OFFICIAL STATEMENT

NEW ISSUE
BOOK-ENTRY ONLY

RATINGS: Moody's "Aaa" (Insured)
Moody's "A1" (Underlying)
INSURED: Ambac Assurance

In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the County, interest on the Bonds will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining the adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. For an explanation of certain tax consequences under federal law which may result from the ownership of the Bonds, see the discussion under the heading "Tax Matters" herein. Under existing law, the Bonds and the income therefrom will be exempt from all state, county and municipal taxation in the State of Tennessee, except inheritance, transfer and estate taxes, and Tennessee franchise and excise taxes. (See "Tax Matters" herein).

$63,945,000
MONTGOMERY COUNTY, TENNESSEE
GENERAL OBLIGATION SCHOOL AND REFUNDING BONDS, SERIES 2006
(ULT)

DATED: AUGUST 11, 2006 DUE: April 1, as shown below

Montgomery County, Tennessee (the "County") will issue its $63,945,000 General Obligation School and Refunding Bonds, Series 2006 (the "Bonds") in fully registered book-entry form, without coupons, and, when issued, the Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases of beneficial ownership interest in the Bonds will be made in book-entry form only, in denominations of $5,000 or multiples thereof through DTC Participants. Interest on the Bonds will be payable semiannually on April 1 and October 1 of each year, commencing on April 1, 2007, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Payments of principal of and interest on the Bonds are to be made to purchasers by DTC through the Participants (as such term is herein defined). Purchasers will not receive physical delivery of Bonds purchased by them. See "THE BONDS-Book-Entry-Only System." Principal of and interest on the Bonds are payable by the County to the corporate trust office of Deutsche Bank National Trust Company, Olive Branch, Mississippi, as registration and paying agent (the "Registration Agent").

The scheduled payment of principal and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued concurrently with the delivery of the Bonds by Ambac Assurance Corporation.

Ambac

The Bonds are subject to redemption prior to their stated maturities as more fully set forth herein. The Bonds are payable on April 1 of each year as follows:

Maturity (April 1)	Amount	Interest Rate	Yield	Maturity (April 1)	Amount	Interest Rate	Yield
2008	$1,450,000	4.250%	3.730%	2018	$8,225,000	5.000%	4.170%*
2009	1,500,000	4.000	3.670	2019	8,290,000	4.500	4.280*
2010	1,550,000	4.000	3.690	2020	2,330,000	4.250	4.370
2011	1,625,000	4.250	3.790	2021	2,330,000	4.250	4.410
2012	1,700,000	4.250	3.820	2022	2,330,000	4.250	4.428
2013	2,335,000	4.000	3.830	2023	2,330,000	4.375	4.470
2014	2,330,000	4.000	3.920	2024	2,330,000	4.500	4.500
2015	2,330,000	4.000	3.980	2025	2,330,000	4.500	4.520
2016	8,000,000	5.000	4.120	2026	2,330,000	4.500	4.540
2017	8,300,000	5.000	4.170*				

*Yield to Call Date of April 1, 2016

The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the County. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the County are irrevocably pledged.

The Bonds are offered when, as and if issued, subject to the approval of the legality by Bass, Berry & Sims PLC, Nashville, Tennessee, Bond Counsel, whose opinion will be delivered with the Bonds. Certain legal matters will be passed upon for the County by Roger Maness, Esq., Counsel to the County. Stephens Inc. has acted as Financial Advisor to the County in connection with the sale of the Bonds. The Bonds, in book-entry form, are expected to be available for delivery through The Depository Trust Company in New York, New York, on or about August 11, 2006.

Stephens Inc.
Nashville, Tennessee
Financial Advisor

August 1, 2006

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document, as the same may be supplemented or amended (collectively, the "Official Statement") by Montgomery County, Tennessee (the "County") from time to time, may be treated as an Official Statement with respect to the Bonds described herein that is deemed final by the County as of the date hereof (or of any such supplement or amendment). It is subject to completion with certain information to be established at the time of the sale of the Bonds as permitted by Rule 15c2-12 of the Securities and Exchange Commission.

No dealer, broker, salesman or other person has been authorized by the County or by Stephens Inc. (the "Financial Advisor") to give any information or make any representations other than those contained in this Official Statement and, if given or made, such information or representations with respect to the County or the Bonds must not be relied upon as having been authorized by the County or the Financial Advisor. This Official Statement does not constitute an offer to sell, or solicitation of an offer to buy, any securities other than the securities offered hereby to any person in any jurisdiction where such offer or solicitation of such offer would be unlawful.

This Official Statement should be considered in its entirety and no one factor should be considered more or less important than any other by reason of its position in this Official Statement. Where statutes, reports or other documents are referred to herein, reference should be made to such statutes, reports or other documents for more complete information regarding the rights and obligations of parties thereto, facts and opinions contained therein and the subject matter thereof.

The information and expressions of opinion in this Official Statement are subject to change without notice and neither the delivery of this Official Statement nor any sale made under it shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the date as of which information is given in this Official Statement.

In making an investment decision investors must rely on their own examination of the County and the terms of the offering, including the merits and risks involved. No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission or with any state securities agency. The Bonds have not been approved or disapproved by the Commission or any state securities agency, nor has the Commission or any state securities agency passed upon the accuracy or adequacy of this Official Statement. Any representation to the contrary is a criminal offense.

Montgomery County, Tennessee
General Obligation School and Refunding Bonds, Series 2006
Dated August 11, 2006

Maturity (April 1)	Amount	Rate	Yield	Cusip No.**
2008	$1,450,000	4.250%	3.730%	613664V65
2009	1,500,000	4.000	3.670	613664V73
2010	1,550,000	4.000	3.690	613664V81
2011	1,625,000	4.250	3.790	613664V99
2012	1,700,000	4.250	3.820	613664W23
2013	2,335,000	4.000	3.830	613664W31
2014	2,330,000	4.000	3.920	613664W49
2015	2,330,000	4.000	3.980	613664W56
2016	8,000,000	5.000	4.120	613664W64
2017	8,300,000	5.000	4.170*	613664W72
2018	8,225,000	5.000	4.170*	613664W80
2019	8,290,000	4.500	4.280*	613664W98
2020	2,330,000	4.250	4.370	613664X22
2021	2,330,000	4.250	4.410	613664X30
2022	2,330,000	4.250	4.428	613664X48
2023	2,330,000	4.375	4.470	613664X55
2024	2,330,000	4.500	4.500	613664X63
2025	2,330,000	4.500	4.520	613664X71
2026	2,330,000	4.500	4.540	613664X89

*yield to call date of April 1, 2016

** These CUSIP numbers have been assigned by Standard & Poor's CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc., and are included solely for convenience of the Bondholders. The County is not responsible for the selection or use of these CUSIP numbers, nor is any representation made as to their correctness on the Bonds or as indicated herein.

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The Material contained herein has been obtained from sources believed to be current and reliable, but the accuracy thereof is not guaranteed. The Official Statement contains statements which are based upon estimates, forecasts, and matters of opinion, whether or not expressly so described, and such statements are intended solely as such and not as representations of fact. All summaries of statutes, resolutions, and reports contained herein are made subject to all the provisions of said documents. The Official Statement is not to be construed as a contract with the purchasers of any of the Montgomery County, Tennessee General Obligation School and Refunding Bonds, Series 2006.

TABLE OF CONTENTS

MONTGOMERY COUNTY, TENNESSEE
1 Millennium Plaza
Clarksville, Tennessee 37040

OFFICIALS

Douglas Weiland
County Mayor and Chairman

Board of Commissioners

Edward E. Baggett	Mark A. Kelly	Brenda Radford
Lewis Baggett	Lettie M. Kendall	Elizabeth Rankin
Barry L. Bellamy	Reber P. Kennedy, Jr.	Benny F. Skinner
Loretta J. Bryant	Ginger Miles	Ronald J. Sokol
Joe L. Creek	Ruth Ann Milliken	Mabel B. Steeley
Robert Gibbs, Jr.	John O. Morris, Jr.	Suzanne Uffelman
Nancy Kahihikolo	Jack Nagrod	Pat Vaden

County Officials

Assessor of Property	Ronnie D. Boyd
Circuit Court Clerk	Cheryl J. Castle
Clerk and Master	Ted Crozier
County Clerk	Wilma K. Drye
Director of Accounts and Budgets	Robert B. Boydston
Director of Adm. and Development	Glenn Abee
Director of Personnel	Mike Moore
Director of Schools	Michael Harris
Register of Deeds	Joyce B. Sawyer
Sheriff	Norman Lewis
Superintendent of Highways	Mike Frost
Trustee	Carolyn Bowers

Counsel for the County
Roger Maness, Esq.
Clarksville, Tennessee

Bond Counsel
Bass, Berry & Sims PLC
Nashville, Tennessee

Registration and Paying Agent
Deutsche Bank National Trust Company
Olive Branch, Mississippi

Financial Advisor
Stephens Inc.
Nashville, Tennessee

Underwriter
Citigroup Global Markets Inc.
New York, New York

SUMMARY STATEMENT

This Summary is expressly qualified by the entire Official Statement which should be viewed in its entirety by potential investors.

ISSUER...............................	Montgomery County, Tennessee (the "County").
ISSUE.................................	$63,945,000 General Obligation School and Refunding Bonds, Series 2006 (the "Bonds").
PURPOSE...........................	(i) acquisition of land and site development for school purposes; (ii) constructing, repairing, renovating and equipping of County school buildings and school facilities; (iii) acquisition of all property, real and personal, appurtenant to the foregoing; (iv) payment of legal, fiscal, administrative, architectural and engineering costs incident to the foregoing; (v) reimbursement to the appropriate fund of the County for prior expenditures for the foregoing costs, if applicable; (vi) retirement of any outstanding notes authorized and issued, proceeds of which were used for any of the foregoing purposes; (vii) refund all or a portion of the County's outstanding Loan Agreement, dated November 8, 1996, by and between The Public Building Authority of Montgomery County, Tennessee and the County, as further described in this Official Statement; and (viii) payment of costs incident to the issuance and sale of the Bonds.
DATED DATE....................	August 11, 2006.
INTEREST DUE	Each April 1 and October 1, commencing April 1, 2007.
PRINCIPAL DUE	Each April 1, commencing April 1, 2008 through April 1, 2026, inclusive.
PROJECTED SETTLEMENT DATE.......	August 11, 2006.
OPTIONAL REDEMPTION	Bonds maturing April 1, 2017 and thereafter, shall be subject to redemption prior to maturity at the option of the County on or after April 1, 2016 and thereafter at the price of par plus interest accrued to the redemption date.
SECURITY.........................	Unlimited ad valorem taxes to be levied on all taxable property within the County. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the County are irrevocably pledged.
RATING	"Aaa", by Moody's Investors Service, Inc. ("Moody's"), based on the understanding that the standard policy of Ambac Assurance Corporation insuring the payment of principal of and interest on the Bonds will be issued upon delivery of the Bonds. The rating reflects only the view of Moody's and neither the County nor the Financial Advisor makes any representation as to the appropriateness of such rating. Moody's has issued an underlying rating of "A1".

There is no assurance that such ratings will continue for any given period of time or that they will not be lowered or withdrawn entirely by Moody's if in its judgment circumstances so warrant. Any such downward change in or withdrawal of the ratings may have an adverse effect on the secondary market price of the Bonds. Any explanation of the significance of the ratings may be obtained from Moody's.

BOND INSURANCE.......... Concurrently with the issuance of the Bonds, Ambac Assurance Corporation will issue its financial guaranty insurance policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an Appendix to this Official Statement.

TAX MATTERS................ Bass, Berry & Sims PLC will provide an unqualified opinion as to the tax exemption of the Bonds discussed under "TAX MATTERS" herein.

REGISTRATION AND PAYING AGENT.............. Deutsche Bank National Association, Olive Branch, Mississippi.

FINANCIAL ADVISOR .... Stephens Inc., Nashville, Tennessee.

UNDERWRITER.............. Citigroup Global Markets Inc., New York, New York.

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OFFICIAL STATEMENT

MONTGOMERY COUNTY, TENNESSEE

$63,945,000 GENERAL OBLIGATION SCHOOL AND REFUNDING BONDS, SERIES 2006 (ULT)

INTRODUCTION

The Official Statement, including the cover page and appendices hereto, is furnished in connection with the issuance by Montgomery County, Tennessee (the "County") of $63,945,000 General Obligation School and Refunding Bonds, Series 2006 (the "Bonds").

The Bonds are issuable under and in full compliance with the constitution and statutes of the State of Tennessee including Sections 9-21-101, et seq., Tennessee Code Annotated, as amended, and Sections 49-3-1001, et seq., Tennessee Code Annotated, as amended, and pursuant to a resolution adopted by the Board of County Commissioners of the County on July 17, 2006 (the "Resolution"), authorizing the execution, terms, issuance, and the sale of the Bonds.

All notices have been published in a newspaper as required by state law.

This Official Statement includes descriptions of, among other matters, the Bonds, the Resolution, and the County. Such descriptions and information do not purport to be comprehensive or definitive. All references to the Resolution are qualified in their entirety by reference to the definitive document, including the form of the Bonds included in the Resolution. During the period of the offering of the Bonds, copies of the Resolution and any other documents described herein or in the Resolution may be obtained from the County Mayor's office. After delivery of the Bonds, copies of such documents will be available for inspection at the County Mayor's office. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Resolution.

THE BONDS

Description

The Bonds are being issued for the purpose of providing funds for the following purposes: (i) acquisition of land and site development for school purposes; (ii) constructing, repairing, renovating and equipping of County school buildings and school facilities; (iii) acquisition of all property, real and personal, appurtenant to the foregoing; (iv) payment of legal, fiscal, administrative, architectural and engineering costs incident to the foregoing; (v) reimbursement to the appropriate fund of the County for prior expenditures for the foregoing costs, if applicable; (vi) retirement of any outstanding notes authorized and issued, proceeds of which were used for any of the foregoing purposes; (vii) refund all or a portion of the County's outstanding Loan Agreement, dated November 8, 1996, by and between The Public Building Authority of Montgomery County, Tennessee (the "Authority") and the County (the "1996 Loan Agreement"), in the original principal amount of $83,845,000, of which $59,250,000 was refinanced by the County from a portion of the proceeds derived from the issuance of the County's General Obligation Refunding Bonds, Series 2003; and (viii) payment of costs incident to the issuance and sale of the Bonds.

The Bonds will be issued in fully registered, book-entry form, without coupons, in denominations of $5,000 or any integral multiple thereof. The Bonds will be dated their date of issuance. Interest on the Bonds, at the rates per annum set forth on the cover page and calculated on the basis of a 360-day year, consisting of twelve 30-day months, will be payable semiannually on April 1 and October 1 of each year (herein an "Interest Payment Date"), commencing April 1, 2007.

The Bonds will mature on the dates and in the amounts set forth on the cover page.

The Bonds will be initially registered only in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Deutsche Bank National Trust Company, Olive Branch, Mississippi (the "Registration Agent") will make all interest payments with respect to the Bonds on each Interest Payment Date directly to the registered owners as shown on the Bond registration records maintained by the Registration Agent as of the close of business on the fifteenth day of the month next preceding the Interest Payment Date (the "Regular Record Date") by check or draft mailed to such owners at their addresses shown on said registration records, without, except for final payment, the presentation or surrender of such registered Bonds, and all such payments shall discharge the obligations of the County in respect of such Bonds to the extent of the payments so made. Payment of principal of the Bonds shall be made upon presentation and surrender of such Bonds to the Registration Agent as the same shall become due and payable. In the event the Bonds are no longer registered in the name of DTC or its successor or assigns, if requested by the Owner of at least $1,000,000 in aggregate principal amount of the Bonds, payment of interest on such Bonds shall be paid by wire transfer to a bank within the continental United States or deposited to a designated account if such account is maintained with the Registration Agent and written notice of any such election and designated account is given to the Registration prior to the record date.

Any interest on any Bond which is payable but is not punctually paid or duly provided for on any interest payment date (hereinafter "Defaulted Interest") shall forthwith cease to be payable to the registered owner on the relevant Regular Record Date; and, in lieu thereof, such Defaulted Interest shall be paid by the County to the persons in whose names the Bonds are registered at the close of business on a date (the "Special Record Date") for the payment of such Defaulted Interest, which shall be fixed in the following manner: The County shall notify the Registration Agent in writing of the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment, and at the same time the County shall deposit with the Registration Agent an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Registration Agent for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the persons entitled to such Defaulted Interest. Thereupon, not less than ten (10) days after the receipt by the Registration Agent of the notice of the proposed payment, the Registration Agent shall fix a Special Record Date for the payment of such Defaulted Interest which date shall not be more than fifteen (15) nor less than ten (10) days prior to the date of the proposed payment to the registered owners. The Registration Agent shall promptly notify the County of such Special Record Date and, in the name and at the expense of the County, not less than ten (10) days prior to such Special Record Date, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first class postage prepaid, to each registered owner at the address thereof as it appears in the Bond registration records maintained by the Registration Agent as of the date of such notice. Nothing contained in the Resolution or in the Bonds shall impair any statutory or other rights in law or in equity of any registered owner arising as a result of the failure of the County to punctually pay or duly provide for the payment of principal of and interest on the Bonds when due.

Optional Redemption

Bonds maturing on April 1, 2017 and thereafter shall be subject to redemption prior to maturity at the option of the County on April 1, 2016 and thereafter as a whole or in part at any time at the redemption price of par, plus interest accrued to the redemption date.

If less than all the Bonds shall be called for redemption, the maturities to be redeemed shall be selected by the Board of County Commissioners of the County in its discretion. If less than all of the Bonds within a single maturity shall be called for redemption, the interests within the maturity to be redeemed shall be selected as follows:

(i) if the Bonds are being held under a Book-Entry System by DTC, or a successor Depository, the Bonds to be redeemed shall be determined by DTC, or such successor Depository, by lot or such other manner as DTC, or such successor Depository, shall determine; or

(ii) if the Bonds are not being held under a Book-Entry System by DTC, or a successor Depository, the Bonds within the maturity to be redeemed shall be selected by the Registration Agent by lot or such other random manner as the Registration Agent in its discretion shall determine.

Notice of Redemption

Notice of call for redemption shall be given by the Registration Agent on behalf of the County not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption by sending an appropriate notice to the registered owners of the Bonds to be redeemed by first-class mail, postage prepaid, at the addresses shown on the Bond registration records of the Registration Agent as of the date of the notice; but neither failure to mail such notice nor any defect in any such notice so mailed shall affect the sufficiency of the proceedings for redemption of any of the Bonds for which proper notice was given. As long as DTC, or a successor Depository, is the registered owner of the Bonds, all redemption notices shall be mailed by the Registration Agent to DTC, or such successor Depository, as the registered owner of the Bonds, as and when above provided, and neither the County nor the Registration Agent shall be responsible for mailing notices of redemption to DTC Participants, or Beneficial Owners. Failure of DTC, or any successor Depository, to provided notice to any DTC Participant or Beneficial Owner will not affect the validity of such redemption. The Registration Agent shall mail said notices as and when directed by the County pursuant to written instructions from an authorized representative of the County (other than for a mandatory sinking fund redemption, if applicable, notices of which shall be given at least forty-five (45) days prior to the redemption date unless a shorter notice period shall be satisfactory to the Registration Agent). From and after the redemption date, all Bonds called for redemption shall cease to bear interest if funds are available at the office of the Registration Agent for the payment thereof and if notice has been duly provided.

Security and Sources of Payment

The Bonds shall be payable from unlimited ad valorem taxes to be levied on all taxable property within the County. For the prompt payment of principal of and interest on the Bonds, the full faith and credit of the County are irrevocably pledged.

Under Tennessee law, the County's legislative body is authorized to levy a tax on all taxable property within the County, without limitation as to rate or amount, and a referendum is neither required nor permitted to set the rate or amount. For a more complete statement of the general covenants and provisions to which the Bonds are issued, reference is hereby made to the resolutions authorizing the Bonds.

Book-Entry-Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). Only one fully-registered Bond certificate will be issued in the aggregate principal amount of each maturity of the Bonds, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with Direct Participants, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC, the Registration Agent, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the County or the Registration Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the County or the Registration Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the County believes to be reliable, but the County takes no responsibility for the accuracy thereof.

THE COUNTY AND THE REGISTRATION AGENT HAVE NO RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT; (II) THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF OR INTEREST ON THE BONDS; (III) THE DELIVERY OR TIMELINESS OF DELIVERY BY ANY PARTICIPANT OR ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO BONDHOLDERS; OR (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR CEDE & CO. AS BONDHOLDER.

Plan of Refunding

The Bonds are being issued, in part, to refund the 1996 Loan Agreement as described under "THE BONDS – Description" herein. Pursuant to the Resolution, the County, in its discretion, shall deposit the proceeds of the Bonds being used to refund the 1996 Loan Agreement (the "Refunding Proceeds") as follows: (i) in a separate account of the County and used to prepay the 1996 Loan Agreement on its earliest prepayment date; or (ii) in an escrow account established with an escrow agent to be held and applied as provided in a refunding escrow agreement by and between the County and said escrow agent; or (iii) with the assignee of the Authority, as defined under "THE BONDS – Description" herein.

Sources and Uses of Funds

The following table sets forth the sources and uses of funds in connection with the issuance of the Bonds.

Sources of Funds	
Par Amount	$63,945,000.00
Net Original Issue Premium	1,763,384.45
Total Sources	$65,708,384.45
Uses of Funds	
Deposit to retire the 1996 Loan Agreement	$24,595,000.00
Deposit to Project Construction Fund	40,655,521.15
Cost of Issuance, including Underwriter's Compensation (which includes Bond Insurance Premium) and Expenses	457,863.30
Total Uses	$65,708,384.45

Ratings

The Bonds have been assigned a rating of "Aaa" by Moody's Investors Service, Inc. ("Moody's") based on the understanding that the standard policy of Ambac Assurance Corporation insuring the payment of principal of and interest on the Bonds will be issued upon delivery of the Bonds. The rating reflects only the view of Moody's and neither the County nor the Financial Advisor makes any representation as to the appropriateness of such rating. Moody's has issued an underlying rating of "A1".

There is no assurance that such ratings will continue for any given period of time or that they will not be lowered or withdrawn entirely by Moody's if in its judgment circumstances so warrant. Any such downward change in or withdrawal of the ratings may have an adverse effect on the secondary market price of the Bonds. Any explanation of the significance of the ratings may be obtained from Moody's.

BOND INSURANCE

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Registration Agent. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Registration Agent has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Registration Agent, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Holder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately $9,417,000,000 (unaudited) and statutory capital of approximately $5,879,000,000 (unaudited) as of March 31, 2006. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Bonds.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official

Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company . These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed on March 13, 2006;

2. The Company's Current Report on Form 8-K dated and filed on April 26, 2006;

3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2006 and filed on May 10, 2006;

4. The Company's Current Report on Form 8-K dated July 25, 2006 and filed on July 26, 2006; and

5. The Company's Current Report on Form 8-K dated and filed on July 26, 2006.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

CONTINUING DISCLOSURE

General

The County will at the time the Bonds are delivered execute a Continuing Disclosure Certificate under which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the County by not later than twelve months after the end of each fiscal year commencing with the fiscal year ending June 30, 2006 (the "Annual Report"), and to provide notice of the occurrence of certain enumerated events, if determined by the Issuer to be material under applicable federal securities laws. The Annual Report (and audited financial statements if filed separately) will be filed by the Issuer with each Nationally Recognized Municipal Securities Information Repository (the "Repositories") and any State Information Depository which may be established in Tennessee (the "SID"). If the Issuer is unable to provide the Annual Report to the Repositories and the SID, if any, by the date set forth above for the filing of the Annual Report, notice of such failure shall be sent to the Repositories and the SID, if any, on or before such date. The notices of material events will be filed by the County with either the Repositories or with the Municipal Securities Rulemaking Board and any SID. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below. These covenants have been made in order to assist the Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b), as it may be amended from time to time (the "Rule"). The County is currently in compliance in all material respects with regard to the Rule to provide Annual Reports or notices of material events.

Annual Report

The County's Annual Report shall contain or incorporate by reference the General Purpose Financial Statements of the Issuer for the fiscal year, prepared in accordance with generally accepted accounting principles; provided, however, if the County's audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained herein, and the audited financial statements shall be filed when available. The Annual Report shall also include in a similar format the following information included in Appendix B to this Official Statement as follows.

1. "Summary of Outstanding Debt";
2. "Debt Statement";
3. "Debt Record";
4. "Population";
5. "Per Capita Principal Payments";
6. "Debt Ratios";
7. "Debt Trend";
8. "Debt Service Requirements";
9. "Property Valuation and Property Tax";
10. "Top Taxpayers";
11. "Fund Balances";
12. "Local Sales Tax ";
13. "Wheel Tax"; and
14. "Statement of Operating Revenues, Expenditures and Changes in Fund Balances – All Fund Types."

Any or all of the items above may be incorporated by reference from other documents, including Official Statements in final form for debt issues of the County or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final Official Statement, in final form, it will be available from the Municipal Securities Rulemaking Board. The County shall clearly identify each such other document so incorporated by reference.

Reporting of Significant Events

The County will file notice regarding material events either with the Repositories or with the Municipal Securities Rulemaking Board and SID, if any, as follows:

1. Whenever the County obtains knowledge of the occurrence of a Listed Event (as defined in (3) below), the County shall as soon as possible determine if such event would be material under applicable Federal securities laws.

2. If the County determines that knowledge of the occurrence of a Listed Event would be material (under applicable Federal securities laws), the County shall promptly file a notice of such occurrence either with the Repositories or with the Municipal Securities Rulemaking Board and SID, if any. Notwithstanding the foregoing, notice of Listed Events described in subsection (3)(h) and (i) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Resolution.

