

THE CHILDREN'S TRUST
(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and
Required Supplementary Information
June 30, 2025

(With Independent Auditors' Report Thereon)

THE CHILDREN'S TRUST

(A Component Unit of the Commonwealth of Puerto Rico)

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2025

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RSM Puerto Rico
PO Box 10528
San Juan, PR 00922-0528

T 787-751-6164
F 787-759-7479
www.rsm.pr

INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of
The Children's Trust

Opinions

We have audited the financial statements of the governmental activities and each major fund of The Children's Trust, a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise The Children's Trust's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of The Children's Trust, as of June 30, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Children's Trust and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Children's Trust's ability to continue as a going concern for twelve months beyond the financial statement date, including any current known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Children's Trust internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about The Children's Trust ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

San Juan, Puerto Rico
February 27, 2026.



D0P91-1416
The Children's Trust (Basic)

RSM Puerto Rico

THE CHILDREN'S TRUST

(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) JUNE 30, 2025

This management's discussion and analysis section (MD&A) provides a narrative overview and analysis of the financial activities of The Children's Trust (the Trust) during the fiscal year ended June 30, 2025. The following presentation is by necessity highly summarized, and therefore, in order to gain a thorough understanding of the Trust's financial condition, the basic financial statements, notes, and required supplementary information should be reviewed in their entirety.

1. FINANCIAL HIGHLIGHTS

- The Trust's government-wide net deficit for the fiscal year 2025 was approximately \$1.48 billion, a net deficit increase of approximately \$48.6 million, or approximately 3.4%, as compared to fiscal year 2024 (where the net deficit was approximately \$1.43 billion).
- Government-wide revenues for fiscal year 2025 generated from the Global Settlement Agreement, dated November 23, 1998 (the Tobacco Settlement or the Tobacco Settlement Agreement) between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth of Puerto Rico (the Commonwealth) were approximately \$63.5 million, a decrease of approximately \$3.5 million, or approximately 5.2%, as compared to fiscal year 2024 (where revenues generated by the Tobacco Settlement were approximately \$67 million).
- Operating expenses consist of payments for programs and activities permitted by the Trust's enabling legislation, Act 173 of July 30, 1999, as amended (Act 173) and interest expense. Program expenses amount to approximately \$6.76 million, and interest expense amounts to approximately \$111 million on the Tobacco Settlement bonds.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements include the MD&A, 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

Government-Wide Financial Statements - The statement of net deficit and the statement of activities report information on all activities of the Trust. Only governmental activities are presented in the Trust's financial statements. Governmental activities generally are financed through nonexchange revenues. Following is a description of the Trust's government-wide financial statements:

- The statement of net deficit presents the Trust's assets and deferred outflows of resources and the liabilities and deferred inflows of resources, with the difference reported as net deficit.
- The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include: (1) interest income on investments and interest-bearing deposits and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues are reported as general revenues.

THE CHILDREN'S TRUST

(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) JUNE 30, 2025

Fund Financial Statements - 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 that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues and expenditures, as appropriate. The financial activities of the Trust reported in the accompanying basic financial statements were classified in two governmental funds. All funds of the Trust are major funds.

4. FINANCIAL ANALYSIS

The statement of net position (deficit) and the statement of activities report information about the Trust's activities in a way that indicates whether the Trust is better or worse as a result of this year's activities. These two statements report the net deficit of the Trust and the changes in net deficit for the year.

The Trust's net position (deficit)—the difference between assets and the deferred outflows of resources, and liabilities and the deferred inflows of resources—is one way to measure the Trust's financial health or financial position. Over time, increases or decreases in the Trust's net position are one indicator of whether its financial health is improving or deteriorating. However, non-financial factors related to tobacco and general industries and changes in economic conditions and legislation need to be considered as well.

5. GOVERNMENT-WIDE FINANCIAL STATEMENTS ANALYSIS

The government-wide financial statements are designed to indicate whether the Trust is in a better or worse financial position when compared to the prior year. The following is a condensed statement of net deficit of the Trust compared with prior year (in thousands):

	As of June 30,		Change	
	2025	2024	Amount	Percent
Assets:				
Current assets	\$ 6,295	\$ 11,203	\$ (4,908)	(43.8%)
Non-current restricted assets	138,963	139,348	(385)	(0.3%)
Total assets	145,258	150,551	(5,293)	(3.5%)
Liabilities:				
Current liabilities	2,882	32	2,850	8906.3%
Non-current liability	1,623,740	1,583,251	40,489	2.6%
Total liabilities	1,626,622	1,583,283	43,339	2.7%
Net deficit	\$ (1,481,364)	\$ (1,432,732)	\$ (48,632)	3.4%

THE CHILDREN'S TRUST

(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) JUNE 30, 2025

For fiscal year 2025, the Trust's net deficit increased by approximately \$48.6 million to approximately \$1.5 billion, as compared to fiscal year 2024, due to the following:

- A decrease in total assets of approximately \$5.3 million, related to the overall net effect of the decrease in the money received from the Tobacco Settlement, the economic development via grant arrangements made and the increase in the interest income generated in the investments bank accounts.
- An increase in total liabilities of approximately \$43.3 million, primarily due to the net effect of interest capitalization for fiscal year 2025 of approximately \$70.5 million on capital appreciation bonds plus an increase in the accretion of the bond discount of \$643 thousand, decreased by the principal payment made amounting to approximately \$41.3 million.

