

Tribal Abatement Fund Trust III

**Audited Financial Statements-Modified Cash Basis
For the year ended December 31, 2023**

Tribal Abatement Fund Trust III

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Independent Auditor's Report

To the Trustees
Tribal Abatement Fund Trust III

Opinion

We have audited the modified cash basis financial statements of Tribal Abatement Fund Trust III (the "Trust"), which comprise the statement of net assets - modified cash basis as of December 31, 2023 and the related statements of changes in net assets - modified cash basis and cash flows - modified cash basis for the year then ended, and the related notes to the modified cash basis financial statements.

In our opinion, the accompanying modified cash basis financial statements present fairly, in all material respects, the net assets of the Trust as of December 31, 2023 and the changes in its net assets and its cash flows for the year then ended in accordance with the modified cash basis of accounting described in Note 2 to the modified cash basis financial statements.

Basis for Opinion

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 *Auditor's Responsibilities for the Audit of the Modified Cash Basis Financial Statements* section of our report. We are required to be independent of the Trust and to meet our 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 opinion.

Basis of Accounting

We draw attention to Note 2 to the modified cash basis financial statements, which describes the basis of accounting. As described in Note 2, the accompanying modified cash basis financial statements were prepared by Tribal Abatement Fund Trust III on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. As a result, the modified cash basis financial statements may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Modified Cash Basis Financial Statements

Management is responsible for the preparation and fair presentation of the modified cash basis financial statements in accordance with the modified cash basis of accounting described in Note 2 and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the modified cash basis financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the modified cash basis financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's ability to continue as a going concern within one year after the date that the modified cash basis financial statements are issued or available to be issued.

To the Trustees
Tribal Abatement Fund Trust III

Auditor's Responsibilities for the Audit of the Modified Cash Basis Financial Statements

Our objectives are to obtain reasonable assurance about whether the modified cash basis financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 the aggregate, they would influence the judgment made by a reasonable user based on the modified cash basis financial statements.

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 modified cash basis 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 modified cash basis 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 Trust's 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 modified cash basis financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Trust's 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.

Plante & Moran, PLLC

April 19, 2024

Tribal Abatement Fund Trust III
Statement of Net Assets – Modified Cash Basis
December 31, 2023

Assets

Cash and cash equivalents	\$ 5,175,008
Prepaid expenses	<u>696,201</u>
Total assets	5,871,209

Liabilities

Accounts payable	<u>3,973</u>
Total liabilities	3,973

Net assets	\$ 5,867,236
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See accompanying notes to the modified cash basis financial statements.

Tribal Abatement Fund Trust III
Statement of Changes in Net Assets – Modified Cash Basis
For the year ended December 31, 2023

Additions

Funding	\$	159,222,782
Interest income		3,208,118
Total additions		162,430,900

Deductions

Distributions to Trust Beneficiaries		155,325,351
Operating expenses		693,313
Income tax expense		545,000
Total deductions		156,563,664

Increase in net assets		5,867,236
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Net assets

Beginning of the period		-
End of the period	\$	5,867,236

See accompanying notes to the modified cash basis financial statements.

Tribal Abatement Fund Trust III
Statement of Cash Flows – Modified Cash Basis
For the year ended December 31, 2023

Direct Method

Cash received from operating activities:

Trust funding	\$ 159,222,782
Investment income	3,208,118
Total cash inflows	162,430,900

Cash paid for operating activities:

Distributions to Trust Beneficiaries	(155,325,351)
Trust operating expenses	(1,385,541)
Income taxes paid	(545,000)
Total cash outflows	(157,255,892)

Net increase in cash and cash equivalents	5,175,008
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Cash and cash equivalents at the beginning of the year	-
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Cash and cash equivalents at the end of the year	\$ 5,175,008
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See accompanying notes to the modified cash basis financial statements.

Tribal Abatement Fund Trust III-Notes to the Modified Cash Basis Financial Statements

1. Description and Funding of the Trust

On October 26, 2022, McKesson, Cardinal Health, and AmerisourceBergen (the “Distributors”) entered into the Distributors Tribal Settlement Agreement (“Settlement Agreement”) with the Tribal Leadership Committee and Participating Tribes to establish the Tribal Abatement Fund Trust III (“TAFT III” or the “Trust”). The effective date of the Tribal Abatement Fund Trust III Trust Agreement (“Trust Agreement”) is October 28, 2022. The Trust had no activity prior to January 1, 2023. The Distributors Settlement Trust was also established by the Settlement Agreement for the purpose of facilitating the funding of TAFT III and other provisions of the Settlement Agreement. Both trusts are "qualified settlement funds" within the meaning of Section 1.468B-1 et seq. of the Treasury Regulations promulgated under Section 468B of the IRC, and to the extent permitted by law, for state and local income tax purposes.

Capitalized terms are defined in the Trust Agreement unless otherwise defined herein or noted as defined in the Settlement Agreement.

The Settlement Agreement provides, inter alia, for establishing an abatement fund, TAFT III, to provide Abatement Distributions to Tribe Beneficiaries for opioid remediation as defined. As of the Trust's Effective Date, any and all liability of the Distributors for any and all Tribe Opioid Claims shall automatically be channeled to and assumed by the Trust.

In accordance with the Trust Agreement, the Trust shall (i) hold, manage, protect, and invest all funds received by the Trust from the Distributors Settlement Trust as provided for by the Settlement Agreement for the benefit of the Tribe Beneficiaries; (ii) hold and maintain the TAFT III Operating Reserve; (iii) make Abatement Distributions to Tribe Beneficiaries in accordance with the TAFT III Trust Distribution Procedures (TDP); and (iv) pay all TAFT III Operating Expenses.