3. The following are the Listed Events:

    a. Principal and interest payment delinquencies;

    b. Non-payment related defaults;

    c. Unscheduled draws on debt service reserves reflecting financial difficulties;

    d. Unscheduled draws on credit enhancements reflecting financial difficulties;

    e. Substitution of credit or liquidity providers, or their failure to perform;

    f. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;

    g. Modifications to rights of Bondholders;

    h. Bond calls;

    i. Defeasances;

    j. Release, substitution, or sale of property securing repayment of the securities; and

    k. Rating changes.

Termination of Reporting Obligation

The County's obligations under the Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

Amendment/Waiver

Notwithstanding any other provision of the Disclosure Certificate, the County may amend the Disclosure Certificate, and any provision of the Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions concerning the Annual Report and Reporting of Significant Events it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized Bond Counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of the Holders, or (ii) does not, in the opinion of nationally recognized Bond Counsel, materially impair the interests of the Holders or beneficial owners of the Bonds.

In the event of any amendment or waiver of a provision of the Disclosure Certificate, the County shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the County. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Default

In the event of a failure of the County to comply with any provision of the Disclosure Certificate, any Bondholder or any Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County to comply with its obligations under the Disclosure Certificate. A default under the Disclosure Certificate shall not be deemed an event of default, if any, under the Resolutions, and the sole remedy under the Disclosure Certificate in the event of any failure of the County to comply with the Disclosure Certificate shall be an action to compel performance.

FUTURE ISSUES

Depending on population and school enrollment growth, the County does not have any plans for any capital financing during the next two years.

LITIGATION

As of the date of this Official Statement, the County has no knowledge or information concerning any pending or threatened litigation contesting the authority of the County to issue, sell or deliver the proposed Bonds. The County has no knowledge or information of any actions pending or expected which would materially affect the County's ability to pay the debt service requirements of the proposed Bonds.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization and issuance of the Bonds are subject to the unqualified approving opinion of Bass, Berry & Sims PLC, Bond Counsel. A copy of the opinion will be printed on the Bonds. (See Appendix A). Certain legal matters will be passed upon for the County by Roger Maness, Esq., Counsel to the County.

TAX MATTERS

Federal Taxes

In the opinion of Bass, Berry & Sims PLC, Bond Counsel, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for purposes of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. Bond Counsel's opinion is subject to the condition that the County comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The County has covenanted to comply with all such requirements. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds.

Prospective purchasers of the Bonds should be aware that ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. Bond Counsel will not express any opinion as to such collateral tax consequences. Prospective purchasers of the Bonds should consult their tax advisors as to collateral federal income tax consequences.

The initial public offering prices of the Bonds maturing April 1, 2020 through April 1, 2023, inclusive, April 1, 2025 and April 1, 2026 (the "Discount Bonds") are less than the amounts payable at maturity. An amount not less than the difference between the initial public offering price of the Discount Bonds the amount payable at maturity constitutes "original issue discount," which will be excludable from gross income for federal income tax purposes. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond which is a corporation will be included in the calculation of the corporation's alternative minimum tax liability. Consequently, corporate owners of the Discount Bonds should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability although the owners of such Discount Bonds have not received cash attributable to such original issue discount in such year.

The initial public offering prices of the Bonds maturing April 1, 2008 through April 1, 2019, inclusive (the "Premium Bonds") are greater than the amounts payable at maturity with respect to such Bonds. The difference between (a) the amount payable at maturity of the Premium Bonds and (b) the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of the Premium Bonds of such maturities are sold, will constitute the "original issue premium." Under certain circumstances, as a result of the tax cost reduction requirements of the Code relating to the amortization of bond premium, the owner of a Premium Bond may realize a taxable gain upon its disposition even though the Premium Bond is sold or redeemed for an amount not greater than the owner's original acquisition cost.

Owners of Discount Bonds or Premium Bonds should consult their personal tax advisors with respect to the determination for federal income tax purposes of the amount of original issue discount or interest properly accruable with respect to such Discount Bonds or Premium Bonds, other tax consequences of owning Discount Bonds or Premium Bonds, and with respect to the State of Tennessee and local tax consequences of holding such Discount Bonds or Premium Bonds.

State Taxes

Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on interest on the Bonds during the period the Bonds are held or beneficially owned by any organization or entity, or other than a sole proprietorship or general partnership doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee.

FINANCIAL ADVISOR

Stephens Inc., Nashville, Tennessee, has been contracted by Montgomery County, Tennessee to perform professional services in the capacity of financial advisor. Stephens Inc. received written permission from the County to submit a bid on the Bonds.

UNDERWRITING

Citigroup Global Markets Inc., New York, New York (the "Underwriter"), acting for and on behalf of itself and such other securities dealers as it may designate, will purchase the Bonds for an aggregate purchase price of $65,379,707.15, which is par, plus a bid premium of $1,434,707.15.

The reoffering price of the Bonds resulted in a net reoffering premium of $1,763,384.45 of which the Underwriter has retained $328,677.30 as underwriter's compensation, of which $195,000.00 will be used to purchase municipal bond insurance on the Bonds.

The Underwriter may offer and sell the Bonds to certain dealers (including dealer banks and dealers depositing the Bonds into investment trusts) and others at prices different from the public offering prices stated on the cover page of this Official Statement. Such initial public offering prices may be changed from time to time by the Underwriter.

MISCELLANEOUS

The foregoing summaries do not purport to be complete and are expressly made subject to the exact provisions of the complete documents. For details of all terms and conditions, purchasers are referred to the Resolution, copies of which may be obtained from the County.

Any statement made in this Official Statement involving matters of opinion and estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement was duly authorized by the County.

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CERTIFICATE OF COUNTY MAYOR

I, Douglas Weiland, do hereby certify that I am the duly qualified and acting County Mayor of Montgomery County, Tennessee, and as such official, I do hereby further certify with respect to the Official Statement dated August 1, 2006, issued in connection with the sale of the $63,945,000 General Obligation School and Refunding Bonds, Series 2006 and to the best of my knowledge, information, and belief (a) the descriptions and statements contained in said Official Statement were at the time of the acceptance of the winning bid true and correct in all material respects; and (b) that said Official Statement did not at the time of the acceptance of the winning bid and does not on the date hereof contain an untrue statement of a material fact or omit to state a material fact required to be stated where necessary to make the statements made, in light of the circumstances under which they are made, not misleading.

WITNESS my official signature this 1st day of August, 2006.

/s/ Douglas Weiland
County Mayor

I, Wilma K. Drye, do hereby certify that I am the duly qualified and acting County Clerk of Montgomery County, Tennessee, and as such official, I do hereby certify that Douglas Weiland is the duly qualified and acting County Mayor of said County and that the signature appended to the foregoing certificate is the true and genuine signature of such official.

WITNESS my official signature and the seal of said Montgomery County, Tennessee as of the date subscribed to the foregoing certificate.

/s/ Wilma K. Drye
County Clerk

(SEAL)

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<u>APPENDIX A</u>

Form of Legal Opinion of Bass, Berry & Sims PLC, Attorneys, Nashville, Tennessee relating to the Bonds.

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(Form of Opinion of Bond Counsel Relating to the Bonds)

BASS, BERRY & SIMS PLC
315 DEADERICK STREET
NASHVILLE, TENNESSEE 37238-0002

(Closing Date)

We have acted as bond counsel in connection with the issuance by Montgomery County, Tennessee (the "Issuer") of $63,945,000 General Obligation School and Refunding Bonds, Series 2006, dated August 11, 2006 (the "Bonds"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify such facts by independent investigation.

Based on our examination, we are of the opinion, as of the date hereof, as follows:

1. The Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and constitute valid and binding obligations of the Issuer.

2. The resolutions of the Board of County Commissioners of the Issuer authorizing the Bonds have been duly and lawfully adopted, are in full force and effect and are valid and binding agreements of the Issuer enforceable in accordance with their terms.

3. The Bonds constitute general obligations of the Issuer for the payment of which the Issuer has validly and irrevocably pledged its full faith and credit. The principal of and interest on the Bonds are payable from unlimited ad valorem taxes to be levied on all taxable property within the Issuer.

4. Interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for purposes of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The Issuer has covenanted to comply with all such requirements. Except as set forth in this Paragraph 4, we express no opinion regarding other federal tax consequences arising with respect to the Bonds.

5. Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on all or a portion of the interest on any of the Bonds during the period such Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership doing business in the State of Tennessee.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds and the resolutions authorizing the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

This opinion is given as of the date hereof, and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Yours truly,

Bass, Berry & Sims PLC

APPENDIX B

Demographic and General Financial Information
Related to the County

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GENERAL INFORMATION

Montgomery County (the “County”) is located in the north central part of Tennessee approximately 45 miles northwest of Nashville, the State Capitol and comprises an area of approximately 543 square miles. The County is within 250 miles of the population center of the United States. It is the eighth largest county in the state and a regional hub for seven counties in Tennessee and Kentucky for jobs, higher education, health care, retail trade, and service establishments.

The City of Clarksville is the county seat and the only incorporated city in the County with a population of 108,972 based on the 2004 estimated U.S. Census. The City of Clarksville is the fifth largest city in the state and the major city in the Metropolitan Statistical Area (the "MSA") of Clarksville-Hopkinsville, TN-KY, which is one of the seven MSAs in the state.

The Clarksville-Hopkinsville, TN-KY MSA adjoins the Nashville MSA, which includes eight counties in central Tennessee. All of the Tennessee counties in this area make up the Greater Nashville Regional Council (the "Region") which was organized by the Tennessee State Legislature over 30 years ago for regional planning and economic development. Included in the 13 counties are 53 cities. The Council coordinates the regional effort to solve problems pertaining to transportation, water and wastewater facilities, solid waste management, air and water quality, area growth forecasts and growth impact analysis, overall economic development and planning for the infrastructure of the region. The synergism of economic development, commercial trade and employment in the region is promoted by the state highway and federal interstate highway system along with the state capitol being located in the region. Within an hour, individuals can travel to most any major employer in the region.

DEMOGRAPHIC DATA

Population

Montgomery County's location in the central area of the state has promoted its population growth and economic expansion. According to the 2005 U. S. Census estimate, the County is the eighth largest county in the state with a population of 147,202 reflecting a 46.5 percent increase since the 1990 census.

	County		Tennessee	
	Number	**% Change (1)**	**Number**	**% Change (1)**
1970 U. S. Census	62,721		3,926,018	
1980 U. S. Census	83,342	32.9%	4,591,023	16.9%
1990 U. S. Census	100,498	20.6%	4,877,203	6.2%
2000 U. S. Census	134,768	34.1%	5,689,283	16.7%
2001 U. S. Census Estimate	135,607	35.0%	5,746,831	17.9%
2002 U. S. Census Estimate	136,809	36.2%	5,790,312	18.8%
2003 U. S. Census Estimate	139,259	38.7%	5,841,585	19.8%
2004 U. S. Census Estimate	141,806	41.5%	5,893,298	21.0%
2005 U. S. Census Estimate	147,202	41.5%	5,962,959	21.0%

Source: U.S. Bureau of Census

Income and Housing

In 2004, the County had a per capita personal income of $28,921, which was 96.9 percent of the State average of $29,844.

	County	Tennessee	Percent of State
Per Capita Income, 1990	$14,761	$16,692	88.6%
Per Capita Income, 1999	$22,413	$24,898	90.0%
Per Capita Income, 2000	$23,992	$26,097	91.9%
Per Capita Income, 2001	$24,906	$26,870	92.7%
Per Capita Income, 2002	$26,074	$27,490	94.9%
Per Capita Income, 2003	$27,481	$28,440	96.6%
Per Capita Income, 2004	$28,921	$29,844	96.9%

Source: U.S. Department of Commerce, Bureau of Economic Analysis

Median Household Income 1989 (1)	$25,568
Median Household Income, 1999 (2)	$38,981
Median Family Housing Value, 2001 (3)	$89,950
Total Residential Parcels, 2005 (4)	49,804

Source: (1) Tennessee Statistical Abstract 2000 based on U.S. Census Bureau Information
Source: (2) U.S. Census Bureau estimate
Source: (3) State of Tennessee Department of Economic and Community Development
Source: (4) State of Tennessee Board of Equalization

ECONOMIC DATA

Economic Base

The economic base and the quality of life in Montgomery County is reflected in the various awards and rankings received by the County and the City of Clarksville. It was ranked as the as the *Top Five Up & Coming City for Attracting Creative Class Jobs (under 250,000 population)* - Money Magazine June 2004, *4th Best Place for Affordable Living* - Business Development Outlook February 2005, *Top Mid-Size Market Downtown,* Southern Business & Development, Fall, 2002; *21st Most Cost-Effective Labor Growth Market*, Expansion Management July, 2001; *3rd Fastest Growing City in Tennessee During the 90's (Behind Nashville and Memphis)* U.S. Census April 2001.

Major Employers

During a three-year period from 2001 to 2004, the County experienced a job creation rate of 5.5%. This occurred in the real estate sector, which grew 22% followed by the Services sector, 126%; and retail/wholesale trade, 28%. (Source: Tennessee Bureau of Economic Analysis). The growth in the above areas as well as increased employment opportunities in the Region has expanded employment. A diversified employment base of military, industries, state and local governments, health care, higher education and retail trade supports the economic base of the County. Based on May 2006 statistics provided by the Tennessee Department of Employment Security, the County has a resident labor force of 65,570**,** which does not include military personnel (soldiers).

Fort Campbell Military Base located on the Tennessee - Kentucky line with about 60% of the base being in Tennessee is the largest employer in the area with approximately 4,000 civilians. There are no readily available statistics indicating the number of employees working in the County or in Stewart County in Tennessee or Christian and Trigg County in Kentucky. Also, there is no breakdown of employee's residence. From discussions with various parties in the County as well as individuals located on the Base, a large number of the employees reside in Montgomery County; however, the number of civilian employees would be less than 10% of the County's total labor force and, most likely, less than 10% of the County's total employment.

Military personnel are not included in employment statistics as reported by the Tennessee Department of Employment Security and are not included in the County's Major Employers list because a significant portion of the personnel are located in other counties included in the Base's operation.

The military and civilian personnel at Fort Campbell provide a direct and indirect benefit to the County and the Region; however, during recent years, the employment in the County and Region have continually grown and diversified to the extent that the following list of major employers provide over 20,000 diversified jobs in the County.

County Major Employers

Employer		Number of Employees	Products /Services
Fort Campbell Military Base*			Major Defense Installation
Department of Army Civilians - GS grade	1,977		Civilians employed by U.S. Army
Post Exchange	553		Retail Store for Active & Retired Military Personnel
Base School System for K - 12 Grades	729		Education for Children Living on the Base
Welfare and Recreation	852		Programs for Military Personnel & Families
Total Civilian Staff		4,111	Military Support Staff
Montgomery County School System	3,441		Education and Schools
Montgomery General Government	863		County Services
Montgomery County Government		4,304	
Convergys Corp.		1,400	Telemarketing Call Center
Trane Company		1,400	Air Condition & Heating Equipment
Gateway Health System (Hospital)		1,155	Medical Services
Quebecor Printing		1,000	Magazine Printing
City of Clarksville		989	Municipal Services
Austin Peay State University		732	Higher Education
Josten's Printing & Publication		600	Yearbook Printing
Bosch Braking Systems		500	Anti-lock Brakes
State of Tennessee		482	State Government Services
Leticia Corp. (Maui Cup)		425	Paper Cups
DPL, Inc. (StarTek, Inc.)		400	Computer Software & Hardware
WalMart Super Center		379	Retail Store
Bridgestone Metalpha USA Inc.		355	Metal Cord
Carreca Enterprises (Pizza Hut)		354	Restaurants
Premier Medical Group		350	Health Care

Hendrickson Trailer Suspension System	320	Tractor Trailer Air-Ride Suspension Sys.
Precision Printing & Packaging	302	Metalized Paper Labels
Larson Enterprises (McDonalds)	293	Restaurants
Florim USA	287	Ceramic & Porcelain Tile Manufacturing
Zinifex Limited (Pasminco)	242	Zinc, Sulfuric Acid, Cadmium
Cumberland Electric Co-op	215	Electricity Supplier
Progressive Directions, Inc.	215	Health Care

* Not all of the employees at Fort Campbell live in Montgomery County.

Source: Clarksville-Montgomery County Economic Development Council, State of Tennessee and individual companies.

Employment Base

Employment in the County increased by 2.8 percent from 2001 to 2004. The largest employment industries in 2004 were Services with 35 percent; Trade (Wholesale and Retail) with 17 percent; Government and Government Enterprises with 15 percent; and Manufacturing with 10 percent.

Labor Force, Employment and Unemployment Data

The labor force within the County has increased from 40,340 to 65,570 reflecting 62.5 percent increase since 1990. The unemployment rate in the County has decreased from 5.7 to 4.5 percent in the same time frame. The County's current unemployment of 4.5 percent is compared to a State average of 5.0 percent and a United States average of 4.4 percent.

Year	Total Labor Force	Unemployment	Employment	Unemployment County	State	U.S.
1990	40,340	2,280	38,060	5.7%	5.3%	5.6%
2000	59,200	1,840	57,360	3.1%	3.9%	4.0%
2001	60,220	2,240	57,980	3.7%	4.5%	4.8%
2002	64,160	3,050	61,110	4.8%	5.1%	5.8%
2003	63,320	3,000	60,320	4.7%	5.8%	6.0%
2004	62,530	3,100	59,430	5.0%	5.4%	5.5%
2005	64,480	3,230	61,250	5.0%	5.6%	5.1%
2006(1)	65,570	2,950	62,620	4.5%	5.0%	5.2%

(1) 2006 numbers are only for the month of May.

Source: Tennessee Department of Labor and Workforce Development, Employment Security Division

Transportation System

The highway system in the County includes Interstate 24 from Atlanta and Nashville to Interstate 75 leading to St. Louis and Chicago. Other highways in the County include U.S. Highways 79 and 41A and State Highways 12, 13, 48, 76, 149, 374, 112, 236, and 237.

Originally, SR 840 was planned to complete the connection through five counties through the north but that portion of the project has been placed on indefinite hold. The southern portion of the loop around Nashville is under construction with some portions completed, which will connect at Interstate 40 in Wilson County and west of Nashville to Interstate 40 in Dickson and provide additional access to Interstate 24, Interstate 40 and Interstate 65.

The highway system provides for one-day delivery to 76% of major U.S. markets. In addition to the highway system, the R.J. Corman Railroad runs from Clarksville to CSX Transportation mainline in Guthrie, Kentucky approximately 20 miles north.

The transportation system includes the Cumberland River, a navigable waterway, which runs from east of Nashville to the Tennessee River, which connects to the Ohio River and Mississippi River.

Air transportation includes Outlaw Field overseen by the Clarksville/Montgomery County Airport Authority with runways of 6,000 and 4,000 feet to accommodate more than 40,000 private and corporate flights. The Nashville International Airport located approximately 45 miles southeast in Nashville, Tennessee provides commercial service on fifteen airlines operating to 79 markets with 404 daily flights.

Aspire Clarksville, 2001 - 2004

The Clarksville-Montgomery County Economic Development Council created "Aspire 2000" in 1996 and raised $1.6 million for economic and community development over the next four years. New jobs amounting to over 5,200 with a payroll of $120 million have been created since 1996. Area leaders have developed a focused economic development effort to recruit new businesses and work closely with existing businesses to meet current and future expansion needs. A new four-year marketing program started in 2001, "Aspire Clarksville", set a goal of $2 million that was to take place over the next four years. This goal was reached in 2001.

Fort Campbell Military Base

A key factor in the growth in Montgomery County is the Fort Campbell Military Base (the "Base"). The construction and development of the Base began July 16, 1941 to accommodate an armored division and various support troops for a total of approximately 26,000 military personnel. The site includes approximately 105,000 acres located in Tennessee and Kentucky in four counties --- Montgomery and Stewart in Tennessee and Christian and Trigg in Kentucky. Approximately two-thirds of the installation is located in Tennessee.

The Base is home to the 101st Airborne Division (Air Assault Division), the 160th Special Operations Aviation Regiment, 101st Corps Support Group and the 5th Special Forces Group. It is one of the most powerful and prestigious divisions, having made a name for itself during World War II as the "Screaming Eagles." In 1968, the 101st took on the structure and equipment of an air mobile division. Today, the highly trained soldiers of the 101st are the world's only air assault division with unequaled strategic and tactical mobility. The 101st participates in combat missions at home and abroad with some of the most recent being in Iraq during "Desert Storm", Afghanistan in "Operation Enduring Freedom", and Iraq in "Operation Iraqi Freedom". Some of the peacekeeping and humanitarian missions include Rwanda, Haiti, Sinai Peninsula, Panama, Bosnia, Kosovo, 2000 forest fires in Western U.S., South American 1999 Flood Relief, the Smoky Mountains, and hurricane ravaged Louisiana and Florida.

The Department of Defense classifies the 101st as one of four "Power Projection Platforms" with soldiers trained and equipped with the latest technology for "rapid deployment" anywhere in the world from 18 to 48 hours.

Over 26,000 soldiers and 58,000 family members call Fort Campbell home. Some 4,000 civilians also work at the Base, making it one of the largest employers in the State of Tennessee. The 105,068 acre installation includes 49 ranges and four major drop zones. Fort Campbell is a city within itself, having five elementary schools, two middle schools, and one high school with a total enrollment of 4,364 students. The Base also has a bowling alley, PX Mall, horseback riding, commissary, pools and a library.

Blanchfield Army Community Hospital is a 185 bed facility and provides health care for the soldiers, eligible retirees and their family members at the Base. The Base is also a training site for approximately 14,000 reserve components.

The economic impact for the four county area includes a payroll of over $1.8 billion. In addition to the financial impact, military retirees make Montgomery County and adjoining counties home. The estimated number of retirees, widows and widowers in the area is 50,000 with total family members amounting to 74,000 for a total of military related individuals at 124,000.

The Base is constantly upgrading its infrastructure and military capability with no anticipated change in its status in the near future. According to military sources, there are no projections for the Base to be on the BRAC (Defense Base Closure and Realignment Commission) list.

Health Care Services

Clarksville is quickly becoming a regional medical hub for the area. The Gateway Health System operates as a private, not-for-profit, 216-bed hospital under the direction of an independent board of directors. Gateway Health System encompasses Gateway Medical Center, Gateway Home Care, and Gateway Health Foundation. Approximately 200 physicians provide services in the hospital, with over 1,100 other personnel employed in the hospital.

Other health care facilities include the following:

1	Clinic with 46 beds
7	Nursing Homes with 578 beds
3	Assisted Living Homes
59	Dentists
184	Physicians and Surgeons representing 37 medical specialties

Retail Trade

The area contains 17 shopping centers, downtown shopping, a regional shopping mall, and numerous specialty shops. Clarksville is home to several outlet stores, flea markets and antiques shops/malls. An open-air farmers market offers fresh fruit and produce.

From 1990 to 2005, sales subject to state sales tax have increased from $561 million to over $1.654 billion reflecting a percentage increase of 195%.

Tourism, Restaurants and Lodging

As all other economic areas in the County have flourished, the tourism, restaurants and lodging business have expanded in sales and number of establishments. There are 35 hotels/motels and bed & breakfast facilities with more than 2,100 rooms in the County and more than 250 restaurants. More than 20 major attractions are available in the area.

The Kentucky Lake on the Tennessee River, Lake Barkley on the Cumberland River and the Land Between the Lakes form the most complete water related recreational area in the Tennessee Valley and are within a one-hour drive of the County. Fishing, boating, lodging and lake homes on the nearby lakes provide tourists with diversified attractions. The Parks and Recreation Department offers more than 18 parks, three community centers, and seven community pools.

Annual events include the Old-Time Fiddlers Championship, Mid South Jazz Festival, Oktoberfest, North Tennessee State Fair, Clarksville Rodeo, Tennessee Walking Horse Show, and Riverfest.

Higher Education

Montgomery County is home to one university, two colleges, a technology center and two vocational facilities offering a variety of four-year and two-year programs. These institutions include Austin Peay State University, Tennessee Technology Center, Draughon's Jr. College, Miller Motte Business College, North Central Institute, Tennessee Vocational Training Center, Bethel College and Nashville State Technical Institute.

Austin Peay State University is the primary institution of higher education in the County. It was founded in 1927 and has a current enrollment of over 7,600. The main campus is located on 200 acres with an additional site of 475 acres operated as an environmental education center. The University offers a diversified higher educational program offering 40 majors with more than 70 different areas of concentration and four Chairs of Excellence in the areas of creative arts, free enterprise, business and nursing and two Centers of Excellence in the areas of biology and the creative arts. The University has added a Business and Community Solution Center, which combines the efforts of the University and the Clarksville-Montgomery County Economic Development Council to provide a resource for business and economic development for the County.

Tennessee Technology Center is an occupational and technical training facility governed by the State Board of Regents and managed by the Dickson State Area Vocational-Technical Center.

Draughon's Jr. College offers one-year diplomas or two-year Associate degrees in Accounting, Business Management, Computer Information Technology, Health Information Technology, Pharmacy Technology, Criminal Justice, Legal Assisting, Medical Assisting, Radio Broadcasting, and Retail Management.

Miller-Motte Business College offers nine to eighteen month diplomas in Microcomputer Applications, Microcomputer Network Engineering, Electrician Technology, and Secretarial Science. Two-year Associate of Applied Science degrees are also available in Accounting Technology, Business Management, Computer-Aided Drafting, Medical Assisting, Microcomputer Applications, Office Administration, and Paralegal Technology.

North Central Institute is a non-denominational, privately owned, co-educational school of aviation and real estate, which operates by the authorization of the Tennessee Higher Education Commission.