Condensed statements of activities are presented below (in thousands):

For fiscal year 2025, the Trust had a net deficit increase of approximately \$14 million from approximately \$34.7 million in fiscal year 2024 to approximately \$48.6 million in fiscal year 2025. This net deficit increase was due primarily to the decrease in revenues of approximately \$2.6 million. The net decrease in revenues was attributed to a decrease in investment earnings of \$331 thousand, a contribution from Federal Grants of approximately \$1.2 million and a decrease in the annual contribution from the Tobacco Settlement of approximately \$3.5 million. The annual contribution from the Tobacco Settlement depends on the actual sales of cigarettes each year, which could be affected by factors such as inflation, demographics, cigarette prices, and regulations, among others.

Function/Program	For the Year Ended June 30,		Change	
	2025	2024	Amount	Percent
Expenses of governmental activities:				
Economic development	\$ 6,762	\$ -	\$ 6,762	100%
Interest on long term debt and other - net	110,981	106,372	4,609	4.3%
Total	117,743	106,372	11,371	10.7%
Revenues of governmental activities:				
Investment earnings	4,399	4,730	(331)	(7.0%)
Contribution from Federal Grants	1,235	-	1,235	100.0%
Tobacco Settlement Agreement	63,477	66,970	(3,493)	(5.2%)
Total	69,111	71,700	(2,589)	(3.6%)
Change in net deficit	\$ (48,632)	\$ (34,672)	\$ (13,960)	40.3%

THE CHILDREN'S TRUST

(A Component Unit of the Commonwealth of Puerto Rico)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) JUNE 30, 2025

6. GOVERNMENTAL FUND FINANCIAL STATEMENTS ANALYSIS

The Trust's governmental funds reported fund balances of approximately \$105.5 million as of June 30, 2025, which is approximately \$7.9 million less than the prior fiscal year ending June 30, 2024. The fund balance decrease in governmental funds was mainly due to a decrease in investments and investment contracts amounting to approximately \$2.9 million, a decrease in cash to approximately \$2.1 million and an increase in accounts payable amounting to approximately \$84 thousand and deferred inflows of approximately \$2.7 million.

The following is a rounded summary of fund balances of the Trust compared with the prior year (in thousands) in the government funds:

	As of June 30,		Change	
	2025	2024	Amount	Percent
Assets	\$ 145,257	\$ 150,551	\$ (5,294)	(3.5%)
Liabilities and deferred inflows				
of resources	\$ 39,736	\$ 37,114	\$ 2,622	7.1%
Fund balances	105,520	113,437	(7,917)	(7.0%)
Total liabilities, deferred inflows				
of resources and fund balances	\$ 145,256	\$ 150,551	\$ (5,295)	(3.5%)

7. DEBT ADMINISTRATION

The Trust has three outstanding Tobacco Settlement bond issuances (each of which is described in Note 8 of the accompanying basic financial statement). During the fiscal year ended June 30, 2025, principal and interest payments on bonds payable amounted to approximately \$41.3 million and \$29.2 million, respectively. As of June 30, 2025, the remaining balance on bonds was approximately \$1.6 billion, net of approximately \$10.7 million of non-accreted bond discount, due through fiscal year 2057.

8. CURRENTLY KNOWN FACTS

On December 15, 2025, an Assignment Agreement was executed (with effective date of January 15, 2026) by which UniCredit Bank GmbH, New York Branch transferred to Bank of America, N.A. all the rights, liabilities, duties and obligations of UniCredit under and in respect of the PSA Master Repurchase Agreement executed on October 10, 2002. By virtue of this Assignment Agreement, it was deemed that U.S. Bank Trust Company, National Association and Bank of America, N.A. has entered into a new repurchase agreement. Children's Trust consented to the execution of the Assignment Agreement and the transfer.

9. 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 the Trust, PO Box 42001, San Juan, Puerto Rico, 00940-2001.

THE CHILDREN'S TRUST

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET DEFICIT JUNE 30, 2025

	Governmental Activities
ASSETS	
CURRENT ASSETS:	
Cash	\$ 6,295,147
Total current assets	6,295,147
NON-CURRENT RESTRICTED ASSETS:	
Cash held by trustee	2,786,371
Investments and investment contracts	98,826,419
Accrued interest receivable	494,787
Receivable from Tobacco Settlement Agreement	36,854,900
Total noncurrent restricted assets	138,962,477
Total assets	145,257,624
LIABILITIES	
CURRENT LIABILITIES:	
Accounts payable	116,421
Unearned revenue	2,765,250
Total current liabilities	2,881,671
NON-CURRENT LIABILITIES:	
Liabilities payable from restricted assets-	
Accrued interest payable	3,380,012
Bonds payable	1,620,360,355
Total non-current liabilities	1,623,740,367
Total liabilities	1,626,622,038
NET DEFICIT	
Restricted	132,817,215
Unrestricted	(1,614,181,629)
Total net deficit	\$ (1,481,364,414)

