

FINAL OFFICIAL STATEMENT

DATED AUGUST 17, 2006

**NEW ISSUE
BANK ELIGIBLE
Book-entry Only**

Standard & Poor's "AAA"

In the opinion of Bond Counsel, based upon present laws, regulations, rulings and decisions in effect on the date of delivery of the Bonds, and assuming continuing compliance with certain covenants made by the County, interest on the Bonds is excludible from gross income for federal income tax purposes upon the conditions and subject to the limitations set forth herein under "Tax Treatment." Interest on the Bonds is not a specific item of tax preference for the federal alternative minimum tax. Receipt of interest on the Bonds may result in other federal income tax consequences to certain holders of the Bonds. Interest on the Bonds is exempt from income taxation and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

\$3,500,000

**COUNTY OF BELL, KENTUCKY
GENERAL OBLIGATION IMPROVEMENT BONDS
(DETENTION FACILITY PROJECT), SERIES 2006**

Dated Date: August 1, 2006

Due: August 1 as shown below

Interest on the captioned bonds (herein the "Bonds") will be payable from the Dated Date, on February 1 and August 1, commencing February 1, 2007. The Bonds mature on August 1, as shown below:

Maturing August 1	Principal Amount	Interest Rate	Priced to Yield	CUSIP Number	Maturing August 1	Principal Amount	Interest Rate	Priced to Yield	CUSIP Number
2008	\$60,000	4.375%	3.550%	077887 AA5	2013	\$75,000	4.375%	3.700%	077887 AF4
2009	\$65,000	4.375%	3.550%	077887 AB3	2014	\$80,000	4.375%	3.750%	077887 AG2
2010	\$65,000	4.375%	3.600%	077887 AC1	2015	\$85,000	4.375%	3.800%	077887 AH0
2011	\$70,000	4.375%	3.625%	077887 AD9	2016	\$85,000	4.375%	3.850%	077887 AJ6
2012	\$70,000	4.375%	3.650%	077887 AE7					

\$185,000 4.375% Term Bond Maturing August 1, 2018, Priced to Yield 3.950% – CUSIP 077887 AL1
\$205,000 4.375% Term Bond Maturing August 1, 2020, Priced to Yield 4.000% – CUSIP 077887 AN7
\$345,000 4.375% Term Bond Maturing August 1, 2023, Priced to Yield 4.070% – CUSIP 077887 AR8
\$390,000 4.375% Term Bond Maturing August 1, 2026, Priced to Yield 4.150% – CUSIP 077887 AU1
\$440,000 4.375% Term Bond Maturing August 1, 2029, Priced to Yield 4.250% – CUSIP 077887 AX5
\$680,000 4.375% Term Bond Maturing August 1, 2033, Priced to Yield 4.300% – CUSIP 077887 BB2
\$600,000 4.375% Term Bond Maturing August 1, 2036, Priced to Yield 4.350% – CUSIP 077887 BE6

Principal and interest on the Bonds is payable at the principal office of Community Trust & Investment Company, Middlesboro, Kentucky, as Paying Agent. The Bonds are subject to redemption prior to maturity as described herein.

Payment of the principal of and interest on the Bonds when due is insured by a financial guaranty insurance policy to be issued by XL Capital Assurance, Inc. simultaneously with the delivery of the Obligations.



The Bonds are being issued as fully registered bonds in denominations of \$5,000 and integral multiples thereof. Interest payments will be mailed by the Paying Agent to each holder of record as of the fifteenth day of the month preceding the date for such interest payment.

The Bonds are being issued by the County of Bell, Kentucky (the "County") for the purpose of i) constructing a new detention facility; ii) capitalizing the interest on the bonds for a period of 18 months; and, ii) paying the cost of issuance on the Bonds. (See "The Project" herein).

The County deems this Final Official Statement to be final for purposes of Security and Exchange Commission Rule 15c2-12.

The Bonds are offered when, as and if issued, subject to the approval of legality and tax exemption by Reed & Johnson, Bond Counsel. Legal matters relating to the exclusion of interest on the Bonds from gross income of the holders thereof for federal income tax purposes will also be passed upon by Reed & Johnson, Lexington, Kentucky. Certain legal matters will be passed upon for the County by Neil Ward, Esq., County Attorney. The Bonds are expected to be available for delivery on or about August 31, 2006.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

Morgan Keegan & Company, Inc.

BELL COUNTY, KENTUCKY

Judge/Executive

William (Bill) Kelley

Magistrates

Charles Hunter
David Earl Gilbert
John Brock, Sr.
Andrew Andy Williams
Coye Silcox

County Attorney

Neil Ward, Esq.

County Treasurer

Sharon Taylor

Fiscal Court Clerk

Joan Asher Cawood

BOND COUNSEL

Reed & Johnson
Lexington, Kentucky

FINANCIAL ADVISOR

Ross, Sinclaire & Associates, LLC
Frankfort, Kentucky

PAYING AGENT

Community Trust & Investment Company
Middlesboro, Kentucky

REGARDING THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offering of any security other than the original offering of the Bonds of the County. No dealer, broker, salesman or other person has been authorized by the County to give any information or to make any representation, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the County. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information and expressions of opinion herein are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the date hereof.

Upon issuance, the Bonds will not be registered by the County under any federal or state securities law, and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity or agency except the County will have passed upon the accuracy or adequacy of this Official Statement or approved the Bonds for sale.

All financial and other information presented in this Official Statement has been provided by the County from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in the financial position or other affairs of the County. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future.

Insofar as the statements contained in this Official Statement involve matters of opinion or estimates, even if not expressly stated as such, such statements are made as such and not as representations of fact or certainty, no representation is made that any of the statements have been or will be realized, and such statements should be regarded as suggesting independent investigation or consultation of other sources prior to the making of investment decisions. Certain information may not be current; however, attempts were made to date and document sources of information. Neither this Official Statement nor any oral or written representations by or on behalf of the County preliminary to sale of the Bonds should be regarded as part of the County's contract with the successful bidder or the holders from time to time of the Bonds.

References herein to provisions of Kentucky law, whether codified in the Kentucky Revised Statutes ("KRS") or uncodified, or to the provisions of the Kentucky Constitution or the County's ordinances or resolutions, are references to such provisions as they presently exist. Any of these provisions may from time to time be amended, repealed or supplemented.

As used in this Official Statement, "debt service" means principal of, interest and any premium on, the obligations referred to; "County" means the County of Bell and "State" or "Kentucky" means the Commonwealth of Kentucky.

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OFFICIAL STATEMENT
Relating to the Issuance of

\$3,500,000
COUNTY OF BELL, KENTUCKY
GENERAL OBLIGATION IMPROVEMENT BONDS
(DETENTION FACILITY PROJECT)
SERIES 2006

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to provide certain information with respect to the issuance of \$3,500,000 aggregate principal amount of County of Bell, Kentucky General Obligation Improvement Bonds, Series 2006 (the "Bonds") of the County of Bell, Kentucky as specified on the cover hereof.

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of Bonds to potential investors is made only by means of the entire Official Statement.

Authorization and the Issuer

The Bonds are being issued by the County of Bell, Kentucky (the "County"), a political subdivision of the Commonwealth of Kentucky (the "State"). The County is located in south-eastern Kentucky.

Authority for the issuance of the Bonds is provided by Sections 158 and 159 of the Constitution of Kentucky and by Sections 66.011 through 66.171 and Section 67.083(3)(d) of the Kentucky Revised Statutes (the "Act") and by the adoption by the County Fiscal Court of an ordinance on February 8, 2005 (the "Bond Ordinance") which authorizes and approves the issuance of the Bonds.

Sources of Payment for the Bonds

Under the terms of the Bond Ordinance, the Bonds constitute general obligations of the County and the full faith, credit and taxing power of the County is irrevocably pledged to the prompt payment of principal of and interest on the Bonds when due.

In compliance with Section 159 of the Constitution of Kentucky and the Act, and for the purpose of providing funds required to pay the interest on the Bonds when due and in order to create a sinking fund to pay the principal of the Bonds (and premium, if any) when due, the Bond Ordinance authorizes the levy upon all of the taxable property in the County, each year as long as any of the Bonds are outstanding, a direct annual tax

sufficient, to the extent other lawfully available moneys of the County are not provided for that purpose. The proceeds derived from said tax levied from time to time, together with other lawfully available moneys of the County provide for the payment of the Bonds, shall be deposited and carried in a special account of the County and shall be applied only for the purpose of paying the principal of and interest (and premium, if any) on the Bonds, which shall be designated the County's "General Obligation Improvement Bonds, Series 2006 Sinking Fund" (the "Sinking Fund"). The proceeds of said tax and the balances accumulated from time to time in the Sinking Fund are irrevocably pledged for the purpose of paying the interest on (and premium, if any) and principal of the Bonds and shall never be used for any other purpose. Under the Bond Ordinance, the County covenants with the holders of the Bonds that it will levy the special annual tax in each year at whatever rates may be necessary from time to time in order to produce the amounts required in each year, to the extent not otherwise provided, to pay the Bonds and interest (and premium, if any) when due.

Pursuant to the Constitution of Kentucky and the Act, the County has adopted the Bond Ordinance and has covenanted to levy and collect each year that the Bonds remain outstanding a tax in an amount sufficient to provide for the full payment of the principal and interest requirements of said Bonds; provided, however, that said tax will be levied only to the extent that other County revenues or other receipts from taxes are not sufficient to provide for the full payment of the accruing interest and maturing principal on the Bonds each year. (See "Security and Source of Payment for the Bonds," herein).