Private Schools

There are twelve private schools in the County offering an educational program for grades pre-kindergarten through 12. The enrollment in these schools exceeds 1,000.

Public Education

One of the County's major assets is the education network of public and private elementary and secondary education and the higher education institutions. The Clarksville/Montgomery County School System provides the public education program in the County. All schools in the County are accredited by the Southern Association of Schools and Colleges and provide a diversified educational program within the state guidelines. The School System has been recognized in the top 10% of the nation's schools in meeting parents' goals. The grade structure, number of schools and enrollment are presented below.

Montgomery County Schools

Grade	Enrollment 2004-2005
K - 5	12,069
6-8	5,929
9-12	7,176
Special Education	593
Total	25,767

School Year	Enrollment
1990-1991	16,500
2000-2001	24,141
2001-2002	24,310
2002-2003	24,589
2003-2004	24,951
2004-2005	25,767

Source: State of Tennessee Department of Education

GREATER NASHVILLE REGION

Population for Region

The population of the Region is 25.4 percent of the state total population based on the 2005 U.S. Census estimate. The County's population in 2005 represents 9.6 percent of the Region's total population of 1,500,246. This is an increase from 8.9 percent in 1990 to 9.6 percent in 2005. The growth of the County was 46.5 percent from 1990 to 2005, which was more than the state's growth of 21 percent. The County is the fourth largest in the Region after Davidson, Rutherford, and Williamson Counties.

County	1990	2005	Growth Percent	Percent of Region
Cheatham	27,140	38,603	42.2%	2.5%
Davidson	510,786	575,261	12.6%	37.6%
Dickson	35,061	45,894	30.9%	3.0%
Houston	7,018	7,988	13.8%	0.5%
Humphreys	15,813	18,212	15.2%	1.2%
Montgomery	**100,498**	**147,202**	**46.5%**	**9.6%**
Robertson	41,494	60,379	45.5%	3.9%
Rutherford	118,570	218,292	84.1%	14.3%
Stewart	9,479	12,969	36.8%	0.8%
Sumner	103,281	145,009	40.4%	9.5%
Trousdale	5,920	7,677	29.7%	0.5%
Williamson	81,021	153,595	89.6%	10.0%
Wilson	67,675	100,508	48.5%	6.6%
Total for Region	1,123,756	1,531,589	36.3%	100.0%
State of Tennessee	4,877,203	5,962,959	22.3%	
Region % of State	23.04%	25.69%		

Source: U.S. Bureau of the Census

Labor Force, Employment and Unemployment Data for Region

For the month of May 2006, the County employees represent 8.1 percent of the Region's total available labor force and an unemployment rate of 4.5%. The Region employs 27.8% of the state labor force and has an unemployment rate of 4.1 % while the State has a rate of 4.9% as presented in the table below.

County	Labor Force	Employment Number	Employment % of Region	Unemployment Number	Unemployment Rate
Cheatham	20,480	19,960	2.6%	820	4.0%
Davidson	313,580	300,390	38.8%	13,190	4.2%
Dickson	23,270	22,290	2.9%	980	4.2%
Houston	3,800	3,520	0.5%	280	7.4%
Humphreys	8,940	8,400	1.1%	540	6.0%
Montgomery	**65,570**	**62,620**	**8.1%**	**2,950**	**4.5%**
Robertson	32,220	30,810	4.0%	1,420	4.4%
Rutherford	118,140	113,680	14.7%	4,460	3.8%
Stewart	6,130	5,610	0.7%	520	8.5%
Sumner	76,580	73,470	9.5%	3,110	4.1%
Trousdale	3,730	3,500	0.5%	230	6.2%
Williamson	80,620	78,090	10.1%	2,520	3.1%
Wilson	55,000	52,760	6.8%	2,250	4.1%
Total for Region	808,060	775,100	100.0%	33,270	4.1%
State of Tennessee	2,910,400	2,768,800		141,600	4.9%
Region % of State	27.8%	28.0%			

Source: Tennessee Department of Employment Security for May 2006.

GOVERNMENTAL STRUCTURE

County Government

The County government operates under the general laws and uniform structure for counties in Tennessee with a County Mayor, Highway Superintendent, Superintendent of Education, various county officials and a 21 member county legislative body. The County operates under the 1957 centralized accounting and budgeting for all departments except the Department of Education, which has its own business office.

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GENERAL FINANCIAL INFORMATION

SUMMARY OF OUTSTANDING DEBT [1]

Amount Issued	Issue	Date Issued	Maturity Date	Interest Rate	Principal Outstanding 06/30/06
	Bonds				
$250,000	Solid Waste FHA Bonds	12/1/75	1/1/07	4.012%	$16,000
14,864,029	GO Refunding Bonds, Series 1998	8/1/98	5/1/08	4.00% - 5.25%	3,085,000
68,725,000	GO Public Improvement & Ref. Bonds, Series 2001	12/1/01	5/1/21	4.00% - 5.50%	22,070,000
25,000,000	GO Public Improvement Bonds, Series 2003	6/1/03	6/1/23	2.00% - 5.00%	24,700,000
81,640,000	GO Refunding Bonds, Series 2003	6/1/03	6/1/15	3.00% - 4.75%	65,190,000
43,240,000	GO Refunding Bonds, Series 2004	3/15/04	3/15/20	2.00% - 5.00%	43,150,000
22,000,000	GO Public Improvement Bonds, Series 2004	11/1/04	4/1/25	2.10% - 5.00%	21,900,000
40,000,000	GO School and Public Improvement Bonds, Series 2005	12/1/05	4/1/26	4.00% - 5.00%	40,000,000
2,470,731	Qualified Zone Academy (School) Bonds		2016	0.00%	1,764,808
	Sub-Total				$221,875,808
	Variable Rate Loan Agreements				
$83,845,000	Loan Agreements, Series 1996	11/8/96	5/25/19	Variable Rate	$24,595,000 [1]
	Sub-Total				$24,595,000
	Notes				
$825,000	Library Equipment Notes	7/3/96	7/3/08	5.21%	$206,250
5,585,000	Refunding Capital Outlay Notes-Courts Center	3/15/04	5/1/11	4.00% - 5.00%	5,585,000
743,500	Various Capital Projects	5/25/04	5/25/07	3.33%	247,833
95,000	Library Roof Replacement	5/25/04	5/25/07	3.33%	31,667
850,034	School Buses	5/25/04	5/25/07	3.33%	283,345
1,152,858	Building Improvements and Equipment	6/30/05	6/30/08	3.49%	768,390
150,000	Radio Trunking System	6/30/05	6/30/08	3.49%	100,000
396,333	EPA Asbestos Abatement Note	Various	12/31/06	0.00%	22,158
	Sub-Total				$7,244,643
	Total Outstanding Debt				$253,715,451

Source: Comprehensive Annual Financial Report for Fiscal Year ending June 30, 2005 and County Finance Department.

DEBT STATEMENT

(as of June 30, 2006)

Outstanding Debt	
Total Outstanding Debt	$253,715,451
Less: Refunded Loan Agreements	(24,595,000)
Plus: General Obligation School Refunding Bonds, Series 2006	63,945,000
Gross Direct Debt	$293,065,451
Less: Capital Outlay Notes and Capitalized Leases Paid from School Funds	($22,158)
Less: Debt Service Fund Balance as of June 30, 2006	(17,235,287)
Net Direct Debt	$275,808,006
Net Overlapping Debt (as of June 30, 2006)	
City of Clarksville	$41,951,269
Total Net Overlapping Debt	$41,951,269
Overall Net Debt	$317,759,275

DEBT RECORD

There is no record of a default on bond principal and interest from information available.

[1] Refunded

POPULATION OF THE COUNTY

	County		Tennessee	
	Number	% Change [1]	Number	% Change [1]
1970 U. S. Census	62,721		3,926,018	
1980 U. S. Census	83,342	32.9%	4,591,023	16.9%
1990 U. S. Census	100,498	20.6%	4,877,203	6.2%
2000 U. S. Census	134,768	34.1%	5,689,283	16.7%
2001 U. S. Census Estimate	135,607	34.9%	5,746,831	17.8%
2002 U. S. Census Estimate	136,809	36.1%	5,790,312	18.7%
2003 U. S. Census Estimate	139,259	38.6%	5,841,585	19.8%
2004 U. S. Census Estimate	141,806	41.1%	5,893,298	20.8%
2005 U. S. Census Estimate	147,202	46.5%	5,962,959	22.3%

Source: U.S. Bureau of Census

PER CAPITA PRINCIPAL PAYMENTS [2]

Outstanding Debt	$1,723.59
Gross Direct Debt	1,990.91
Net Direct Debt	1,873.67
Total Net Overlapping Debt	284.99
Overall Net Debt	2,158.66

DEBT RATIOS

	Assessed Value	Estimated Actual Value
Outstanding Debt to	11.09%	3.21%
Gross Direct Debt to	12.81%	3.71%
Net Direct Debt to	12.06%	3.49%
Total Net Overlapping Debt to	1.83%	0.53%
Overall Net Debt to	13.89%	4.03%

DEBT TREND

Form of Debt	06/30/05	06/30/04	06/30/03	06/30/02	06/30/01
Bonded Debt	$190,662,289	$176,904,770	$183,082,030	$80,557,955	$22,779,029
Loan Agreements	24,595,000	24,595,000	25,710,791	118,030,000	117,933,447
Notes Payable	9,433,457	10,720,569	11,473,887	18,377,091	15,237,859
Capitalized Leases	295,997	185,748	300,905	410,138	598,452
Gross Direct Debt	$224,986,743	$212,406,087	$220,567,613	$217,375,184	$156,548,787
Less: Self Supported Debt	($140,808)	($582,975)	($1,020,370)	($1,619,912)	($1,325,806)
Less: Debt Serv. Fund Bal.	(19,398,846)	(20,201,039)	(23,230,858)	(27,539,101)	(24,950,298)
Net Direct Debt	$205,447,089	$191,622,073	$196,316,385	$188,216,171	$130,272,683

Source: Comprehensive Annual Financial Reports as prepared and presented by The Division of County Audit for the fiscal years ending June 30, 2001-2005.

[1] The percentage of change is determined by using the previous Decenial Census as the base year.

[2] The per capita principal payments are calculated using data from the Debt Statement and the most recent U.S. Census.

DEBT SERVICE REQUIREMENTS

(as of June 30, 2006)

		Principal Requirements							Interest Requirements						
Year No.	Year Ended June 30	Total Outstanding Bonds and QZAB Bonds	Total Outstanding Loans Agreements	Total Outstanding Notes	Less Refunded Loans	Plus 2006 School and Refunding Bonds	Total Principal Requirements	Percent Principal Retired	Total Outstanding Bonds	Total Outstanding Loan [2]	Total Outstanding Notes	Less Refunded Loan	Plus 2006 School and Refunding Bonds	Total Interest Requirements	Total Debt Service Requirements
	2007	$9,547,481		$2,140,790			$11,688,271		$10,170,148	$1,326,760	$315,819	($1,326,760)	$1,864,022	$12,349,989	$24,038,259
1	2008	9,921,481		1,562,945		$1,450,000	12,934,426		9,772,781	1,326,760	235,426	(1,326,760)	2,917,600	12,925,808	25,860,234
2	2009	9,476,481		1,168,750		1,500,000	12,145,231		9,360,769	1,326,760	174,291	(1,326,760)	2,855,975	12,391,035	24,536,266
3	2010	10,026,481		1,150,000		1,550,000	12,726,481		8,988,969	1,326,760	117,500	(1,326,760)	2,795,975	11,902,444	24,628,925
4	2011	10,716,481		1,200,000		1,625,000	13,541,481		8,556,219	1,326,760	60,000	(1,326,760)	2,733,975	11,350,194	24,891,675
5	2012	12,426,481				1,700,000	14,126,481	26.33%	8,084,419	1,326,760		(1,326,760)	2,664,913	10,749,331	24,875,812
6	2013	13,526,481				2,335,000	15,861,481		7,516,169	1,326,760		(1,326,760)	2,592,663	10,108,831	25,970,312
7	2014	14,511,481				2,330,000	16,841,481		6,887,919	1,326,760		(1,326,760)	2,499,263	9,387,181	26,228,662
8	2015	15,496,481				2,330,000	17,826,481		6,211,494	1,326,760		(1,326,760)	2,406,063	8,617,556	26,444,037
9	2016	9,636,479	$5,665,000		($5,665,000)	8,000,000	17,636,479		5,485,644	1,326,760		(1,326,760)	2,312,863	7,798,506	25,434,985
10	2017	10,420,000	5,975,000		(5,975,000)	8,300,000	18,720,000	55.98%	5,061,844	1,013,765		(1,013,765)	1,912,863	6,974,706	25,694,706
11	2018	11,385,000	6,305,000		(6,305,000)	8,225,000	19,610,000		4,589,806	683,627		(683,627)	1,497,863	6,087,669	25,697,669
12	2019	11,955,000	6,650,000		(6,650,000)	8,290,000	20,245,000		4,072,450	335,271		(335,271)	1,086,613	5,159,063	25,404,063
13	2020	17,330,000				2,330,000	19,660,000		3,498,138				713,563	4,211,700	23,871,700
14	2021	17,650,000				2,330,000	19,980,000		2,647,563				614,538	3,262,100	23,242,100
15	2022	8,650,000				2,330,000	10,980,000	86.86%	1,780,688				515,513	2,296,200	13,276,200
16	2023	8,650,000				2,330,000	10,980,000		1,356,938				416,488	1,773,425	12,753,425
17	2024	7,750,000				2,330,000	10,080,000		944,563				314,550	1,259,113	11,339,113
18	2025	7,750,000				2,330,000	10,080,000		569,688				209,700	779,388	10,859,388
19	2026	5,050,000				2,330,000	7,380,000	100.00%	227,250				104,850	332,100	7,712,100
		$221,875,808	$24,595,000	$7,222,485	($24,595,000)	$63,945,000	$293,043,293		$105,783,454	$15,300,263	$903,036	($15,300,263)	$33,029,847	$139,716,337	$432,759,630

[1] A Capital Outlay Note with a final maturity of 12/31/06 amounting to $22,158 as of June 30, 2006 payable from general purpose school fund operating revenues is not included on this Schedule.

[2] Variable rate loan estimated at 5.5%.

REAL PROPERTY ASSESSMENT, TAX LEVY AND COLLECTION PROCEDURES

State Taxation of Property; Classifications of Taxable Property; Assessment Rates

Under the Constitution and laws of the State of Tennessee, all real and personal property is subject to taxation, except to the extent that the General Assembly of the State of Tennessee (the "*General Assembly*") exempts certain constitutionally permitted categories of property from taxation. Property exempt from taxation includes federal, state and local government property, property of housing authorities, certain low cost housing for elderly persons, property owned and used exclusively for certain religious, charitable, scientific and educational purposes and certain other property as provided under Tennessee law.

Under the Constitution and laws of the State of Tennessee, property is classified into three separate classes for purposes of taxation: Real Property; Tangible Personal Property; and Intangible Personal Property. Real Property includes lands, structures, improvements, machinery and equipment affixed to realty and related rights and interests. Real Property is required constitutionally to be classified into four sub classifications and assessed at the rates as follows:

(a) Public Utility Property (which includes all property of every kind used or held for use in the operation of a public utility, such as railroad companies, certain telephone companies, freight and private car companies, street car companies, power companies, express companies and other public utility companies), to be assessed at 55% of its value;

(b)Industrial and Commercial Property (which includes all property of every kind used or held for use for any commercial, mining, industrial, manufacturing, business or similar purpose), to be assessed at 40% of its value;

(c)Residential Property (which includes all property which is used or held for use for dwelling purposes and contains no more than one rental unit), to be assessed at 25% of its value; and

(d)Farm Property (which includes all real property used or held for use in agriculture), to be assessed at 25% of its value.

Tangible Personal Property includes personal property such as goods, chattels and other articles of value, which are capable of manual or physical possession and certain machinery and equipment. Tangible Personal Property is required constitutionally to be classified into three sub classifications and assessed at the rates as follows:

(a)Public Utility Property, to be assessed at 55% of its value;

(b)Industrial and Commercial Property, to be assessed at 30% of its value; and

(c) All other Tangible Personal Property (including that used in agriculture), to be assessed at 5% of its value, subject to an exemption of $7,500 worth of Tangible Personal Property for personal household goods and furnishings, wearing apparel and other tangible personal property in the hands of a taxpayer.

Intangible Personal Property includes personal property, such as money, any evidence of debt owed to a taxpayer, any evidence of ownership in a corporation or other business organization having multiple owners and all other forms of property, the value of which is expressed in terms of what the property represents rather than its own intrinsic value. The Constitution of the State of Tennessee empowers the General Assembly to classify Intangible Personal Property into sub classifications and to establish a ratio of assessment to value in each class or subclass and to provide fair and equitable methods of apportionment of the value to the State of Tennessee for purposes of taxation.

The Constitution of the State of Tennessee requires that the ratio of assessment to value of property in each class or subclass be equal and uniform throughout the State of Tennessee and that the General Assembly direct the method to ascertain the value and definition of property in each class or subclass. Each respective taxing authority is constitutionally required to apply the same tax rate to all property within its jurisdiction.

County Taxation of Property

The Constitution of the State of Tennessee empowers the General Assembly to authorize the several counties and incorporated towns in the State of Tennessee to impose taxes for county and municipal purposes in the manner prescribed by law. Under the *Tennessee Code Annotated*, the General Assembly has authorized the counties in Tennessee to levy an *ad valorem* tax on all taxable property within their respective jurisdictions, the amount of which is required to be fixed by the county legislative body of each county based upon tax rates to be established on the first Monday of July of each year or as soon thereafter as practicable.

All property is required to be taxed according to its values upon the principles established in regard to State taxation as described above, including equality and uniformity. All counties, which levy and collect taxes to pay off any bonded indebtedness, are empowered, through the respective county legislative bodies, to place all funds levied and collected into a special fund of the respective counties and to appropriate and use the money for the purpose of discharging any bonded indebtedness of the respective counties.

Assessment of Property

County Assessments; County Board of Equalization. The function of assessment is to assess all property (with certain exceptions) to the person or persons owning or claiming to own such property on January 1 for the year for which the assessment is made. All assessment of real and personal property are required to be made annually and as of January 1 for the year to which the assessment applies. Not later than May 20 of each year, the assessor of property in each county is required to (a) make an assessment of all property in the county and (b) note upon the assessor's records the current classification and assessed value of all taxable property within the assessor's jurisdiction.

The assessment records are open to public inspection at the assessor's office during normal business hours. The assessor is required to notify each taxpayer of any change in the classification or assessed value of the taxpayer's property and to cause a notice to be published in a newspaper of general circulation stating where and when such records may be inspected and describing certain information concerning the convening of the county board of equalization. The notice to taxpayers and such published notice are required to be provided and published at least 10 days before the local board of equalization begins its annual session.

The county board of equalization is required (among other things) to carefully examine, compare and equalize the county assessments; assure that all taxable properties are included on the assessments lists and that exempt properties are eliminated from the assessment lists; hear and act upon taxpayer complaints; and correct errors and assure conformity to State law and regulations.

State Assessments of Public Utility Property; State Board of Equalization. The State Comptroller of the Treasury is authorized and directed under Tennessee law to assess for taxation, for State, county and municipal purposes, all public utility properties of every description, tangible and intangible, within the State. Such assessment is required to be made annually as of the same day as other properties are assessed by law (as described above) and takes into account such factors as are prescribed by Tennessee law.

On or before the first Monday in August of each year, the assessments are required to be completed and the State Comptroller of the Treasury is required to send a notice of assessment to each company assessable under Tennessee law. Within ten days after the first Monday in August of each year, any owner or user of property so assessed may file an exception to such assessment together with supporting evidence to the State Comptroller of the Treasury, who may change or affirm the valuation. On or before the first Monday in September of each year, the State Comptroller of the Treasury is required to file with the State Board of Equalization assessments so made. The State Board of Equalization is required to examine such assessments and is authorized to increase or diminish the valuation placed upon any property valued by the State Comptroller of the Treasury.

The State Board of Equalization has jurisdiction over the valuation, classification and assessment of all properties in the State. The State Board of Equalization is authorized to create an assessment appeals commission to hear and act upon taxpayer complaints. The action of the State Board of Equalization is final and conclusive as to all matters passed upon by the Board, subject to judicial review consisting of a new hearing in chancery court.

Periodic Reappraisal and Equalization

Tennessee law requires reappraisal in each county by a continuous six-year cycle comprised of an on-site review of each parcel of real property over a five-year period, or, upon approval of the State Board of Equalization, by a continuous four-year cycle comprised of an one-site review of each parcel of real property over a three-year period, followed by revaluation of all such property in the year following completion of the review period. Alternatively, if approved by the assessor and adopted by a majority vote of the county legislative body, the reappraisal program may be completed by a continuous five-year cycle comprised of an on-site review of each parcel of real property over a four-year period followed by revaluation of all such property in the year following completion of the review period.

After a reappraisal program has been completed and approved by the Director of Property Assessments, the value so determined must be used as the basis of assessments and taxation for property that has been reappraised. The State Board of Equalization is responsible to determine whether or not property within each county of the State has been valued and assessed in accordance with the Constitution and laws of the State of Tennessee.

Valuation for Property Tax Purposes

County Valuation of Property. The value of all property is based upon its sound, intrinsic and immediate value for purposes of sale between a willing seller and a willing buyer without consideration of speculative values. In determining the value of all property of every kind, the assessor is to be guided by, and follow the instructions of, the appropriate assessment manuals issued by the division of property assessments and approved by the State board of equalization. Such assessment manuals are required to take into account various factors that are generally recognized by appraisers as bearing on the sound, intrinsic and immediate economic value of property at the time of assessment.

State Valuation of Public Utility Property. The State Comptroller of the Treasury determines the value of public utility property based upon the appraisal of the property as a whole without geographical or functional division of the whole (*i.e.*, the unit rule of appraisal) and on other factors provided by Tennessee law. In applying the unit rule of appraisal, the State Comptroller of the Treasury is required to determine the State's share of the unit or system value based upon factors that relate to the portion of the system relating to the State of Tennessee.

Certified Tax Rate

Upon a general reappraisal of property as determined by the State Board of Equalization, the county assessor of property is required to (1) certify to the governing bodies of the county and each municipality within the county the total assessed value of taxable property within the jurisdiction of each governing body and (2) furnish to each governing body an estimate of the total assessed value of all new construction and improvements not included on the previous assessment roll and the assessed value of deletions from the previous assessment roll. Exclusive of such new construction, improvements and deletions, each governing body is required to determine and certify a tax rate (herein referred to as the *"Certified Tax Rate"*) which will provide the same *ad valorem* revenue for that jurisdiction as was levied during the previous year. The governing body of a county or municipality may adjust the Certified Tax Rate to reflect extraordinary assessment changes or to recapture excessive adjustments.

Tennessee law provides that no tax rate in excess of the Certified Tax Rate may be levied by the governing body of any county or of any municipality until a resolution or ordinance has been adopted by the governing body after publication of a notice of the governing body's intent to exceed the Certified Tax Rate in a newspaper of general circulation and the holding of a public hearing.

The Tennessee Local Government Public Obligations Act of 1986 provides that a tax sufficient to pay when due the principal of and interest on general obligation bonds (such as the Bonds) shall be levied annually and assessed, collected and paid, in like manner with the other taxes of the local government as described above and shall be in addition to all other taxes authorized or limited by law. Bonds issued pursuant to the Local Government Public Obligations Act of 1986 may be issued without regard to any limit on indebtedness provided by law.

Tax Collection and Tax Lien

Property taxes are payable the first Monday in October of each year. The county trustee of each county acts as the collector of all county property taxes and of all municipal property taxes when the municipality does not collect its own taxes.

The taxes assessed by the State of Tennessee, a county, a municipality, a taxing district or other local governmental entity, upon any property of whatever kind, and all penalties, interest and costs accruing thereon become and remain a first lien on such property from January 1 of the year for which such taxes are assessed. In addition, property taxes are a personal debt of the property owner as of January and, when delinquent, may be collected by suit as any other personal debt. Tennessee law prescribes the procedures to be followed to foreclose tax liens and to pursue legal proceedings against property owners whose property taxes are delinquent.

