AgeeFisherBarrett LLC
Certified Public Accountants and Business Advisors

MOUNTAIN HOME ENERGY TRUST AND THE TRUST CREATED BY THE INDENTURE OF TRUST, DATED AS OF NOVEMBER 1, 1999

COMBINED FINANCIAL STATEMENTS WITH ACCOMPANYING SUPPLEMENTARY INFORMATION
(with Independent Auditors' report included thereon)

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

AGEEFISHERBARRETT LLC
Certified Public Accountants and Business Advisors

INDEPENDENT AUDITORS' REPORT

To the Trustee
Mountain Home Energy Trust
Chicago, Illinois

We have audited the accompanying combined financial statements of Mountain Home Energy Trust, a Grantor Trust, and the trust created by the Indenture of Trust, dated as of November 1, 1999, (collectively, the “Trusts”), which comprise the combined balance sheets as of September 30, 2017 and 2016, and the related combined statements of income and trust deficit and cash flows for the years then ended, and the related notes to the combined financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements 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 combined 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 combined financial statements 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the combined financial statements, 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 combined 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 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 combined financial statements.

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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Mountain Home Energy Trust and the trust created by the Indenture of Trust, dated as of November 1, 1999, as of September 30, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Combining Schedules

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying supplementary combining schedules are presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities, and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Agee Fisher Barrett, LLC

Atlanta, Georgia
December 15, 2017

MOUNTAIN HOME ENERGY TRUST AND THE TRUST CREATED BY THE INDENTURE OF TRUST, DATED AS OF NOVEMBER 1, 1999

COMBINED BALANCE SHEETS
SEPTEMBER 30, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash, cash equivalents, and short-term investments	$ 1,547,463	$ 1,435,064
Accounts receivable	724,181	523,117
TOTAL CURRENT ASSETS	2,271,644	1,958,181
Other assets, net of accumulated amortization	389,969	459,378
Leasehold improvements and equipment, at cost	28,856,588	28,856,588
Less: accumulated depreciation	(14,541,598)	(13,642,316)
Leasehold improvements and equipment, net	14,314,990	15,214,272
TOTAL ASSETS	$ 16,976,603	$ 17,631,831
LIABILITIES AND TRUST DEFICIT		
CURRENT LIABILITIES:		
Current maturities of bonds payable	$ 2,025,000	$ 1,775,000
Accrued management fees payable	443,810	238,959
Accrued interest payable	136,213	147,751
TOTAL CURRENT LIABILITIES	2,605,023	2,161,710
Bonds payable, net of current maturities and unamortized original issue discount	18,756,845	20,761,419
TOTAL LIABILITIES	21,361,868	22,923,129
TRUST DEFICIT	(4,385,265)	(5,291,298)
TOTAL LIABILITIES AND TRUST DEFICIT	$ 16,976,603	$ 17,631,831

See accompanying notes to combined financial statements.

MOUNTAIN HOME ENERGY TRUST AND THE TRUST CREATED BY THE INDENTURE OF TRUST, DATED AS OF NOVEMBER 1, 1999

COMBINED STATEMENTS OF INCOME AND TRUST DEFICIT
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
ENERGY SERVICES	$ 6,765,854	$ 5,882,382
EXPENSES:		
Management fees	3,126,860	2,332,306
Interest expense	1,782,084	1,906,344
Depreciation expense	899,282	916,031
Trustee fees	29,248	29,495
Repairs and maintenance expense	-0-	29,960
Professional fees	27,053	45,106
TOTAL EXPENSES	5,864,527	5,259,242
INTEREST INCOME	4,706	165
NET INCOME	906,033	623,305
TRUST DEFICIT, beginning of the year	(5,291,298)	(5,914,603)
TRUST DEFICIT, end of the year	$ (4,385,265)	$ (5,291,298)

See accompanying notes to combined financial statements.

MOUNTAIN HOME ENERGY TRUST AND THE TRUST CREATED BY THE INDENTURE OF TRUST,
DATED AS OF NOVEMBER 1, 1999

COMBINED STATEMENTS OF CASH FLOW
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 906,033	$ 623,305
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	899,282	916,031
Net amortization of bond discounts	89,835	82,957
Changes in assets and liabilities:		
Increase in accounts receivable	(201,064)	16,788
Increase in accrued management fees payable	204,851	(34,260)
Decrease in accrued interest payable	(11,538)	(10,075)
Net cash provided by operating activities	1,887,399	1,594,746
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on bonds payable	(1,775,000)	(1,550,000)
Net cash used in financing activities	(1,775,000)	(1,550,000)
NET INCREASE IN CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS	112,399	44,746
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS AT BEGINNING OF YEAR	1,435,064	1,390,318
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS AT END OF YEAR	$ 1,547,463	$ 1,435,064
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash payments for interest	$ 1,703,788	$ 1,833,462

See accompanying notes to combined financial statements.