Purpose of the Bonds

The net proceeds of the Bonds will be used by the County for the purpose of (i) financing the acquisition, development, and construction of a detention facility; (ii) capitalizing interest on the bonds in an amount determined necessary by the Financial Advisor; and (iii) paying the Cost of Issuance of the Bonds

Description of the Bonds

The Bonds mature as indicated on the cover page hereof. The Bonds are being offered in the denominations of \$5,000 or any integral multiple thereof.

Redemption

The Bonds are subject to redemption prior to their stated maturing as described herein (See "DESCRIPTION OF THE BONDS - Redemption).

Payment of Bonds and Paying Agent

Principal of the Bonds will be paid in lawful money of the United States of America at the principal office of Community Trust & Investment Company, Middlesboro, Kentucky (the "Paying Agent"), and interest shall be mailed by the Paying Agent to the record date Registered Owners at the address of such Owners maintained on the registration books of the Paying Agent. The record dates for February 1 and August 1 interest payment dates shall be the preceding January 15 and July 15, respectively.

Interest

The Bonds shall be dated and bear interest from August 1, 2006 and bear interest at the rates set forth on the cover hereof, payable semiannually on February 1 and August 1, beginning February 1, 2007.

Tax Exemption

Under the laws, regulations, rulings and judicial decisions in effect as of the date hereof, interest, including original issue discount, if any, on the Bonds is excludible from gross income for Federal income tax purposes, pursuant to the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, interest on the Bonds will not be treated as a specific item of tax preference, under Section 57(a)(5) of the Code, in computing the alternative minimum tax for individuals and corporations. In rendering the opinions in this paragraph, Bond Counsel has assumed continuing compliance with certain covenants designed to meet the requirements of Section 103 of the Code. Bond Counsel expresses no other opinion as to the federal tax consequences of purchasing, holding or disposing of the Bonds. Interest on the Bonds is also exempt from income taxation and the Bonds are exempt from ad valorem taxation by the Commonwealth of Kentucky and any of its political subdivisions.

The County has designated the Bonds as "bank eligible" with respect to certain financial institutions under Section 265(b)(3) of the Code.

See Appendix D hereto for the form of the opinion Bond Counsel proposes to deliver in connection with the Bonds.

Parties to the Issuance of the Bonds

The Paying Agent is Community Trust & Investment Company, Middlesboro, Kentucky. Legal matters incident to the issuance of the Bonds and with regard to the tax-exempt status of the interest thereon are subject to the approving legal opinion of Reed & Johnson Lexington, Kentucky, Bond Counsel.

Offering and Delivery of the Bonds

The Bonds are offered when, as and if issued by the County. The Bonds will be delivered at a bank or trust company situated in the United States through The Depository Trust Company (DTC). Delivery elsewhere will be made at the expense of the purchaser.

Disclosure Information

This Official Statement speaks only as of its date and the information contained herein is subject to change. This Official Statement and continuing disclosure documents of the County are intended to be made available through one or more repositories. Copies of the basic documentation relating to the Bonds, including the authorizing Bond Ordinance and the Bond Certificate forms, are available from the County.

The County deems this Official Statement to be final for the purposes of Securities and Exchange Commission Rule 15c2-12(b)(1), except for certain information which has been omitted in accordance with such Rule and which will be provided in the Final Official Statement.

Additional Information

Additional information concerning this Official Statement, as well as copies of the basic documentation relating to the Bonds, is available from Ross, Sinclair & Associates, LLC, Financial Advisor to the County of Bell, P.O. Box 398, Frankfort, Kentucky 40602, telephone (502) 695-7353.

DESCRIPTION OF THE BONDS

The Bonds will be dated August 1, 2006 and bear interest from August 1, 2006 at the rates set forth on the cover page of this Official Statement. The Bonds are being issued as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof.

Interest on the Bonds is payable semiannually on February 1 and August 1, commencing February 1, 2007. Interest on all Bonds is payable by check or draft mailed to the Registered Owner by Community Trust & Investment Company, Middlesboro, Kentucky, the Paying Agent. Principal is payable when due to the Registered Owner upon surrender of the Bonds at the principal corporate office of the Paying Agent.

Redemption

The Bonds maturing on or after August 1, 2017, will be subject to redemption prior to maturity at the option of the District, on any date on or after August 1, 2016, in whole or in part, prior to maturity, in the inverse order of their maturities, less than all the single maturity to be selected in such manner as the Paying Agent may determine, from any money available therefore, at the redemption prices, expressed as the percentages of the principal amount to be redeemed, set forth in the following table, plus accrued interest to the Redemption Date.

<u>Optional Redemption Period</u> <u>(Dates Inclusive)</u>	<u>Redemption Price</u>
August 1, 2016 and thereafter if prior to maturity	100%

Mandatory Redemption

The Term Bonds due August 1, 2018 are subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date, on August 1, in the year and in the principal amount as follows:

2017	\$90,000
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The remaining \$95,000 principal amount of Term Bonds due August 1, 2018 are scheduled to be paid at maturity.

The Term Bonds due August 1, 2020 are subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date, on August 1, in the year and in the principal amount as follows:

2019	\$100,000
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The remaining \$105,000 principal amount of Term Bonds due August 1, 2020 are scheduled to be paid at maturity.

The Term Bonds due August 1, 2023 are subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date, on August 1, in the year and in the principal amount as follows:

2021	\$110,000
2022	\$115,000

The remaining \$120,000 principal amount of Term Bonds due August 1, 2023 are scheduled to be paid at maturity.

The Term Bonds due August 1, 2026 are subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date, on August 1, in the year and in the principal amount as follows:

2024	\$125,000
2025	\$130,000

The remaining \$135,000 principal amount of Term Bonds due August 1, 2026 are scheduled to be paid at maturity.

The Term Bonds due August 1, 2029 are subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date, on August 1, in the year and in the principal amount as follows:

2027	\$140,000
2028	\$145,000

The remaining \$155,000 principal amount of Term Bonds due August 1, 2029 are scheduled to be paid at maturity.

The Term Bonds due August 1, 2033 are subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date, on August 1, in the year and in the principal amount as follows:

2030	\$160,000
2031	\$165,000
2032	\$175,000

The remaining \$180,000 principal amount of Term Bonds due August 1, 2033 are scheduled to be paid at maturity.

The Term Bonds due August 1, 2036 are subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the redemption date, on August 1, in the year and in the principal amount as follows:

2034	\$190,000
2035	\$200,000

The remaining \$210,000 principal amount of Term Bonds due August 1, 2036 are scheduled to be paid at maturity.

Mandatory Redemption Upon Determination of Taxability

The Bonds shall be subject to mandatory redemption prior to maturity by the Issuer, as a whole and not in part, on the earliest practicable date for which notice can be given following the occurrence of a Determination of Taxability, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the Redemption Date.

Notice of Redemption

If less than all Bonds which are payable by their terms on the same date are to be called, the particular Bonds or portions of Bonds payable on such same date and to be redeemed from such series shall be selected by lot by the Paying Agent, in such manner as the Paying Agent in its discretion may determine; provided, however, that the portion of any Bond to be redeemed shall be in the principal amount of \$5,000 or some multiple thereof, and that, in selecting Bonds for redemption, the Paying Agent shall treat each bond as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by \$5,000.

At least thirty (30) days before the redemption date of any Bonds the Paying Agent shall cause a notice of such redemption to be mailed, postage prepaid, to all Registered Owners of Bonds to be redeemed at their addresses as they appear on the registration books kept by the Paying Agent, but failure so to mail any such notice shall not affect the validity of the proceedings for such redemption. Each such notice shall set forth the date fixed for redemption, the redemption price to be paid and, if less than all of the Bonds being payable by their terms on a single date then outstanding shall be called for redemption, the distinctive numbers or letters, if any, of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed. In case any Bond is to be redeemed in part only, the notice of redemption which relates to such Bond shall state also that on or after the redemption date upon surrender of such Bonds, a new Bond in principal amount equal to the unredeemed portion of such Bonds will be issued.

On the date so designated for redemption, notice having been sent in the manner and under the conditions herein above provided and moneys for payment of the redemption price being held in separate accounts by the Paying Agent for the holders of the Bonds or portions thereof to be redeemed, the Bonds or portions of Bonds so called for redemption shall become and be due and payable at the redemption price provided for redemption of such Bonds or portions of Bonds on such date, interest on the Bonds or portions of Bonds so called for redemption shall cease to accrue, and the holders or Registered Owners of such Bonds or portions of Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof and to receive Bonds for any unredeemed portions of Bonds.

In case part but not all of an outstanding Bond shall be selected for redemption, the Registered Owner thereof or his attorney or legal representative shall present and surrender such Bond to the Paying Agent for payment of the principal amount hereof so called for redemption, and the County shall execute and the Paying Agent shall authenticate and deliver to or upon the order of such Registered Owner or his legal representative, without charge therefor, for the unredeemed portion of the principal amount of the Bond so surrendered a Bond of the same series and maturity and bearing interest at the same rate.

Security and Source of Payment for Bonds

In the Bond Ordinance, the County pledges to the payment of the Bonds:

- 1) the County has covenanted to levy, collect and segregate taxes (ad valorem property taxes permitted under Section 157 of the Constitution of Kentucky, occupational license fees; insurance premium taxes, excises and any other receipts from taxes, excises permits, licenses, fines or other sources of revenue of, or of revenue distributions to the County) sufficient to pay the principal of and interest on the Bonds when due to the extent other County revenues are inadequate to meet the annual debt service requirements of the Bonds and has designated the Bonds as full general obligations of the County to the payment of which the full faith, credit and revenue of the County are pledged for the prompt payment thereof; and,
- 2) monies on deposit in any funds or accounts established in connection with the Bonds; including, but not being limited to the Sinking Fund.