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PROPERTY VALUATION AND PROPERTY TAX

Fiscal Year / Tax Year	2006-2007 / 2006	2005-2006 / 2005	2004-2005 / 2004	2003-2004 / 2003	2002-2003 / 2002
	Re-Appraisal [1]				
ESTIMATED ACTUAL VALUES					
Residential & Farm	$5,493,355,800	$4,836,197,517	$4,235,244,600	$4,049,422,800	$3,881,113,407
Commercial & Industrial	1,744,099,500	1,536,298,095	1,373,929,500	1,358,438,800	1,266,071,087
Personal Tangible Property	514,147,670	492,838,997	475,342,170	499,168,000	505,022,241
Public Utilities	141,683,317	141,678,810	135,678,627	130,600,611	130,936,540
Total Estimated Actual Values	$7,893,286,287	$7,007,013,419	$6,220,194,897	$6,037,630,211	$5,783,143,275
Annual Percentage Change	12.65%	12.65%	3.02%	4.40%	7.29%
Estimated Per Capita Amount	$53,622	$47,601	$42,256	$42,577	$41,528
ASSESSED VALUES					
Residential & Farm (at 25%)	$1,373,338,950	$1,129,977,550	$1,058,811,150	$1,012,355,700	$873,541,600
Commercial & Industrial (at 40%)	697,639,800	574,329,680	549,571,800	543,375,520	455,937,520
Personal Tangible Property (at 30%)	154,214,451	138,182,198	142,602,651	149,750,400	136,401,457
Public Utilities (at 30%-55%)	61,969,443	57,919,178	59,343,112	57,067,423	51,499,850
Total Assessed Values	$2,287,162,644	$1,900,408,606	$1,810,328,713	$1,762,549,043	$1,517,380,427
Annual Percentage Change	20.35%	4.98%	2.71%	16.16%	3.60%
Estimated Per Capita Amount	$15,538	$12,910	$12,298	$12,429	$10,896
Appraisal Ratio	100.00%	93.46%	100.00%	100.00%	90.03%
Assessed Values to Actual Values	28.98%	27.12%	29.10%	29.19%	26.24%
Property Tax Rate					
General	(2)	$1.11	$1.02	$0.84	$0.84
Highway/Public Works	(2)	0.15	0.14	0.14	0.16
General Purpose School	(2)	1.16	1.12	1.11	1.26
General Debt Service	(2)	0.82	0.82	0.82	1.04
Total Property Tax Rate	(2)	$3.24	$3.10	$2.91	$3.30
Taxes Levied					
Total Taxes Levied	(2)	$61,573,239	$56,120,190	$51,290,177	$50,073,554
Collections					
Current Fiscal Year	In Process	$57,132,953	$53,424,843	$48,095,819	$46,328,378
Percent Collected Current FY	In Process	92.79%	95.20%	93.77%	92.52%
As of 6/30/06:					
Amount Uncollected	In Process	$4,440,286	$393,168	$465,782	$192,573
Percent Collected	In Process	92.79%	99.30%	99.09%	99.62%
Percent Uncollected	In Process	7.21%	0.70%	0.91%	0.38%

[1] Montgomery County conducted a reappraisal of all property in the County for the 2006 Tax Year affecting property taxes in the Fiscal Year 2006-2007. These values reflect this reappraisal program as reported by the County's Assessor of Property.

[2] The property tax rate for FY 2006-07 is scheduled to be set at the August 2006 meeting of the County Commission.

Source: State Board of Equalization Tax Aggregate Reports of Tennessee, Property Assessor's office of Montgomery County, TN, and Comprehensive Annual Financial Reports as prepared and presented by The Division of County Audit for the fiscal years ending June 30, 2001 - 2005.

SELECTED FINANCIAL INFORMATION REGARDING THE COUNTY

General

The County accounts for its financial resources on the basis of funds and account groups, each of which is considered a separate accounting entity. The General Fund is the general operating fund of the County. Other funds include Special Revenue Funds, the General Debt Service Fund, Capital Projects Funds, Internal Service Funds and Trust and Agency Funds. For additional information regarding the component units, see Notes to the General Purpose Financial Statements contained in APPENDIX C hereto.

Revenues received from ad valorem taxes levied on all taxable property within the boundaries of the County securing the payment of principal of and interest on the Obligations are deposited in the Debt Service Funds of the County. Such tax collections for the Obligations will be used exclusively to pay the principal of and interest on the Obligations. Included as APPENDIX C to this Official Statement are the General Purpose Financial Statements and notes thereto for the fiscal year ended June 30, 2005. Potential purchasers should read APPENDIX C in its entirety for more complete information concerning the County's financial position.

The County uses the modified accrual basis of accounting for all Governmental Funds, Expendable Trust Funds and Agency Funds. Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized when the related fund liability is incurred. Funds where expenditures determine the eligibility for grants recognize revenue at the time of the expenditures. Grant proceeds received prior to meeting the aforementioned revenue recognition policy are recorded as deferred revenues. Principal and interest on general long-term debt are recognized as fund liabilities when due or when amounts have been accumulated in the General Debt Service Fund for payments to be made early in the following year.

The primary revenue susceptible to accrual are revenues received from the State of Tennessee. Sales tax collected and held by the State at year end on behalf of the County and its component units are also recognized as revenue.

All Proprietary Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when incurred.

For additional information regarding these funds, see Notes to the Comprehensive Annual Financial Report of the County for the Fiscal Year Ended June 30, 2005 in APPENDIX C hereto.

TOP TAXPAYERS

Business	Type of Business	2005 [1] Assessed Value	Assessed Value as a % of Total Assessment
BellSouth Telecommunications	Telecommunications	$17,977,765	0.79%
Wal-Mart	Retail Shopping	15,281,654	0.67%
Trane Company	Heating & Cooling Equipment	14,491,624	0.63%
Governor's Square	Retail Shopping Mall	14,070,997	0.62%
Florim USA Inc.	Tile Manufacturer	10,288,805	0.45%
Industrial Dev. Board (Bridgestone)	Auto Parts Manufacturer	8,673,627	0.38%
Leticia Corp.	Paper Cup Manufacturer	7,528,676	0.33%
Precision Printing Corp.	Manufacturer	5,970,341	0.26%
New Plan	Apartments	4,965,000	0.22%
Savage Zinc Inc.	Zinc Production	4,310,399	0.19%

[1] Several companies disputed their assessed amount and won, therefore the values were lower than in tax year 2004.

Sources: Montgomery County Trustee and Assessor of Property

FUND BALANCES

	06/30/05	06/30/04	06/30/03	06/30/02	06/30/01
GOVERNMENTAL FUNDS					
General Government Fund	$7,936,161	$7,318,465	$7,743,564	$7,458,412	$16,849,989 [1]
Special Revenue Funds	1,607,718 [4]	50,076	16,501	734,532	533,008
Highway/Public Works	[4]	1,338,908	744,224 [3]		
Education Funds	15,636,154	14,098,350	10,410,413	9,036,849	11,178,028
Debt Service Funds	19,398,846	20,201,039	23,230,858	27,539,101	24,950,298
Capital Project - Gen. Government	19,818,656	11,986,301	30,436,815	39,051,111	4,276,441
Capital Project-Education	217,210	465,335	(2,386,278)	3,674,293	7,475,849
Total Governmental Funds	$64,614,745	$55,458,474	$70,196,097	$87,494,298	$65,263,613 [1]
FIDUCIARY FUNDS					
Trust and Agency				[2]	$149,354
TOTAL ALL FUNDS	$64,614,745	$55,458,474	$70,196,097	$87,494,298	$65,412,967 [1]

[1] The General Government Fund Balance includes $9,250,593 received from insurance company for tornado damage.

[2] Due to auditor adjustments for compliance with GASB 34 the District Attorney Fund which was reported in the Expendable Trust Funds is now reported in the Agency Fund.

[3] Due to auditor adjustments for compliance with GASB 34 the Highway/Public Works Fund changed from a Special Revenue Fund to a Major Fund.

[4] Due to auditor adjustments for compliance with GASB 34 the Highway/Public Works Fund changed from a Major Fund to Special Revenue Fund.

Source: Comprehensive Annual Financial Reports as prepared and presented by The Division of County Audit for the fiscal years ending June 30, 2001 - 2005.

LOCAL SALES TAX

	06/30/05	06/30/04	06/30/03	06/30/02	06/30/01
Rate (Percent of retail sales)	2.50%	2.50%	2.50%	2.50%	2.50%
Distribution					
General Debt Service Fund	$2,542,043	$2,360,088	$2,184,778	$2,084,923	$2,050,675
General Purpose School Fund	27,430,470	25,347,607	23,495,782	22,409,667	22,009,758
Cities Portion	9,828,188	8,724,049	8,203,728	7,794,879	7,577,653
Total Amount Collected	$39,800,701	$36,431,744	$33,884,288	$32,289,469	$31,638,086
% of Increase	9.25%	7.52%	4.94%	2.06%	1.15%

Source: Comprehensive Annual Financial Reports as prepared and presented by The Division of County Audit for the fiscal years ending June 30, 2001 - 2005.

WHEEL TAX

	06/30/05	06/30/04	06/30/03	06/30/02	06/30/01
Rate Per Vehicle	$30.50	$30.50	$30.50	$30.50	$30.50
General Purpose School Fund	$3,256,891	$3,151,767	$2,974,078	$2,952,045	$2,865,777
Total Amount Collected	$3,256,891	$3,151,767	$2,974,078	$2,952,045	$2,865,777
% of Increase	3.34%	5.97%	0.75%	3.01%	1.91%

Source: Comprehensive Annual Financial Reports as prepared and presented by The Division of County Audit for the fiscal years ending June 30, 2001 - 2005.

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
All Fund Types
Fiscal Year ended June 30

	2005	2004	2003	2002	2001
REVENUES					
Total Local Taxes	$105,696,655	$95,689,926	$90,521,589	$87,925,631	$85,615,675
Licenses & Permits	669,958	736,692	543,245	445,535	402,266
Fines	1,113,438	974,871	931,652	888,910	1,074,145
Charges for Current Services	8,525,485	7,744,616	12,676,747	11,542,253	11,148,405
Other Local Revenues	4,719,169	3,756,243	3,596,891	4,478,856	5,482,357
Fees Received from County Officials	6,560,759	6,180,812 [3]			
State of Tennessee	88,383,213	80,023,508	78,612,755	73,850,995	73,662,215
Federal Government	21,394,143	17,555,176	13,391,874	13,100,896	11,114,303
Other Governments	8,691,516	15,134,417	8,082,042	385,717	308,528
Other Sources:					
Proceeds from Debt Issues	23,302,585	1,688,534	27,540,750	79,060,805	37,873,916
Proceeds from Refunding Bonds		48,825,000	81,640,000	5,020,000	
Premiums on Bonds Sold	1,111,181	4,668,894	7,665,825	1,258,022	
Other Loan Proceeds	200,372	1,178,460	1,292,272	4,971,553	
Proceeds from Sale of Cap. Assets		5,000			
Operating Transfers	9,725,599	995,465 [3]	28,400,338	40,195,322 [1]	5,149,673
Total Revenues & Other Sources	$280,094,073	$285,157,614	$354,895,980	$323,124,495	$231,831,483
EXPENDITURES					
General Government	$41,321,924	$36,223,046	$35,874,476	$30,113,649	$30,940,924
Highway & Streets	6,405,852	5,603,724	5,973,401	5,712,443	5,637,227
Education	168,542,984	152,588,784	132,456,463	127,329,549	124,055,238
Debt Service	20,713,798	19,499,479	24,777,513	29,763,808	20,622,994
Capital Projects	16,837,971	22,024,817	42,688,577	54,283,977	26,379,139
Distribution to Cities	9,828,188	8,724,049	8,203,728	7,794,879	7,577,653
Escrow Agent for Refunded Bonds		54,171,377	88,210,000	5,362,934	
Discounts on Debt Issued		64,496			
Operating Transfers	9,725,599	995,465 [3]	28,400,338	40,532,571 [1]	5,669,098
Total Expenditures & Other Uses	$273,376,316	$299,895,237	$366,584,496	$300,893,810	$220,882,273
Excess of Revenues & Other Sources Sources Over (Under) Expenditures	$6,717,757	($14,737,623)	($11,688,516)	$22,230,685	$10,949,210
Fund Balance July 1	55,458,474	70,196,097	87,494,298	65,263,613 [2]	54,463,757
Prior Period Adj.\Residual Transfers	2,438,514		(5,609,685)		
Fund Balance, June 30	$64,614,745	$55,458,474	$70,196,097	$87,494,298	$65,412,967

[1] Primarily transfers for capital projects.

[2] Difference in Fund Balance from June 30, 2001 to July 1, 2001 is due to changes resulting from implementation of GASB 34.

[3] Fees received from County Officials has been created as a separate revenue item. It was treated as an operating transfer from Constitutional Officers Fees Fund to the General Fund in previous years.

Source: Comprehensive Annual Financial Reports as prepared and presented by The Division of County Audit for the fiscal years ending June 30, 2001 - 2005.

APPENDIX C

Basic Financial Statements Excerpted from the Annual Financial Report of the County for the Fiscal Year Ended June 30, 2005

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ANNUAL FINANCIAL REPORT

MONTGOMERY COUNTY, TENNESSEE

FOR THE YEAR ENDED JUNE 30, 2005

DEPARTMENT OF AUDIT
JOHN G. MORGAN
Comptroller of the Treasury

DIVISION OF COUNTY AUDIT
RICHARD V. NORMENT
Assistant to the Comptroller

ARTHUR L. ALEXANDER
Director

JEFF BAILEY, CPA, CGFM, CFE
Audit Manager

EUGENE HAMPTON II, CGFM
Auditor 4

FERMAN PRIDE, CGFM
KATIE ARMSTRONG, CFE
STEPHANIE GORDON, CFE
KRISTEN LEONARD
TIM BRASHEARS
WENDY HEATH, CFE
State Auditors

This financial report is available at www.comptroller.state.tn.us

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BASIC FINANCIAL STATEMENTS

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Exhibit A

Montgomery County, Tennessee
Statement of Net Assets
June 30, 2005

	Primary Government Governmental Activities	Component Units: Montgomery County School Department	Component Units: Bi-County Solid Waste Management System	Component Units: Clarksville-Montgomery County Industrial Development Board	Component Units: Emergency Communications District
ASSETS					
Cash	$ 172,478	$ 46,675	$ 10,675,586	$ 1,165,190	$ 535,601
Equity in Pool Cash and Investments	53,041,889	10,698,103	0	0	0
Accounts Receivable	3,944,941	85,200	360,917	27,330	186,195
Allowance for Uncollectibles	(590,697)	0	0	0	0
Property Taxes Receivable	39,633,165	22,113,811	0	0	0
Allowance for Uncollectible Property Taxes	(839,767)	(471,566)	0	0	0
Due from Other Governments	1,949,412	10,400,767	0	0	0
Due from Primary Government	0	2,839	15,400	0	0
Due from Component Units	22,502	0	0	0	0
Prepaid Items	1,251,497	50,000	0	805,357	312,109
Deferred Charges - Debt Issuance Costs	788,560	0	0	0	0
Inventories	37,307	472,682	7,261	12,344,762	0
Capital Assets:					
Assets Not Depreciated:					
Land	23,466,334	8,231,614	654,992	0	0
Construction in Progress	98,651	12,698,458	0	0	0
Assets Net of Accumulated Depreciation:					
Buildings and Improvements	88,293,832	146,314,651	0	0	0
Other Capital Assets	5,566,499	9,843,540	4,673,157	27,930	299,460
Infrastructure	18,294,039	0	0	0	0
Total Assets	$ 235,130,642	$ 220,486,774	$ 16,387,313	$ 14,370,569	$ 1,333,365
LIABILITIES					
Accounts Payable	$ 1,387,136	$ 1,099,629	$ 115,692	$ 213,075	$ 308,563
Accrued Payroll	0	0	0	0	14,873
Payroll Deductions Payable	208,942	70,102	28,211	0	0
Contracts Payable	61,806	1,502,433	55,384	0	0
Accrued Interest Payable	1,996,621	4,884	0	0	0
Retainage Payable	0	133,092	0	0	0
Other Current Liabilities	0	0	29,524	586,000	46,753
Due to Component Units	18,239	0	0	0	0
Due to Primary Government	0	22,145	304	0	0
Due to State of Tennessee	23,463	0	0	0	0
Deferred Revenue - Current Taxes	37,856,000	21,112,000	0	0	0
Noncurrent Liabilities:					
Due Within One Year	14,559,724	2,862,566	10,153	32,805	27,951
Due In More Than One Year (net of unamortized premiums and deferred amount on refunding)	216,590,678	703,202	6,489,481	243,264	0
Total Liabilities	$ 272,702,609	$ 27,510,053	$ 6,728,749	$ 1,075,144	$ 398,140
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	$ 62,063,973	$ 176,947,455	$ 5,288,472	$ 0	$ 252,707
Invested in Capital Assets	0	0	0	27,930	0
Restricted for:					
Capital Projects	10,288,058	217,210	0	0	0
Debt Service	22,660,040	0	0	0	0
Other Purposes	2,234,805	3,870,055	0	0	0
Unrestricted	(134,818,843)	11,942,001	4,370,092	13,267,495	682,518
Total Net Assets	$ (37,571,967)	$ 192,976,721	$ 9,658,564	$ 13,295,425	$ 935,225

The notes to the financial statements are an integral part of this statement.

Exhibit B

Montgomery County, Tennessee
Statement of Activities
For the Year Ended June 30, 2005

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
					Primary Government	Component Units			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities	Montgomery County School Department	Bi-County Solid Waste Management System	Clarksville-Montgomery County Industrial Development Board	Emergency Communications District
Primary Government:									
Governmental Activities:									
General Government	$ 6,824,444	$ 2,566,187	$ 35,627	$ 0	$ (4,222,630)	$ 0	$ 0	$ 0	$ 0
Finance	3,252,388	3,359,741	95,962	0	203,315	0	0	0	0
Administration of Justice	4,160,526	3,744,951	566,863	0	151,288	0	0	0	0
Public Safety	15,223,523	1,167,645	1,190,098	0	(12,865,780)	0	0	0	0
Public Health and Welfare	8,038,023	5,480,334	1,196,474	0	(1,361,215)	0	0	0	0
Social, Cultural and Recreational Services	1,596,614	12,935	0	0	(1,583,679)	0	0	0	0
Agriculture & Natural Resources	340,749	0	0	0	(340,749)	0	0	0	0
Other Operations	4,007,441	0	21,318	0	(3,986,123)	0	0	0	0
Highways/Public Works	5,062,196	8,015	2,986,160	381,453	(1,686,568)	0	0	0	0
Education	25,427,188	14,316,818	0	0	(11,110,370)	0	0	0	0
Interest on Long-term Debt	9,631,506	0	0	0	(9,631,506)	0	0	0	0
Other Debt Service	495,813	0	711,845	0	216,032	0	0	0	0
Total Primary Government	$ 84,060,411	$ 30,656,626	$ 6,804,347	$ 381,453	$ (46,217,985)	$ 0	$ 0	$ 0	$ 0
Component Units:									
Montgomery County School Department	$ 169,440,181	$ 5,308,901	$ 17,572,553	$ 7,927,245	$ 0	$ (138,631,482)	$ 0	$ 0	$ 0
Bi-County Solid Waste Management System	6,986,860	7,039,945	125,311	0	0	0	178,396	0	0
Industrial Development Board	693,418	44,732	0	0	0	0	0	(648,686)	0
Emergency Communication District	2,026,655	1,456,047	0	0	0	0	0	0	(570,608)
Total Component Units	$ 179,147,114	$ 13,849,625	$ 17,697,864	$ 7,927,245	$ 0	$ (138,631,482)	$ 178,396	$ (648,686)	$ (570,608)

(Continued)

Montgomery County, Tennessee
Statement of Activities (Cont.)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
					Primary Government	Component Units			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities	Montgomery County School Department	Bi-County Solid Waste Management System	Clarksville-Montgomery County Industrial Development Board	Emergency Communications District
General Revenues:									
Taxes:									
Property taxes levied for general purposes					$ 20,972,106	$ 19,631,097	$ 0	$ 0	$ 0
Property taxes levied for debt service					14,846,959	27,589,610	0	0	0
Local option sales tax					2,557,127	3,704,151	0	0	0
Other local taxes					4,432,225	0	0	0	0
Grants & contributions not restricted for specific programs					1,759,989	85,937,237	0	425,400	350,025
Interest Income					1,739,716	1,498	159,666	20,142	7,650
Gain (loss) on disposal of fixed assets					0	5,300	(16,856)	(5,286)	0
Miscellaneous					761,996	339,439	14,983	0	0
Total General Revenues					$ 47,070,118	$ 137,208,332	$ 157,793	$ 440,256	$ 357,675
Change in net assets					$ 852,133	$ (1,423,150)	$ 336,189	$ (208,430)	$ (212,933)
Prior Period Adjustment					(663,072)	2,438,514	0	7,313	0
Net assets, July 1, 2004					(37,761,028)	191,961,357	9,322,375	13,496,542	1,148,158
Net assets, June 30, 2005					$ (37,571,967)	$ 192,976,721	$ 9,658,564	$ 13,295,425	$ 935,225

The notes to the financial statements are an integral part of this statement.

Montgomery County, Tennessee
Balance Sheet
Governmental Funds
June 30, 2005

	Major Funds				Nonmajor Funds	
	General	General Debt Service	General Capital Projects	Other Capital Projects #3	Other Govern-mental Funds	Total Govern-mental Funds
ASSETS						
Cash	$ 31,930	$ 0	$ 0	$ 0	$ 140,548	$ 172,478
Equity in Pooled Cash and Investments	7,947,674	18,988,279	14,469	15,043,065	5,202,055	47,195,542
Inventories	37,307	0	0	0	0	37,307
Accounts Receivable	2,443,679	139,908	1,302,584	31,101	16,120	3,933,392
Allowance for Uncollectibles	(590,697)	0	0	0	0	(590,697)
Due from Other Governments	840,721	441,620	0	0	667,071	1,949,412
Due from Other Funds	136,659	1,080	0	0	2,748	140,487
Due from Component Units	304	0	0	0	0	304
Property Taxes Receivable	21,125,533	15,651,363	0	0	2,856,269	39,633,165
Allowance for Uncollectible Property Taxes	(440,631)	(339,148)	0	0	(59,988)	(839,767)
Prepaid Items	0	1,997	0	0	0	1,997
Total Assets	$ 31,532,479	$ 34,885,099	$ 1,317,053	$ 15,074,166	$ 8,824,823	$ 91,633,620
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts Payable	$ 912,516	$ 0	$ 188,985	$ 0	$ 231,625	$ 1,333,126
Payroll Deductions Payable	181,040	0	0	0	27,119	208,159
Contracts Payable	0	0	61,806	0	0	61,806
Due to Other Funds	4,440	0	0	0	136,620	141,060
Due to Component Units	15,400	0	0	0	0	15,400
Due to State of Tennessee	23,463	0	0	0	0	23,463
Deferred Revenue - Current Property Taxes	20,202,000	14,924,000	0	0	2,730,000	37,856,000
Deferred Revenue - Delinquent Property Taxes	424,482	341,250	0	0	58,262	823,994
Other Deferred Revenues	1,832,977	221,003	0	0	355,251	2,409,231
Total Liabilities	$ 23,596,318	$ 15,486,253	$ 250,791	$ 0	$ 3,538,877	$ 42,872,239
Fund Balances						
Reserved for Encumbrances	$ 996,574	$ 0	$ 452,669	$ 0	$ 112,839	$ 1,562,082
Reserved for Alcohol and Drug Treatment	97,157	0	0	0	0	97,157
Reserved for Litigation Tax - Jail, Workhouse, or Courthouse	0	798,237	0	0	0	798,237

(Continued)

Exhibit C-1

Montgomery County, Tennessee
Balance Sheet
Governmental Funds (Cont.)

	Major Funds				Nonmajor Funds	
	General	General Debt Service	General Capital Projects	Other Capital Projects #3	Other Govern-mental Funds	Total Govern-mental Funds
LIABILITIES AND FUND BALANCES (Cont.)						
Fund Balances (Cont.)						
Reserved for Sexual Offender Registration	$ 1,432	$ 0	$ 0	$ 0	$ 0	$ 1,432
Reserved for Computer System - Register	143,677	0	0	0	0	143,677
Reserved for Automation Purposes - Sheriff	20,171	0	0	0	0	20,171
Reserved for Fraud and Crimes Prosecution Act	38,589	0	0	0	0	38,589
Reserved for Other General Purposes	3,262	0	0	0	0	3,262
Unreserved, Reported In:						
General Fund	6,635,299	0	0	0	0	6,635,299
Special Revenue Funds	0	0	0	0	1,494,879	1,494,879
Debt Service Funds	0	18,600,609	0	0	0	18,600,609
Capital Projects Funds	0	0	613,593	15,074,166	3,678,228	19,365,987
Total Fund Balances	$ 7,936,161	$ 19,398,846	$ 1,066,262	$ 15,074,166	$ 5,285,946	$ 48,761,381
Total Liabilities and Fund Balances	$ 31,532,479	$ 34,885,099	$ 1,317,053	$ 15,074,166	$ 8,824,823	$ 91,633,620

The notes to the financial statements are an integral part of this statement.

Montgomery County, Tennessee
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2005

Amounts reported for governmental activities in the statement of net assets (Exhibit A) are different because:

Total fund balances - balance sheet - governmental funds (Exhibit C-1)	$	48,761,381
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		135,719,355
(2) Internal service funds are used by management to charge the costs of the self-insurance program to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		2,656,114
(3) Long-term liabilities are not due in the current period and therefore are not reported in the funds.		(227,942,042)
(4) Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		3,233,225
Net assets of governmental activities (Exhibit A)	$	(37,571,967)

The notes to the financial statements are an integral part of this statement.

Exhibit D-1

Montgomery County, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	Major Funds				Nonmajor Funds	
	General	General Debt Service	General Capital Projects	Other Capital Projects #3	Other Govern-mental Funds	Total Governmental Funds
Revenues						
Local Taxes	$ 22,305,745	$ 18,854,422	$ 0	$ 0	$ 2,991,436	$ 44,151,603
Licenses and Permits	669,958	0	0	0	0	669,958
Fines, Forfeitures, and Penalties	1,093,959	0	0	0	19,479	1,113,438
Charges for Current Services	3,633,137	0	0	0	46,802	3,679,939
Other Local Revenues	2,760,063	90,575	0	242,728	219,499	3,312,865
Fees Received from County Officials	6,560,759	0	0	0	0	6,560,759
State of Tennessee	3,802,798	0	96,745	0	3,218,708	7,118,251
Federal Government	1,058,604	0	0	0	21,318	1,079,922
Other Governments and Citizens Groups	110,669	711,845	22,750	0	0	845,264
Total Revenues	$ 41,995,692	$ 19,656,842	$ 119,495	$ 242,728	$ 6,517,242	$ 68,531,999
Expenditures						
Current:						
General Government	$ 3,840,966	$ 0	$ 0	$ 0	$ 0	$ 3,840,966
Finance	3,014,909	0	0	0	0	3,014,909
Administration of Justice	3,586,712	0	0	0	46,386	3,633,098
Public Safety	14,328,582	0	0	0	3,334	14,331,916
Public Health and Welfare	5,669,629	0	0	0	0	5,669,629
Social, Cultural, and Recreational Services	1,495,922	0	0	0	0	1,495,922
Agricultural and Natural Resources	289,005	0	0	0	0	289,005
Other Operations	9,025,161	0	0	0	21,318	9,046,479
Highways	108,039	0	0	0	6,297,813	6,405,852
Debt Service:						
Principal	0	10,480,134	0	0	0	10,480,134
Interest	0	9,566,194	0	0	0	9,566,194
Other Debt Service	0	412,707	0	254,763	0	667,470
Capital Projects	0	0	9,011,111	6,829,000	997,860	16,837,971
Total Expenditures	$ 41,358,925	$ 20,459,035	$ 9,011,111	$ 7,083,763	$ 7,366,711	$ 85,279,545
Excess (Deficiency) of Revenues Over Expenditures	$ 636,767	$ (802,193)	$ (8,891,616)	$ (6,841,035)	$ (849,469)	$ (16,747,546)

(Continued)

Exhibit D-1

Montgomery County, Tennessee
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds (Cont.)

