

The Perrine-DuPont
Property Remediation
Qualified Settlement Fund

FINANCIAL STATEMENTS-MODIFIED
CASH BASIS
(Including Independent Auditors'
Report Thereon)

December 31, 2013 and 2012

The Perrine-DuPont Property Remediation Qualified Settlement Fund

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DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

INDEPENDENT AUDITORS' REPORT

The Honorable Thomas A. Bedell
Circuit Judge of Harrison County

Edgar C. Gentle, III, Esq.
Claims Administrator

James S. Arnold, Esq.
David B. Thomas, Esq.
DuPont Representatives on the Settlement Finance Committee

Virginia Buchanan, Esq.
Plaintiff Class Representative on the Settlement Finance Committee

Meredith McCarthy, Esq.
Guardian Ad Litem for Children

We have audited the accompanying financial statements of the Perrine-DuPont Property Remediation Qualified Settlement Fund (the "Fund"), which comprise the statements of assets, liabilities, and fund balance – modified cash basis as of December 31, 2013 and 2012, and the related statements of revenue collected, claims and expenses paid, and changes in fund balance-modified cash basis for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. Except as discussed in the following paragraphs, we conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion

We were not engaged to and did not test the validity of claimant benefits paid by the Claims Administrator. Such payments are made by the Claims Administrator upon Court approval or oversight. Accordingly, we were unable to determine the appropriateness of the claims and the accuracy of the claimant benefit payments made by the Claims Administrator.

Qualified Opinion

In our opinion, except for the effects of such adjustments or disclosures, if any, as might have been determined to be necessary had we been able to examine evidence regarding the validity of claimant benefits paid by the Claims Administrator, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balance of the Perrine-DuPont Property Remediation Qualified Settlement Fund as of December 31, 2013 and 2012, and the related revenue collected, claims and expenses paid, and changes in fund balance for the years then ended, on the modified cash basis of accounting as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of cash receipts and disbursements, modified to recognize changes in the fair value of investments, accrued investment income, certain receivables, accounts payable, and certain accrued liabilities (modified cash basis), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

This report is intended solely for the information and use of the Claims Administrator, the addressees, and the Circuit Court of Harrison County, West Virginia to distribute as it deems appropriate. It is not to be referred to or distributed for any purposes to anyone who is not designated by the Circuit Court of Harrison County, West Virginia or the Claims Administrator.

Dixon Hughes Goodman LLP

***Charleston, West Virginia
June 23, 2014***

THE PERRINE-DUPONT PROPERTY REMEDIATION QUALIFIED SETTLEMENT FUND
STATEMENTS OF ASSETS, LIABILITIES, AND FUND BALANCE-
MODIFIED CASH BASIS OF ACCOUNTING
December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash	\$ 898,989	\$ 921,804
Investments, at fair value (Note 3)	20,165,733	24,992,893
Other Receivables	18,841	-
	<u>21,083,563</u>	<u>25,914,697</u>
Total current assets	21,083,563	25,914,697
Property and equipment, net	9,592	13,094
	<u>9,592</u>	<u>13,094</u>
Total assets	<u>\$ 21,093,155</u>	<u>\$ 25,927,791</u>
LIABILITIES AND FUND BALANCE		
Accounts payable	\$ 626,424	\$ 310,815
Fund Balance	20,466,731	25,616,976
	<u>20,466,731</u>	<u>25,616,976</u>
Total liabilities and fund balance	<u>\$ 21,093,155</u>	<u>\$ 25,927,791</u>