The Constitution of the State mandates the collection of a tax sufficient to pay the interest on an authorized indebtedness and the creation of a sinking fund for the payment of the principal thereof. The Bond Ordinance authorizes the levy of such annual tax which shall be collected to the extent other lawfully available monies of the County are not provided. The Bond Ordinance also creates a sinking fund into which the proceeds of such tax or other lawfully available monies of the County are to be deposited for payment of the interest on and principal of the Bonds and shall not be used for any other purpose.

Chapter 9 of the Federal Bankruptcy Code contains provisions relating to the adjustment of debts of a State's political subdivisions, public agencies and instrumentalities ("eligible entity"), such as the County. Under the Bankruptcy Code and in certain circumstances described therein, an eligible entity may be authorized to initiate Chapter 9 proceedings without prior notice to or consent of its creditors, which proceedings may result in material and adverse modification or alteration of the rights of its secured and unsecured creditors, including holders of its bonds and notes.

Section 66.400 of the Kentucky Revised Statutes permits a political subdivision, such as the County, for the purpose of enabling such subdivision to take advantage of the provisions of the Bankruptcy Code, and for that purpose only, to file a petition stating that the subdivision is insolvent or unable to meet its debts as they mature, and that it desires to effect a plan for the composition or readjustment of its debts, and to take such further proceedings as are set forth in the Bankruptcy Code as they relate to such subdivision. No taxing subdivision is permitted, in availing itself of the provisions of the Bankruptcy Code, to scale down, cut down or reduce the principal sum of its securities except that interest thereon may be reduced in whole or in part.

BOOK-ENTRY-ONLY-SYSTEM

Unless the purchaser of the Bonds elects the issuance of standard bond certificates, the Bonds shall utilize the Book-Entry-Only-System.

DTC will act as securities depository for the Bonds. The Bonds initially will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond Certificate will be issued, in the aggregate principal amount 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 a Direct Participant, 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 Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations 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 interests in the Bonds ("Beneficial Ownership Interest") 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 Beneficial Ownership interests in Bonds, except in the event that use of the book-entry system for the Securities is discontinued. Transfers of ownership interest in the Securities 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 interests in Securities, except in the event that use of the book-entry system for the Securities 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 are being redeemed, DTC's practice is to determine by lot the amount of the interest of each District Participant in the Bonds to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer 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 of the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' account on 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 payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is 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 Issuer, or the Trustee, 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 Issuer or the Trustee, disbursements of such payments to Direct Participants shall be the responsibility of DTC, and disbursements of such payment to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Beneficial Ownership Interests purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Beneficial Ownership Interests by causing the Direct Participant to transfer the Participant's interest in the Beneficial Ownership Interests, on DTC's records, to the purchaser or the Trustee, as appropriate. The requirements for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered, as described below under "THE BONDS-Revision of Book-Entry System; Replacement Bonds.'

NEITHER THE ISSUER, THE COUNTY NOR THE BOND REGISTRAR/PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON NOT SHOWN ON THE REGISTRATION BOOKS OF THE BOND REGISTRAR/PAYING AGENT AS BEING AN OWNER WITH RESPECT TO: (1) THE BONDS;(2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PURCHASE PRICE OF TENDERED BONDS OR THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (4) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND RESOLUTION TO BE GIVEN TO HOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS: OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

THE PROJECT

The County intends to construct a new Detention Facility on land adjacent to the existing Bell County Jail. The new facility will house approximately 200 inmates. The new, approximately 20,000 square foot, 2-story addition will be constructed of a mix of masonry and stone to match the existing structure. The existing 3-story jail will be renovated into administrative offices for the jail, and will be connected to the new structure. The existing kitchen will be demolished and replaced as part of the new facility.

The Project will be competitively bid as required by the Kentucky Revised Statutes. All contractors will be required to post 100% completion and performance bonds.

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DEBT SERVICE SCHEDULES

The following table sets forth the debt service payments of the Bonds.

Fiscal Yr. Ending June 30	Principal	Interest	Less: Cap. Int	Total Net D/S
2007		\$76,563	(\$76,563)	\$0
2008		153,125	(153,125)	\$0
2009	\$60,000	151,813	0	\$211,813
2010	65,000	149,078	0	\$214,078
2011	65,000	146,234	0	\$211,234
2012	70,000	143,281	0	\$213,281
2013	70,000	140,219	0	\$210,219
2014	75,000	137,047	0	\$212,047
2015	80,000	133,656	0	\$213,656
2016	85,000	130,047	0	\$215,047
2017	85,000	126,328	0	\$211,328
2018	90,000	122,500	0	\$212,500
2019	95,000	118,453	0	\$213,453
2020	100,000	114,188	0	\$214,188
2021	105,000	109,703	0	\$214,703
2022	110,000	105,000	0	\$215,000
2023	115,000	100,078	0	\$215,078
2024	120,000	94,938	0	\$214,938
2025	125,000	89,578	0	\$214,578
2026	130,000	84,000	0	\$214,000
2027	135,000	78,203	0	\$213,203
2028	140,000	72,188	0	\$212,188
2029	145,000	65,953	0	\$210,953
2030	155,000	59,391	0	\$214,391
2031	160,000	52,500	0	\$212,500
2032	165,000	45,391	0	\$210,391
2033	175,000	37,953	0	\$212,953
2034	180,000	30,188	0	\$210,188
2035	190,000	22,094	0	\$212,094
2036	200,000	13,563	0	\$213,563
2037	210,000	4,594	0	\$214,594
Total	\$3,500,000	\$2,907,844	(\$229,688)	\$6,178,156

SOURCES AND USES OF FUNDS

The following table shows the sources and uses of Bond proceeds, other than portions thereof representing accrued interest.

Sources:	
Par Amount of Bonds	\$ 3,500,000.00
Original Issue Premium	<u>60,814.15</u>
Total Sources:	\$ 3,560,814.15
Uses:	
Deposit to Project Fund	\$ 3,165,772.13
Deposit to Cap. Int. Fund	209,227.87
Bond Insurance Policy	106,900.00
Underwriter's Discount	23,914.15
Deposit to Cost of Issuance Fund	<u>55,000.00</u>
Total Uses:	\$ 3,442,760.42

GENERAL OBLIGATION INDEBTEDNESS OF THE ISSUER

Constitutional debt limit

Section 157 of the Kentucky Constitution provides that the tax rate of cities, counties, and taxing districts, other than for school purposes, shall not, at any time, exceed the following rates upon the value of the taxable property therein: for all cities having a population of fifteen thousand or more, one dollar and fifty cents on the hundred dollars; for all cities having less than fifteen thousand and not less than ten thousand, one dollar on the hundred dollars; for all cities having less than ten thousand, seventy-five cents on the hundred dollars; and for counties and taxing districts, fifty cents on the hundred dollars. The taxes that are assessed by the County on all taxable property is shown herein under Appendix A.

The amount of taxes that could be levied by the County without exceeding the Constitutional limit is shown in the table below.

Total valuation of adjusted property for CY 2005	\$851,908,582	
Ad valorem taxes that could be assessed		
at limit of 50¢ per \$100 of valuation	\$4,259,543	100.0%
Taxes that were assessed by County in CY 2004	\$1,269,344	29.8%
Additional tax assessment that is constitutionally available	\$2,990,199	70.2%

Limitation on net indebtedness

Kentucky Revised Statutes (KRS) provides that a city, urban-county, or charter county shall not incur net indebtedness to an amount exceeding the following maximum percentages on the value of taxable property within the city, urban-county, or charter county, as estimated by the last certified assessment previous to the incurring of the indebtedness:

- (1) A city, urban-county, or charter county shall not incur net indebtedness to an amount exceeding the following maximum percentages on the value of taxable property within the city, urban-county, or charter county, as estimated by the last certified assessment previous to the incurring of the indebtedness:

(a) Cities, urban-counties, and charter counties having a population of fifteen thousand (15,000) or more, ten percent (10%);

(b) Cities, urban-counties, and charter counties having a population of less than fifteen thousand (15,000) but not less than three thousand, five percent (5%); and

(c) Cities, urban-counties, and charter counties having a population of less than three thousand (3,000), three percent (3%).

(2) A county, which is not an urban-county or charter county, or a taxing district shall not incur net indebtedness for all purposes that exceeds an amount equal to two percent (2%) of the value of the taxable property within the county or district, as estimated by the last certified assessment previous to the incurring of the indebtedness.

Manner of defining the net indebtedness of the Issuer

KRS 66.031 defines the net indebtedness of an issuer to be the principal amount of outstanding bonds to include:

(a) The payment or reimbursement requirements of the issuer under credit enhancement facilities relating to the principal amount of outstanding bonds;

(b) The unpaid principal portion of all lease rental payments of tax-supported leases;

(c) The principal amount of obligations of any instrumentality of an issuer created for the purpose of financing projects which obligations are outstanding within the meaning of the mortgage, trust indenture, or legislation approving those obligations and which were issued prior to July 15, 1996, unless the obligations would constitute self-supporting obligations; and

(d) Leases under KRS 65.940 to 65.956 entered into prior to July 15, 1996, unless the lease would constitute self-supporting obligations.