	Major Funds				Nonmajor Funds	
	General	General Debt Service	General Capital Projects	Other Capital Projects #3	Other Govern-mental Funds	Total Governmental Funds
Other Financing Sources (Uses)						
Bonds Issued	$ 0	$ 0	$ 0	$ 22,000,000	$ 0	$ 22,000,000
Notes Issued	0	0	1,302,585	0	0	1,302,585
Capital Leases Issued	0	0	0	0	200,372	200,372
Premiums on Debt Issued	0	0	0	1,111,181	0	1,111,181
Transfers In	0	0	7,205,983	0	0	7,205,983
Transfers Out	(19,071)	0	0	(1,195,980)	(5,990,932)	(7,205,983)
Total Other Financing Sources (Uses)	$ (19,071)	$ 0	$ 8,508,568	$ 21,915,201	$ (5,790,560)	$ 24,614,138
Net Change in Fund Balances	$ 617,696	$ (802,193)	$ (383,048)	$ 15,074,166	$ (6,640,029)	$ 7,866,592
Fund Balance, July 1, 2004	7,318,465	20,201,039	1,449,310	0	11,925,975	40,894,789
Fund Balance, June 30, 2005	$ 7,936,161	$ 19,398,846	$ 1,066,262	$ 15,074,166	$ 5,285,946	$ 48,761,381

The notes to the financial statements are an integral part of this statement.

Montgomery County, Tennessee
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities (Exhibit B) are different because:

Net change in fund balances - total governmental funds (Exhibit D-1)	$ 7,866,592
(1) Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	6,610,629
(2) The net effect of various miscellaneous transactions involving capital assets (sales, trade-ins, and donations) is to decrease net assets.	(207,857)
(3) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(763,401)
(4) The issuance of long-term debt (e.g., bonds, notes, other loans, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(13,584,587)
(5) Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(224,183)
(6) Internal service funds are used by management to charge the costs of employee insurance benefits to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	1,154,940
Change in net assets of governmental activities (Exhibit B)	$ 852,133

The notes to the financial statements are an integral part of this statement.

Exhibit E-1

Montgomery County, Tennessee
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Governmental Activities - Internal Service Funds
ASSETS	
Current Assets:	
Equity in Pooled Cash and Investments	$ 5,846,347
Accounts Receivable	10,430
Due from Other Funds	184,222
Due from Component Units	22,198
Prepaid Items	1,249,500
Total Assets	$ 7,312,697
LIABILITIES	
Current Liabilities:	
Accounts Payable	$ 54,010
Payroll Deductions Payable	783
Claims and Judgements Payable	2,265,670
Due to Other Funds	182,530
Due to Component Units	2,839
Total Current Liabilities	$ 2,505,832
Noncurrent Liabilities:	
Claims and Judgements Payable	$ 2,150,751
Total Noncurrent Liabilities	$ 2,150,751
Total Liabilities	$ 4,656,583
NET ASSETS	
Unrestricted	$ 2,656,114
Total Net Assets	$ 2,656,114

The notes to the financial statements are an integral part of this statement.

Exhibit E-2

Montgomery County, Tennessee
Statement of Revenues, Expenses, and
Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

	Governmental Activities - Internal Service Funds
Operating Revenues	
Charges for Current Services	$ 22,781,251
Total Operating Revenues	$ 22,781,251
Operating Expenses	
Risk Management	$ 255,791
Property Assessor's Office	79
Probation Services	1,170
Sheriff's Department	13,383
Jail	152,472
Workhouse	539
Ambulance/Emergency Medical Services	10,426
Nursing Home	31,446
Landfill Operation and Maintenance	635
Other Charges	1,252,885
Employee Benefits	20,241,727
Highway Administration	92
Highway and Bridge Maintenance	433
Total Operating Expenses	$ 21,961,078
Operating Income (Loss)	$ 820,173
Nonoperating Revenues (Expenses)	
Investment Income	$ 75,586
Miscellaneous Refunds	259,181
Total Nonoperating Revenues (Expenses)	$ 334,767
Changes in Net Assets	$ 1,154,940
Net Assets, July 1, 2004	1,501,174
Nets Assets, June 30, 2005	$ 2,656,114

The notes to the financial statements are an integral part of this statement.

Montgomery County, Tennessee
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

		Governmental Activities - Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Interfund Services Provided	$	22,705,077
Other Self-Insured Claims		(21,233,185)
Other Receipts (Payments)		259,181
Net cash provided by (used in) operating activities	$	1,731,073
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income	$	75,586
Net cash provided by (used in) investing activities	$	75,586
Net increase (decrease) in cash and cash equivalents	$	1,806,659
Cash and cash equivalents, July 1, 2004		4,039,688
Cash and cash equivalents, June 30, 2005	$	5,846,347
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	$	820,173
Miscellaneous Refunds		259,181
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities:		
(Increase) decrease in accounts receivable		107,923
(Increase) decrease in accrued interest receivable		2,390
(Increase) decrease in due from other funds		(184,222)
(Increase) decrease in due from component units		(2,265)
Increase (decrease) in accounts payable		53,987
Increase (decrease) in payroll deductions payable		783
Increase (decrease) in due to other funds		182,530
Increase (decrease) in due to component units		2,839
Increase (decrease) in claims and judgements payable		487,754
Net cash provided by (used in) operating activities	$	1,731,073

The notes to the financial statements are an integral part of this statement.

Exhibit F

Montgomery County, Tennessee
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2005

	Agency Funds
ASSETS	
Cash	$ 4,374,004
Equity in Pooled Cash and Investments	292,806
Accounts Receivable	373
Due from Other Governments	1,686,840
Total Assets	$ 6,354,023
LIABILITIES	
Accounts Payable	$ 1,323
Payroll Deductions Payable	59
Due to Other Funds	1,119
Due to State of Tennessee	1,224
Due to Other Taxing Units	1,680,734
Due to Litigants, Heirs, and Others	4,364,466
Due to Joint Ventures	305,098
Total Liabilities	$ 6,354,023

The notes to the financial statements are an integral part of this statement.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Montgomery County's financial statements are presented in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments.

The following are the more significant accounting policies of Montgomery County:

A. Reporting Entity

Montgomery County is a public municipal corporation governed by an elected 21-member board. As required by GAAP, these financial statements present Montgomery County (the primary government) and its component units. The component units discussed below are included in the county's reporting entity because of the significance of their operational or financial relationships with the county.

Blended Component Units – There are no legally separate component units of Montgomery County that meet the criteria for being reported as part of the primary government by the blending method.

Discretely Presented Component Units – The following entities meet the criteria for discretely presented component units of the county. They are reported in separate columns in the government-wide financial statements to emphasize that they are legally separate from the county.

The Montgomery County School Department operates the public school system in the county, and the voters of Montgomery County elect its board. The School Department is fiscally dependent on the county because it may not issue debt without county approval, and its budget and property tax levy are subject to the County Commission's approval. The School Department's taxes are levied under the taxing authority of the county and are included as part of the county's total tax levy.

The Emergency Communications District of Montgomery County provides a simplified means of securing emergency services through a uniform emergency number for the residents of Montgomery County, and the Montgomery County Commission and the Clarksville City Council appoint its governing body. The district is funded primarily through a service charge levied on telephone services. Before the issuance of most debt instruments, the district must obtain the County Commission's approval.

The Bi-County Solid Waste Management System provides landfill and collection services for Montgomery and Stewart Counties, and Montgomery

County operates the transfer station. The joint participants appoint the board members of the system; however, Montgomery County appoints a voting majority of the board members and contributes the majority of funding for the system. This system is treated as a discrete component unit of Montgomery County since the county may unilaterally control the operations of the system.

The Montgomery County Nursing Home provides health care to the citizens of Montgomery County, and the Montgomery County Commission appoints its governing body. Patient charges provide the majority of the revenues for the entity. Before the issuance of any debt instruments, the nursing home must obtain the approval of the County Commission. The financial statements of the Montgomery County Nursing Home were not available from other auditors in time for inclusion in this report.

The Clarksville-Montgomery County Industrial Development Board primarily provides inducements to industry to locate or remain in Montgomery County, and the Montgomery County Commission appoints its governing body. City and county appropriations provide the majority of its funding.

The Montgomery County School Department does not issue separate financial statements from those of the county. Therefore, basic financial statements of the Montgomery County School Department are included in this report as listed in the table of contents. Although required by GAAP, the financial statements of the Montgomery County Nursing Home were not available in time for inclusion, as previously mentioned. Complete financial statements of the Emergency Communications District of Montgomery County, Bi-County Solid Waste Management System, Montgomery County Nursing Home, and the Clarksville-Montgomery County Industrial Development Board can be obtained from their administrative offices at the following addresses:

Administrative Offices:

Emergency Communications District of Montgomery County
P. O. Box 368
Clarksville, TN 37040

Bi-County Solid Waste Management System
P. O. Box 1112
Clarksville, TN 37040

Montgomery County Nursing Home
Montgomery County Director of Accounts and Budgets
P. O. Box 368
Clarksville, TN 37040

Clarksville-Montgomery County Industrial Development Board
P. O. Box 883
312 Madison Street
Clarksville, TN 37040

Related Organization – The Montgomery County Public Building Authority is a related organization of Montgomery County. County officials are responsible for appointing members to the board of the Montgomery County Public Building Authority; however, the county's accountability for this organization does not extend beyond making the appointments.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities, which rely to a significant extent on fees and charges, are required to be reported separately from governmental activities in government-wide financial statements. However, the primary government of Montgomery County does not have any business-type activities to report. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. The Montgomery County School Department component unit only reports governmental activities in the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Montgomery County issues all debt for the discretely presented Montgomery County School Department. Net debt issues ($7,826,860) were contributed by the county to the School Department during the year ended June 30, 2005.

Separate financial statements are provided for governmental funds, proprietary funds (internal service), and fiduciary funds. The internal service funds are reported with the governmental activities in the government-wide financial statements, and the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary funds financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund financial statements of Montgomery County are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental category. Montgomery County reports three proprietary funds (internal service funds). It has no enterprise funds to report. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All other governmental funds are aggregated into a single column on the fund financial statements. The internal service funds and the fiduciary funds in total are reported in single columns by fund type.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become both 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 county considers revenues other than grants to be available if they are collected within 30 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met and the revenues are available. Montgomery County considers grants and similar revenues to be available if they are collected within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Principal and interest on long-term debt are recognized as fund liabilities when due or when amounts have been accumulated in the General Debt Service Fund for payments to be made early in the following year.

Property taxes for the period levied, in-lieu-of tax payments, sales taxes, interest, and miscellaneous taxes are all considered to be susceptible to accrual and have been recognized as revenues of the current period. Applicable business taxes, litigation taxes, state-shared excise taxes, fines, forfeitures, and penalties are not susceptible to accrual since they are not measurable (reasonably estimable). All other revenue items are considered to be measurable and available only when the county receives cash.

Proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized 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 revenue as soon as all eligibility requirements imposed by the provider have been met.

Montgomery County reports the following major governmental funds:

> **General Fund** – This is the county's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
>
> **General Debt Service Fund** – This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
>
> **General Capital Projects Fund** – This fund accounts for general capital expenditures of the county.
>
> **Other Capital Projects #3 Fund** – This fund is used to account for debt proceeds that will be transferred to other funds as capital projects progress.

Additionally, Montgomery County reports the following fund types:

> **Special Revenue Funds** – These funds account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.
>
> **Internal Service Funds** – These funds account for risk management activities for employees' health insurance, workers' compensation, on the job injury, and unemployment compensation provided to other departments on a cost-reimbursement basis.
>
> **Agency Funds** – These funds account for amounts collected in an agency capacity by the constitutional officers, local sales taxes received by the state to be forwarded to the various cities in Montgomery County, and revenues which are held in trust for the benefit of the judicial district drug task force. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. They do, however, use the accrual basis of accounting to recognize receivables and payables.

The discretely presented Montgomery County School Department reports the following major governmental fund:

General Purpose School Fund – This fund is the primary operating fund for the School Department. It is used to account for general operations of the School Department.

Additionally, the Montgomery County School Department reports the following fund types:

Special Revenue Funds – These funds account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes.

Capital Projects Fund – The Education Capital Projects Fund is used to account for the receipt of debt issued by Montgomery County and contributed to the School Department for construction and renovations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements and the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. The county has three proprietary funds, internal service funds used to account for the employees' health insurance, workers' compensation, on the job injury, and unemployment compensation programs. Operating revenues and expenses generally result from providing services in connection with the funds' principal ongoing operations. The principal operating revenues of the county's internal service funds are charges for services. Operating expenses for the internal service funds include administrative expenses and employee benefits.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted revenues first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

For purposes of the statement of cash flows, cash includes cash on deposit with the county trustee.

State statutes authorize the government to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; the county's own legally issued bonds or notes; the State Treasurer's Investment Pool; and repurchase agreements.

The county trustee maintains a cash and internal investment pool that is used by all funds of Montgomery County, Montgomery County School Department, Bi-County Solid Waste Management System, Montgomery County Nursing Home, Emergency Communications District of Montgomery County, and the Montgomery County Rail Service Authority (joint venture). Each fund's portion of this pool is displayed on the balance sheets or statements of net assets as Equity in Pooled Cash and Investments. Most income from these pooled investments is assigned to the General Fund. Montgomery County and the Montgomery County School Department have adopted a policy of reporting U.S. Treasury obligations, U.S. agency obligations, and repurchase agreements with maturities of one year or less when purchased on the balance sheet at amortized cost. Certificates of deposit and investments in the State Treasurer's Investment Pool are reported at cost. The State Treasurer's Investment Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. State statutes require the state treasurer to administer the pool under the same terms and conditions, including collateral requirements, as prescribed for other funds invested by the state treasurer. All other investments are reported at fair value. The Montgomery County trustee had pooled investments consisting of funds in the State Treasurer's Investment Pool and government sponsored securities. The net change in fair value of the government sponsored securities is not considered material to the financial statements of this report, and therefore, has been reported at cost rather than fair value.

2. Receivables and Payables

Activity between funds for unremitted current collections or that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either due to/from other funds.

Accounts receivable in the General Fund are 82 percent ambulance service receivables and 18 percent other receivables. All ambulance and property taxes receivable are shown with an allowance for uncollectibles. Ambulance receivables allowance for uncollectibles is based on historical collection data. The allowance for uncollectible property taxes is equal to one percent of total taxes levied.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Property taxes receivable are recognized as of the date an enforceable legal claim to the taxable property arises. This date is January 1 and is referred to as the lien date. However, revenues from property taxes are recognized in the period for which the taxes are levied, which is the ensuing fiscal year. Since the receivable is recognized before the period of revenue recognition, the entire amount of the receivable, less an estimated allowance for uncollectible taxes, is reported as deferred revenue as of June 30.

Property taxes receivable are also reported as of June 30 for the taxes that are levied, collected, and reported as revenue during the current fiscal year. These property taxes receivable are presented on the balance sheet with offsetting deferred revenue to reflect amounts not available as of June 30. Property taxes collected within 30 days of year-end are considered available and accrued. The allowance for uncollectible taxes represents the estimated amount of the receivable that will be filed in court for collection. Delinquent taxes filed in court for collection are not included in taxes receivable since they are neither measurable nor available.

Property taxes are levied as of the first Monday in October. Taxes become delinquent and begin accumulating interest and penalty the following March 1. Suit must be filed in Chancery Court between the following February 1 to April 1 for any remaining unpaid taxes. Additional costs attach to delinquent taxes after a court suit has been filed.

3. <u>Inventories and Prepaid Items</u>

Inventories of governmental funds consist of expendable supplies held for consumption and are valued at cost, on the average cost method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Prepaid items in the Self-Insurance Fund (internal service fund) represent amounts prepaid to the claims administrator for estimated claims outstanding at June 30, 2005.

Prepaid items in the General Purpose School Fund represent amounts prepaid to the claims administrator for estimated workers' compensation claims outstanding at June 30, 2005.

4. **Capital Assets**

Governmental funds do not capitalize the cost of capital outlays; these funds report capital outlays as expenditures upon acquisition.

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of $5,000 or more and an estimated useful life exceeding two years (one year for the School Department). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, equipment, and infrastructure of the primary government and the discretely presented School Department are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings and Improvements	5-50
Other Capital Assets	4-20
Infrastructure:	
Roads	100
Bridges	50

5. **Compensated Absences**

It is the county's and School Department's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since their policies do not pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide financial statements for the county and the School Department. A liability for vacation pay is reported in governmental funds only if amounts have matured, for example, as a result of employee resignations and retirements.

6. **Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the straight-line method. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize debt premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Only the matured portion (the portion that has come due for payment) of long-term indebtedness, including bonds payable, is recognized as a liability and expenditure in the governmental fund financial statements. Liabilities and expenditures for other long-term obligations, including compensated absences and claims and judgments, are recognized to the extent that the liabilities have matured (come due for payment) each period.

7. **Net Assets and Fund Equity**

In the government-wide financial statements and the proprietary funds in the fund financial statements, equity is classified as net assets and displayed in three components:

a. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation.

c. Unrestricted net assets – All other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

As of June 30, 2005, Montgomery County had $144,129,978 in outstanding debt for capital purposes for the discretely presented Montgomery County School Department. The debt is a liability of Montgomery County, but the capital assets acquired are reported in the financial statements of the School Department. Therefore, Montgomery County has incurred a liability significantly decreasing its unrestricted net assets with no corresponding increase in the county's capital assets.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The following table reflects designations on June 30, 2005:

Fund/Purpose		Amount
General:		
Insurance	$	10,000
Mobile Data Terminals		7,399
Veterans' Services		9,221
Child Advocacy Center		45,263
Animal Shelter		3,822
Register's Office		1,000
Legacy 2000		2,546
Highway/Public Works:		
Insurance		5,000
General Debt Service:		
Variable Loan Program		3,895,627
General Purpose School (School Department):		
Workers' Compensation		852,818

8. Prior-period Adjustments

Montgomery County's capital assets were restated ($663,072) from the prior period because the county jail was demolished in a prior year and certain county roads had been omitted.

In the discretely presented Montgomery County School Department's General Purpose School Fund, beginning fund balance was restated ($2,438,514) from the prior year because the claims and judgments payable had been posted in error.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

Primary Government

Exhibit C-2 presents a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that long-term liabilities, including debt payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the $227,942,042 difference are as follows:

Bonds payable	$ (188,721,000)
Notes payable	(9,388,274)
Other loans payable	(26,536,289)
Capital leases payable	(200,372)
Deferred charges - debt issuance costs (to be amortized over life of debt)	788,560
Deferred amount on refunding	4,695,562
Deferred revenue - premium on debt (to be amortized over life of debt)	(5,300,426)
Accrued interest payable	(1,996,621)
Compensated absences payable	(1,283,182)
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	$ (227,942,042)

Discretely Presented Montgomery County School Department

Exhibit L-3 presents a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that long-term liabilities, including debt payable, are not due and payable in the current period and therefore are not reported in the funds. The details of the $3,570,652 difference are as follows:

Notes payable	$	(45,183)
Accrued interest payable		(4,884)
Capital leases payable		(95,625)
Claims and judgments payable		(2,655,941)
Compensated absences payable		(769,019)
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	$	(3,570,652)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

Primary Government

Exhibit D-2 presents a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this $6,610,629 difference are as follows:

Capital outlay	$	9,513,540
Depreciation expense		(2,902,911)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	$	6,610,629

Another element of that reconciliation states that the issuance of long-term debt (e.g., bonds, notes, and other loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this $13,584,587 difference are as follows:

Debt issued or incurred:	
General obligation bonds	$ (22,000,000)
Capital outlay notes	(1,302,585)
Capital leases	(200,372)
Related items:	
Current debt issuance costs to defer	254,763
Amortization of issuance costs	(52,291)
Current debt premium to defer	(1,111,181)
Amortization of premium	377,760
Amortization of deferred amount on refunding	(30,815)
Principal repayments:	
Bonds	8,066,000
Notes	2,237,653
Other loans	176,481
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	$ (13,584,587)

Another element of that reconciliation states that some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The details of this $224,183 difference are as follows:

Net change in accrued interest on bonds	$ (132,606)
Net change in accrued interest on notes	13,863
Net change in compensated absences	(105,440)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	$ (224,183)

Discretely Presented Montgomery County School Department

Exhibit L-5 presents a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this $1,846,847 difference are as follows:

Capital outlay	$ 7,114,548
Depreciation expense	(5,267,701)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	$ 1,846,847

Another element of that reconciliation states that some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The details of this $2,692,755 difference are as follows:

Net change in accrued interest on leases	$ 2,871
Net change in accrued interest on notes	4,612
Net change in compensated absences	(44,297)
Net change in claims and judgments payable	(2,655,941)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	$ (2,692,755)

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Net Assets Deficit/Fund Deficit

The Workers' Compensation Fund had a net assets deficit of $464,921 at June 30, 2005. This net assets deficit resulted from the recognition of outstanding claims at year-end.

The discretely presented School Federal Projects Fund had a fund deficit of $318,688 at June 30, 2005. This fund deficit resulted from the School Department's failure to file requests for reimbursements from the state in a timely manner. Funding for these future expenditures has been received.

The discretely presented Education Capital Projects Fund had a fund deficit of $7,595,077 at June 30, 2005. This fund deficit resulted from the unperformed portions of construction projects of $7,812,287 being reserved as encumbrances. Funding for these future expenditures should be received subsequent to year-end.

B. Expenditures Exceeded Appropriations

Expenditures exceeded appropriations approved by the County Commission in several major categories (the legal level of control) of the following funds:

Fund/Category	Amount
Primary Government:	
General:	
Beer Board	$ 1,000
County Attorney	1,210
Building	326
Data Processing	10,762
Jail	7,347
County Coroner/Medical Examiner	9,101
Local Health Center	10,622
Other Social, Cultural, and Recreational	42
Tourism	88,780
Transfers Out	19,071
Discretely Presented School Department:	
School Federal Projects:	
Instruction:	
Vocational Education Program	2,818

Such overexpenditures are a violation of state statute. These overexpenditures were funded from available fund balance in the General Fund and additional revenues in the School Federal Projects Fund.

C. The County Had Unauthorized Investments and Investments Subject to Credit Risk

The county had investments totaling $6,806,187 in Federal Home Loan Mortgage Corporation (Freddie Mac) securities at June 30, 2005. This investment is not an investment type permitted by Section 5-8-301, Tennessee Code Annotated. In addition to the Freddie Mac securities, the county had investments with the Federal National Mortgage Association (Fannie Mae, $3,999,092) and Federal Home Loan Bank ($9,149,193). These investments are government sponsored enterprises that are independent organizations not backed by the full faith and credit of the federal government and therefore are subject to credit risk.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Montgomery County and the Montgomery County School Department participate in an internal cash and investment pool through the Office of Trustee. The county trustee is the treasurer of the county and in this capacity is responsible for receiving, disbursing, depositing, and investing most county funds. Each fund's portion of this pool is displayed on the balance sheets or statements of net assets as Equity in Pooled Cash and Investments. Cash and investments reflected in the fund financial statements represent nonpooled amounts held separately by individual funds.

Deposits

Legal Provisions. All deposits with financial institutions must be secured by one of two methods. One method involves financial institutions that participate in the bank collateral pool administered by the state treasurer. Public fund accounts covered by the pool are considered to be insured for purposes of custodial credit risk exposure.

For deposits with financial institutions that do not participate in the bank collateral pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. The collateral must be placed by the depository bank in an escrow account in a second bank for the benefit of the county.

Investments

Legal Provisions. Counties are authorized to make direct investments in bonds, notes, or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; and the county's own legally issued bonds or notes. These investments may not have a maturity greater than two years. The county may make investments with longer maturities if various restrictions set out in state law are followed. Counties are also authorized to make investments in the State Treasurer's Investment Pool and in repurchase agreements. Repurchase agreements must be approved by the state director of Local Finance and executed in accordance with procedures established by the State Funding Board. Securities purchased under a repurchase agreement must be obligations of the U.S. government or obligations guaranteed by the U.S. government or any of its agencies. When repurchase agreements are executed, the purchase of the securities must be priced at least two percent below the market value of the securities on the day of purchase. The county's investment in Federal Home Loan Mortgage Corporation (Freddie Mac) of $6,806,187 is not authorized by state statute.

Investment Balances. As of June 30, 2005, Montgomery County had the following investments carried at cost. Separate disclosures concerning pooled investments cannot be made for Montgomery County and the discretely presented Montgomery County School Department since both pool their deposits and investments through the county trustee.