1. Nature of Business and Significant Accounting Policies:

Terms of the Trust

Mountain Home Energy Trust ("the Trust"), a Grantor Trust, was created on November 1, 1999, for the purpose of entering into an agreement to develop, finance, construct, equip, operate, and maintain 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"). In May 2001, the Energy Facility began providing the Medical Center with its requirements of electricity, steam, and chilled water and ETSU with a portion of its requirements of steam and chilled water. The Trust is also obligated to use its commercially reasonable best efforts to obtain customers in addition to the Medical Center and ETSU. The beneficiary of the Trust is the U. S. Department of Veteran Affairs ("VA" or the "Beneficiary"). In January 2009, the Beneficiary replaced the trustee of the Trust and appointed Wells Fargo Bank, National Association as the trustee ("the Trustee").

The Indenture of Trust, Dated as of November 1, 1999 (the "Indenture of Trust") was created on November 1, 1999, between The Industrial Development Board of the City of Johnson City, Tennessee ("Issuer") and First Union National Bank ("Initial Trustee"). The Indenture of Trust was created in connection with the issuance of $31,750,000 in bonds sponsored by the Issuer under The Industrial Development Board of the City of Johnson City, Tennessee 1999 Taxable Series Revenue Bonds ("Revenue Bonds"). The proceeds of the Revenue Bonds were used, among other things, to finance the development and construction of the Energy Facility. The Trust and the Indenture of Trust were established for the purpose of managing and administering the requirements of the respective indentures, to ensure the timely payment of interest and principal to the bondholders, to provide additional security against default above the leasehold interest and income stream pledged as security, to maintain the Energy Facility and to protect the reversionary interest of the Beneficiary. Pursuant to the Indenture of Trust, 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. The Initial Trustee for the Indenture of Trust was subsequently replaced by U.S. Bank Corporate Trust ("Bond Trustee").

The Indenture of Trust holds and invests funds collected from the Trust and Mountain Home Energy Center, LLC ("MHEC"), the manager and developer of the Energy Facility, to meet the semi-annual interest obligations and mandatory principal maturities of the Revenue Bonds and for other purposes as described in Note 2. Once the Indenture of Trust has satisfied its purpose, any remaining funds held by the Bond Trustee will be transferred to the Trust. All receipts and disbursements of cash by the Indenture of Trust have been recorded as agency transactions. Therefore, all income and expense is recorded by the Trust.

Principles of Combination

The combined financial statements include the accounts of the Trust and the Indenture of Trust. All significant inter-trust accounts and transactions have been eliminated in the combined financial statements.

Concentration of Credit Risk

The Trust derives the majority of its revenues from two customers. Although this concentration increases the Trust's credit risk, management believes the Trust is exposed to minimal risk because one customer is a department of the U.S. Government and the other is a state university receiving state funding. To further reduce credit risk, the Trust will actively pursue other customers. The Trust is also subject to concentrations of credit risks through money market investments. The credit risk related to money market investments is minimized by the restrictions of the trust agreements as to permissible investments and by the Trust only investing in money market funds secured by U.S. government securities or repurchase agreements secured by U.S. government securities.

1. Nature of Business and Significant Accounting Policies (continued):

Leasehold Improvements, Equipment and Depreciation
Leasehold improvements and equipment are stated at cost. Depreciation of leasehold improvements is calculated using the straight-line method over the life of the lease. Depreciation of equipment is calculated using the straight-line method over the estimated useful lives of the respective assets.

Use of Estimates
The preparation of combined financial statements 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 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 combined financial statements were available to be issued.

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

The Indenture of Trust restricts the selection of investments. Permitted investments under the Indenture of Trust 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 and other obligations or securities approved in writing by the Beneficiary.

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

Investments are maintained in various funds held by the Bond Trustee, each restricted in their use by the Indenture of Trust. 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.

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

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.

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.

Trust Expense Escrow Account – The Trust Expense Escrow Account was established exclusively for the payment of trust expenses under the Trust. At September 30, 2017 and 2016, the Trustee had $55,197 and $58,516, respectively invested in money market investments secured by the United States government obligations for this account. The Trust agreement restricts the selection of investments for this account. Permitted investments under the Trust agreement include obligations of, or guaranteed by, the United States government, various short-term investments meeting minimum rating requirements set forth in the Trust agreement and other obligations or securities approved in writing by the Beneficiary.