KRS 66.031 defines the net indebtedness of an issuer to not include the following obligations:

(a) Obligations issued in anticipation of the levy or collection of special assessments which are payable solely from those assessments or are otherwise self-supporting obligations;

(b) Obligations issued in anticipation of the collection of current taxes or revenues for the fiscal year which are payable within that fiscal year;

(c) Obligations, which are not self-supporting obligations, issued after July 15, 1996, by any instrumentality of the issuer created for the purpose of financing public projects for which there has been no pledge to the payment of debt charges of any tax of the issuer or for which there is covenant by the issuer to collect or levy a tax to pay debt charges;

(d) Self-supporting obligations and other obligations for which there has been no pledge to the payment of debt charges of any tax of the issuer or for which there is no covenant by the issuer to collect or levy a tax to pay debt charges;

(e) Obligations issued to pay costs of public projects to the extent they are issued in anticipation of the receipt of, and are payable as to principal from, federal or state grants within that fiscal year;

(f) Leases entered into under KRS 65.940 to 65.956 which are not tax-supported leases;

(g) Bonds issued in the case of an emergency, when the public health or safety should so require; or

(h) Bonds issued to fund a floating indebtedness.

Computation of the Net Indebtedness of the Issuer

Appendix C of this Official Statement is a Statement of Indebtedness for the County, certified by the County Treasurer, calculating the amount of the outstanding obligations of the County (including the Bonds) which are subject to the total direct debt limit (2% limit). The total principal amount of general obligation debt that could be issued by the County, subject to the 2% total direct debt limitation is \$17,038,172 and the County's net debt subject to such limitation presently outstanding (including the Bonds) is \$0 leaving a balance of approximately \$17,038,172 borrowing capacity issuable within such limitation.

OUTSTANDING DEBT OBLIGATIONS OF THE ISSUER

Summary of Debt

The County has issued and currently has outstanding seven series of general obligation bonds (the "Outstanding G.O. Bonds") and annually renewable revenue bonds or leases that extend past the current fiscal year. A summary of this indebtedness is reported in the table below.

Bond Series	Description	Original Principal	Current Principal Outstanding	Interest Rate Range	Final Maturity
1993	KACO Lease - Waterlines #1	\$160,000	\$74,000	5.0450%	01/20/13
1995	KACO Lease - Waterlines #3	\$78,000	\$44,000	6.2240%	01/20/15
1998	KACO Lease - Waterlines #4	\$450,000	\$193,177	5.4400%	01/20/11
2002	KACO Lease - Voting Machines #5	\$187,800	\$40,400	3.3800%	02/20/07
2003	Ambulance Garage	\$135,000	\$123,543		01/20/23
2005*	First Mort. Rev. Bonds - Judicial Center Project	\$5,870,000	\$5,800,000	5.2500% - 5.8500%	09/01/28
Totals:		\$6,880,800	\$6,275,120		

* The Series 2005 Bond issue is paid directly by the Kentucky Administrative Office of the Courts (AOC)

Revenue Debt

The County has issued and has currently outstanding annually renewable revenue bonds or leases that extend past the current fiscal year. In some instances, a portion of or all of the lease and rental payment is paid by sublease or other form of agreement with another public agency or unit of government other than the County. The total net debt obligation of the County and the total revenue debt principal outstanding at the beginning of each fiscal year is shown in the table below.

FY	1993	1995	1,998	2002	Series	Series		Less Self	Total Net
Ending	KACO	KACO	KACO	KACO	2005	2006 F	Total	Supporting	County
	Lease #1	Lease #3	Lease #4	Lease #5	Bonds	Note*	Debt Service	Obligations	Payments
2007	\$13,059	\$6,732	\$49,109	\$42,171	\$395,107	\$519,927	\$1,026,105	(\$915,034)	\$111,070
2008	13,565	6,483	48,049		394,201		462,299	(394,201)	68,098
2009	13,017	6,235	47,936		393,032		460,220	(393,032)	67,188
2010	13,468	6,987	47,714		396,470		464,639	(396,470)	68,169
2011	12,865	6,676	46,384		394,514		460,439	(394,514)	65,925
2012	12,262	6,366			397,164		415,791	(397,164)	18,627
2013	12,658	6,056			394,382		413,096	(394,382)	18,714
2014		6,745			396,087		402,832	(396,087)	6,745
2015		6,373			397,092		403,465	(397,092)	6,373
2016					397,377		397,377	(397,377)	0
2017					397,017		397,017	(397,017)	0
2018					396,097		396,097	(396,097)	0
2019					399,316		399,316	(399,316)	0
2020					396,666		396,666	(396,666)	0
2021					398,297		398,297	(398,297)	0
2022					399,002		399,002	(399,002)	0
2023					398,777		398,777	(398,777)	0
2024					402,537		402,537	(402,537)	0
2025					400,282		400,282	(400,282)	0
2026					401,931		401,931	(401,931)	0
2027					407,187		407,187	(407,187)	0
2028					406,127		406,127	(406,127)	0
2029					412,964		412,964	(412,964)	0
Total:	\$90,894	\$58,652	\$239,193	\$42,171	\$9,171,631	\$519,927	\$10,122,468	(\$9,171,631)	\$430,910

* The Series 2006F Note will be retired from proceeds from the Series 2006 Bond Issue

INVESTMENT CONSIDERATIONS

The Bonds, like all obligations of state and local government, are subject to changes in value due to changes in the condition of the tax-exempt bond market and/or changes in the financial condition of the County.

Prospective purchasers of the Bonds may need to consult their own tax advisors prior to any purchase of the Bonds as to the impact of the Internal Revenue Code of 1986, as amended, upon their acquisition, holding or disposition of the Bonds.

It is possible under certain market conditions, or if the financial condition of the County should change, that the market price of the Bonds could be adversely affected.

With regard to the risk involved in a lowering of the County's bond rating, see "RATINGS" herein. With regard to creditors' rights, see "Sources of Payment for the Bonds" herein.

PROFILE OF THE COUNTY AND SURROUNDING AREA

Demographic, economic and financial information with respect to the County and the surrounding area is set forth in Appendix A hereto.

COUNTY GOVERNMENT

Organization and Major Offices

The County of Bell is governed by a Fiscal Court, comprised of a County Judge/Executive and five (5) Magistrates who are all elected to four (4) year terms. The current members of the Fiscal Court are:

<u>Member</u>	<u>Position</u>
William (Bill) Kelley	County Judge/Executive
Charles Hunter	Magistrate
David Earl Gilbert	Magistrate
John Brock, Sr.	Magistrate
Andrew Andy Williams	Magistrate
Coye Silcox	Magistrate

The current appointed County officials who serve at the pleasure of the Fiscal Court and/or County Judge/Executive are:

Sharon Taylor, County Treasurer
Joan Asher Cawood, Fiscal Court Clerk

Neil Ward is the present elected County Attorney.

Financial Matters

The County Treasurer is the fiscal officer of the County and is appointed by and serves at the pleasure of the Fiscal Court. The County Treasurer is responsible for the accounting, collection, custody and disbursement of the funds of the County. The County Treasurer serves the Fiscal Court as financial advisor in connection with County affairs, and performs such other financial duties as the Fiscal Court may request.

The County's fiscal year commences July 1 and ends the following June 30. The administrative functions of the County are performed by or under the supervision of the following:

1. Establishment of overall financial policy; Fiscal Court.
2. Planning and development, the County Judge/Executive; County Commissioners; County Administrator, County Treasurer.
3. Assessment of real and personal property; Bell County Property Valuation Administrator.
4. Financial control functions; County Treasurer.
5. Inspection and supervision of the accounts and reports of the County as required by law; Auditor of Public Accountants and independent certified public accountants.

Financial Management

The Fiscal Court is responsible for appropriating the funds used to support the various County activities. The Fiscal Court exercises its legislative powers by budgeting, appropriating, levying taxes, issuing bonds and notes, and letting contracts for public works and services to provide this financial management.

Financial Reports and Examinations of Accounts

The Governor's Office for Local Development (GOLD) is an independent agency of the Commonwealth of Kentucky. GOLD is to provide technical support, monitoring the evaluation of local units of government (cities, counties, and special districts).

The Division of County and Municipal Accounting of the GOLD has established a uniform system of accounting that all counties in the state must use in reporting their revenues and expenditures. The counties are required to prepare and submit an annual budget for each fiscal year.

Each county in the State is required to keep its accounting records and render financial reports in such a way as to: (a) determine compliance with statutory provisions; (b) determine fairly and with full disclosure the financial operations of consistent funds and account groups of the County in conformity with generally accepted governmental accounting principles; and (c) readily provide such financial data as may be required by federal and state programs.

Municipal accounting systems are required to be organized and operated on a fund basis. The County maintains its accounts and other fiscal records on an appropriation and modified accrual basis in accordance with the procedures established and prescribed by the GOLD. As required by law, financial reports are prepared quarterly by the County and filed with the GOLD.

The county budget is required to have a line item known as the "bond payment principal" and a line item known as the "bond payment interest." There shall be allocated annually to the sinking fund principal account a sum equal to the proportional yearly amount necessary to retire each bond issue of the county at maturity, and to the sinking fund interest account a sum equal to the interest on bonded indebtedness payable during the current budget year.

The accounting procedures prescribed by the GOLD are generally applicable to all counties in Kentucky and may be different from generally accepted government accounting principles as presented and recommended in the National Council on Governmental Accounting publication "Governmental Accounting Auditing and Financial Reporting," and the Industry Audit Guide of the American Institute of Certified Public Accountants, entitled "Audits of State and Local Governmental Units." Those publications, among other things, provide for a modified cash basis of accounting for the general fund, all special revenue funds and the debt service fund, and for a full accrual basis of accounting for all other funds, and further provide for the preparation for each fund of balance sheets, statements of revenues and expenditures, and statements showing changes in fund balances.

Bond Issue Approval

Section 66.310 of the Kentucky Revised Statute stipulates that no county may finance a public facility through the issuance of bonds if the indebtedness of the county is in excess of one-half of one percent (.5%) of the value of taxable property therein, without first securing the written approval of the State Local Debt Officer. The County filed a Petition with the State Local Debt Officer seeking approval for the issuance of the Bonds. A properly advertised public hearing was on February 28, 2005. Written approval of the State Local Debt Officer dated March 21, 2005 has been received, as was a Certificate of No Appeal dated April 21, 2005.