Investment	Maturities	Cost
Federal Home Loan Bank	2-24-06	$ 1,000,000
Federal Home Loan Bank	3-24-06	1,000,000
Federal Home Loan Bank	8-11-06	950,396
Federal Home Loan Bank	8-24-06	2,000,000
Federal Home Loan Bank	1-12-07	1,000,291
Federal Home Loan Bank	3-7-07	1,198,975
Federal Home Loan Bank	4-5-07	1,000,000
Federal Home Loan Bank	6-25-07	999,531
Total Federal Home Loan Bank		$ 9,149,193
Federal National Mortgage Association	12-5-05	$ 499,531
Federal National Mortgage Association	1-30-06	2,000,000
Federal National Mortgage Association	9-22-06	1,499,561
Total Federal National Mortgage Association		$ 3,999,092
Federal Home Loan Mortgage Corporation	2-13-06	$ 998,683
Federal Home Loan Mortgage Corporation	2-17-06	1,302,808
Federal Home Loan Mortgage Corporation	4-28-06	2,003,500
Federal Home Loan Mortgage Corporation	7-21-06	499,531
Federal Home Loan Mortgage Corporation	7-27-06	1,000,004
Federal Home Loan Mortgage Corporation	11-22-06	1,001,661
Total Federal Home Loan Mortgage Corporation		$ 6,806,187
State Treasurer's Investment Pool	Daily	$ 859,474
Total		$ 20,813,946

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. State statutes limit the maturities of certain investments as previously disclosed. Montgomery County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State statutes limit the ratings of certain investments as previously explained. Montgomery County has no investment policy that would further limit its investment choices. As of June 30, 2005, Montgomery County's investment in the State Treasurer's Investment Pool was unrated. Montgomery County's investments with the Federal Home Loan Bank, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation are government sponsored enterprises that are independent organizations not backed by the full faith and credit of the federal government and, therefore the county could lose its investments if these enterprises were to fail. These investments were rated Aaa by Moody's Investor's Service and AAA by Standard & Poors.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the county's investment in a single issuer. Montgomery County places no limit on the amount the county may invest in one issuer. More than five percent of the county's investments are in the Federal Home Loan Bank (44 percent), the Federal National Mortgage Association (19 percent), and the Federal Home Loan Mortgage Corporation (33 percent).

Custodial Credit Risk. Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the county will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Montgomery County does not have a formal policy that limits custodial credit risk for investments. The county's investment of $19,954,472 in the investments listed in the above table have custodial credit risk exposure because the securities are uninsured, unregistered, and held by the county's financial agent which is also the counterparty for these investments.

B. Capital Assets

Capital asset activity for the year ended June 30, 2005, was as follows:

Primary Government

Governmental Activities:

	Balance 7-1-04	Increases	Decreases	Balance 6-30-05
Capital Assets Not Depreciated:				
Land	$ 22,988,713	$ 477,621	$ 0	$ 23,466,334
Construction in Progress	35,029,105	100,848	(35,031,302)	98,651
Total Capital Assets Not Depreciated	$ 58,017,818	$ 578,469	$ (35,031,302)	$ 23,564,985
Capital Assets Depreciated:				
Buildings and Improvements	$ 56,994,315	$ 40,748,878	$ (1,370,364)	$ 96,372,829
Infrastructure	34,512,519	1,599,484	0	36,112,003
Other Capital Assets	12,687,317	1,711,119	(874,858)	13,523,578
Total Capital Assets Depreciated	$ 104,194,151	$ 44,059,481	$ (2,245,222)	$ 146,008,410

Governmental Activities: (Cont.)

	Balance 7-1-04	Increases	Decreases	Balance 6-30-05
Less Accumulated Depreciation For:				
Buildings and Improvements	$ 7,185,390	$ 1,424,688	$ (531,081)	$ 8,078,997
Infrastructure	17,502,228	315,736	0	17,817,964
Other Capital Assets	7,544,696	1,173,290	(760,907)	7,957,079
Total Accumulated Depreciation	$ 32,232,314	$ 2,913,714	$ (1,291,988)	$ 33,854,040
Total Capital Assets Depreciated, Net	$ 71,961,837	$ 41,145,767	$ (953,234)	$ 112,154,370
Governmental Activities Capital Assets, Net	$ 129,979,655	$ 41,724,236	$ (35,984,536)	$ 135,719,355

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:	
General Government	$ 490,192
Finance	172,003
Administration of Justice	557,067
Public Safety	684,449
Public Health and Welfare	257,716
Social, Cultural, and Recreational Services	119,900
Agriculture & Natural Resources	35,805
Highway/Public Works	587,539
Total Depreciation Expense - Governmental Activities	$ 2,904,671

Discretely Presented Montgomery County School Department

Governmental Activities:

	Balance 7-1-04	Increases	Decreases	Balance 6-30-05
Capital Assets Not Depreciated:				
Land	$ 8,046,331	$ 185,283	$ 0	$ 8,231,614
Construction in Progress	7,925,129	4,773,329	0	12,698,458
Total Capital Assets Not Depreciated	$ 15,971,460	$ 4,958,612	$ 0	$ 20,930,072

Governmental Activities: (Cont.)

	Balance 7-1-04	Increases	Decreases	Balance 6-30-05
Capital Assets Depreciated:				
Buildings and Improvements	$ 189,124,547	$ 644,158	$ 0	$ 189,768,705
Other Capital Assets	18,545,265	1,511,778	(52,000)	20,005,043
Total Capital Assets Depreciated	$ 207,669,812	$ 2,155,936	$ (52,000)	$ 209,773,748
Less Accumulated Depreciation For:				
Buildings and Improvements	$ 39,494,079	$ 3,959,975	$ 0	$ 43,454,054
Other Capital Assets	8,905,777	1,307,726	(52,000)	10,161,503
Total Accumulated Depreciation	$ 48,399,856	$ 5,267,701	$ (52,000)	$ 53,615,557
Total Capital Assets Depreciated, Net	$ 159,269,956	$ (3,111,765)	$ 0	$ 156,158,191
Governmental Activities Capital Assets, Net	$ 175,241,416	$ 1,846,847	$ 0	$ 177,088,263

Depreciation expense was charged to functions of the discretely presented Montgomery County School Department as follows:

Governmental Activities:

Instruction	$ 2,318
Support Services	5,239,720
Operation of Non-Instructional Services	25,663
Total Depreciation Expense - Governmental Activities	$ 5,267,701

C. Construction Commitments

At June 30, 2005, the General Capital Projects Fund had uncompleted construction contracts of approximately $452,669, for various construction projects. Funding for these future expenditures has been received.

At June 30, 2005, the discretely presented School Department's Education Capital Projects Fund had uncompleted construction contracts of approximately $7,812,287, for various construction projects. Funding for these future expenditures is expected to be received from contributions from the primary government.

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2005, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
Primary Government:		
General	Nonmajor governmental	$ 136,620
General	Fiduciary	39
General Debt Service	Fiduciary	1,080
Nonmajor governmental	General	2,748
Internal Service	General	1,692
Internal Service	Internal Service	182,530
School Department Component Unit:		
General Purpose School	Nonmajor governmental	248,918
Nonmajor governmental	General Purpose School	232

These balances resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur and payments between funds are made.

Due to/from primary government and component units:

Receivable Fund	Payable Fund	Amount
Primary government:	Component unit:	
General	Bi-County Solid Waste Management System	$ 304
Self-Insurance (Internal Service)	Montgomery County Nursing Home	53
Self-Insurance (Internal Service)	School Department	22,145
Component unit:		
Bi-County Solid Waste Management System	Primary government: General	15,400
School Department	Self-Insurance (Internal Service)	2,839

Interfund Transfers:

Interfund transfers for the year ended June 30, 2005, consisted of the following amounts:

Primary Government

Transfers Out	Transfers In: General Capital Projects Fund
General Fund	$ 19,071
Other Capital Projects #3 Fund	1,195,980
Nonmajor governmental funds	5,990,932
Total	$ 7,205,983

Discretely Presented Montgomery County School Department

	Transfers In	
Transfers Out	General Purpose School Fund	Nonmajor Governmental Funds
General Purpose School Fund	$ 0	$ 2,245,076
Nonmajor governmental funds	274,540	0
Total	$ 274,540	$ 2,245,076

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Capital Leases

Primary Government

On May 5, 2005, the county entered into a five-year lease-purchase agreement for a paver. The terms of the agreement require total lease payments of $200,372 plus interest of 5.07 percent. Title to the equipment transfers to the county at the end of the lease period. The lease payments are being made by the General Debt Service Fund.

Future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2005, were as follows:

Year Ending June 30	Governmental Funds
2006	$ 72,139
2007	72,140
2008	72,140
Total Minimum Lease Payments	$ 216,419
Amounts Representing Interest	(16,047)
Present Value of Minimum Lease Payments	$ 200,372

Discretely Presented School Department

On September 8, 1998, the Montgomery County School Department entered into a seven-year lease-purchase agreement for a HVAC system for the School Department. The terms of the agreement require total lease payments of $571,945 plus interest of 5.591 percent. Title to the system transfers to the School Department at the end of the lease period. The lease payments are being made by the General Purpose School Fund.

Future minimum lease payments and the net present value of these minimum lease payments as of June 30, 2005, were as follows:

Year Ending June 30	Governmental Funds
2006	$ 100,482
Total Minimum Lease Payments	$ 100,482
Amounts Representing Interest	(4,857)
Present Value of Minimum Lease Payments	$ 95,625

F. **Long-term Debt**

Primary Government

General Obligation Bonds, Notes, and Other Loans

The county issues general obligation bonds and other loans to provide funds for the acquisition and construction of major capital facilities. In addition, general obligation bonds have been issued to refund other general obligation bonds. Capital outlay notes are also issued to fund capital facilities and other capital outlay purchases, such as equipment.

General obligation bonds, other loans, and capital outlay notes are direct obligations and pledge the full faith and credit of the government. General obligation bonds, other loans, and capital outlay notes outstanding were issued for original terms of up to 32 years for bonds, up to 23 years for other loans, and up to 12 years for notes. Repayment terms are generally structured with increasing amounts of principal maturing as interest requirements decrease over the term of the debt. All bonds, other loans, and notes included in long-term debt as of June 30, 2005, will be retired from the General Debt Service Fund.

General obligation bonds, other loans, capital outlay notes, and capital leases outstanding as of June 30, 2005, are as follows:

Type	Interest Rate	Original Amount of Issue	Balance 6-30-05
General Obligation Bonds	2 to 5.12095%	$ 111,802,000	$ 68,497,035
General Obligation Bonds - Refunding	2 to 5.25	144,764,029	120,223,965
Capital Outlay Notes	3.33 to 5.21	18,901,119	9,388,274
Capital Leases	5.07	200,372	200,372
Other Loans	variable	86,315,731	26,536,289

In prior years, Montgomery County entered into a loan agreement with the Montgomery County Public Building Authority. Under this loan agreement, the authority loaned $83,845,000 to Montgomery County for various renovation and construction projects. Montgomery County has subsequently refunded a portion of this loan. The loan is repayable at an interest rate that is a tax-exempt variable rate determined by the remarketing agent daily or weekly, depending on the particular program. In addition, the county pays various other fees (trustee, letter of credit, and debt remarketing) in connection with this loan. At June 30, 2005, the variable interest rate was 2.34 percent, and other fees amounted to approximately .2 percent (letter of credit), .08 percent (remarketing), and .01 percent (trustee) of the outstanding loan principal.

In previous years, Montgomery County entered into a loan agreement with the Tennessee State School Bond Authority. Under this loan agreement, the authority borrowed $2,470,731 Qualified Zone Academy Bonds, Series 2001 (QZAB) and loaned the proceeds to Montgomery County for various renovation and construction projects. The loan is repayable at zero percent interest with an annual administrative fee of $847.

The annual requirements to amortize all general obligation bonds, other loans, and notes outstanding as of June 30, 2005, including interest payments, are presented in the following table:

Year Ending	Bonds		Notes	
June 30	Principal	Interest	Principal	Interest
2006	$ 8,610,000	$ 8,662,375	$ 2,162,020	$ 415,785
2007	9,271,000	8,295,460	2,140,778	315,173
2008	9,645,000	7,902,095	1,566,726	234,678
2009	9,200,000	7,494,081	1,168,750	173,088
2010	9,700,000	7,126,281	1,150,000	117,500
2011-2015	64,595,000	28,064,781	1,200,000	60,000
2016-2020	52,500,000	13,924,944	0	0
2021-2025	25,200,000	2,621,874	0	0
Total	$ 188,721,000	$ 84,091,891	$ 9,388,274	$ 1,316,224

Year Ending	Other Loan ($24,595,000)			
June 30	Principal	Interest	Other Fees	Total
2006	$ 0	$ 575,523	$ 71,326	$ 646,849
2007	0	575,523	71,326	646,849
2008	0	575,523	71,326	646,849
2009	0	575,523	71,326	646,849
2010	0	575,523	71,326	646,849
2011-2015	0	2,877,615	356,630	3,234,245
2016-2019	24,595,000	1,477,242	183,072	26,255,314
Total	$ 24,595,000	$ 7,232,472	$ 896,332	$ 32,723,804

	Other QZAB Loan ($2,470,731)		
Year Ending June 30	Principal	Other Fees	Total
2006	$ 176,481	$ 847	$ 177,328
2007	176,481	847	177,328
2008	176,481	847	177,328
2009	176,481	847	177,328
2010	176,481	847	177,328
2011-2015	882,404	4,235	886,639
2016	176,480	847	177,327
Total	$ 1,941,289	$ 9,317	$ 1,950,606

There is $18,600,609 available in the General Debt Service Fund to service long-term debt. Bonded debt per capita amounted to $1,400, based on the 2000 federal census. Total debt per capita, including bonds, notes, capital leases, and other loans, amounted to $1,668, based on the 2000 federal census.

Changes in Long-term liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

Primary Government

Governmental Activities:	Bonds	Notes	Capital Lease
Balance, July 1, 2004	$ 174,787,000	$ 10,323,342	$ 0
Additions	22,000,000	1,302,585	200,372
Deductions	(8,066,000)	(2,237,653)	0
Balance, June 30, 2005	$ 188,721,000	$ 9,388,274	$ 200,372
Balance Due Within One Year	$ 8,610,000	$ 2,162,020	$ 63,441

	Compensated Absences	Other Loans	Claims and Judgments
Balance, July 1, 2004	$ 1,177,742	$ 26,712,770	$ 3,928,667
Additions	1,455,587	0	18,515,817
Deductions	(1,350,147)	(176,481)	(18,112,090)
Balance, June 30, 2005	$ 1,283,182	$ 26,536,289	$ 4,332,394
Balance Due Within One Year	$ 1,282,112	$ 176,481	$ 2,265,670

Analysis of Noncurrent Libilities Presented on Exhibit A:

Total Noncurrent Liabilities, June 30, 2005	$ 230,545,538
Less: Due Within One Year	(14,559,724)
Add: Unamortized Premium on Debt	5,300,426
Less: Deferred Amount on Refunding	(4,695,562)
Noncurrent Liabilities - Due In More Than One Year - Exhibit A	$ 216,590,678

The primary government's internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for the internal service funds are included above as claims and judgments payable. Compensated absences payable will be paid from the employing funds, primarily the General and Highway/Public Works Funds.

School Department

Governmental Activities:

		Notes		Capital Lease
Balance, July 1, 2004	$	397,227	$	185,748
Deductions		(352,044)		(90,123)
Balance, June 30, 2005	$	45,183	$	95,625
Balance Due Within One Year	$	34,098	$	95,625

		Compensated Absences		Claims and Judgments
Balance, July 1, 2004	$	724,722	$	2,438,514
Additions		780,692		1,567,500
Deductions		(736,395)		(1,350,073)
Balance, June 30, 2005	$	769,019	$	2,655,941
Balance Due Within One Year	$	76,902	$	2,655,941

Claims and judgments for the School Department's workers' compensation program will be retired from the General Purpose School Fund. Compensated absences payable will be paid from the employing funds, primarily the General Purpose School and School Federal Projects Funds.

Defeasance of Prior Debt

In prior years, Montgomery County defeased certain outstanding general obligation bonds and capital outlay notes by placing the proceeds of new bonds into an irrevocable trust to provide for all future debt service payments on the old bonds and notes. The trustee is empowered and required to pay all principal and interest on the defeased bonds and notes as originally scheduled. Accordingly, the trust accounts and the defeased bonds and notes are not included in the county's financial statements. At June 30, 2005, the following outstanding bonds and notes are considered defeased:

1993 General Obligation Series	$	4,670,000
2000 Capital Outlay Notes		6,050,000
2001 General Obligation Series		42,345,000

G. Internal Financing

In-lieu-of issuing debt with financial institutions, Montgomery County often chooses to internally finance various projects with idle county funds. These debt issues that will be repaid from the same fund in which the loan was obtained are reflected as operating transfers (not notes receivable) in the financial statements of this report. Internally reported notes receivable from idle funds loaned from the General Debt Service Fund, that will subsequently be paid by the General Debt Service Fund, are reflected below:

Internally Reported Interfund Notes Receivable/Payable through the General Debt Service Fund

	Original Amount of Issue	Interest Rate	Date of Issue	Last Maturity Date
Industrial Park	$ 4,632,655	2 %	4-17-02	4-17-06
Industrial Park	977,030	2	6-10-02	6-10-06
Industrial Park	177,232	2	12-28-02	12-28-05
Industrial Park	206,537	2	8-21-03	8-21-06
Industrial Park	165,441	2	12-31-03	12-31-06

	Outstanding 7-1-04	Issued During Period	Paid and/or Matured During Period	Outstanding 6-30-05
Industrial Park	$ 3,603,175	$ 0	$ 514,740	$ 3,088,435
Industrial Park	759,912	0	108,559	651,353
Industrial Park	157,540	0	19,692	137,848
Industrial Park	206,537	0	22,949	183,588
Industrial Park	165,441	0	18,382	147,059
Total	$ 4,892,605	$ 0	$ 684,322	$ 4,208,283

H. **Short-term Debt**

Montgomery County issued tax anticipation notes in advance of property tax collections and deposited the proceeds in the primary government's General Fund ($1,500,000) and the discretely presented School Department's School Federal Projects Fund ($1,500,000) and Education Capital Projects Fund ($400,000). These notes were necessary because funds were not available to meet current obligations before current tax collections. Short-term debt activity for the year ended June 30, 2005, was as follows:

	Balance 7-1-04	Issued	Redeemed	Balance 6-30-05
Tax Anticipation Notes	$ 0	$ 3,400,000	$ (3,400,000)	$ 0

V. OTHER INFORMATION

A. Risk Management

Montgomery County and the Montgomery County School Department, Bi-County Solid Waste Management System, Montgomery County Nursing Home, Emergency Communications District of Montgomery County component units have chosen to establish the Self-Insurance Fund for risks associated with the employees' health insurance plan. The Self-Insurance Fund is accounted for as an internal service fund where assets are set aside for claim settlements. The county retains the risk of loss to a limit of $175,000 per specific loss. The county obtained a stop/loss commercial insurance policy to cover claims beyond this liability. The county carries no aggregate reinsurance coverage.

All full-time employees of the primary government and the above-noted component units are eligible to participate. A premium charge is allocated to each fund that accounts for full-time employees. This charge is based on actuarial estimates of the amounts needed to pay prior-year and current-year claims. Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The Self-Insurance Fund establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Claims liabilities include incremental claim adjustment expenditure/expenses, if any. In addition, estimated recoveries, if any, on settled claims have been deducted from the liability for unpaid claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Changes in the balance of claims liabilities during the past two fiscal years are as follows:

	Beginning of Fiscal Year Liability	Current-year Claims and Estimates	Payments	Balance at Fiscal Year-end
2003-04	$ 3,644,888	$ 14,680,303	$ (15,438,289)	$ 2,886,902
2004-05	2,886,902	17,733,248	(17,640,226)	2,979,924

Montgomery County decided to maintain a self-insurance plan for risks associated with workers' compensation claims. Claims are paid from the Worker's Compensation Fund, and the plan is administered by Brentwood Services. The county retains the risk of loss to a limit of $350,000 per specific loss. Montgomery County has obtained a stop/loss commercial insurance policy to cover claims beyond this liability.

All employees of Montgomery County, the Bi-County Solid Waste Management System, Montgomery County Nursing Home, and the Emergency Communications District of Montgomery County participate. Liabilities of the fund are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. The fund establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Claims liabilities include incremental claim adjustment expenditure/expenses, if any. In addition, estimated recoveries, if any, on settled claims have been deducted from the liability for unpaid claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Changes in the balance of claims liabilities during the past two fiscal years are as follows:

	Beginning of Fiscal Year Liability	Current-year Claims and Estimates	Payments	Balance at Fiscal Year-end
2003-04	$ 983,240	$ 912,706	$ (854,181)	$ 1,041,765
2004-05	1,041,765	783,569	(471,864)	1,353,470

On December 1, 2004, Montgomery County decided to establish an on-the-job injury program for risks associated with workplace injury. The on-the-job injury program is accounted for in the Workers' Compensation (internal service) fund where assets are set aside for claims settlements. All employees of the primary government, the Emergency Communications District of Montgomery County, the Bi-County Solid Waste Management System, and the Montgomery County Nursing Home are eligible to participate. Qualified individuals shall receive a portion of their salary, not to exceed six (6) months of benefits, provided there is medical documentation from a county-designated physician. Benefits shall not extend beyond one calendar year from the date of injury or illness. The process used to compute claims liabilities does not necessarily result in an exact amount. Changes in the balance of claims liabilities during the current fiscal year are as follows:

	Beginning of Fiscal Year Liability	Current-year Claims and Estimates	Payments	Balance at Fiscal Year-end
2004-05	$ 0	$ 413,616	$ (330,589)	$ 83,027

Montgomery County, the Montgomery County School Department, Emergency Communications District of Montgomery County, Bi-County Solid Waste Management System, and the Montgomery County Nursing Home decided to maintain a self-insurance plan for risks associated with unemployment compensation claims. The county and the above-noted component units participate in the unemployment compensation program administered by the State of Tennessee. The fund is financed from interest earnings, and each fund is assessed for excess claims filed.

Montgomery County is exposed to various risks related to general liability, property, and casualty losses. Officials decided it was more economically feasible to join a public entity risk pool as opposed to purchasing commercial insurance for general liability, property, and casualty insurance coverage. Montgomery County joined the Local Government Property and Casualty Fund (LGPCF), which is a public entity risk pool established by the Tennessee County Services Association, an association of member counties. Montgomery County pays annual premiums to the LGPCF for its general liability, property, and casualty insurance coverage. The creation of the LGPCF provides for it to be self-sustaining through member premiums. The LGPCF reinsures through commercial insurance companies.

The School Department decided to maintain a self-insurance plan for risks associated with workers' compensation claims. Claims are paid from the General Purpose School Fund, and the plan is administered by Brentwood Services. The School Department retains the risk of loss to a limit of $275,000 per specific loss. The maximum liability amounted to $2,529,570 for the year. The School Department has obtained a stop/loss commercial insurance policy to cover claims beyond this liability.

All employees of the School Department participate. Liabilities of the fund are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. The fund establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Claims liabilities include incremental claim adjustment expenditure/expenses, if any. In addition, estimated recoveries, if any, on settled claims have been deducted from the liability for unpaid claims. The process used to compute claims liabilities does not necessarily result in an exact amount. Changes in the balance of claims liabilities during the past two fiscal years are as follows:

	Beginning of Fiscal Year Liability	Current-year Claims and Estimates	Payments	Balance at Fiscal Year-end
2003-04	$ 1,879,997	$ 2,339,031	$ (1,780,514)	$ 2,438,514
2004-05	2,438,514	1,567,500	(1,350,073)	2,655,941

The School Department joined the Tennessee School Boards Risk Management Trust (TSB-RMT), which is a public entity risk pool established by the Tennessee School Boards Association, an association of member school districts. The School Department pays an annual premium to the TSB-RMT for its general liability, property, and casualty insurance coverage. The creation of the TSB-RMT provides for it to be self-sustaining through member premiums.

B. Accounting Change

During the year, Montgomery County adopted the provisions of Governmental Accounting Standards Board Statement No. 40, Deposit and Investment Risk Disclosures. These provisions modified the county's previous custodial risk disclosures for deposits and investments and related collateral. These provisions also added disclosures about other types of risk, including credit risk, interest rate risk, foreign currency risk, and concentrations of credit risk. Governments are also required to provide brief disclosures about their deposit and investment policies that are related to any of the risks required to be disclosed.

C. Subsequent Events

On July 11, 2005, Montgomery County authorized $1,414,068 in capital outlay notes for various equipment purchases and construction projects and $1,265,000 in capital outlay notes for school construction.

On August 8, 2005, Montgomery County authorized $285,000 in bond anticipation notes for school construction.

On September 12, 2005, Montgomery County authorized the sale of the Montgomery County Nursing Home.

On September 12, 2005, Montgomery County authorized $300,000 in bond anticipation notes for school construction.

On October 10, 2005, Montgomery County authorized Qualified Zone Academy Bonds totaling $3,771,500 for school construction.

On November 27, 2005, Doug Black, Highway Supervisor, died. On January 9, 2006, Mike Frost was appointed by the County Commission to fill the remainder of Mr. Black's term.

On December 1, 2005, Montgomery County issued general obligation bonds totaling $40,000,000 for various construction projects.

On January 9, 2006, Montgomery County authorized $980,000 in bond anticipation notes for school construction.

On February 13, 2005, Montgomery County authorized capital outlay notes totaling $460,000 to purchase vehicles for the Sheriff's Department.