THE CHILDREN'S TRUST

(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF ACTIVITIES

JUNE 30, 2025

Functions/Programs	Expenses	Program Revenues		Net
		Investment Earnings	Operating Contributions	and Changes in Net Deficit
GOVERNMENTAL ACTIVITIES:				
Economic development	\$ 6,761,669	\$ -	\$ 1,234,750	\$ (5,526,919)
Debt service and other	110,980,949	4,053,246	63,476,674	(43,451,029)
Total governmental activities	\$ 117,742,618	\$ 4,053,246	\$ 64,711,424	(48,977,948)
GENERAL REVENUES:				
Investment earnings				345,542
CHANGE IN NET DEFICIT				(48,632,406)
NET DEFICIT - Beginning of year				(1,432,732,008)
NET DEFICIT - End of year				\$ (1,481,364,414)

See notes to basic financial statements.

THE CHILDREN'S TRUST

(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET – GOVERNMENTAL FUNDS JUNE 30, 2025

	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS			
Cash	\$ 9,081,518	\$ -	\$ 9,081,518
Investment and investment contracts	-	98,826,419	98,826,419
Accrued interest receivable	-	494,787	494,787
Receivable from Tobacco Settlement Agreement	-	36,854,900	36,854,900
Total assets	<u>\$ 9,081,518</u>	<u>\$ 136,176,106</u>	<u>\$ 145,257,624</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES -			
Accounts payable	\$ 116,421	\$ -	\$ 116,421
Unearned revenue	<u>2,765,250</u>	<u>-</u>	<u>2,765,250</u>
Total liabilities	<u>\$ 2,881,671</u>	<u>\$ -</u>	<u>\$ 2,881,671</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue	<u>-</u>	<u>36,854,900</u>	<u>36,854,900</u>
FUND BALANCES:			
Restricted	-	99,321,206	99,321,206
Unassigned	<u>6,199,847</u>	<u>-</u>	<u>6,199,847</u>
Total fund balances	<u>6,199,847</u>	<u>99,321,206</u>	<u>105,521,053</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 9,081,518</u>	<u>\$ 136,176,106</u>	<u>\$ 145,257,624</u>

See notes to basic financial statements.

THE CHILDREN'S TRUST

(A Component Unit of the Commonwealth of Puerto Rico)

RECONCILIATION OF BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENT OF NET DEFICIT JUNE 30, 2025

FUND BALANCES OF GOVERNMENTAL FUNDS	\$ 105,521,053
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AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES ARE DIFFERENT IN THE STATEMENT OF NET DEFICIT BECAUSE:

Receivable from the Tobacco Settlement to be applied to debt service will not be received in the current period and, therefore, is reported as deferred inflows of resources in the fund financial statements.	36,854,900
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Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the fund financial statements.	(3,380,012)
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Bonds payable are not due and payable in the current period and, therefore, are not reported in the fund financial statements.	<u>(1,620,360,355)</u>
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NET DEFICIT OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (1,481,364,414)</u></u>
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See notes to basic financial statements.

THE CHILDREN'S 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, 2025

	General Fund	Debt Service Fund	Total Governmental Funds
REVENUES:			
Investment earnings	\$ 345,542	\$ 4,053,246	\$ 4,398,788
Federal Grant	1,234,750	-	1,234,750
Revenue from the Tobacco Settlement	-	63,704,063	63,704,063
Total revenues	1,580,292	67,757,309	69,337,601
EXPENDITURES:			
Economic development	6,647,368	-	6,647,368
Other	114,301	-	114,301
Debt service:			
Principal	-	41,280,000	41,280,000
Interest	-	29,211,494	29,211,494
Total expenditures	6,761,669	70,491,494	77,253,163
OTHER FINANCING SOURCES/(USES) -			
Transfers in/(out)	210,313	(210,313)	-
NET CHANGES IN FUND BALANCES	(4,971,064)	(2,944,498)	(7,915,562)
FUND BALANCES - Beginning of year	11,170,911	102,265,704	113,436,615
FUND BALANCES - End of year	\$ 6,199,847	\$ 99,321,206	\$ 105,521,053

See notes to basic financial statements.

THE CHILDREN'S TRUST

(A Component Unit of the Commonwealth of Puerto Rico)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2025

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUNDS	\$ (7,915,562)
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AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES ARE DIFFERENT IN THE STATEMENT OF ACTIVITIES BECAUSE:

Net change in receivable from Tobacco Settlement Agreement is reported as revenue in the statement of activities, but is not reported in the fund financial statement since it does not provide current financial resources.	(227,390)
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Net change in interest payable reported in the statement of activities that does not require the use of current financial resources and, therefore, are not reported as an expenditure in the governmental funds.	283,800
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces bonds payable in the statement of net position; this is the amount of redemption on bond principal during the year.	41,280,000
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Interest capitalization on the 2005 and 2008 Series of the Tobacco Settlement Asset-Backed Bonds do not require the use of current financial resources and, therefore, are not reported as expenditure in governmental funds.	(81,410,470)
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The amortization of deferred loss on bonds refunded and the accretion of bonds discount do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds-	
Accretion of bond discount	(642,784)

CHANGE IN NET DEFICIT OF GOVERNMENTAL ACTIVITIES	<u>\$ (48,632,406)</u>
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See notes to basic financial statements.