THE PERRINE-DUPONT PROPERTY REMEDIATION QUALIFIED SETTLEMENT FUND
STATEMENTS OF REVENUE COLLECTED, CLAIMS AND EXPENSES PAID, AND CHANGES IN FUND
BALANCE-MODIFIED CASH BASIS OF ACCOUNTING
For the years ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
REVENUE COLLECTED		
Investment income	\$ 7,808	\$ 16,343
Other Income	12,656	-
Defendant funding	-	-
	<u>20,464</u>	<u>16,343</u>
CLAIMS AND EXPENSES PAID OR ACCRUED		
Plaintiffs' class counsel fees and expenses	-	-
General, office, and administration expenses	53,839	81,419
Consulting fees	-	48,719
Travel expenses	26,142	30,712
Franchise tax	-	12,656
Claims administrator and special master fees	1,563,480	1,328,300
Finance Committee fees and expenses	15,683	19,210
Audit and income tax return fees	27,137	16,549
Guardian Ad Litem fees and expenses	-	-
Property clean up technical advisor	48,421	65,484
Property questionnaire and fairness hearings	-	-
Property soil/house testing expenses	3,280,930	6,060,010
Property annoyance and inconvenience payments to claimants	151,575	733,430
	<u>5,167,207</u>	<u>8,396,490</u>
Total claims and expenses paid or accrued		
	<u>5,167,207</u>	<u>8,396,490</u>
Deficiency of revenue collected over claims and expenses paid or accrued	(5,146,743)	(8,380,147)
NONCASH ITEMS		
Depreciation expense	3,502	3,502
	<u>3,502</u>	<u>3,502</u>
Total noncash items		
	<u>3,502</u>	<u>3,502</u>
Decrease in fund balance	(5,150,245)	(8,383,649)
FUND BALANCE		
Beginning of period	25,616,976	34,000,625
	<u>25,616,976</u>	<u>34,000,625</u>
End of period	\$ 20,466,731	\$ 25,616,976
	<u>\$ 20,466,731</u>	<u>\$ 25,616,976</u>

THE PERRINE-DUPONT PROPERTY REMEDIATION QUALIFIED SETTLEMENT FUND
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

NOTE 1. DESCRIPTION OF THE FUND

On December 23, 2010, the Honorable Thomas Bedell, Circuit Judge for the Circuit Court of Harrison County, West Virginia, entered an Order Establishing Qualified Settlement Funds in *Perrine, et al. v. E.I. DuPont Nemours and Company, et al.*, ordering the establishment of The Perrine-DuPont Property Remediation Qualified Settlement Fund (the "Fund") under Internal Revenue Code of 1986 as amended Section 468B. This fund was formed to administer a class action settlement wherein it was alleged that the Defendants released hazardous substances from the Spelter Smelter facility onto private real property in the class area and that these substances have health risks, with the Defendants strenuously denying those allegations.

On January 4, 2011, the Fund was funded by the Defendants for \$66 million for the purposes of paying for property remediation services and attorneys' fees and expenses of Plaintiffs' Counsel. No additional funding by the Defendants is required. On June 27, 2011, the Court entered an Order establishing the Property Remediation (Clean-Up) Program which: (1) defined the potentially contaminated properties as the soil on Class Member property in Class Area Zone 1A and the houses on Class Member property in the entire Class Area; (2) authorized the Claims Administrator to procure companies to test and/or clean Class Area houses and soil via a public bidding process; and (3) authorizing annoyance and inconvenience payments to claimants participating in the clean-up program consisting of (a) \$5,000 per property to owners of eligible, occupied properties in Zone 1A of the Class Area receiving soil clean-up services, and (b) \$500 per house or commercial structure to owners of eligible houses or commercial structure within the entire Class Area receiving house or commercial structure clean-up services. In accordance with the Property Remediation (Clean-Up) Program Order, soil and house testing began in November 2011, and remediation of soil and houses began in June 2012. This is a closed fund, with no further Defendants' contributions being required.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Fund's financial statements are prepared using the modified cash basis of accounting, whereby cash receipts and disbursements are recorded as cash is received or paid, except for the recognition of changes in the fair value of investments, accrued investment income, certain receivables, accounts payable, and certain accrued liabilities. Settlement fund receivables, estimated claims liabilities and claim receivables arising from claim overpayments, if any, which are material to the determination of financial position and results of operations, in conformity with accounting principles generally accepted in the United States of America, have not been estimated and are not recorded in the accounts of the Fund. Accordingly, the financial statements do not and are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with the basis of accounting described above requires the Claims Administrator to make various estimates that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, as well as the reported amounts of revenues collected and claims and expenses paid. Actual results could differ from those estimates.

THE PERRINE-DUPONT PROPERTY REMEDIATION QUALIFIED SETTLEMENT FUND
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

Cash

Cash and cash equivalents include short-term, highly liquid investments both readily convertible to known amounts of cash or so near maturity at acquisition (three months or less) that there is an insignificant risk of change in value because of change in interest rates. Cash equivalents are stated at cost, which approximates fair value.

Investments

Investments are recorded at fair value as determined by quoted market prices. All investments are considered trading securities. Unrealized gains and losses, if any, are shown as noncash items in the statement of revenue collected, claims and expenses paid, and changes in fund balance. Realized gains and losses are computed under the specific identification method. Losses and gains on investments for the year ended December 31, 2013 and 2012 resulted in a net gain of \$7,338 and \$15,172, respectively, which is included in investment income in the accompanying statements of revenue collected, claims and expenses paid, and changes in fund balance – modified cash basis of accounting.