D. Contingent Liabilities

The county is involved in several pending lawsuits. The county attorney is of the opinion that potential claims against the county not covered by insurance resulting from such litigation would not materially affect the financial statements of the county.

Montgomery County is contingently liable for certain revenue bonds of the Montgomery County Nursing Home. Montgomery County would become liable for these bonds and the interest thereon, in the event of default by the Montgomery County Nursing Home. The principal of these revenue bonds is reflected on the financial statements of the Montgomery County Nursing Home.

E. Change in Administration

Ted Crozier, Jr. succeeded Ed Davis as clerk and master effective January 1, 2005.

F. Joint Ventures

The Montgomery County Rail Service Authority provides a continuation of rail service within the area of Montgomery County, and its governing body comprises four members. The county mayor serves as a member and appoints another member subject to the County Commission's approval. The mayor of the city of Clarksville serves as a member and appoints another member subject to the Clarksville City Council's approval. State grants provide the majority of funding for the rail authority.

Montgomery County and the City of Clarksville jointly created the Clarksville Montgomery County Airport, the Clarksville Montgomery County Public Library, and the Clarksville Montgomery County Regional Planning Commission. These joint ventures are operated by county/city-appointed boards/commissions for the benefit of all citizens of the two entities. Montgomery County has control over budgeting and financing the joint ventures only to the extent of representation by the board members appointed. Each entity is responsible for funding 50 percent of any deficits from operations if not covered by prior earnings.

The Economic and Community Development Board is a joint venture between Montgomery County and the City of Clarksville. The board comprises the county mayor, city mayor, and several additional members. The purpose of the board is to foster communications relative to economic and community development between and among governmental entities, industry, and private citizens. The county and city will provide the majority of funding for the board based on the percentage of their population compared to the total census of the county when financial activity begins. Montgomery County did not appropriate any funds to the Economic and Community Development Board during the 2004-05 year.

The Nineteenth Judicial District Drug Task Force (DTF) is a joint venture formed by an interlocal agreement between the district attorney general of the Nineteenth Judicial District and Montgomery County. The purpose of the DTF is to provide multi-jurisdictional law enforcement to promote the investigation and prosecution of drug-related activities. Funds for the operations of the DTF come primarily from federal grants, drug fines, and the forfeiture of drug-related assets to the DTF. The DTF is overseen by the district attorney general and is governed by a board of directors including the district attorney general and the Montgomery County Sheriff. Montgomery County did not appropriate any funds to the DTF during the 2004-05 year.

The county does not retain an equity interest in any of the listed joint ventures.

Complete financial statements for the above-noted joint ventures can be obtained from their administrative offices at the following addresses:

Administrative Offices:

Montgomery County Rail Service Authority
Montgomery County Mayor
P. O. Box 368
Clarksville, TN 37040

Clarksville Montgomery County Airport
200 Airport Road
Clarksville, TN 37042

Clarksville Montgomery County Public Library
350 Pageant Lane, Suite 501
Clarksville, TN 37040

Clarksville Montgomery County Regional
Planning Commission
329 Main Street
Clarksville, TN 37040

Economic and Community Development Board
329 Main Street
Clarksville, TN 37040

Office of District Attorney General
Nineteenth Judicial District Drug Task Force
P. O. Box 3203
Clarksville, TN 37043

G. Jointly Governed Organization

The county, in conjunction with the City of Clarksville, has created the Clarksville-Montgomery County Tourism Commission. The nine-member Tourism Commission is selected by and with the joint approval of the city mayor and county mayor. Major funding for this organization is from the hotel/motel tax; however, the county and city do not have any ongoing financial interest or responsibility for this entity.

H. Landfill Closure/Postclosure Care Costs

State and federal laws and regulations require the county to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the Bi-County Solid Waste Management System, a component unit, will report a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date.

I. Retirement Commitments

Plan Description

Employees of Montgomery County are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Montgomery County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at http://www.treasury.state.tn.us/tcrs/PS/.

Funding Policy

Montgomery County has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to five percent of annual covered payroll. The county is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2005, was 13.14 percent of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Montgomery County is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2005, Montgomery County's annual pension cost of $5,911,199 to TCRS was equal to the county's required and actual contributions. The required contribution was determined as part of the July 1, 2003, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post-retirement increases of three percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. Montgomery County's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2003, was 12 years.

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-05	$5,911,199	100%	$0
6-30-04	4,764,732	100	0
6-30-03	4,445,503	100	0

Required Supplementary Information
Schedule of Funding Progress for Montgomery County

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6-30-03	$75,336	$85,440	$10,104	88.17%	$38,964	25.93%
6-30-01	64,298	75,200	10,902	85.50	35,718	30.52
6-30-99	52,331	61,468	9,137	85.14	31,150	29.33

SCHOOL TEACHERS

Plan Description

The Montgomery County School Department contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service, or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979, are vested after five years of service. Members joining prior to July 1, 1979, are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. A cost of living adjustment (COLA) is provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at http://www.treasury.state.tn.us/tcrs/Schools/.

Funding Policy

Most teachers are required by state statute to contribute five percent of their salaries to the plan. The employer contribution rate for the School Department is established at an actuarially determined rate. The employer rate for the fiscal year ended June 30, 2005, was 5.5 percent of annual covered payroll. The employer contribution requirement for the School Department is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ended June 30, 2005, 2004, and 2003, were $4,202,984, $2,416,297, and $2,276,729, respectively, equal to the required contributions for each year.

J. Other Post-employment Benefits

In addition to the retirement commitments described above, Montgomery County provides post-employment health care benefits to full-time employees with 20 years of service who were enrolled in the health insurance program for at least two years. Montgomery County pays a portion of the premium for retirees and their spouses. The retirees may remain on the plan until they become eligible for Medicare. Currently, there are 13 employees receiving this benefit.

Also, in addition to the retirement commitments described above, the discretely presented Montgomery County School Department offers post-employment health care benefits. Eligible employees are those who will have 30 years of verified Tennessee Consolidated Retirement System service, or reached 55 years of age and a minimum of 20 years of service. For an eligible employee, the school system will provide that employee and spouse with the same health insurance coverage provided for regular full-time employees if the eligible employee has been covered with the same before their retirement. A portion of the cost of the insurance premium will be paid by the Montgomery County School Department. The insurance coverage will remain in effect until the retiree attains the age of 65 or ten years, whichever comes first. Currently, there are 104 employees receiving this benefit.

The discretely presented Montgomery County School Department provides post-employment life insurance benefits to certified employees with 20 years of service. The School Department pays 100 percent of life insurance premiums ($7,000 policy) until death.

K. Office of Central Accounting, Budgeting, and Purchasing

Montgomery County operates under provisions of the Fiscal Control Acts of 1957, which provide for a central system of accounting, budgeting, and purchasing covering funds administered by the county mayor and highway supervisor. These funds were maintained in the Office of Central Accounting and Budgeting and the Office of Central Purchasing under the supervision of the director of accounts and budgets and the purchasing agent.

L. Purchasing Laws

Office of Central Purchasing

Purchasing for the County Mayor's Office and the Highway Department was governed by Section 5-14-101 et seq., Tennessee Code Annotated (TCA). Purchases for the Highway Department were also governed by the Uniform Road Law, Section 54-7-113, TCA. Section 5-14-101 et seq., TCA, provides for a purchasing agent, appointed by the county mayor and approved by the Montgomery County Commission, to make all purchases. This statute also provides for a County Purchasing Commission to assist the purchasing agent in the determination of overall purchasing policies. These statutes require that sealed bids be solicited on purchases exceeding $5,000 for the Office of County Mayor and $10,000 for the Highway Department.

Office of Director of Schools

Purchasing procedures for the School Department are governed by purchasing laws applicable to schools as set forth in Section 49-2-203, Tennessee Code Annotated, which provides for the county Board of Education, through its executive committee (director of schools and chairman of the Board of Education), to make all purchases. This statute also provides for the School Department, which has a purchasing division, to use a comprehensive vendor list for the purpose of soliciting competitive bids; provided, that the vendors on such list are given notice to bid; and provided further, that such purchasing division shall periodically advertise in a newspaper of general circulation in the county for vendors and shall update the list of vendors following such advertisement.

VI. OTHER NOTES – DISCRETELY PRESENTED EMERGENCY COMMUNICATIONS DISTRICT OF MONTGOMERY COUNTY

A. Summary of Significant Accounting Policies

The accounting and reporting policies of E-911 Emergency Communications District of Montgomery County relating to the accounts included in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments.

The following significant accounting policies were applied in the preparation of the accompanying financial statements:

Reporting Entity – The district, a component unit of Montgomery County, provides emergency communications and dispatch services for all fire, law enforcement, and other emergency departments within the county. As a component unit, the district cannot issue bond debt without approval of the county. The governing board of the district is appointed equally by the city and county and a substantial portion of operating revenues are provided by allocations from Montgomery County and the City of Clarksville. The district's financial statements include only the assets and operations of the district and do not include any other fund, organization, agency, or department of the city or county.

Measurement Focus/Basis of Accounting – Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

District operations are accounted for on a cost of service measurement focus using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when the related liabilities are incurred.

The major sources of revenue are customer service charges and operating subsidies, as discussed below:

(1) Subscriber Fees – A monthly subscriber fee is added to each telephone line in Montgomery County. The charge is billed and collected by the telephone company and is remitted to the district after deduction of a one percent administrative fee.

(2) Operating Subsidies – The district received an operating subsidy from Montgomery County.

Budgets and Budgetary Accounting – The district's annual budget is a management tool that assists its users in analyzing financial activity for its fiscal year ended June 30.

The district board of directors formally approves the budget. The budget is adopted on a basis consistent with generally accepted accounting principles except that depreciation is not budgeted and the budgeted cost of capital assets purchased is included as an expenditure.

Budgeted amounts lapse at the end of the fiscal year, and no unexpended balances are carried to the subsequent year.

Leave Policies – Annual leave is accrued on a monthly basis from the effective date of an employee's appointment. Annual leave may be accrued up to a maximum of 160 hours for less than five years of employment, 192 hours for five to ten years of employment, and 200 hours for more than ten years employment. At the end of each month, accrued hours for each employee in excess of the maximum are transferred to sick leave. On termination of employment, the district pays an accrued vacation leave in a lump cash payment to such employee. All accrued compensated absences are shown on the balance sheet as long-term liabilities since a reasonable estimation of the current portion cannot be made.

Sick leave is accumulated on a monthly basis from the effective date of an employee's appointment. Employees may accrue an unlimited number of hours. On termination of employment of any employee, for any reason except retirement, all sick leave is forfeited. On retirement of an employee, accrued sick leave is credited toward extending the computation of longevity. Accrued sick leave is not included as a liability in the balance sheet.

Encumbrances – Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the district.

Capital Assets and Depreciation – Capital assets are recorded at cost. Capital expenditures of $5,000 or more and certain sensitive equipment, such as computer equipment, are capitalized for future depreciation. General equipment costing less than $5,000 is an expense of the period when placed in service. Computer software is not considered capital equipment. Depreciation and accumulated depreciation are recorded on capitalized equipment. Assets are depreciated using the straight-line basis, and a five to 15 year expected useful life.

Occupancy – An interlocal agreement has been signed by Montgomery County, City of Clarksville, and E-911 Emergency Communications District whereby the City of Clarksville has furnished the land and a newly constructed building to house the operations of E-911. The city owns the property and has issued bond indebtedness for construction of the building. E-911 reimburses the city for each bond and interest payment, and the city promises to transfer title to the property to the district at a date no later than retirement of the indebtedness. The payments by the district to the city are reported as occupancy expense each year when paid. The district occupied the building on November 4, 2003. Prior to occupancy, the district paid a bond and interest payment for the year ended June 30, 2003. This payment of $346,787 is reported as prepaid rent to be amortized over the 20-year term.

Cash and Cash Equivalents – Cash and cash equivalents as shown in the Statement of Cash Flows include all cash in bank accounts and on hand that is allocated for use by the district.

Election in Accordance with GASB 20 – The district has elected to follow only GASB guidance issued after November 30, 1989, and not to follow any FASB guidance issued after that date.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash Funds – Cash funds of the district are combined with other county funds and managed by the county trustee. Interest earned on these combined cash funds is allocated as directed by the County Commissioners. Interest income of $7,650 was allocated to the district during the current year.

Other Significant Accounting Principles – Other significant accounting principles are described throughout the notes section of this audit report or disclosed in the statement format.

B. **Cash Deposits**

Cash deposits are carried at cost, which approximates market value. The carrying amount of deposits is separately displayed on the balance sheet at $535,601. At June 30, 2005, the deposits of the district were held by the Montgomery County Trustee in a combined fund with other Montgomery County deposits. The deposits of Montgomery County Trustee, that exceed Federal Deposit Insurance Corporation insurance limits, are further insured by securities set aside as collateral and pledged to the state treasurer of the State of Tennessee. This pledging is accomplished as prescribed by Tennessee State Code, Public Funds Collateral Pool Board.

C. **Accounts Receivable**

Accounts receivable consists primarily of amounts due for monthly service charges collected for the district:

Service Charges:	
Bell South	$ 82,330
Other Service Providers	24,673
State Wireless Charges	78,291
Total Service Charges	$ 185,294
Interest and Miscellaneous	901
Total	$ 186,195

D. Change in Property and Equipment

	Balance 7-1-04	Additions	Balance 6-30-05
Capital Assets Depreciated:			
Furniture and Fixtures	$ 65,100	$ 0	$ 65,100
Communication Equipment	522,015	0	522,015
Total Capital Assets Depreciated	$ 587,115	$ 0	$ 587,115
Less: Accumulated Depreciation For:			
Furniture and Fixtures	17,902	3,906	21,808
Communication Equipment	211,457	54,390	265,847
Total Accumulated Depreciation	$ 229,359	$ 58,296	$ 287,655
Total Capital Assets Depreciated, Net	$ 357,756	$ (58,296)	$ 299,460

Equipment costing $404,325 is subject to capital leases totaling $46,753 at June 30, 2005.

The City of Clarksville has constructed a building to be used by, and eventually transferred to, the district. The district is responsible for payment of debt service to the city. The district has reported $410,969 for use of the building for the year ended June 30, 2005.

E. Service Arrangement Contract

On March 11, 1988, the district negotiated a service agreement with South Central Bell for the installation and service of an Enhanced 911 Emergency Service System. South Central Bell furnishes equipment and service sufficient to operate the system for an initial installation fee and a monthly fee based upon the number of telephone stations and access lines served by the system. At June 30, 2005, the monthly fee was $8,290.

F. Retirement Commitments

Plan Description – Employees of the district are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits, as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service, or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service, and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the district participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF form can be accessed at http://www.treasury.state.tn.us/tcrs/PS/.

Funding Policy – The district has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to five percent of annual covered payroll.

The district is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2005, was 10.2 percent of annual covered payroll. The contribution requirements of plan members are set by state statute. The contribution requirement for the district is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost – For the year ended June 30, 2005, the district's annual pension cost of $94,019 to TCRS was equal to the district's required and actual contributions. The required contribution was determined as part of the July 1, 2003, actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the social security wage base, and (d) projected post-retirement increases of three percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The district's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2003, was eighteen years.

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6-30-05	$ 94,019	100%	$ 0
6-30-04	94,755	100	0
6-30-03	87,489	100	0

G. **Contingencies**

There are no material contingencies that should be disclosed in these financial statements.

H. **Related Party Transactions**

There were no related party transactions that should be disclosed in these financial statements.

I. **Subsequent Events**

There were no material subsequent events that should be disclosed in these financial statements.

J. **Risk Management**

The district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The district has elected to obtain various insurance policies to transfer risk to a commercial insurance company either directly or through the Tennessee County Services Association Pool. Insurance settlements have not been in excess of insurance coverage in any of the prior three fiscal years. Insurance for the district is included in the policies written for Montgomery County and the City of Clarksville.

K. **Long-term Debt**

District debt consist of capital leases for equipment as follows:

	Debt Balance 6-30-05
Equipment and fees totaling $269,842 on 6-12-01 with five-year lease payable at $5,173 per month	$ 46,753

Schedule of debt payments:

Year Ended		Principal		Interest		Total
6-30-06	$	46,753	$	1,139	$	47,892

L. **Required Supplementary Information (RSI)**

Information required to be included in the RSI section has been omitted from this report. This omission includes the Management Discussion and Analysis, a required part of RSI.

M. **Prepaid Expenses**

Prepaid expenses at June 30, 2005, consisted of the following:

		Current		Non-Current		Total
Pre-Occupancy building costs of $346,787 being amortized over 20 years	$	17,339	$	294,770	$	312,109

VII. OTHER NOTES – DISCRETELY PRESENTED BI-COUNTY SOLID WASTE MANAGEMENT SYSTEM

A. **Summary of Significant Accounting Policies**

The financial statements of the Bi-County Solid Waste Management System (Bi-County) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies for Bi-County are described as follows:

1. The Financial Reporting Entity

Bi-County, a component unit of Montgomery County, provides landfill and collection services for Montgomery and Stewart Counties. The board members of Bi-County are appointed by the joint participants; however, Montgomery County appoints a voting majority of the board members. Bi-County is treated as a discrete component unit of Montgomery County since Montgomery County may unilaterally control the operations of Bi-County. The financial reporting entity of Bi-County only includes the assets and operations of Bi-County and does not include any other fund, organization, institution, agency, department, or office of Montgomery County, the primary government.

2. Government-wide Financial Statements

The government-wide financial statements include statements of net assets and a statement of activities. These statements present summaries of governmental and business-type activities for Bi-County.

These statements are presented on an economic resources measurement focus and the accrual basis of accounting. Accordingly, all of Bi-County's assets and liabilities, including capital assets, infrastructure assets, and long-term liabilities are included in the accompanying statement of net assets.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of Bi-County's activities. Direct expenses are those that are specifically associated with a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that have been obtained to meet the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each function of Bi-County is self-financed or draws from general revenues.

3. Basis of Accounting

Basis of accounting refers to when revenues or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The proprietary fund utilizes the accrual basis of accounting. Its revenues are recognized when earned, and its expenses are recognized when incurred.

Bi-County is subject to the accounting directives issued by the Governmental Accounting Standards Board (GASB) and, therefore, has adopted, in all material respects, the provisions of all applicable GASB pronouncements and all applicable pronouncements of the Financial Accounting Standards Board issued through November 30, 1989, which do not conflict with GASB pronouncements.

4. Budgetary Control

Bi-County, as a component unit of Montgomery County, is required by state statute to adopt an annual budget. Expenditures may not legally exceed appropriations authorized by the County Commission, and any authorized revisions. Appropriations lapse at the end of each year.

The budgetary level of control is at the major category level. Management may make revisions within major categories except for certain line items such as salaries, but only the governing body may transfer appropriations between major categories.

Bi-County's budgetary basis of accounting is consistent with generally accepted accounting principles.

5. Inventories

Inventories consist of expendable supplies, primarily fuel held for consumption, and are valued at cost on the average cost method. The cost thereof is expensed at the time individual items or quantities are used and not at the time purchased.

6. Property, Plant, and Equipment

All property, plant, and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated property, plant, and equipment are valued at their estimated fair value on the date donated. Bi-County does not have a material amount of donated assets. Property items with cost or value of less that $5,000 are recorded as a current year expense, and therefore, are not included on the balance sheet, except that all real property is recorded as a capital asset. No interest costs were capitalized for the year ended June 30, 2005.

Depreciation is provided in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis. The service lives by type of asset are as follows:

Assets	Years
Building and Improvements	15-30 years
Equipment and Vehicles	5-10 years
Cell Construction	5 years

7. Compensated Absences

Bi-County's policy is to permit employees to accumulate a limited amount of earned but unused vacation benefits as well as unused compensatory time, which will be paid to employees upon separation from service. Compensatory time is to be paid within 45 days of being accrued. The granting of sick leave has no guaranteed payment attached, either through official policy or custom, and is therefore not required to be accrued or recorded.

8. Interfund Transactions

All interfund transactions are accounted for as transfers. Nonrecurring or nonroutine transfers of equity are considered residual equity transfers, and all other transfers are treated as operating transfers.

9. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and on deposit with the Montgomery County Trustee.

10. Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ form those estimates.

11. Concentration of Credit Risk

Financial instruments that potentially subject Bi-County to concentrations of credit risk consist principally of cash deposits. The Montgomery County Trustee generally limits Bi-County's exposure to this credit risk by maintaining cash deposits only in financial institutions covered by FDIC insurance and/or members of the state collateral pool.

12. Classification of Proprietary Fund Revenue

Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the fund. The principal operating revenues for the proprietary fund are charges for services and user fees. Operating expenses are the costs of providing services and include administrative expenses and depreciation. Other revenues and expenses are classified as non-operating in the financial statements.

13. Other Significant Accounting Principles

Other significant accounting principles are described throughout the notes section of this audit report or disclosed in the statement format.

B. **Deposits and Investments**

1. Deposits

Cash deposits are carried at cost which approximates market value. The carrying amount of deposits is $10,675,586. At June 30, 2005, the deposits of Bi-County totaled $10,743,389 and were held by the Montgomery County Trustee in a combined fund with other Montgomery County deposits. The deposits of the Montgomery County Trustee, that exceed FDIC insurance limits, are further insured by securities set aside as collateral and pledged to the state treasurer of the State of Tennessee. This pledging is accomplished as prescribed by Tennessee State Code, Public Funds Collateral Pool Board. These securities are held at the Federal Reserve Branch in Nashville, Tennessee for the State of Tennessee.

Interest income of $159,666 earned by these deposits has been recorded or disclosed in these financial statements. Interest earned by the combined county funds is allocated by direction of the County Commission.

2. Investments

Bi-County is authorized to make direct investments in bonds, notes, or treasury bills of the U.S. Government and obligations guaranteed by the U.S. Government or any of its agencies. These investments may not have maturity greater than two years. Bi-County may make investments with longer maturities if it follows various restrictions set out in state law. Bi-County is also authorized to make investments in the State Pooled Investment Fund and in repurchase agreements.

C. **Retirement Commitments**

Plan Description – Certain employees of Bi-County (as employees of Montgomery County) are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits, as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service, or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service, and members joining the system prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of Tennessee Code Annotated. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Montgomery County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at www.treasury.state.tn.us/tcrs/ps/.

Funding Policy – Montgomery County has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to five percent of annual covered payroll. Montgomery County is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2005, was 13.14 percent of annual covered payroll. The contribution requirements of plan members are set by state statute. Contribution requirements for Montgomery County are established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost and Actuarial Information – Pension costs and actuarial information for Bi-County Solid Waste Management System cannot be separately stated. Bi-County is a component unit of Montgomery County, and aggregated pension information is reported for all Montgomery County employees in the June 30, 2005, Montgomery County Annual Financial Report.

D. Landfill Closure and Postclosure Care Cost

State and federal laws and regulations require Bi-County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, Bi-County will report a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. Closure/postclosure costs are calculated from an engineering evaluation. The $6,416,000 reported as landfill closure and postclosure care liability at June 30, 2005, represents the cumulative amount reported to date. The landfill will recognize an additional estimated cost of closure and postclosure care of $2,063,000 as the remaining estimated capacity is filled.

These amounts are based on what it would cost to perform all closure and postclosure care in 2005. Bi-County expects to close the landfill in the year 2010. Actual cost may be higher due to inflation, changes in technology, or changes in regulation. Also, expansion of the landfill property could change these estimates.

Montgomery and Stewart Counties have executed a "Contract in-Lieu-of Performance Bond" for $8,759,160 to provide financial assurance to the State of Tennessee for estimated operation, closure, and postclosure care costs.

Change in Long-term Obligation for Closure and Postclosure Cost:

Accrued liability at July 1, 2004	$ 5,900,478
Current year accrual	515,522
Accrued liability at June 30, 2005	$ 6,416,000

These calculations are based upon a closure/postclosure study conducted in June 2000, but estimated costs have been updated for inflation at May 6, 2005, by the State of Tennessee, Department of Environment and Conservation.

E. Accounts Receivable

Accounts receivable at June 30, 2005, consist of the following categories of receivables:

	Special Revenue Fund	Enterprise Fund	Total
Pass-through Grants Receivable	$ 0	$ 14,712	$ 14,712
Customers Receivables	0	251,213	251,213
User Fees Receivables	0	75,958	75,958
Other	250	27,684	27,934
Total Accounts Receivable	$ 250	$ 369,567	$ 369,817

Loans Receivable – consist of an advance from Bi-County of $6,500 which is pooled with other Montgomery County funds to establish the account for workers' compensation self-insurance.

The paying agent, Brentwood Services, holds this money on behalf of Bi-County at AmSouth Bank, and Montgomery County maintains records to account for the Bi-County portion.