THE CHILDREN'S TRUST

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2025

1. REPORTING ENTITY

The Children's Trust (the Trust) is a component unit of the Commonwealth of Puerto Rico (the Commonwealth) created by Act 173 of the Legislature of the Commonwealth on July 30, 1999, and an affiliate of the Government Development Bank of Puerto Rico (GDB), a component unit of the Commonwealth. The Trust was created for the purpose of developing programs aimed at promoting a better quality of life and the well-being of families, children, and youth in Puerto Rico, especially in the areas of education, recreation and health. These programs are financed with funds received by the Commonwealth from the Tobacco Settlement Agreement. Pursuant to Act 173, the Commonwealth assigned and transferred to the Trust the contributions that the Commonwealth is entitled to receive under the Tobacco Settlement. The Tobacco Settlement provides for annual payments through the year 2057, which will vary due to inflationary and volume adjustments. After 2057, the tobacco companies shall continue making contributions in perpetuity. Currently, all of the proceeds received from the Tobacco Settlement are pledged to cover the debt service requirements under three outstanding bond issuances of the Trust.

Act 173 also provides that GDB will act as the trustee of the Trust. However, GDB's prior functions are now carried out by the Puerto Rico Fiscal Agency and Financial Advisory Authority (AAFAF), as the new fiscal agent and financial advisor to the Commonwealth pursuant to Act 2 of January 18, 2017, as amended. Pursuant to Act 173, the Trust is exempt from taxation in Puerto Rico.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Trust conform to U.S. Generally Accepted Accounting Principles (GAAP), as applicable to governmental entities. The Trust follows Governmental Accounting Standards Board (GASB) statements under the hierarchy established by Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in the preparation of its basic financial statements.

The preparation of basic financial statements in conformity with U.S. GAAP 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 revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the account receivable from Tobacco settlement agreement and the related deferred inflows of resources.

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

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements - The statement of net position (deficit) and the statement of activities report information on all balances and activities of the Trust. The effect of interfund balances has been removed from both statements. Governmental activities are financed through revenues from the Tobacco Settlement, intergovernmental revenues, federal grants and investment earnings.

The statement of net position (deficit) presents the Trust's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position (deficit).

THE CHILDREN'S TRUST

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2025

Net position (deficit) is reported in three categories:

- *Net investment in capital assets* - consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets, if any. The Trust has no investment in capital assets.
- *Restricted* - results when constraints placed on net position use are either externally imposed by *creditors*, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the Trust's policy to use restricted resources first and the unrestricted resources when they are needed.
- *Unrestricted* - consists of net position (deficit) that does not meet the definition of the two preceding categories. Unrestricted net position often is designated to indicate that management does not *consider* it to be available for general operations. Unrestricted net position often has constraints on resources, which are imposed by management, but can 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 earnings on investments and operating contributions. Other items not meeting the definition of program revenues are reported as general revenues.

Fund's Financial Statements - 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. All of the financial activities of the Trust are reported in the accompanying basic financial statements and have been classified as governmental. All funds of the Trust are major funds.

Fund balances for each governmental fund are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Non-spendable* - amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- *Restricted* - amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government) or imposed by constitutional provisions or enabling legislation.
- *Committed* - amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority.
- *Assigned* - amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- *Unassigned* - amounts that are available for any purpose.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

THE CHILDREN'S TRUST

(A Component Unit of the Commonwealth of Puerto Rico)

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2025

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. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Trust considers revenues to be available if they are to be collected within 120 days after the end of the current fiscal year-end. 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.

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 used to account for grants awarded to promote a better quality of life and the well-being of families, children, and youth in Puerto Rico.
- *Debt Service Fund* - This debt service fund is used to account for proceeds from the Tobacco Settlement and for the payment of interest and principal on long-term obligations.

Budgetary Accounting - Act 173 does not require that the Trust submit a budget for approval by the Legislature of the Commonwealth; consequently, no formal budgetary accounting procedures are followed.

Cash Equivalents - Cash equivalents are defined as highly liquid investments with original maturities at the date of purchase of three months or less.

Investments and Investment Contracts - Investments and investment contracts are carried at fair value, except for money market investments and participating investment contracts with a remaining maturity at the time of purchase of one year or less, and non-participating investment contracts, carried at cost, which approximate fair value. Fair value is determined based on quoted market prices, and quotations received from independent broker/dealers or pricing services organizations.

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

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- Level 2 Investments with inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 Investments have unobservable inputs for an asset or liability and may require a degree of professional judgment.