3. Debt Service Reserve Fund:

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

4. Other Assets:

Other assets at September 30, 2017 and 2016 consisted of the following:

	2017	2016
Bond issuance costs, net of accumulated amortization of $711,304 and $643,365	$ 366,072	$ 434,011
Enhanced Use Lease Costs	23,897	25,367
	$ 389,969	$ 459,378

4. Other Assets (continued):

Bond issuance costs are being amortized over twenty-five years using the effective interest method. The amortization of bond issuance costs is included in interest expense. Amortization of bond issue costs for the years ended September 30, 2017 and 2016 was $67,939 and $62,587, respectively.

Future amortization expense for the ensuing five years is as follows:

Year Ending September 30,	Amount
2018	$ 73,746
2019	58,149
2020	40,293
2021	43,726
2022	47,452
	$ 263,366

5. Leasehold Improvements and Equipment:

Leasehold improvements and equipment at September 30, 2017 and 2016 consisted of the following:

	2017		2016	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Leasehold Improvements	$ 28,815,074	$ 14,500,084	$ 28,815,074	$ 13,600,802
Equipment	41,514	41,514	41,514	41,514
	$ 28,856,588	$ 14,541,598	$ 28,856,588	$ 13,642,316

Depreciation expense for the years ended September 30, 2017 and 2016 was $899,282 and $916,031, respectively.

6. Bonds Payable:

Bonds payable under the Revenue Bonds bear interest at coupon rates ranging from 7.80% to 7.85% with interest payable semi-annually to bondholders on March 1 and September 1. The Indenture of Trust requires mandatory annual redemptions of bond principal on March 1 of each year. In addition, the Trust is required to maintain a sinking fund to make annual mandatory redemptions of the bonds payable maturing in 2019 through 2024 prior to maturity at 100% of the face amount of the Revenue Bonds. The Revenue Bonds are secured by the leasehold interest in the Energy Facility and the cash flow from energy services agreements between the Trust and the Medical Center and ETSU.

6. Bonds Payable (continued):

The Trust has purchased from MBIA: (1) an insurance policy in the original principal amount of the Revenue Bonds of $31,750,000; and, (2) a $2,300,000 surety bond. MBIA unconditionally and irrevocably guarantees the full and complete payment of the Revenue Bonds. The surety bond has a maximum one-time coverage of $2,300,000 and is part of the Debt Service Reserve Fund as more fully described in Note 3. The Trust may use the surety bond in the event a principal payment on the Revenue Bonds becomes due but cannot be paid by the Trust. If the Trust is unable to generate and maintain sufficient revenues to fund the operations of the Energy Facility and consequently cannot make scheduled principal and interest payments on the Revenue Bonds, the insurance policy guarantees payment by MBIA of all principal and interest amounts as they become due.

The principal amount of bonds payable was reduced by an original issue discount of $399,962 and is being amortized over the life of the bonds. Total bonds payable, net of unamortized issue discount, at September 30, 2017 and 2016 were as follows:

	2017	2016
Principal	$ 20,850,000	$ 22,625,000
Unamortized original issue discount	(68,155)	(88,581)
Bonds payable	$ 20,781,845	$ 22,536,419

The original issue discount is being amortized using the effective interest method over the life of the Revenue Bonds. The amortization of the original interest discount is included in interest expense.

Total interest expense for the years ended September 30, 2017 and 2016 were $1,780,614 and $1,904,735, respectively. Total bonds payable discount amortized for the years ended September 30, 2017 and 2016 were $20,426 and $18,899, respectively.

Future amortization expense for the ensuing five years is as follows:

Year Ending September 30,	Amount
2018	$ 22,077
2019	15,914
2020	8,938
2021	9,661
2022	10,442
	$ 67,032

The aggregate maturities of bond principal under the Revenue Bonds are as follows:

Year Ending September 30,	Amount
2018	$ 2,025,000
2019	2,300,000
2020	2,600,000
2021	2,930,000
2022	3,255,000
Thereafter	7,740,000
	$ 20,850,000

7. Management Fees:

The Trust has an agreement with MHEC to operate and maintain the Energy Facility. Monthly management fees are paid from the Trust to MHEC for fixed costs relating to salaries and maintenance of the Energy Facility, as well as reimbursement for certain variable costs. Accrued management fees payable to MHEC were $443,810 and $238,959 at September 30, 2017 and 2016, respectively. Total management fees expensed by MHEC for the years ended September 30, 2017 and 2016 were $3,126,860 and $2,332,306, respectively.