F. Schedule of Changes in Property, Plant, and Equipment

	Balance 7-1-04	Additions	Transfers or Retirements	Balance 6-30-05
Enterprise Assets-Landfill				
Capital Assets Not Depreciated:				
Land-Held for Expansion	$ 616,156	$ 0	$ 0	$ 616,156
Land	20,849	0	0	20,849
Total Capital Assets Not Depreciated	$ 637,005	$ 0	$ 0	$ 637,005
Capital Assets Depreciated:				
Buildings and Improvements	$ 1,878,724	$ 36,308	$ 5,545	$ 1,909,487
Machinery and Equipment	4,861,056	831,801	307,804	5,385,053
Other Property	845,863	0	0	845,863
Total Capital Assets Depreciated	$ 7,585,643	$ 868,109	$ 313,349	$ 8,140,403
Less Accumulated Depreciation For:				
Buildings and Improvements	$ 364,254	$ 75,306	$ 886	$ 438,674
Machinery and Equipment	2,826,281	345,940	252,907	2,919,314
Other Property	657,877	83,785	0	741,662
Total Accumulated Depreciation	$ 3,848,412	$ 505,031	$ 253,793	$ 4,099,650
Total Capital Assets Depreciated, Net	$ 3,737,231	$ 363,078	$ 59,556	$ 4,040,753
Total Enterprise Assets, Net	$ 4,374,236	$ 363,078	$ 59,556	$ 4,677,758
Governmental Assets				
Capital Assets Not Depreciated:				
Land	$ 17,987	$ 0	$ 0	$ 17,987
Capital Assets Depreciated:				
Buildings and Improvements	$ 52,094	$ 0	$ 0	$ 52,094
Machinery and Equipment	1,462,379	143,666	0	1,606,045
Total Capital Assets Depriciated	$ 1,514,473	$ 143,666	$ 0	$ 1,658,139
Less Accumulated Depreciation For:				
Buildings and Improvements	$ 12,114	$ 6,857	$ 0	$ 18,971
Machinery and Equipment	915,825	90,939	0	1,006,764
Total Accumulated Depreciation	$ 927,939	$ 97,796	$ 0	$ 1,025,735
Total Capital Assets Depreciated, Net	$ 586,534	$ 45,870	$ 0	$ 632,404
Total Governmental Assets, Net	$ 604,521	$ 45,870	$ 0	$ 650,391

Equipment costing $136,844 is encumbered by a capital lease obligation of $39,677.

G. Contingent Liabilities

There were no material contingent liabilities that should be disclosed in these audited financial statements.

H. Sources of Revenue

Bi-County receives a substantial amount of its charges for services (tipping fees) from Cheatham County and three haulers: Clarksville Disposal, Mark Dunning Industries, and Dependable Disposal. Bi-County also collects a user fee from each household in Montgomery and Stewart Counties. A major reduction in revenue from any of the above sources, should this occur, may have a significant effect on the future operations of Bi-County.

I. Related Parties

There were no material related party transactions that should be disclosed in these audited financial statements.

J. Subsequent Events

There were no significant subsequent events that should be disclosed in these audited financial statements.

K. Risk Management

Bi-County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Bi-County through its primary government, Montgomery County, has elected to obtain various insurance policies to transfer risk to a commercial insurance company either directly or through the Tennessee County Services Association Pool. Insurance settlements have not been in excess of insurance coverage in any of the prior three fiscal years.

Bi-County Solid Waste Management System, along with other Montgomery County component units, has chosen to establish a combined Self-Insurance Fund for risks associated with the employees' health insurance plan.

L. Operating Leases

Bi-County has convenience centers in 17 locations in Montgomery and Stewart Counties. These convenience centers are located on leased property. The $26,100 lease payments for this year are included in the contracted services category on the statement of revenue and expenditures.

None of these are considered to be capital leases, and a schedule of future required minimum rental payments is not presented. None of theses leases are noncancelable and each can be renewed or canceled by either party.

M. **Governmental Long-term Debt**

On November 1, 2001, Bi-County entered into a capital lease agreement for equipment costing $136,844. The five-year lease bears interest at 4.69 percent. Projected liability for the debt is as follows:

Year Ending	Principal	Interest	Total
6-30-07	$ 29,524	$ 1,231	$ 30,755
6-30-08	10,153	100	10,253
Total	$ 39,677	$ 1,331	$ 41,008

N. **Changes in Long-term Debt**

	Balance 7-1-04	Payments	Balance 6-30-05
Capital Lease	$ 67,852	$ 28,175	$ 39,677

VIII. **OTHER NOTES – DISCRETELY PRESENTED CLARKSVILLE-MONTGOMERY COUNTY INDUSTRIAL DEVELOPMENT BOARD**

A. **Summary of Significant Accounting Policies**

1. Financial Reporting Entity

The Clarksville-Montgomery County Industrial Board is a nonprofit corporate agency and instrumentality of Montgomery County, Tennessee, organized under Title 7, Chapter 53 of the Tennessee Code Annotated. The board has as its main purpose maintaining and increasing employment opportunities and furthering the use of Montgomery County's agricultural products and natural resources by promoting industry, trade, commerce, and construction by inducing manufacturing, industrial, governmental, educational, financial, service, commercial, and recreational enterprises to locate in or remain in this area.

The board is a component unit of Montgomery County, Tennessee, which is the principal reporting entity and primary government. The county is responsible for appointing the majority of the board of directors and provides its primary funding support.

The board applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements or opinions conflict with or contradict GASB pronouncements. The board is treated as a discrete component unit of Montgomery County since Montgomery County may unilaterally control the operations of the board. The financial reporting entity of the board only includes the assets and operations of the board and does not include any other fund, organization, institution, agency, department, or office of Montgomery County, the primary government.

In fiscal year 1995, the Clarksville-Montgomery County Tourism Commission (Tourism), the Clarksville Area Chamber of Commerce (Chamber) and the board organized the Clarksville-Montgomery County Economic Development Council (EDC) to develop, coordinate, and implement a comprehensive marketing plan relating to economic development in Montgomery County and to advance the general welfare and economic prosperity of Clarksville-Montgomery County and the surrounding area.

The board is responsible for 45 percent of the EDC director's salary, payroll taxes, benefits, and certain other operating costs and expenses related to general administration of the EDC. The Chamber and Tourism are responsible for 38 percent and 17 percent, respectively, for expenses related to the EDC director and general administration expenses. All other expenses of the EDC are shared based on usage allocations.

The EDC issues a publicly available financial report. That report may be obtained by writing to Clarksville-Montgomery County Economic Development Council, 312 Madison Street, Clarksville, TN 37040.

2. Basis of Presentation

In preparing the statement of net assets and statement of activities, the board uses the accrual basis of accounting. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Allocations of costs, such as depreciation, are recorded. All assets and liabilities (whether current or noncurrent) associated with the board's activities are reported.

3. Funding

The board receives operating subsidies from Montgomery County. A major reduction of funds by this supporting organization, should this occur, may have a significant effect on the future operations of the board.

4. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and the variances could be material to the financial statements.

5. Concentrations of Credit Risk/Custodial Credit Risk

Financial instruments that potentially subject the board to significant concentrations of credit risk consist principally of cash and accounts receivable. The board places its cash with federally insured financial institutions and limits the amount of credit exposure to any one institution by requiring collateral.

At June 30, 2005, cash in banks reported in the financial statements at $670,016 were represented by bank balances of $838,578, all of which were insured by the FDIC or the State of Tennessee Collateral Pool.

6. Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The board does not have a material amount of donated assets. Depreciation is provided in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis.

7. Property Held for Sale or Lease

Property held for sale or lease is recorded at cost. The cost of property sold is charged to expense using the specific identification method.

8. Accrued Compensated Absences

Employees are required to take earned vacation days within the fiscal year. Employees are not paid for sick days upon separation from service. Therefore, there are no accrued compensated absences at the financial statement date.

9. Uncollectible Accounts

Bad debts are charged to expense using the direct-write-off method, which is not materially different from the allowance-for-bad-debt method.

B. **Investments and Other Deposits**

Investments and other deposits are restricted by state law to deposits with financial institutions and certain obligations guaranteed by the United States Government. Investments and other deposits are stated at cost or amortized cost, which approximates fair value at June 30, 2005. The following is a summary of the board's certificates of deposit at June 30, 2005, all of which were insured by the FDIC or the State of Tennessee Collateral Pool.

	Carrying Amount	Market Value
Certificates of Deposit	$ 495,174	$ 495,174

C. **Capital Assets**

A summary of changes in capital assets and accumulated depreciation follows:

Property and Equipment	Balance 7-1-04	Additions	Balance 6-30-05
Equipment	$ 40,123	$ 4,703	$ 44,826
Vehicles	28,282	0	28,282
	$ 68,405	$ 4,703	$ 73,108
Accumulated Depreciation	$ 37,594	$ 7,584	$ 45,178

D. **Land Purchase Options and Preacquisition Costs**

The board had a land purchase option outstanding at June 30, 2005, for one property. The $100,000 recorded in the financial statements for this option will be applied against the purchase price of the property when the option is exercised. The tract of land is approximately 98 acres and the option price is $20,000 per acre. The term of the option is for seven years. The sellers will retain the $100,000 if the option is not exercised. The board incurred preacquisition costs related to the option of $11,674.

E. Property Held for Sale or Lease

			At Cost
Land-Park Expansion	814.133	acres available	$ 10,862,770
Goodpasture Property	46.014	"	273,251
Bell Property	116.5	"	428,735
Hamill Property	7.75	"	44,602
Darnell Property	92.2	"	110,602
Hayes Property	55.29	"	478,093
Homemax Property	5	"	35,035
Total			$ 12,233,088

Note: Access property is included in the acres available shown above. All acres are approximate.

F. Land Sales Options

The board had two land sales options from prospective buyers outstanding at June 30, 2005. The first option, granted in fiscal year 2002, allows the holder to purchase one acre of land for $50,000. The option was given for $1,000 consideration. The second option allows the holder to purchase a 20-acre tract of land for $16,000 per acre. The option was given for $6,500 consideration.

G. Long-term Debt

Long-term debt includes one note payable bearing interest at a fixed rate of 5.5 percent secured by approximately 55.29 acres of land. Principal and interest are payable in quarterly installments, maturing March 25, 2013.

Changes in long-term debt and other noncurrent liabilities (including current portions) for the year ended June 30, 2005, were as follows:

	Notes Payable	Contributions Payable
Balance, July 1, 2004	$ 287,495	$ 14,912
Deductions	(26,326)	(12)
Balance, June 30, 2005	$ 261,169	$ 14,900
Estimated amount due within one year	$ 27,805	$ 5,000

Future payments on notes payable are as follows:

Year Ending June 30	Total Principal	Total Interest
2006	$ 27,805	$ 13,789
2007	29,366	12,228
2008	31,015	10,579
2009	32,756	8,838
2010	34,595	6,999
2011-2013	105,632	8,900
Total	$ 261,169	$ 61,333

H. Retirement Plan

EDC maintains a 401(k) plan administered by American Chamber of Commerce Executives (ACCE) under which employees of the board can participate. Substantially all employees who have completed one year of service, reached age 21, and work 1,000 hours or more per year are eligible to participate. For each plan year that an employee participates, the board will contribute an amount equal to four percent of the participant's total annual earnings as the employer basic contribution. Employees can make pre-tax contributions from one to 100 percent of total annual earnings in which they are immediately vested. The board will match 100 percent of pre-tax contributions up to a maximum of four percent as the employer matching contribution. With regard to contributions of the board, vesting occurs immediately.

The expense to the board for the year ended June 30, 2005, was $10,322. Employee contributions to the plan were $15,999.

I. Operating Leases

The board has entered into various operating leases. Lease expense payments were $2,089 for the year ended June 30, 2005.

J. Conduit Debt Obligations

The board has participated in several issues of Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The board is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the financial statements. The principle balance outstanding as of June 30, 2005, totaled $319,434,716.

K. **Related Party Transactions**

The board's total payments to EDC for expenses and group purchases were $237,842 for the year ended June 30, 2005.

In addition to the transactions with the EDC, the board paid $12,480 for office rent to the Chamber of Commerce for the year ended June 30, 2005, and had transactions with other member agencies of EDC for group purchases.

L. **Commitment and Contingencies**

Under terms of an interlocal agreement among Montgomery County, Tennessee, the City of Clarksville, Tennessee, and the board, the sales price of property held for sale or lease will be split 90 percent to the city and ten percent to the board. Any revenue in excess of the first $10,000 per acre (per transaction) will be split 45 percent to the city, 45 percent to the county, and ten percent to the board. The splitting of the proceeds will remain in effect until such time as either the city annexes the land being purchased for expansion or the city has recovered its investment. The city's investment shall include interest paid. After such time as the city has either annexed the land being purchased or recovered its investment, the sale of the land shall be divided equally between the city and county after ten percent is deducted for the board. At June 30, 2005, there were no commitments or contracts for the sale of property. No amount is accrued for this commitment in these financial statements because the amount to be paid to the city or county, if any, is not currently determinable.

At June 30, 2005, the board had accrued a liability of $355,000 in accordance with the terms of a real estate sales contract for property sold during the year ended June 30, 2004. Per the terms of the contract, certain actions are to be completed by the board, and in the event these items are not completed, the board will be required to pay damages to the buyer not exceeding $355,000. The board's management believes that all required actions will be completed and expects the $355,000 to be disbursed to the board, the city, and the county in accordance with the interlocal agreement.

At June 30, 2005, the board had also accrued a liability of $231,000 in connection with an agreement with a property owner to install a rail spur connection.

The board's exposure to property loss and general liability is handled through the purchase of commercial insurance. Insurance coverage was adequate to cover settlements for the past three fiscal years.

M. **Prior Period Adjustment**

Payroll liabilities were reduced ($7,313) from the prior period.

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REQUIRED SUPPLEMENTARY INFORMATION

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Exhibit G

Montgomery County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
General Fund
For the Year Ended June 30, 2005

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2004	Add: Encumbrances 6/30/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Revenues							
Local Taxes	$ 22,305,745	$ 0	$ 0	$ 22,305,745	$ 22,982,169	$ 21,975,187	$ 330,558
Licenses and Permits	669,958	0	0	669,958	626,378	629,378	40,580
Fines, Forfeitures, and Penalties	1,093,959	0	0	1,093,959	1,013,200	1,013,200	80,759
Charges for Current Services	3,633,137	0	0	3,633,137	2,956,925	2,959,295	673,842
Other Local Revenues	2,760,063	0	0	2,760,063	2,133,636	2,319,831	440,232
Fees Received from County Officials	6,560,759	0	0	6,560,759	6,037,000	6,041,350	519,409
State of Tennessee	3,802,798	0	0	3,802,798	5,189,894	4,388,350	(585,552)
Federal Government	1,058,604	0	0	1,058,604	41,959	3,106,794	(2,048,190)
Other Governments and Citizens Groups	110,669	0	0	110,669	98,566	98,566	12,103
Total Revenues	$ 41,995,692	$ 0	$ 0	$ 41,995,692	$ 41,079,727	$ 42,531,951	$ (536,259)
Expenditures							
General Government							
County Commission	$ 127,831	$ 0	$ 29,868	$ 157,699	$ 142,322	$ 172,072	$ 14,373
Board of Equalization	1,180	0	0	1,180	3,415	3,365	2,185
Beer Board	1,000	0	0	1,000	1,000	0	(1,000)
Other Boards and Committees	2,650	0	0	2,650	1,800	3,300	650
County Mayor	243,121	(492)	0	242,629	252,221	252,221	9,592
Personnel Office	98,861	(1,694)	0	97,167	119,789	119,789	22,622
County Attorney	25,210	0	0	25,210	24,000	24,000	(1,210)
Election Commission	311,045	(2,265)	1,465	310,245	360,545	360,545	50,300
Register of Deeds	314,728	(3,263)	308	311,773	295,336	317,336	5,563
Planning	217,127	0	0	217,127	217,127	217,127	0
Building	61,628	0	2,224	63,852	63,526	63,526	(326)
Codes Compliance	289,354	(256)	417	289,515	287,561	290,560	1,045
Geographical Information Systems	90,250	0	0	90,250	90,250	90,250	0
County Buildings	773,227	(91)	9,668	782,804	859,202	851,078	68,274

(Continued)

Montgomery County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
General Fund (Cont.)

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2004	Add: Encumbrances 6/30/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Expenditures (Cont.)							
General Government (Cont.)							
Other Facilities	$ 859,802	$ (40,098)	$ 11,847	$ 831,551	$ 929,057	$ 929,058	$ 97,507
Other General Administration	350,234	0	0	350,234	355,834	355,834	5,600
Preservation of Records	73,718	(1,001)	1,550	74,267	80,051	80,051	5,784
Finance							
Accounting and Budgeting	285,638	(1,479)	697	284,856	317,366	317,365	32,509
Purchasing	150,809	(2,631)	772	148,950	152,261	153,261	4,311
Property Assessor's Office	478,339	(2,900)	0	475,439	521,383	521,382	45,943
Reappraisal Program	92,640	0	0	92,640	103,938	103,939	11,299
County Trustee's Office	280,728	(1,241)	811	280,298	287,337	287,336	7,038
County Clerk's Office	844,307	(2,453)	3,089	844,943	864,547	864,548	19,605
Data Processing	811,633	(15,315)	15,811	812,129	801,368	801,367	(10,762)
Other Finance	70,815	0	0	70,815	90,019	90,019	19,204
Administration of Justice							
Circuit Court	1,008,877	(22,207)	5,908	992,578	1,071,215	1,092,763	100,185
General Sessions Court	1,167,896	(33,750)	1,280	1,135,426	1,180,313	1,180,312	44,886
Chancery Court	280,091	(4,293)	2,521	278,319	301,249	301,248	22,929
District Attorney General	52,099	(14,502)	0	37,597	55,450	55,450	17,853
Judicial Commissioners	136,920	0	0	136,920	131,117	138,017	1,097
Other Administration of Justice	551,987	0	30	552,017	689,604	689,604	137,587
Probation Services	388,842	(115)	6,587	395,314	458,565	437,017	41,703
Public Safety							
Sheriff's Department	3,724,603	(70,068)	19,756	3,674,291	3,757,100	3,848,994	174,703
Special Patrols	1,238,082	0	208	1,238,290	1,193,293	1,311,352	73,062
Traffic Control	3,958	0	0	3,958	5,000	5,000	1,042
Administration of the Sexual Offender Registry	1,568	0	0	1,568	0	2,370	802
Jail	6,632,171	(4,818)	9,058	6,636,411	6,294,675	6,629,064	(7,347)

(Continued)

Montgomery County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
General Fund (Cont.)

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2004	Add: Encumbrances 6/30/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Expenditures (Cont.)							
Public Safety (Cont.)							
Workhouse	$ 925,378	$ (208)	$ 0	$ 925,170	$ 985,618	$ 985,619	$ 60,449
Correctional Incentive Program Improvements	328,640	(60)	0	328,580	335,872	356,057	27,477
Juvenile Services	187,634	0	320	187,954	223,596	223,597	35,643
Fire Prevention and Control	66,537	(1,004)	229	65,762	87,244	89,744	23,982
Civil Defense	127,391	0	0	127,391	131,689	131,689	4,298
Other Emergency Management	952,211	(204,234)	808,443	1,556,420	506,119	2,657,196	1,100,776
County Coroner/Medical Examiner	99,101	0	0	99,101	90,000	90,000	(9,101)
Public Safety Grant Programs	41,308	0	0	41,308	122,203	122,203	80,895
Public Health and Welfare							
Local Health Center	230,201	(690)	0	229,511	200,639	218,889	(10,622)
Rabies and Animal Control	214,818	(144)	0	214,674	223,450	223,449	8,775
Ambulance/Emergency Medical Services	3,854,469	(4,900)	16,159	3,865,728	4,003,281	4,003,280	137,552
Other Local Health Services	1,186,771	(49)	35,108	1,221,830	1,446,642	1,446,643	224,813
Regional Mental Health Center	10,000	0	0	10,000	10,000	10,000	0
Appropriation to State	113,829	0	0	113,829	113,829	113,829	0
Other Local Welfare Services	47,666	(7,500)	0	40,166	71,925	50,975	10,809
Other Public Health and Welfare	11,875	0	11,875	23,750	0	23,750	0
Social, Cultural, and Recreational Services							
Libraries	1,440,000	0	0	1,440,000	1,440,000	1,440,000	0
Parks and Fair Boards	50,680	(772)	565	50,473	51,856	51,856	1,383
Other Social, Cultural, and Recreational	5,242	0	0	5,242	5,200	5,200	(42)
Agriculture & Natural Resources							
Agriculture Extension Service	253,202	0	0	253,202	293,451	293,451	40,249
Forest Service	2,000	0	0	2,000	2,000	2,000	0
Soil Conservation	33,803	0	0	33,803	33,804	33,804	1

(Continued)

Exhibit G

Montgomery County, Tennessee
Schedule of Revenues, Expenditures, and Changes
in Fund Balance - Actual (Budgetary Basis) and Budget
General Fund (Cont.)

	Actual (GAAP Basis)	Less: Encumbrances 7/1/2004	Add: Encumbrances 6/30/2005	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts Original	Budgeted Amounts Final	Variance with Final Budget - Positive (Negative)
Expenditures (Cont.)							
Other Operations							
Tourism	$ 903,780	$ 0	$ 0	$ 903,780	$ 690,000	$ 815,000	$ (88,780)
Industrial Development	440,400	0	0	440,400	425,400	440,400	0
Veterans' Services	223,007	(4,430)	0	218,577	232,312	237,612	19,035
Other Charges	1,377,850	(3,750)	0	1,374,100	1,454,100	1,504,100	130,000
Contributions to Other Agencies	52,023	0	0	52,023	66,044	66,259	14,236
Employee Benefits	6,021,515	0	0	6,021,515	6,445,800	6,511,641	490,126
Miscellaneous	6,586	0	0	6,586	20,000	20,000	13,414
Highways							
Litter and Trash Collection	108,039	0	0	108,039	120,746	120,746	12,707
Total Expenditures	$ 41,358,925	$ (452,673)	$ 996,574	$ 41,902,826	$ 42,191,656	$ 45,249,509	$ 3,346,683
Excess (Deficiency) of Revenues Over Expenditures	$ 636,767	$ 452,673	$ (996,574)	$ 92,866	$ (1,111,929)	$ (2,717,558)	$ 2,810,424
Other Financing Sources (Uses)							
Transfers In	$ 0	$ 0	$ 0	$ 0	$ 102,157	$ 139,048	$ (139,048)
Transfers Out	(19,071)	0	0	(19,071)	0	0	(19,071)
Total Other Financing Sources (Uses)	$ (19,071)	$ 0	$ 0	$ (19,071)	$ 102,157	$ 139,048	$ (158,119)
Net Change in Fund Balance	$ 617,696	$ 452,673	$ (996,574)	$ 73,795	$ (1,009,772)	$ (2,578,510)	$ 2,652,305
Fund Balance, July 1, 2004	7,318,465	(452,673)	0	6,865,792	6,073,555	6,073,555	792,237
Fund Balance, June 30, 2005	$ 7,936,161	$ 0	$ (996,574)	$ 6,939,587	$ 5,063,783	$ 3,495,045	$ 3,444,542

MONTGOMERY COUNTY, TENNESSEE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2005

A. BUDGETARY INFORMATION

The county is required by state statute to adopt annual budgets. Annual budgets are prepared on the basis in which current available funds must be sufficient to meet current expenditures. Expenditures and encumbrances may not legally exceed appropriations authorized by the County Commission and any authorized revisions. Unencumbered appropriations lapse at the end of each fiscal year.

The budgetary level of control is at the major category level established by the State Uniform Chart of Accounts, as prescribed by the Comptroller of the Treasury of the State of Tennessee. Major categories are at the department level (examples of General Fund major categories: County Commission, Board of Equalization, County Mayor, County Attorney, etc.). Management may make revisions within major categories, but only the County Commission may transfer appropriations between major categories. During the year, several supplementary appropriations were necessary.

The county's budgetary basis of accounting is consistent with generally accepted accounting principles (GAAP), except instances in which encumbrances are treated as budgeted expenditures. The difference between the budgetary basis and the GAAP basis is presented on the face of each budgetary statement.

B. EXPENDITURES EXCEEDED APPROPRIATIONS

Expenditures exceeded appropriations approved by the County Commission in the following major categories:

Fund/Category	Amount
General:	
Beer Board	$ 1,000
County Attorney	1,210
Building	326
Data Processing	10,762
Jail	7,347
County Coroner/Medical Examiner	9,101
Local Health Center	10,622
Other Social, Cultural, and Recreational	42
Tourism	88,780
Transfers Out	19,071

Such overexpenditures are a violation of state statute. These overexpenditures were funded from available fund balance.

STATISTICAL SECTION

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Table 1

Montgomery County, Tennessee
Uncollected Taxes Filed in Chancery Court
June 30, 2005

Year	Amount
1994	$ 5,310
1995	1,392
1996	150
1997	5,625
1998	7,806
1999	8,321
2000	78,681
2001	124,895
2002	136,032
2003	374,312
Total	$ 742,524

Table 2

Montgomery County, Tennessee
Tax Rates and Assessments
Last Ten Years

Fund	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
General	$ 0.83	$ 0.77	$ 0.70	$ 0.70	$ 0.84	$ 0.84	$ 0.84	$ 0.84	$ 0.84	$ 1.02
Highway/Public Works	0.19	0.19	0.17	0.17	0.17	0.17	0.17	0.16	0.14	0.14
General Purpose School	1.03	1.03	0.83	0.88	0.93	0.93	0.93	1.26	1.11	1.12
General Debt Service	1.35	1.41	1.60	1.55	1.36	1.36	1.36	1.04	0.82	0.82
Total Tax Rate	$ 3.40	$ 3.40	$ 3.30	$ 3.30	$ 3.30	$ 3.30	$ 3.30	$ 3.30	$ 2.91	$ 3.10
Assessed Valuation										
Real and Personal	$ 871,935,985	$ 923,957,928	$ 1,222,762,610	$ 1,253,225,750	$ 1,310,261,100	$ 1,375,975,892	$ 1,421,554,344	$ 1,480,118,812	$ 1,705,773,611	$ 1,751,564,149
Public Utilities	44,541,729	42,491,220	45,831,956	49,568,524	48,698,810	54,311,259	52,199,794	51,285,257	56,775,432	58,764,564
Total Assessed Valuation	$ 916,477,714	$ 966,449,148	$ 1,268,594,566	$ 1,302,794,274	$ 1,358,959,910	$ 1,430,287,151	$ 1,473,754,138	$ 1,531,404,069	$ 1,762,549,043	$ 1,810,328,713

APPENDIX D

Financial Guaranty Insurance Policy Specimen

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

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