Realized gains and losses from the sale of investments and unrealized changes in fair values are recorded as investment income.

Long-term debt, bond issue costs and bond discounts - The liabilities reported in the government-wide financial statements are bonds payable. Bonds payable are reported net of the applicable bond premium or discount. In the government-wide financial statements and the governmental funds financial statements, the bond issue costs are recorded as expenditures when paid. Discount on bonds is accreted over the life of the debt using the effective interest method in the government-wide financial statements. Discount on bonds is accounted for in the governmental funds as expenditures when paid.

Unearned Revenue - Represent resources received by the Authority before related services are rendered. Further information about the balance of unearned revenue is discussed below and in Note 3.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position (deficit) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position (deficit) that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Trust has one major caption that qualifies for reporting in this category: the unamortized balance of loss on bonds defeasance, reported in the government-wide statement of net position (deficit). A loss on bond defeasance, or refunding, results from the difference in the carrying value of a refunded debt and its reacquisition price. This amount is capitalized and amortized over the shorter of the life of the refunded or refunding debt as a component of interest expense in the government-wide statement of activities.

In addition to liabilities, the statement of net position (deficit) and the governmental funds' balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position (deficit) and resources that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Trust has only one caption that qualifies for reporting in this category, and it is the unearned revenue from the Tobacco Settlement, reported in the governmental funds balance sheet. Deferred inflows of resources at the governmental fund level arise when potential revenue does not meet the "available" criteria for revenue recognition in the current period under the accrual basis of accounting. In subsequent periods, when the revenue recognition criteria is met, or when the applicable resources become available, the deferred inflow of resources is removed from the balance sheet, and the revenue is recognized. Further information about the balance of unearned revenue is discussed below and in Note 3.

Receivable and Revenue from Tobacco Settlement - The Trust follows the GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issue*, as amended by GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (the GASB 48), which provides accounting guidance for entities created to obtain the rights to all or a portion of future Tobacco Settlement resources and for the governments that create such entities.

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GASB 48 indicates that the entity created to obtain the rights, which is called the Tobacco Settlement Authority (TSA), should be considered a component unit of the government that created it, and that the component unit should be accounted for as a blended component unit. GASB 48 also states that the government receiving the payments from the tobacco companies under the Tobacco Settlement, which is called the settling government, should recognize a receivable and revenue for Tobacco Settlement resources when an event occurs. The event that results in the recognition of an asset and revenue by a settling government is the domestic shipment of cigarettes. GASB 48 indicates that accruals should be made by the settling government and TSA for estimated shipments from January 1 to their respective fiscal year-ends, since the annual payments are based on a calendar year. However, under the modified-accrual basis of accounting at the fund level, revenue should be recognized only to the extent that resources are available.

GASB 48 addresses the question of how the settling governments should report the receipt of the resources provided by the TSA's remittances of the proceeds of the bonds sold. Since the TSA should be reported as a blended component unit, GASB 48 indicates these remittances should be reported as transfers into the fund receiving the proceeds and transfers out of the fund that accounts for the activities of the TSA. Since the Trust has no contractual obligation, under its enabling legislation or elsewhere, to remit all bond proceeds or assets related to the Tobacco Settlement to the Commonwealth, the Trust recognizes as expenses amounts that are disbursed for grants to any eligible entity.

Interfund transfers - Legally required transfers are reported when incurred as transfer in by the recipient fund and as transfer out by the disbursing fund, with receivables and payables presented as amounts due to and due from other funds. Advances between funds are also presented as amounts due to and due from other funds. However, these advances, transfers, and related amounts receivable and payable are considered internal balances and activities that have been eliminated in the government-wide financial statements.

Risk Management - To minimize the risk of loss, the Trust is covered by AAFAF's insurance coverage for public liability, hazard, automobile, crime, and bonding.

New Accounting Standards Adopted - During the fiscal year ended on June 30, 2025, certain governmental accounting pronouncements became effective, none of which had any impact in the results of the operations of the Trust. For more information refer to Note 3.

Recently Issued Accounting Guidance - GASB has issued the following accounting pronouncements that have an effective date after June 30, 2025:

- (a) **GASB Statement No. 103, *Financial Reporting Model Improvements*** - The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability.

Management's Discussion and Analysis - This Statement continues the requirement that the basic financial statements be preceded by management's discussion and analysis (MD&A), which is presented as required supplementary information (RSI). MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. This Statement requires that the information presented in MD&A be limited to the related topics discussed in five sections: (1) Overview of the Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions.

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Unusual or Infrequent Items - This Statement describes unusual or infrequent items as transactions and other events that are either unusual in nature or infrequent in occurrence. Furthermore, governments are required to display the inflows and outflows related to each unusual or infrequent item separately as the last presented flow(s) of resources prior to the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements of resource flows.

Presentation of the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position - This Statement requires that the proprietary fund statement of revenues, expenses, and changes in fund net position continue to distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses are defined as revenues and expenses other than nonoperating revenues and expenses. Nonoperating revenues and expenses are defined as (1) subsidies received and provided, (2) contributions to permanent and term endowments, (3) revenues and expenses related to financing, (4) resources from the disposal of capital assets and inventory, and (5) investment income and expenses.