Budgeting and Appropriations Procedures

Detailed provisions for county budgeting, tax levies and appropriations are made in the Kentucky Revised Statutes. Counties are required to operate under an annual budget ordinance and no County may expend any moneys from a governmental or proprietary fund except in accordance with such budget. A budget proposal must be submitted to the County's legislative body no later than 30 days prior to the beginning of the fiscal year covered by the budget. No budget ordinance may be adopted which provides for appropriations to exceed revenues in a fiscal year. The full amount estimated to be required for debt service during the budget year must be appropriated.

Investment Policies

Section 66.480 of the Kentucky Revised Statutes sets forth the requirements and limitations for investments of the State's political subdivisions, including the County. Each County must adopt an investment policy and may invest its funds only in the classifications of obligations which are eligible for investment, which are as follows:

- (a) Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, if delivery of these obligations subject to repurchase agreements is taken either directly or through an authorized custodian. These investments may be accomplished through repurchase agreements reached with sources including, but not limited to, national or state banks chartered in Kentucky;
- (b) Obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States or a United States governmental agency, including but not limited to:
 - 1. United States Treasury;
 - 2. Export-Import Bank of the United States;
 - 3. Farmers Home Administration;
 - 4. Governmental National Mortgage corporation; and
 - 5. Merchant Marine bonds;
- (c) Obligations of any corporation of the United States government, including but not limited to:
 - 1. Federal Home Loan Mortgage Corporation;
 - 2. Federal Farm Credit Banks;
 - 3. Bank for Cooperatives;

4. Federal Intermediate Credit Banks;
 5. Federal Land Banks;
 6. Federal Home Loan Banks;
 7. Federal National Mortgage Association; and
 8. Tennessee Valley Authority;
- (d) Certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation or similar entity or which are collateralized, to the extent uninsured, by any obligations permitted by KRS 41.240(d);
 - (e) Un-collateralized certificates of deposit issued by any bank or savings and loan institutions rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
 - (f) Bankers' acceptances for banks rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;
 - (g) Commercial paper rated in the highest category by a nationally recognized rating agency;
 - (h) Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities;
 - (i) Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States, and rated in one (1) of the three highest categories by a nationally recognized rating agency; and
 - (j) Shares of mutual funds, each of which shall have the following characteristics:
 1. The mutual fund shall be an open-end diversified investment company registered under the Federal Investment Company Act of 1940, as amended;
 2. The management company of the investment company shall have been in operation for at least five (5) years; and
 3. All of the securities in the mutual fund shall be eligible investments pursuant to this section.

The amount of money invested at any time by the County in one or more of the categories of investments authorized by subsections (e), (f), (g) and (i) above shall not exceed twenty percent (20%) of the total amount of money invested by the County and the County shall not purchase any investment authorized by subsection (1) on a margin basis or through the use of any similar leveraging technique.

Debt Limitation

Kentucky Constitution Section 158 provides that counties shall not incur indebtedness in an amount exceeding 2% percent of the value of the taxable property therein, to be estimated by the last assessment previous to the incurring of the indebtedness.

KRS 66.041 provides the same limitations as are set forth in Section 158 of the Constitution except that the limitations apply to "net indebtedness." In calculating "net indebtedness," KRS 66.031 provides that certain obligations of a county are not to be considered in the calculation, including self-supporting obligations, revenue bonds, and special assessment debt.

Future Borrowing of the County

The Fiscal Court of Bell County approved an Ordinance authorizing the County to issue bonds to construct a new Detention Center. The bonds will be issued in several Series, including the Series 2006 bonds. It is expected that the total par amount of bonds to be issued for the new detention Center will not exceed \$10,000,000.

In addition to the above, the Fiscal Court of Bell County approved an Ordinance authorizing the issuance of another \$1,250,000 (subject to a 10% permitted adjustment) of General Obligation Bonds. Those funds will be used to construct a Community Action Agency ("CAA") Center in Bell County. The County anticipates that CAA will make the necessary debt payments on the bonds.

Except for the above referenced projects, the County does not anticipate issuing any additional General Obligation Debt. However, the County does reserve the right to issue future General Obligation debt subject to normal statutory debt limitations.

LEGAL MATTERS

General Information

Legal matters incident to the issuance of the Bonds and with regard to the tax-exempt status thereof are subject to the approving legal opinion of Reed & Johnson, Bond Counsel. Upon delivery of the Bonds by the County to the successful bidder therefor, the Bonds will be accompanied by an approving opinion dated the date of such delivery, rendered by Reed & Johnson. A draft of such legal opinion for the Bonds is attached as Appendix E.

Said Bond Counsel has performed certain functions to assist the County in the review of certain sections of this Official Statement. However, Bond Counsel assumes no responsibility for, and will express no opinion regarding the accuracy or completeness of this Official Statement or any other information relating to the County or the Bonds that may be made available by the County or others to the bidders or Owners of the Bonds or others.

The engagement of Bond Counsel is limited to the preparation of certain of the documents contained in the transcript of proceedings with regard to the Bonds, and an examination of such transcript proceedings incident to rendering his legal opinion. Bond Counsel has reviewed the information in this Official Statement under Sections entitled "Introduction" as to legal matters, "Authorization and the Issuer", "Security and Source of Payment for Bonds", "Debt Limitation", and "Tax Exemption", which review did not include any independent verification of financial statements and statistical data included therein, if any.

Transcript and Closing Certificates

A complete transcript of proceedings, a no-litigation certificate and other appropriate closing documents will be delivered by the County when the Bonds are delivered to the original purchaser. The County will also provide to the original purchaser, at the time of such delivery, a certificate from the County's Judge/Executive addressed to such purchaser relating to the accuracy and completeness of this Official Statement.

Litigation

To the knowledge of the County, no litigation or administrative action or proceeding is pending or threatened directly affecting the Bonds, the security for the Bonds or the Project being financed from the proceeds of the Bonds. A No-Litigation Certificate to that effect will be delivered to the purchaser at the time of the delivery of the Bonds.

Tax Exemption

In the opinion of Bond Counsel for the Bonds, based upon an analysis of existing laws, regulations, rulings and court decisions, interest on the Bonds is excluded from gross income of the holders thereof for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is not treated as an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations under Section 55 of the Code. Bond Counsel will express no opinion regarding other federal income tax consequences resulting from the receipt or accrual of interest on the Bonds. Furthermore, Bond Counsel for the Bonds is of the opinion that interest on the Bonds is exempt from taxation, including personal income taxation, by the Commonwealth of Kentucky and its political subdivisions.

The Code imposes various restrictions, conditions, and requirements relating to the exclusion from gross income for Federal income tax purposes of interest on obligations such as the Bonds. The Issuer has covenanted to comply with certain restrictions designed to ensure that interest on the related issues of Bonds will not be includable in gross income for Federal income tax purposes. Failure to comply with these covenants could result in interest on the Bonds being includable in income for Federal income tax purposes and such inclusion could be required retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. However, Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the tax status of the interest on the Bonds.

The County has designated the Bonds as bank eligible within the meaning of Section 265(b)(3) of the Code.

CONTINUING DISCLOSURE UNDERTAKING

In accordance with the Securities and Exchange Commission Rule 15c2-12 (the "Rule") and so long as the Bonds are outstanding the County of Bell (the "Obligated Person") will agree pursuant to a Continuing Disclosure Agreement dated as of August 1, 2006, to be delivered on the date of delivery of the Bonds, to cause the following information to be provided:

- (i) to each nationally recognized municipal securities information repository ("NRMSIR") and to its state information depository ("SID"), if one is established for the Commonwealth of Kentucky, certain annual financial information and operating data, including audited financial statements, generally consistent with the information contained in Appendix A under "Payroll Taxes", "Business Net Profits", "Deed Transfer Tax", "Building Permit Fee", Cable T.V. Franchise Tax", "Historical Assessments", "Ten Largest Real Property Taxpayers", "Building Permits", "Taxes Levied/Collected", "Historical Tax Rates" and "Overlapping Indebtedness", "Appendix B", and "Appendix C" of the Official Statement ("Financial Data"). The annual financial information shall be provided within nine months of the end of the fiscal year ending June 30; provided that the audited financial statements may not be available by such date, but will be made available immediately upon delivery thereof by the auditors for the Obligated Person; and;
- (ii) to each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB") and to the SID, if any, notice of the occurrence of the following events, if material, with respect to the Bonds:
 - (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 security;
 - (g) Modifications to rights of security holders;

- (h) Bond calls, except for mandatory scheduled redemptions not otherwise contingent upon the occurrence of an event;
 - (i) Defeasances;
 - (j) Release, substitution or sale of property securing repayment of the securities;
 - (k) Rating changes; and
 - (l) The cure of any payment or nonpayment related default.
- (iii) to each NRMSIR or to the MSRB and to the SID, if any, notice of a failure (of which the County or Disclosure Agent has knowledge) of the County to provide the required annual financial information on or before the date specified in its written continuing disclosure undertaking.

The Continuing Disclosure Agreement provides bondholders with certain enforcement rights in the event of a failure by the Obligated Person to comply with the terms thereof; however, a default under the Continuing Disclosure Agreement does not constitute a default under the Bond Ordinance. The Continuing Disclosure Agreement may be amended or terminated under certain circumstances in accordance with the Rule as more fully described therein. Bondholders are advised that the Continuing Disclosure Agreement copies of which are available from the County should be read in its entirety for more complete information regarding its contents.

