San Juan, Puerto Rico, 00936-2530.

***This space Is Intentionally Left In Blank***

***Rums of Puerto Rico Fund***  
***(A Fund of the Commonwealth of Puerto Rico)***  
*Statement of Net Assets and Governmental Fund Balance Sheet*  
*Year Ended June 30, 2010*

	General Fund <u>(In thousands)</u>	Adjustments <u>(In thousands)</u>	Statement of Net Assets <u>(In thousands)</u>
<b>Assets</b>			
Cash and cash equivalents in governmental banks	\$ 2,500	—	2,500
Cash and cash equivalents in commercial banks	12,840	—	12,840
Accrued interest	15	—	15
Due from PRIDCO	7,275	—	7,275
Due from Special Incentive Fund	900	—	900
Accounts Receivable Other	6	—	6
Total assets	<u>\$ 23,536</u>	<u>—</u>	<u>23,536</u>
<b>Liabilities and Net Assets</b>			
Accounts payable	<u>\$ 3,750</u>	<u>—</u>	<u>3,750</u>
Total liabilities	<u>3,750</u>	<u>—</u>	<u>3,750</u>
Net assets	<u>19,786</u>	<u>(19,786)</u>	<u>—</u>
Total liabilities and net assets	<u>\$ 23,536</u>	<u>—</u>	<u>—</u>
Total unrestricted net assets		<u>19,786</u>	<u>19,786</u>

See notes to the basic financial statements.



## ***Rums of Puerto Rico Fund***

### ***(A Fund of the Commonwealth of Puerto Rico)***

*Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Net Assets*  
*Year Ended June 30, 2010*

---

	General Fund <u>(In thousands)</u>	Adjustments <u>(In thousands)</u>	Statement of Activities <u>(In thousands)</u>
<b>Expenditures/expenses:</b>			
Marketing	\$ 14,458	—	14,458
Sponsorships and incentives	11,464	—	11,464
General and administrative	<u>1,457</u>	<u>—</u>	<u>1,457</u>
Total expenditures/expenses	<u>27,379</u>	<u>—</u>	<u>27,379</u>
<b>General revenues:</b>			
Intergovernmental revenue	26,653	—	26,653
Investment interest revenue	159	—	159
Other income	<u>106</u>	<u>—</u>	<u>106</u>
Total general revenues	<u>26,918</u>	<u>—</u>	<u>26,918</u>
Excess of expenditures over revenues	<u>(461)</u>	<u>461</u>	<u>—</u>
Change in net assets	—	(461)	(461)
<b>Net assets:</b>			
Beginning of the year	<u>20,247</u>	<u>—</u>	<u>20,247</u>
End of the year	<u>\$ 19,786</u>	<u>—</u>	<u>19,786</u>

See notes to the basic financial statements.

***Rums of Puerto Rico Fund***  
***(A Fund of the Commonwealth of Puerto Rico)***  
*Notes to Basic Financial Statements*  
*As of and for the Year Ended June 30, 2010*

---

**1. REPORTING ENTITY**

The Rums of Puerto Rico (the Fund), was created through Law 143 of June 30, 1969, and is a Fund of the Commonwealth of Puerto Rico (the Commonwealth). It is administered by the Puerto Rico Industrial Development Company (PRIDCO), which is a component unit of the Commonwealth.

The Fund was created to promote the sales of Puerto Rican Rums in the United States. As per the provisions of title 26 of the United States Internal Revenue Code, all excises taxes collected on rum imported into the United States which has been produced in Puerto Rico shall be covered into the treasuries of Puerto Rico. These monies will be used by the Government of Puerto Rico for infrastructure projects and marketing and promotion efforts of the Puerto Rican Rums in the United States, among other uses related to the socioeconomic development of Puerto Rico.

The source of funding is provided by transfers from the Department of Treasury of the Commonwealth of Puerto Rico.

***Basis of Presentation and Summary of Significant Accounting Policies***

The accompanying basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, as applicable to governmental entities. The following is a summary of significant accounting policies:

***(a) Government Wide and Fund Financial Statements***

The government-wide financial statements report information on all of the activities of the Fund as a whole. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are specifically associated with a function, which is to provide industrial incentives or grants. Program revenues include (1) non-exchange revenue (legislative appropriations) and (2) interest income from investments.

The fund financial statements provide information about the governmental fund, which is the only fund category.

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

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

Basis of accounting refers to when the Fund recognizes revenue and expenditures/expenses and the related assets and liabilities and reports them in the financial statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Incentives are recognized as expenditures as soon as all eligibility requirements imposed by the provider have been met.

***Rums of Puerto Rico Fund***  
***(A Fund of the Commonwealth of Puerto Rico)***  
*Notes to Basic Financial Statements*  
*As of and for the Year Ended June 30, 2010*

---

The governmental fund follows the modified accrual basis of accounting. Under this basis of accounting, revenues are recorded in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available. Available is defined as expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Fund considers revenue to be available if they are collected within 60 days of the end of the current fiscal year-end. Expenditures and related liabilities are generally recorded in the accounting period in which the liability is incurred.

***(c) Cash equivalents***

The Fund considers all highly liquid investments with original maturity of three months or less to be cash equivalents.

***(d) Use of estimates***

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America require the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results may differ from those estimates.

***(e) Budgetary accounting***

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

**2. CASH AND CASH EQUIVALENTS**

As of June 30, 2010, \$2.5 million of the Fund's bank balance was exposed to custodial credit risk, since this amount represents deposits at the Economic Development Bank for Puerto Rico (EDB), a component unit of the Commonwealth that is exempt from collateralization requirements. Custodial credit risk is the risk that, in an event of a bank failure, the Fund's deposits might not be recovered. The Commonwealth requires that public funds deposited in commercial banks must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. Deposits at the Economic Development Bank of Puerto Rico are uninsured and uncollateralized, as these entities, which are component units of the Commonwealth, are exempt from compliance with the collateralization requirement.

Pursuant to the Investment Guidelines for the Commonwealth adopted by GDB, the Fund may invest in obligations of the Commonwealth, obligations of the United States, certificates of deposit, commercial paper and banker's acceptance.