Property and Equipment

Property and equipment additions are recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Property and equipment, net consisted of the following at December 31:

	<u>2013</u>	<u>2012</u>
Automobiles	\$ 10,771	\$ 10,771
Office Furniture and Equipment	9,327	9,327
Less Accumulated Depreciation	(10,506)	(7,004)
Total	<u>\$ 9,592</u>	<u>\$ 13,094</u>

Accounts Payable

Accounts payable consist of certain claims administrator fees and claims of claimants charged to the Fund during the year and paid after year-end.

Tax Status

The Fund maintains that, for federal income tax purposes, it is a Qualified Settlement Fund under Section 468B of the Internal Revenue Code of 1986, as amended (the "Code"), due to its having been established pursuant to a Court Order to satisfy certain legal claims, with all of its assets having been segregated from the assets of the Defendants to whom these claims relate. As provided by Treasury Regulations promulgated under Section 468B of the Code, the "modified gross income" of the Fund is subject to federal income tax at the maximum trust rate in effect under Section 1 (e) of the Code, which was 39.6% and 35% for the 2013 and 2012 tax years, respectively. Modified gross income is gross income computed with several modifications. Amounts transferred to the Fund by, or on behalf of, a Defendant are generally excluded from Fund income. In addition, payments of Plaintiff attorney fees or claimant claims made against the Fund and expenses incurred by, or on behalf of, specific claimants or defendants are generally not deductible in computing modified gross income for federal income tax purposes. The Fund is required to operate on a calendar year basis and under the accrual

THE PERRINE-DUPONT PROPERTY REMEDIATION QUALIFIED SETTLEMENT FUND
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

method of accounting for federal income tax purposes. At December 31, 2013 and 2012, the Fund had net operating loss carryforwards approximating \$13,911,000 and \$8,899,000, respectively, for federal income tax purposes. Net operating loss carryforwards will begin to expire in 2031.

The Fund has adopted authoritative guidance on accounting for uncertainty in income taxes. The guidance clarifies the accounting for the recognition and measurement of the benefits of individual tax positions in the financial statements. Tax positions must meet a recognition threshold of more likely than not in order for the benefit of those tax positions to be recognized in the Fund's financial statements. The Fund has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2013. The Fund has identified its federal tax return and its state tax return in West Virginia as major tax jurisdictions, as defined. Fiscal years ending on or after December 31, 2010, remain subject to examination by these tax jurisdictions.

Subsequent Events

The Fund has evaluated subsequent events through June 23, 2014, which represents the date the financial statements were available to be issued.

NOTE 3. FAIR VALUE MEASUREMENTS

Authoritative guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under authoritative guidance as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access at the measurement date;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;

Level 3 - Inputs that are unobservable.

In accordance with the requirements of authoritative guidance, the Fund has categorized its financial instruments based on the priority of the inputs to the valuation technique based on the three-level hierarchy.

The following presents the financial assets carried on the Statement of Assets, Liabilities, and Fund Balance by level within the valuation hierarchy as of December 31, 2013:

	Financial Assets at Fair Value at Reporting Date Using			
	Level 1	Level 2	Level 3	Total
U.S. Treasury Securities	<u>\$20,165,733</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$20,165,733</u>

THE PERRINE-DUPONT PROPERTY REMEDIATION QUALIFIED SETTLEMENT FUND
NOTES TO FINANCIAL STATEMENTS
For the years ended December 31, 2013 and 2012

The following presents the financial assets carried on the Statement of Assets, Liabilities, and Fund Balance by level within the valuation hierarchy as of December 31, 2012:

	Financial Assets at Fair Value at Reporting Date Using			Total
	Level 1	Level 2	Level 3	
U.S. Treasury Securities	<u>\$24,992,893</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$24,992,893</u>

NOTE 4. COMMITMENTS AND CONTINGENCIES

Cash Balances in Excess of FDIC Insurance

The Fund maintains cash in demand deposit accounts with federally insured banks. At times, the balances in these accounts may be in excess of federally insured limits.

The Fund entered into an agreement with a construction company to remediate the affected property. The agreement allows for up to \$14,820,000 to be paid through December 31, 2014. This amount is based on the known remediated properties and may increase ratably if there are more remediated properties.