Financial information regarding the County may be obtained from the County Treasurer, Bell County, Kentucky, Courthouse Square, Pineville, Kentucky 40977. Telephone 606-337-9807.

For purposes of this transaction with respect to events as set forth in the Rule:

- (a) there are no credit enhancements applicable to the Bonds;
- (b) there are no liquidity providers applicable to the Bonds; and
- (c) there is no property securing the repayment of the Bonds.

The obligated person is currently in compliance with the Rule.

FINANCIAL ADVISOR

Bidders are advised that Ross, Sinclair & Associates, Inc. has been employed as Financial Advisor in connection with the issuance of the Bonds. Their fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery thereof. They may submit a bid for the purchase of the Bonds at the time of the advertised public sale, either individually or as a member of a syndicate organized to submit a bid for the purchase of the Bonds.

DESCRIPTION OF THE INSURER

The following information has been supplied by the Insurer for inclusion in this Official Statement. No representation is made by Issuer/Underwriter as to the accuracy or completeness of the information.

The Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer and its affiliates set forth under this heading. In addition, the Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

General

XL Capital Assurance Inc. (the "Insurer" or "XLCA") is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. The Insurer is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, all 50 states, the District of Columbia, Puerto Rico, the U.S.

Virgin Islands and Singapore.

The Insurer is an indirect wholly owned subsidiary of Security Capital Assurance Ltd ("SCA"), a company organized under the laws of Bermuda. Through its subsidiaries, SCA provides credit enhancement and protection products to the public finance and structured finance markets throughout the United States and internationally. XL Capital Ltd beneficially owns approximately 65% of SCA's outstanding shares. The common shares of SCA are publicly traded in the United States and listed on the New York Stock Exchange (NYSE: SCA). SCA is not obligated to pay the debts of or claims against the Insurer.

Financial Strength and Financial Enhancement Ratings of XLCA

The Insurer's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch, Inc. ("Fitch"). In addition, the Insurer has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of the Insurer's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XL Financial Assurance Ltd. ("XLFA") described under "Reinsurance" below.

The above ratings are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Bonds. The Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

Reinsurance

The Insurer has entered into a facultative quota share reinsurance agreement with XLFA, an insurance company organized under the laws of Bermuda, and an affiliate of the Insurer. Pursuant to this reinsurance agreement, the Insurer expects to cede up to 75% of its business to XLFA. The Insurer may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by the Insurer as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit the Insurer's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XLCA, the percentage of risk ceded to XLFA may be less than 75% depending on certain factors including, without limitation, whether XLCA has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XLCA, including the Policy.

Based on the audited financials of XLFA, as of December 31, 2005, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of \$1,394,081,000, \$704,007,000, \$39,000,000 and \$651,074,000, respectively, determined in accordance with generally accepted accounting principles in the United States ("US GAAP"). XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by S&P and Fitch Inc. In addition, XLFA has obtained a financial enhancement rating of "AAA" from S&P.

The ratings of XLFA or any other member of the SCA group of companies are not recommendations to buy, sell or hold securities, including the Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch.

Notwithstanding the capital support provided to the Insurer described in this section, the Bondholders will have direct recourse against the Insurer only, and XLFA will not be directly liable to the Bondholders.

Capitalization of the Insurer

Based on the audited financials of XLCA, as of December 31, 2005, XLCA had total assets, liabilities, and shareholder's equity of \$953,706,000, \$726,758,000, and \$226,948,000, respectively, determined in accordance with U.S. GAAP.

Based on the audited statutory financial statements for XLCA as of December 31, 2005 filed with the State of New York Insurance Department, XLCA has total admitted assets of \$328,231,000, total liabilities of \$139,392,000, total capital and surplus of \$188,839,000 and total contingency reserves of \$13,031,000 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities ("SAP").

Incorporation by Reference of Financials

For further information concerning XLCA and XLFA, see the financial statements of XLCA and XLFA, and the bonds thereto, incorporated by reference in this Official Statement. The financial statements of XLCA and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the "Commission") by SCA, with respect to all periods ending after August 4, 2006, and by XL Capital Ltd, with respect to all periods ending prior to August 4, 2006, and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XLCA and XLFA included in, or as exhibits to, documents filed by SCA or XL Capital Ltd pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XLCA and XLFA, no other information contained in the reports filed with the Commission by SCA or XL Capital Ltd is incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XLCA are available upon request to the State of New York Insurance Department.

Regulation of the Insurer

The Insurer is regulated by the Superintendent of Insurance of the State of New York. In addition, the Insurer is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, the Insurer is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. The Insurer is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

THE FINANCIAL GUARANTY INSURANCE POLICIES ISSUED BY THE INSURER, INCLUDING THE INSURANCE POLICY, ARE NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

The principal executive offices of the Insurer are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

MISCELLANEOUS

To the extent any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, such statements are made as such and not as representations of fact or certainty, and no representation is made that any of such statements will be realized. Information herein has been derived by the County from official and other sources and is believed by the County to be reliable, but such information other than that obtained from official records of the County has not been independently confirmed or verified by the County and its accuracy is not guaranteed. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the holders of the Bonds.

This Official Statement does not, as of its date, contain any untrue statement of a material fact or omit to state a material fact which should be included herein for the purpose for which the Official Statement is to be used or which is necessary in order to make the statements contained herein, in the light of the circumstances under which they were made, not misleading in any material respect.

This Official Statement has been duly executed and delivered for and on behalf of the County of Bell, Kentucky, by its County Judge/Executive.

COUNTY OF BELL, KENTUCKY

By: /s/
County Judge/Executive

Dated: August 17, 2006

APPENDIX A

**County of Bell, Kentucky
General Obligation Improvement Bonds
(Detention Facility Project),
Series 2006**

Demographic and Economic Data

BELL COUNTY, KENTUCKY

Pineville is situated in southeastern Kentucky's Eastern Coal Field and is the county seat of Bell County. Pineville is located 125 miles southeast of Lexington, Kentucky; 201 miles southeast of Cincinnati, Ohio; and 84 miles north of Knoxville, Tennessee.

The town of Middlesboro is situated in southern Bell County near the edge of the Kentucky-Tennessee Border. The city is located 134 miles southeast of Lexington, Kentucky; 205 miles southeast of Louisville, Kentucky; and 74 miles north of Knoxville, Tennessee.

Bell County covers a land area of 360 square miles and had an estimated 2005 population of 29,756 persons. Pineville had an estimated 2004 population of 2,015. Middlesboro had an estimated 2004 population of 10,192.

The Economic Framework

The total number of Bell County residents employed in 2005 averaged 8,628. Manufacturing firms in the county reported 830 employees; trade, transportation, and utilities provided 2,220 jobs; 3,338 people were employed in service occupations; public administration accounted for 273 employees; mining provided 956 jobs; and contract construction firms provided 150 jobs.

Labor Supply

There is a current estimated labor supply of 2,379 persons available for industrial jobs in the labor market area. In addition, from 2005 through 2008, 1,734 young persons in the area will become 18 years of age and potentially available for industrial jobs.

Transportation

Two main United States highways service Bell County, US 25E and US 119. Interstate 75 is easily accessible 43 miles west of Pineville. The nearest scheduled commercial airline service is available at Knoxville, Tennessee's McGhee Tyson Airport, 72 miles southwest of Middlesboro. Charter and private flight service is available at the Middlesboro-Bell County Airport. CSX provides main line rail service to Pineville and Middlesboro.

Power and Fuel

Bell County receives electricity from East Kentucky Power Cooperative (including Blue Grass Energy Cooperative Corporation, Clark Energy Cooperative, Inc., Inter-County Energy Cooperative Corporation, and Jackson Energy Cooperative), Cumberland Valley Electric and E. ON U.S. (KU). Delta Natural Gas Company provides natural gas service to Bell County.

Education

The Bell County School System, Middlesboro Independent, and Pineville Independent provides primary and secondary public education to Bell County. One nonpublic school also operates in Bell County. Higher education classes and degrees are available at the Pineville and Middlesboro campuses of the Southeast Community College. Vocational training is available at the Bell County Area Technology Center in Richmond.

LOCAL GOVERNMENT

Structure

Middlesboro is governed by a mayor, and nine council members. The mayor is elected to a four-year term, while the council members each serve two-year terms. Pineville is governed by a mayor and six council members. The mayor is elected to a four-year term, while the council members each serve two-year terms. Bell County is governed by a county judge/executive and five magistrates. Each county official is elected to a four-year term.

Planning and Zoning

City agency - Middlesboro Planning and Zoning Commission

Local codes enforced - Building and housing codes

Mandatory state codes enforced - Kentucky Plumbing Code, National Electric code, Kentucky Boiler Regulations and

Standards, Kentucky Building Code (modeled after BOCA code)

Local Fees and Licenses

The City of Middlesboro levies a two percent occupational license tax on wages, salaries, and commissions of individuals and on net profits of businesses located within its corporate limits. The City of Pineville levies a one and one-half percent occupational license tax on wages, salaries, and commissions of individuals and on net profits of businesses located within its corporate limits.

Property Taxes

The Kentucky Constitution requires the state to tax all classes of taxable property, and state statutes allow local jurisdictions to tax only a few classes. All locally taxed property is subject to county taxes and school district taxes (either a county school district or an independent school district). Property located inside of city limits may also be subject to city property taxes.

Special local taxing jurisdictions (fire protection districts, watershed districts, and sanitation districts) levy taxes within their operating areas (usually a small portion of community or county).

Property assessments in Kentucky are at 100% fair cash value. A 15% reduction is automatically granted for accounts receivable.

The table below lists the assessed property valuation of the county as reported by the Department of Revenue, Frankfort, Kentucky with the tax year assessment as of January 1.