Major Component Unit Information - This Statement requires governments to present each major component unit separately in the reporting entity's statement of net position and statement of activities if it does not reduce the readability of the statements. If the readability of those statements would be reduced, combining statements of major component units should be presented after the fund financial statements.

Budgetary Comparison Information - This Statement requires governments to present budgetary comparison information using a single method of communication—RSI. Governments also are required to present (1) variances between original and final budget amounts and (2) variances between final budget and actual amounts. An explanation of significant variances is required to be presented in notes to RSI.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

- (b) **GASB Statement No. 104, *Disclosures of Certain Capital Assets*** - The State and local governments are required to provide detailed information about capital assets in notes to financial statements. Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, requires certain information regarding capital assets to be presented by major class. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets.

This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, *Leases*, and intangible right-to-use assets recognized in accordance with Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, *Subscription-Based Information Technology Arrangements*, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class.

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This Statement also requires additional disclosures for capital assets held for sale. A capital asset is a capital asset held for sale if (a) the government has decided to pursue the sale of the capital asset and (b) it is probable that the sale will be finalized within one year of the financial statement date. Governments should consider relevant factors to evaluate the likelihood of the capital asset being sold within the established time frame. This Statement requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

- **GASB Statement No. 105, *Subsequent Events*** - This Statement defines subsequent events as transactions or other events that occur after the date of the financial statements but before the date the financial statements are available to be issued. This Statement describes the date the financial statements are available to be issued as the date at which (1) the financial statements are complete in a form and format that complies with generally accepted accounting principles and (2) approvals necessary for issuance have been obtained. That definition modifies the subsequent events time frame throughout the GASB literature. This Statement also requires the date through which subsequent events have been evaluated to be disclosed.

This Statement clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2026, and all reporting periods thereafter. Earlier application is encouraged.

Management is evaluating the impact that these statements will have, if any, on the Trust's financial statements.

3. CONSTRAINTS OF TOBACCO SETTLEMENT AGREEMENT

On November 23, 1998, the Tobacco Settlement was entered into by and between certain tobacco companies and certain states, territories, and other jurisdictions of the United States of America, including the Commonwealth. The Tobacco Settlement calls for annual payments through the year 2057, which will vary due to inflationary and volume adjustments. After 2057, the tobacco companies shall continue making contributions in perpetuity on the terms set forth therein.

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The following is a summary of the projections of annual payments to be received by the Trust in each year through 2057 (unaudited, in thousands):

<u>Year Ending June 30,</u>	<u>Amount</u>
2026	\$ 62,393
2027	61,309
2028	60,225
2029	59,142
2030	58,058
2031-2057	<u>1,157,906</u>
	<u>\$ 1,459,033</u>

Actual collections from the Tobacco Settlement will fluctuate each fiscal year due to changes in future cigarette consumption, which could be affected by factors such as inflation, demographics, cigarette prices, disposable income, employment, advertising expenditures, and regulations, among others. During 2025, actual collections were \$63,704,063 or 40% less than the projected amount in the master settlement agreement for the year 2025.

All of the revenue received under the Tobacco Settlement and investment earnings on certain accounts under the bond indentures are pledged as collateral for all bond issuances. Net cash proceeds obtained under the bond issuances were used to finance the Trust's programs aimed at promoting a better quality of life and the well-being of families, children, and youth in Puerto Rico, especially through grants extended in the areas of education, recreation, and health. Part of the proceeds from the Series 2008A and Series 2008B Bonds were used to pay certain operating expenses of the Commonwealth. During the year ended June 30, 2025, pledged revenues amounted to \$63,476,674, which were used to pay for \$70,491,494 of related principal and interest of the bond issuances.

Trust program activities are financed through Trust free cash flow or federal grants received.

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4. CASH

Custodial credit risk is the risk that in the event of a financial institution's failure, the Trust's deposits may not be returned to it. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance.

As of June 30, 2025, none of the depository Trust's balance is uninsured or uncollateralized, as indicated in the following table:

Description	Carrying Amount	Bank Balance	Amount uninsured and uncollateralized
Unrestricted:			
Cash in commercial banks	\$ 6,295,147	\$ 6,295,147	\$ -
Restricted:			
Cash in commercial banks	2,786,371	2,786,371	-
	<u>\$ 9,081,518</u>	<u>\$ 9,081,518</u>	<u>\$ -</u>

5. CLAIM RECEIVABLE FROM THE PUBLIC ENTITY TRUST

On November 29, 2018, GDB completed a restructuring of certain of its indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA (the Qualifying Modification). Under the Qualifying Modification, holders of certain bond and deposit claims against GDB exchanged their claims for bonds issued by a newly created public instrumentality - the GDB Debt Recovery Authority (the GDB DRA) - and GDB transferred to such entity its municipal loan portfolio, a portion of its public entity loan portfolio, its real estate owned assets and its unencumbered cash. In addition, pursuant to the GDB Restructuring Act, claims on account of deposits held by the Commonwealth and other public entities were exchanged for interest in a newly formed trust titled the Public Entity Trust (the PET), created pursuant to Act 109-2017, also known as the Government Development Bank for Puerto Rico Debt Restructuring Act (the GDB Restructuring Act).