8. Income Taxes:

The Trust and the Indenture of Trust are not tax-paying entities for income tax purposes and, thus, no provision for income tax expense has been recorded in the combined financial statements.

9. Enhanced-Use Lease:

In exchange for the development, construction and operation of the Energy Facility, the VA is leasing to the Trust the real property on which the Energy Facility was built through an enhanced-use lease ("Land Lease"). No rent is being charged to the Trust under the Land Lease. The Land Lease terminates on December 17, 2033. Upon termination of the Land Lease, the Trust will surrender to the VA possession of all assets constituting the Energy Facility. The VA may terminate the lease before it expires if, after the Energy Facility becomes operational, there has occurred a material failure on the part of the Trust to furnish to the Medical Center on a timely basis its requirements of electricity, steam, and chilled water. The VA has no right to terminate the lease for convenience.

10. Major Customers and Large Trade Receivables:

During the years ended September 30, 2017 and 2016, the Trusts had two major customers from which the earned revenues were as follows:

Customer	2017	2016
ETSU	$ 1,972,868	$ 1,912,325
Medical Center*	4,725,552	3,902,245
	$ 6,698,420	$ 5,814,570

Information regarding large trade receivables is as follows:

Customer	2017	2016
ETSU	$ 231,707	$ 246,863
Medical Center*	476,646	260,820
	$ 708,353	$ 507,683

*The Medical Center represents the Beneficiary, which is the VA.

MOUNTAIN HOME ENERGY TRUST AND THE TRUST CREATED BY THE INDENTURE OF TRUST, DATED AS OF NOVEMBER 1, 1999

COMBINING BALANCE SHEET

SEPTEMBER 30, 2017

	Combined	Eliminations	Mountain Home Energy Trust	Indenture of Trust
ASSETS				
CURRENT ASSETS:				
Cash, cash equivalents, and short-term investments	$ 1,547,463	$ -0-	$ 55,197	$ 1,492,266
Accounts receivable	724,181	-0-	724,181	-0-
Receivable from related party	-0-	(1,492,266)	1,492,266	-0-
TOTAL CURRENT ASSETS	2,271,644	(1,492,266)	2,271,644	1,492,266
Other assets, net	389,969	-0-	389,969	-0-
Leasehold improvements and equipment, net	14,314,990	-0-	14,314,990	-0-
TOTAL ASSETS	$ 16,976,603	$ (1,492,266)	$ 16,976,603	$ 1,492,266
LIABILITIES AND TRUST DEFICIT				
CURRENT LIABILITIES:				
Current maturities of bonds payable	$ 2,025,000	$ -0-	$ 2,025,000	$ -0-
Accrued management fees payable	443,810	-0-	443,810	-0-
Payable to related party	-0-	(1,492,266)	-0-	1,492,266
Accrued interest payable	136,213	-0-	136,213	-0-
TOTAL CURRENT LIABILITIES	2,605,023	(1,492,266)	2,605,023	1,492,266
Bonds payable, net	18,756,845	-0-	18,756,845	-0-
TOTAL LIABILITIES	21,361,868	(1,492,266)	21,361,868	1,492,266
TRUST DEFICIT	(4,385,265)	-0-	(4,385,265)	-0-
TOTAL LIABILITIES AND TRUST DEFICIT	$ 16,976,603	$ (1,492,266)	$ 16,976,603	$ 1,492,266

See independent auditors' report.

MOUNTAIN HOME ENERGY TRUST AND THE TRUST CREATED BY THE INDENTURE OF TRUST, DATED AS OF NOVEMBER 1, 1999

COMBINING STATEMENT OF INCOME AND TRUST DEFICIT
YEAR ENDED SEPTEMBER 30, 2017

	Combined	Eliminations	Mountain Home Energy Trust	Indenture of Trust
ENERGY SERVICES	$ 6,765,854	$ -0-	$ 6,765,854	$ -0-
EXPENSES:				
Management fees	3,126,860	-0-	3,126,860	-0-
Interest expense	1,782,084	-0-	1,782,084	-0-
Depreciation expense	899,282	-0-	899,282	-0-
Trustee fees	29,248	-0-	29,248	-0-
Professional fees	27,053	-0-	27,053	-0-
TOTAL EXPENSES	5,864,527	-0-	5,864,527	-0-
INTEREST INCOME	4,706	-0-	4,706	-0-
NET INCOME	906,033	-0-	906,033	-0-
Trust deficit, beginning of year	(5,291,298)	-0-	(5,291,298)	-0-
Trust deficit, end of year	$ (4,385,265)	$ -0-	$ (4,385,265)	$ -0-

See independent auditors' report.