<u>Description</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Real Estate	\$529,224,015	\$539,612,933	\$553,118,196	\$565,176,493	\$589,996,412
Tangible Property	\$135,413,758	\$150,221,820	\$141,339,052	\$144,258,269	\$154,054,561
Motor Vehicle	\$95,716,357	\$95,270,615	\$101,620,918	\$99,003,990	\$106,934,848
Watercraft	\$817,165	\$906,069	\$915,106	\$978,026	\$992,761
Totals	\$761,171,295	\$786,011,437	\$796,993,272	\$809,416,778	\$851,978,582
% Increase (Decrease)		3.16%	1.38%	1.56%	5.01%

LABOR MARKET STATISTICS

The Middlesboro Labor Market Area includes Bell County and the adjoining Kentucky counties of Whitley, Knox, Clay, Leslie, and Harlan counties, the Tennessee counties of Claiborne and Grainger, and the Virginia county of Lee

<u>Description</u>	<u>-----Estimate Year-----</u>				
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Labor Market Area	242,071	242,389	243,160	243,874	243,881
Bell County	29,873	30,114	29,953	29,672	29,756
Middlesboro	10,247	10,326	10,282	10,192	N/A
Pineville	2,051	2,055	2,038	2,015	N/A

Source: U.S. Department of Commerce, Bureau of the Census

POPULATION PROJECTIONS

Description	-----Estimate Year-----			
	2005	2010	2015	2020
Labor Market Area	223,983	246,852	251,214	253,648
Bell County	29,396	29,656	28,907	28,118

Source: Kentucky State Data Center, University of Louisville and Kentucky Cabinet for Economic Development.

EMPLOYMENT STATISTICS

YEAR ENDING DECEMBER 31

Description	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
County of Bell					
Civilian Labor Force	10,272	9,762	9,686	9,542	9,373
Employment	9,389	8,975	8,930	8,845	8,628
Unemployment	883	787	756	697	745
Unemployment rate	8.60%	8.10%	7.80%	7.30%	7.90%
State of Kentucky					
Civilian Labor Force	1,962,469	1,932,470	1,956,384	1,973,994	1,999,658
Employment	1,856,674	1,824,480	1,835,909	1,870,249	1,878,341
Unemployment	105,795	107,990	120,475	103,695	121,317
Unemployment rate	5.40%	5.60%	6.20%	5.50%	6.10%
US Comparable Rate:					
Unemployment Rate	4.70%	5.80%	6.00%	5.50%	5.10%

Source: Workforce Kentucky, Department for Employment Services

EDUCATION

Public Schools

School	Total Enrollment	Expenditures per Pupil to Teacher
---------------	-------------------------	--

		pupil	ratio
Bell County	3,147	8,724	12.9
Middlesboro Ind	1,866	8,675	16.0
Pineville Ind	676	8,195	17.4

Vocational Training

Vocational training is available at both the state vocational-technical schools and the area vocational education centers. The state vocational-technical schools are post-secondary institutions. The area vocational education centers are designed to supplement the curriculum of high school students. Both the state vocational-technical schools and the area vocational education centers offer evening courses to enable working adults to upgrade current job skills.

Arrangements can be made to provide training in the specific production skills required by an industrial plant. Instruction may be conducted either in the vocational school or in the industrial plant, depending upon the desired arrangement and the availability of special equipment.

Bluegrass State Skills Corporation

The Bluegrass State Skills Corporation, an independent public corporation created and funded by the Kentucky General Assembly, provides programs of skills training to meet the needs of business and industry from entry level to advanced training, and from upgrading present employees to retraining experienced workers.

The Bluegrass State Skills corporation is the primary source for skills training assistance for a new or existing company. The Corporation works in partnership with other employment and job training resources and programs, as well as Kentucky's economic development activities, to package a program customized to meet the specific needs of a company.

Vocational	Location	Enrollment (2004-2005)
Bell County ATC	Pineville	554
Knox County ATC	Barbourville	499
Corbin ATC	Corbin	306
Clay County ATC	Manchester	169
Leslie County ATC	Hyden	423
Jackson County ATC	McKee	297

Source: Kentucky Cabinet for Workforce Development; Kentucky Community and Technical College System; Kentucky Department of Education.

Colleges and Universities

Institution	Location	Enrollment (Fall 2005)
Southeast Community College	Middlesboro	N/A
Lincoln Memorial University	Harrogate, TN	N/A
Southeast Community College	Pineville	N/A
Clear Creek Baptist College	Pineville	N/A
Union College	Barbourville	1,224
Cumberland College	Williamsburg	1,843
Southeast Community College	Harlan	N/A
Eastern Kentucky University (Corbin)	Corbin	N/A

Campus)		
Carson-Newman College	Jefferson City, TN	N/A
Eastern Kentucky University (Manchester Campus)	Manchester	N/A
Somerset Community College	London	N/A
Frontier School of Midwifery and Family Nursing	Hyden	N/A
National College of Business & Technology -Knoxville Branch	Knoxville, TN	N/A
Knoxville College	Knoxville, TN	N/A
Fountainhead College of Technology	Knoxville, TN	N/A
Johnson Bible College	Knoxville, TN	N/A
ITT Technical Institute	Knoxville, TN	N/A
Univ of Tennessee	Knoxville, TN	N/A
Southeast Community College	Cumberland	4,712
Hazard Community & Tech College	Hazard	3,883
Somerset Community College	Somerset	6,709

Source: Kentucky Cabinet for Economic Development.

FINANCIAL INSTITUTIONS

Institution	Total Assets	Total Deposits
Home Federal Bank Corporation	\$258,854,000	\$204,421,000
First State Bank of Pineville	\$207,958,000	\$157,403,000

Source: McFadden American Financial Directory, June-December, 2005.

EXISTING INDUSTRY

Location	Company	Product/Service	Employment
Middlesboro	B&C Machine Shop, Inc.	Machine Shop, general machining	9
	Bell Concrete Industries, Precast Concrete & dry cement Inc.		24
	CDG Managemnt LLC	Call Center	142
	Concrete Products	Ready-mixed concrete	5
	Cumberland Gap Provision Co	Smoked ham & sausage processing	350
	Elmo Greer & Sons, Inc.	Crushed stone, limestone & asphalt	15
	Ideal Print Shop	Commercial offset printing, structural steel fabrication	6
	J R Hoe & Sons, Inc.	Machine shop	45
	Kirby Steel Products, Inc	Metal truck beds & bodies	3
	Logan Corp	Metals service center, machine shop	32

Martin Manufacturing Corp	Elastic webbing	8
McCoy Welding & Machine	Welding & fabrication	6
Middlesboro Coca-Cola Bottling	Carbonated soft drinks and water & bottling	122
Middlesboro Dail News	Newspaper Publishing	35
Mountain Tarp & Awning Inc	Tarps and tarp systems	79
Three States Printing co	Offset printing & computer typesetting	5
Yeary Auto Electric & Driveline	Automobile starters, alternators & driveshafts	4

Source: Kentucky Cabinet for Economic Development.

Ten Largest Real Property Taxpayers

The following table lists the ten largest taxpayers of the County for fiscal year 2005:

<u>Taxpayer Name</u>	<u>Real Estate Valuation</u>	<u>Tangible Valuation</u>	<u>Total R.E. & Tangible</u>
Cumberland Gap Provision	\$4,943,400	\$15,532,659	\$20,476,059
Wal-Mart	\$10,212,000	\$7,443,626	\$17,655,626
Middlesboro Mall	\$12,000,000	\$76,717	\$12,076,717
Ataya Inc.	\$11,175,000	-	\$11,175,000
Appolo Fuels	\$687,000	\$5,982,996	\$6,669,996
Bell County Coal	\$372,600	\$5,961,329	\$6,333,929
Kroger Co.	\$3,419,000	\$2,173,040	\$5,592,040
First State Financial	\$3,733,100	\$1,714,473	\$5,447,573
Wilderness Trail Manor	\$4,320,000	\$31,489	\$4,351,489
Gatliff Coal	\$1,231,500	\$3,559,753	\$3,791,253

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PROPERTY TAX RATES

The following table lists the tax rates for the last five (5) available years as reported by the Department of Revenue, Frankfort, Kentucky.

[illegible]

APPENDIX B

**County of Bell, Kentucky
General Obligation Improvement Bonds
(Detention Facility Project),
Series 2006**

**Audited General Purpose Financial Statements of the
County of Bell, Kentucky for the
Fiscal Year Ending June 30, 2003**

**REPORT OF THE AUDIT OF THE
BELL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BELL COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the Bell County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Governmental Fund Type

Fund balances decreased by \$553,531 from prior year. Even though fund balances decreased, there was a cash surplus of \$3,328,722 as of June 30, 2003. Of this amount, \$547,086 is reserved for the completion of Local Government Economic Development grant capital projects. Revenues decreased by \$2,040,260 over prior year. The decrease is attributed primarily to non-recurring federal grant receipts and lease proceeds that were received during the prior year. In addition, expenditures decreased by \$3,575,915 over prior year. The decrease in expenditures is primarily attributed to non-recurring capital projects disbursements and federal grant expenditures that were expended during the prior year.

Proprietary Fund Type

Fund balances decreased by \$9,884 from the beginning of year. However, there was a cash surplus of \$15,238 as of June 30, 2003.

Debt Obligations:

Total bonded debt principal as of June 30, 2003, was \$5,780,000. Future collections of \$10,883,931 are needed over the next 25 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$658,065 as of June 30, 2003. Future principal and interest payments of \$795,896 are needed to meet these obligations.