Under the GDB Restructuring Act, the balance of liabilities owed between the Commonwealth and its agents, instrumentalities and affiliates (each a Non-Municipal Government Entity) and GDB were determined by applying the outstanding balance of any deposits held at GDB in a Non-Municipal Government Entity's name against the outstanding balance of any loan of such Non-Municipal Government Entity owed to GDB or of any bond or note of such Non-Municipal Government Entity held by GDB as of such date. Those Non-Municipal Government Entities having net claims against GDB, after giving effect to the foregoing adjustment received their pro rata share of interests in the PET, which was deemed to be full satisfaction of any and all claims such Non-Municipal Government Entity may have against GDB. In connection with the Qualifying Modification, the Trust received beneficial units of the PET in exchange for the \$16.6 million in deposits the Trust held at GDB.

The assets of the PET (the PET Assets) consist of, among other items, an unsecured claim of \$578 million against the Commonwealth, which is the subject of a proof of claim filed in the Commonwealth's Title III case (the PET Claim). Non-Municipal Government Entities' recoveries on account of their interests in the PET will depend upon the recovery ultimately received by the PET on account of the PET Assets. The Commonwealth Plan of Adjustment discharges any claim related to budgetary appropriations, including appropriations for the repayment of certain loans held by the PET. As of the date hereof, the Court has not determined if the PET Claim is an allowed claim that will be entitled to a distribution. As a result, units received from the PET were accounted for with a carrying value of zero.

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6. INVESTMENTS AND INVESTMENT CONTRACTS

The GDB developed investment guidelines for the Government of Puerto Rico and their respective agencies and instrumentalities under the Act 113 of August 3, 1995, and Executive Order 1995-50A. Subsequently, AAFAF developed and authorized the Investment Policy Guidelines of February 8, 2019 (the "Investment Policy Guidelines"), which apply to the Trust and allow the Trust to invest in, among others, the following investment instruments (subject to any additional limitations as may be established by the Trust):

- Obligations of the U.S. government, its agencies and sponsored agencies
- Fully insured or collateralized Certificates of Deposit
- Commercial paper
- Mortgage and asset-backed securities
- Corporate bonds and notes
- Certain external investment pools

The Investment Policy Guidelines establish restrictions for investment instruments, such as rating requirements for specific instruments.

As of June 30, 2025, the Trust had the following recurring fair value measurements:

Investment type	Level 1	Level 2	Level 3	Total
External Investment pools- fixed income securities:				
First American Money Market Fund	\$ 13,444,185	\$ -	\$ -	\$ 13,444,185
Nonparticipating investment contracts- UniCredit Bank AG-Guaranteed Investment Contract	-	-	85,382,234	85,382,234
	<u>\$ 13,444,185</u>	<u>\$ -</u>	<u>\$ 85,382,234</u>	<u>\$ 98,826,419</u>

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The following table summarizes the type and maturities of investments at fair value held by the Trust as of June 30, 2025. Based on concentration credit risk, investments by type in any one issuer representing 5% or more of total investments have been separately disclosed.

Investment type	Within One year	Within to Five Years	Within to Ten Years	After Ten Years	Total
External investment pools - fixed income securities:					
First American Money Market Fund	\$ 13,444,185	\$ -	\$ -	\$ -	\$ 13,444,185
Nonparticipating investment contracts- UniCredit Bank AG- Guaranteed Investment Contract	-	-	-	85,382,234	85,382,234
	<u>\$ 13,444,185</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 85,382,234</u>	<u>\$ 98,826,419</u>

The credit quality ratings for investments and investments contracts as of June 30, 2025, are as follows:

Counter Party	Credit Risk Rating	
	Standard & Poor's	Moody's
First American	AAAm	Aaa-mf
UniCredit SpA	BBB	Baa1

7. SERVICE AGREEMENT

On June 30, 2025, the Trust entered into an agreement with AAFAP whereby AAFAP provides managerial, administrative, and financial supporting services to the Trust. Pursuant to this agreement, the Trust was invoiced \$30,000 during the year ended June 30, 2025. Such amount was paid during fiscal year 2025.

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8. BONDS PAYABLE

On October 10, 2002, the Trust refunded its then outstanding \$390,170,000 Tobacco Settlement Asset Backed Bonds, Series 2000 dated as of October 1, 2000, with new 2002 Series bonds (the Series 2002 Bonds) in the amount of \$1,171,200,000. As of June 30, 2025, the outstanding balance of these bonds consists of single rated term bonds (the Term Bonds) maturing from May 15, 2034 to 2039 (\$272,580,000 at 5.5%) and from May 15, 2040 to 2043 (\$296,255,000 at 5.625%).