The Trust is funded with the consideration prescribed under the terms of the Settlement Agreement through the Distributors Settlement Trust. Distributors will pay funds to the Distributors Settlement Trust, and funds from these payments shall be allocated by the Special Master to the Trust. The Distributors Settlement Trust consideration to be distributed to the Trust comprises initial and deferred cash payments from Distributors.

Distributors shall make seven payments to the Distributors Settlement Trust for a total sum of \$439,964,500. Per the Settlement Agreement, the Special Master shall set aside a portion of such funds for the Attorney Fee Fund to pay attorneys’ fees and litigation costs. The Trust received the initial cash distribution from the Distributors Settlement Trust on January 24, 2023, in the amount of \$105,798,522, which was funded by the Distributors first two required payments. Amounts due to the Trust were subject to an agreed upon expense allocation

holdback by the Distributors Settlement Trust for the first installment. The third cash distribution from Distributors was received by the Trust on July 17, 2023, in the amount of \$53,424,260. Future cash received from the Distributors Settlement Trust will be recorded when received.

The Trust will make Abatement Distributions, as set forth in the Trust Agreement, and in accordance with the Tribal Opioid Litigation Settlement Trust Distribution Procedures, which provides for the Tribe Beneficiaries and Tribal Allocation Percentages. Abatement Distributions of \$155,325,351 were made during the year ended December 31, 2023. In addition, the Trust has approved but unpaid distributions to certain Trust Beneficiaries of approximately \$4,924,000 at December 31, 2023, which will be disbursed to those Trust Beneficiaries upon receipt from them of information required to complete the distribution payments.

2. Significant Accounting Policies

Basis of accounting

The Trust's policy is to prepare its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP). The modified cash basis methods include the following:

- Assets or additions to net assets are generally recorded when they are received by the Trust and expenses or deductions to net assets are generally recorded when the invoice is received from the vendor. The Trust records interest income when received. Under GAAP, interest income is recorded when earned.
- Future fixed liabilities under contractual obligations and other agreements entered into by the Trust are recorded as deductions from net assets in the same period that the invoice for such contractual obligations or agreements are received by the Trust. Under GAAP, liabilities and contractual obligations are recorded over the period that is benefited by the underlying contract or agreement.
- The full amounts of Abatement Distributions will be recorded in the period in which the Abatement Distributions are paid. Under GAAP, a liability would be recorded for an estimate of the total Abatement Distributions to be made in accordance with the Trust Agreement and the TDP.
- Income tax expense payments or refunds, when applicable, will be recorded when paid or received. Under GAAP, a provision for income taxes is recorded based upon income reported for financial statement purposes, and federal and state income taxes both currently payable and changes in deferred taxes due to differences between financial reporting and tax bases of assets and liabilities.

Use of estimates

The preparation of financial statements in conformity with the modified cash basis described above requires the Trust to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and the disclosures of contingent assets and liabilities at the date of the modified cash basis financial statements, as well as the reported amounts of additions and deductions to the net assets during the reporting period. Actual results could differ from those estimates.

Cash equivalents

The Trust considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

Prepaid expenses

Payments for services to be received over an extended period in the future are recorded as a prepaid expense and amortized over the period in which the related benefits are received.

Operating expenses

Operating expenses of the Trust are recorded as reductions of net assets when invoices are received or, in the case of prepaid expenses when the benefit is received. Expenses settled by the Settlement Trust on behalf of the Trust through the expense allocation holdback are not reported by the Trust.

Income taxes

The Trust is classified as a Qualified Settlement Fund pursuant to the Internal Revenue Code and Regulations thereunder (the Code). As a result, the Trust is subject to federal income taxes based on modified gross income, as defined by the Code. In the opinion of the Trustees and the Trust's tax advisors, the Trust is not subject to state income taxes.

The Trust records income tax expense (or benefit) associated with amounts paid (or received) under current federal income taxes. It does not record a provision for (or benefit from) deferred taxes. Accordingly, there is no provision for deferred taxes associated with any future benefit from the potential use of net operating loss carryforwards to reduce taxable income in future years.

The Trust paid \$545,000 income taxes during the year ended December 31, 2023.

In accordance with authoritative guidance on accounting for uncertainty in income taxes issued by the Financial Accounting Standards Board, management has evaluated the Trust's tax

positions and has concluded that the Trust has taken no uncertain tax positions that require disclosure.

Risks and uncertainties

Certain of the Trust's assets are exposed to credit risk. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Trust has never experienced any losses related to these balances.

3. Trustees' Fees

The Trust Agreement describes the compensation to be paid to the Trustees for their services, including out of pocket costs and expenses. For the year ended December 31, 2023, the Trust paid \$834,543 in trustee fees, which included \$270,000 that was expensed in 2023. The remaining \$564,543 is reflected in Prepaid Expenses and will be expensed in 2024 and 2025.

4. Contingent Liabilities

The Trust Agreement subjects the Trust to certain reimbursement and indemnification obligations that may result in future claims against the Trust. The probability of such claims cannot be reasonably determined. The Trust has obtained insurance for purposes of supporting its obligation to indemnify the Trustees. If a contingent liability were identified, it would be disclosed when probable and recognized in the financial statements when paid.

5. Subsequent Events

The Trust has evaluated its modified cash basis financial statements as of December 31, 2023, for subsequent events through April 19, 2024, when the modified cash basis financial statements were available to be issued.

In January 2024, the Trust filed a private letter ruling request with the Internal Revenue Service to exclude any current or future investment income from gross income for tax purposes. The Trust distributed \$488,756 in February 2024 and \$230,086 in April 2024 to those Trust Beneficiaries who provided the information required for distributions. The Trust is not aware of any other subsequent events which would require recognition or disclosure in the modified cash basis financial statements.