

**THE TRUST CREATED BY THE INDENTURE OF TRUST,
DATED AS OF NOVEMBER 1, 1999**

BALANCE SHEETS
(with Independent Auditors' report included thereon)

SEPTEMBER 30, 2017 AND 2016

INDEPENDENT AUDITORS' REPORT

To the Trustee
U.S. Bank Corporate Trust
150 Fourth Avenue North, Second Floor
Nashville, Tennessee 37219

We have audited the accompanying balance sheets of the trust created by the Indenture of Trust, dated as of November 1, 1999 (the "Trust"), as of September 30, 2017 and 2016, and the related notes to balance sheets.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these balance sheets based on our audits. 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 audits to obtain reasonable assurance about whether the balance sheets are free from material misstatement.

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

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

Opinion

In our opinion, the balance sheets referred to above present fairly, in all material respects, the financial position of the trust created by the Indenture of Trust, dated as of November 1, 1999, as of September 30, 2017 and 2016, in accordance with accounting principles generally accepted in the United States of America.



Atlanta, Georgia
December 15, 2017

THE TRUST CREATED BY THE INDENTURE OF TRUST, DATED AS OF NOVEMBER 1, 1999

BALANCE SHEETS
SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Cash, cash equivalents, and short-term investments	\$ <u>1,492,266</u>	\$ <u>1,376,548</u>
<u>LIABILITIES</u>		
Due to Mountain Home Energy Trust	\$ <u>1,492,266</u>	\$ <u>1,376,548</u>

See accompanying notes to balance sheets.

NOTES TO BALANCE SHEETS
SEPTEMBER 30, 2017 AND 2016

1. Nature of Business and Significant Accounting Policies:

On November 1, 1999, an Indenture of Trust was created between The Industrial Development Board of the City of Johnson City, Tennessee ("Issuer") and First Union National Bank ("Initial Trustee"). In September 2006, U.S. Bank ("Trustee") was appointed as the successor trustee. The Indenture of Trust, dated as of November 1, 1999 ("Indenture of Trust") was created in connection with the development, financing, construction, operation and maintenance of an energy facility ("Energy Facility") that provides electricity, steam and/or chilled water to the James H. Quillen VA Medical Center in Johnson City, Tennessee ("Medical Center") and to East Tennessee State University ("ETSU").

The Indenture of Trust holds funds collected from Mountain Home Energy Trust ("Borrower") and Mountain Home Energy Center, LLC ("MHEC"), the manager and developer of the Energy Facility, to provide for the payment of interest and principal maturities of the \$31,750,000 in original principal of bonds issued by The Industrial Development Board of the City of Johnson City, Tennessee 1999 Taxable Series Revenue Bonds ("Revenue Bonds") and for other purposes as described in Note 2. Once the Indenture of Trust has satisfied its purpose, any remaining funds held in the Indenture of Trust will be transferred to the Borrower. All receipts and disbursements of cash by the Indenture of Trust have been recorded as agency transactions. Therefore, all income and expense is recorded in the financial statements of the Borrower.

MBIA Insurance Corporation ("MBIA") has unconditionally and irrevocably guaranteed the full and complete payment of the principal and the interest obligations of the Revenue Bonds through the issuance of an insurance policy on behalf of the Borrower.

Use of Estimates

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

Cash, Cash Equivalents, and Short-Term Investments

The Indenture of Trust considers cash, cash equivalents, and short-term investments to be cash on hand, depository bank accounts, and short-term, highly liquid investments that are both readily convertible to known amounts of cash and are so near to maturity that they present insignificant risk of changes in value due to changing interest rates.

Date of Management's Review

Subsequent events have been evaluated through December 15, 2017, which is the date the balance sheets were available to be issued.

2. Cash, Cash Equivalents, and Short-Term Investments:

The Indenture of Trust Agreement restricts the selection of investments. Permitted investments under the Indenture of Trust Agreement include obligations of, or guaranteed by, the United States government, various short-term investments meeting minimum rating requirements set forth in the Indenture of Trust Agreement, and other obligations or securities approved in writing by the Indenture of Trust beneficiary, the U.S. Department of Veterans Affairs ("VA").

At September 30, 2017 and 2016, investments were recorded at their net asset value and consisted of various fund money market accounts with shares of pooled funds invested exclusively in short-term U. S. government securities and repurchase agreements secured by U.S. government securities.

NOTES TO BALANCE SHEETS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016

2. Cash, Cash Equivalents, and Short-Term Investments (continued):

At September 30, 2017 and 2016, the money market accounts exceeded the rating requirements of the Indenture of Trust Agreement. As permitted by the Indenture of Trust Agreement, the money market accounts were invested in a fund managed by an affiliate of the Trustee and for which the Trustee participates in the profits of the fund.

Investments are maintained in various funds held by the Trustee, each restricted in their use by the Indenture of Trust Agreement. The funds and their respective restricted uses are as follows:

Revenue Fund – All receipts received with respect to the operation of the Energy Facility are to be remitted to the Trustee within three days of receipt and are to be deposited in the Revenue Fund. Investments in the Revenue Fund are transferred to other funds to provide payment for the Indenture of Trust's obligations. Total investments held in the Revenue Fund at September 30, 2017 and 2016 were \$33 and \$1, respectively.

Interest Account of the Bond Fund – Transfers from the Revenue Fund are to be made each month to the Interest Account of the Bond Fund for one-sixth of the amount of interest on the Revenue Bonds due on the semi-annual interest dates of March 1 and September 1. Total investments held in the Interest Account of the Bond Fund at September 30, 2017 and 2016 were \$136,396 and \$147,744, respectively.

Principal Account of the Bond Fund – Transfers from the Revenue Fund are to be made in equal monthly amounts to accumulate the scheduled principal maturity redemption on March 1 of each year. The total investments held in the Principal Account of the Bond Fund at September 30, 2017 and 2016 were \$1,182,345 and \$1,035,423, respectively.

Expense Fund – Funds are to be transferred from the Revenue Fund to the Expense Fund in the amount needed to increase the amount to cover all expenses associated with the operation of the Energy Facility. No investments were held in the Expense Fund at September 30, 2017 and 2016.

Debt Service Reserve Fund – At September 30, 2017 and 2016, the Debt Service Reserve Fund is secured by a surety bond in the face amount of \$2,300,000. The Indenture of Trust Agreement provides for the use of the Debt Service Reserve Fund to pay principal and interest of the Revenue Bonds to the extent that the Interest Account and Principal Account of the Bond Fund are insufficient to meet principal and interest obligations.

Maintenance Reserve Fund – Transfers from the Revenue Fund are to be made to the Maintenance Reserve Fund in amounts that cover maintenance cost requirements. Total investments held in the Maintenance Reserve Fund at September 30, 2017 and 2016 were \$173,486 and \$121,116, respectively.

Enhanced Use Trust Fund – After all the payments required to be made from the Revenue Fund have been made, the Trustee shall transfer on a monthly basis any monies remaining in the Revenue Fund to the Enhanced Use Trust Fund. Total investments held in the Enhanced Use Trust Fund at September 30, 2017 and 2016 were \$6 and \$72,264, respectively.

3. Income Taxes:

The Indenture of Trust is not a tax-paying entity for income tax purposes and, thus, no income tax liability has been recorded in the balance sheets.