The Term Bonds are subject to mandatory redemption in whole or in part prior to their respective stated maturity dates from the Tobacco Settlement collections in excess of the minimum amount required to pay the scheduled annual debt service and administrative expenses may be used to redeem bonds at the redemption price of 100% of the principal amount thereof, together with interest accrued thereon, to the date fixed for redemption.

On June 30, 2005, the Trust issued a new series of Tobacco Settlement Asset-Backed Bonds, Series 2005A and 2005B (the Series 2005A and Series 2005B Bonds) for \$108,209,446. The Series 2005A and Series 2005B Bonds consist of capital appreciation bonds maturing on May 15, 2026 (\$74,523,431 at 6.50% plus accreted interest) and capital appreciation bonds maturing on May 15, 2028 (\$33,686,016 at 7.25% plus accreted interest), respectively. As of June 30, 2025, the outstanding balances of Series 2005A and Series 2005B Bonds sum of \$407,862,793.

On April 30, 2008, the Trust issued a new series of Tobacco Settlement Asset-Backed Bonds, Series 2008A and 2008B (the Series 2008A and Series 2008B Bonds) for \$195,878,970. The Series 2008A and Series 2008B Bonds consist of capital appreciation bonds maturing on May 15, 2057 (\$139,003,082 at 7.625% plus accreted interest), and capital appreciation bonds maturing on May 15, 2057 (\$56,875,888 at 8.375% plus accreted interest), respectively. As of June 30, 2025, the outstanding balances of the Series 2008A and 2008B Bonds consist of \$502,276,837 and \$232,614,116, respectively.

The Series 2008A and Series 2008B Bonds are subordinated and are not entitled to receive any payments until the date when the Series 2005A and Series 2005B Bonds are no longer outstanding. The Series 2005A and Series 2005B Bonds are subordinated and are not entitled to receive any payments until the date when the Series 2002 Bonds are no longer outstanding. In addition, the Series 2008B and Series 2005B Bonds are subordinated to the Series 2008A and Series 2005A Bonds, respectively, and are not entitled to receive any payments until the date when the Series 2008A or 2005A Bonds are no longer outstanding. All bonds are secured by 100% of the annual payments received under the Tobacco Settlement. As of June 30, 2025, principal and interest payments on all of the Trust's outstanding bonds are current.

Changes in bonds payable for the year ended June 30, 2025, are summarized as follows (in thousands):

	Balance at July 1, 2024	Additions	Debt Paid	Other Increases	Balance at June 30, 2025	Due Within One Year
Bonds payable	\$ 1,590,909	\$ -	\$ (41,280)	\$ 81,410	\$ 1,631,039	\$ -
Less:						
Unaccreted discount	(11,322)	-	-	643	(10,679)	-
Bonds payable	<u>\$ 1,579,587</u>	<u>\$ -</u>	<u>\$ (41,280)</u>	<u>\$ 82,053</u>	<u>\$ 1,620,360</u>	<u>\$ -</u>

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As of June 30, 2025, debt service requirements for bonds outstanding were as follows (in thousands):

Year Ending June 30,	Principal	Interest	Total
2026	\$ -	\$ 34,179	\$ 34,179
2027	-	34,179	34,179
2028	-	34,179	34,179
2029	-	34,179	34,179
2030	-	34,179	34,179
2031-2035	-	170,007	170,007
2036-2040	192,030	151,605	343,635
2041-2045	296,255	49,993	346,248
2046-2050	-	-	-
2051-2055	1,315,000	-	1,315,000
2056-2057	9,809,580	-	9,809,580
	11,612,865	\$ 542,500	\$ 12,155,365
Less:			
Unaccreted discount	(10,679)		
Unaccreted interest	(9,981,826)		
Total Bonds payable	\$ 1,620,360		

9. ARBITRAGE

Trust bonds payable are subject to arbitrage regulations issued by the Internal Revenue Service of the United States of America ("IRS"), requiring a rebate to the federal government of excess investment earnings on tax exempt debt proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt debt issued. Excess earnings must be rebated at least once every five years or upon maturity of the debt whichever is earlier. For computation dates other than the final computation date, the issuer must pay at least 90% of the rebate owed.

Management of the Trust is actively reviewing the accounting records and legal documentation of the remaining bonds outstanding and unspent bond proceeds usage to ascertain compliance with applicable IRS regulations. Bonds of this type are subject to compliance audits from the IRS from time to time which may result in possible discoveries.

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 27, 2026, the date the financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the June 30, 2025 financial statements. The subsequent events disclosed below are principally those related to the Authority's operations.

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On December 15, 2025, an Assignment Agreement was executed (with effective date of January 15, 2026) by which UniCredit Bank GmbH, New York Branch transferred to Bank of America, N.A. all the rights, liabilities, duties and obligations of UniCredit under and in respect of the PSA Master Repurchase Agreement executed on October 10, 2002. By virtue of this Assignment Agreement, it was deemed that U.S. Bank Trust Company, National Association and Bank of America, N.A. has entered into a new repurchase agreement. The Children's Trust consented to the execution of the Assignment Agreement and the transfer.