Report Comments:

- The County Lacks Adequate Segregation Of Duties
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Deposits:

The fiscal court's deposits were not insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable William Kelley, Bell County Judge/Executive
Members of the Bell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Bell County, Kentucky, as of June 30, 2003, the statement of cash receipts, cash disbursements, and changes in cash balances – governmental fund types; the statement of cash receipts, cash disbursements and changes in cash balances – proprietary fund; and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Bell County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Bell County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of Bell County, Kentucky, as of June 30, 2003, and its receipts and disbursements, and the cash flows of its enterprise fund for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable William Kelley, Bell County Judge/Executive
Members of the Bell County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated November 3, 2004, on our consideration of Bell County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Bell County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The County Lacks Adequate Segregation Of Duties
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 3, 2004

BELL COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

William Kelley	County Judge/Executive
Charles Hunter	Magistrate
John D. Brock	Magistrate
David E. Gilbert	Magistrate
Coye Silcox	Magistrate
Andy Williams	Magistrate

Other Elected Officials:

William Neal Ward	County Attorney
James J. Hoskins	Jailer
Joan Asher Cawood	County Clerk
Charles Green	Circuit Court Clerk
Bruce Bennett	Sheriff
Geraldine Jeffers	Property Valuation Administrator
Clyde Creech	Coroner

Appointed Personnel:

Sharon Taylor	County Treasurer
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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

BELL COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	<u>Governmental Fund Type</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	<u>\$ 2,030,441</u>	<u>\$ 794,842</u>	<u>\$ 503,439</u>
Total Assets	<u>\$ 2,030,441</u>	<u>\$ 794,842</u>	<u>\$ 503,439</u>
<u>Other Resources</u>			
Amounts to Be Provided in Future Years for:			
Capital Lease Obligation (Note 4)	\$ 642,077	\$ 15,988	\$
Bond Payments (Note 7)			<u>5,276,561</u>
Total Other Resources	<u>\$ 642,077</u>	<u>\$ 15,988</u>	<u>\$ 5,276,561</u>
Total Assets and Other Resources	<u><u>\$ 2,672,518</u></u>	<u><u>\$ 810,830</u></u>	<u><u>\$ 5,780,000</u></u>

The accompanying notes are an integral part of the financial statements.

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

	Governmental Fund Type		
	General	Special Revenue	Capital Projects
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Capital Lease Obligation (Note 4)	\$ 642,077	\$ 15,988	\$
Bonds:			
Series 2000 (Note 7)			5,780,000
Total Liabilities	<u>\$ 642,077</u>	<u>\$ 15,988</u>	<u>\$ 5,780,000</u>
<u>Equity</u>			
Retained Earnings:			
Unrestricted	\$	\$	\$
Fund Balances:			
Reserved		794,842	
Unreserved	2,030,441		
Total Equity	<u>\$ 2,030,441</u>	<u>\$ 794,842</u>	<u>\$</u>
Total Liabilities and Equity	<u>\$ 2,672,518</u>	<u>\$ 810,830</u>	<u>\$ 5,780,000</u>

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

<u>Proprietary Fund Type</u>	<u>Totals (Memorandum Only)</u>
<u>Enterprise</u>	
\$	\$ 658,065
	<u>5,780,000</u>
<u>\$</u>	<u>\$ 6,438,065</u>
\$ 15,238	\$ 15,238
	794,842
	<u>2,030,441</u>
<u>\$ 15,238</u>	<u>\$ 2,840,521</u>
<u>\$ 15,238</u>	<u>\$ 9,278,586</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE

BELL COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUND TYPE

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 1,928,885	\$ 1,015,008	\$ 371,937	\$ 539,491
Other Financing Sources:				
Transfers In	20,000		350,000	
Total Cash Receipts	<u>\$ 1,948,885</u>	<u>\$ 1,015,008</u>	<u>\$ 721,937</u>	<u>\$ 539,491</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,947,167	\$ 842,042	\$ 759,799	\$ 286,313
Other Financing Uses:				
Schedule of Other Expenditures				
Transfers Out				350,000
Bonds:				
Principal Paid				
Interest Paid				
Ambulance Lease Principal Payment				
Lease Principal Payment	87,900			
Total Cash Disbursements	<u>\$ 2,035,067</u>	<u>\$ 842,042</u>	<u>\$ 759,799</u>	<u>\$ 636,313</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (86,182)	\$ 172,966	\$ (37,862)	\$ (96,822)
Cash Balance - July 1, 2002*	<u>1,090,181</u>	<u>431,369</u>	<u>153,514</u>	<u>403,277</u>
Cash Balance - June 30, 2003*	<u><u>\$ 1,003,999</u></u>	<u><u>\$ 604,335</u></u>	<u><u>\$ 115,652</u></u>	<u><u>\$ 306,455</u></u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN CASH BALANCES – GOVERNMENTAL FUND TYPE
For The Fiscal Year Ended June 30, 2003
(Continued)

Special Revenue Fund Type					
Ambulance Service Fund	Insurance Premium Tax Fund	Abandoned Mine Land Water Projects Fund	Local Economic Development Fund	State Grant Fund	Federal Grant Fund
\$ 662,844	\$ 482,691	\$ 29,000	\$ 357,500	\$ 189,476	\$ 56,623
120,673					
\$ 783,517	\$ 482,691	\$ 29,000	\$ 357,500	\$ 189,476	\$ 56,623
\$ 725,849	\$ 362,019	\$ 29,000	\$ 865,881	\$ 194,824	\$ 69,599
20,000	120,673				
12,002					
\$ 757,851	\$ 482,692	\$ 29,000	\$ 865,881	\$ 194,824	\$ 69,599
\$ 25,666	\$ (1)	\$	\$ (508,381)	\$ (5,348)	\$ (12,976)
217,582	11		1,055,467	5,348	17,474
\$ 243,248	\$ 10	\$ 0	\$ 547,086	\$ 0	\$ 4,498

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES – GOVERNMENTAL FUND TYPE
For The Fiscal Year Ended June 30, 2003
(Continued)

	Capital Projects Fund Type	Debt Service Fund Type	
	Public Properties Corporation: Judicial Building Project Fund	Cumberland Gap Provisions Revolving Loan Fund	Totals (Memorandum Only)
<u>Cash Receipts</u>			
Schedule of Operating Revenue	\$ 421,017	\$ 82,111	\$ 6,136,583
Other Financing Sources:			
Transfers In			490,673
Total Cash Receipts	<u>\$ 421,017</u>	<u>\$ 82,111</u>	<u>\$ 6,627,256</u>
<u>Cash Disbursements</u>			
Comparative Schedule of Final Budget and Budgeted Expenditures	\$	\$ 82,111	6,164,604
Other Financing Uses:			
Schedule of Other Expenditures	6,250		6,250
Transfers Out			490,673
Bonds:			
Principal Paid	90,000		90,000
Interest Paid	329,358		329,358
Ambulance Lease Principal Payment			12,002
Lease Principal Payment			87,900
Total Cash Disbursements	<u>\$ 425,608</u>	<u>\$ 82,111</u>	<u>\$ 7,180,787</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (4,591)	\$	\$ (553,531)
Cash Balance - July 1, 2002*	<u>508,030</u>		<u>3,882,253</u>
Cash Balance - June 30, 2003*	<u>\$ 503,439</u>	<u>\$ 0</u>	<u>\$ 3,328,722</u>

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES – PROPRIETARY FUND TYPE

BELL COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN CASH BALANCES – PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	<u>Enterprise Fund Type</u>
<u>Cash Receipts</u>	<u>Jail Canteen Fund</u>
Receipts - Jail Canteen	\$ 16,621
<u>Cash Disbursements</u>	
Expenditures - Jail Canteen	\$ 26,505
Total Cash Disbursements	\$ 26,505
Deficiency of Cash Receipts Under Cash Disbursements	\$ (9,884)
Cash Balance - July 1, 2002	25,122
Cash Balance - June 30, 2003	\$ 15,238

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

BELL COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2003

	<u>Enterprise Funds</u>
	<u>Jail Canteen</u>
Cash Flows From Operating Activities:	
Cash Received From Inmate Sales	\$ 16,621
Payments to Suppliers	<u>(26,505)</u>
Net Cash Used By Operating Activities	<u>\$ (9,884)</u>
Reconciliation of Operating Loss to	
Net Cash Used by Operating Activities:	
Operating Loss	<u>\$ (9,884)</u>

The accompanying notes are an integral part of the financial statements.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Bell County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity. Based upon the criteria stated in GASB 14, management has included the Public Properties Corporation: Judicial Building Project Fund as part of the reporting entity.

Public Properties Corporation: Judicial Building Project

The Public Properties Corporation: Judicial Building Project (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

Additional - Bell County Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

Kentucky law provides for election of the above officials from the geographic area constituting Bell County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Bell County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Bell County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Bell County Special Revenue Fund Type includes the following county funds: The Ambulance Service Fund, Insurance Premium Tax Fund, Abandoned Mine Land Water Projects Fund, Local Economic Development Fund, State Grant Fund, and Federal Grant Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds of the Cumberland Gap Provisions Revolving Loan Fund.

4) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Public Properties Corporation: Judicial Building Project Fund is reported as a Capital Projects Fund Type. The Public Properties Corporation: Judicial Building Project Fund will be classified as a Capital Projects Fund Type as long as it relates to the construction of a new judicial building. After the construction of the facility is completed, this fund will be reclassified as a Debt Service Fund Type.

5) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Bell County Enterprise Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund. All profit expenditures were for the benefit and/or recreation of the inmates.

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Bell County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation: Judicial Building Project Fund (Capital Projects Fund). The Governor's Office for Local Development does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. For the purpose of the statement of cash flows, the county considers all investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BELL COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$138,166 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2002.

	<u>Bank Balance</u>
Insured by FDIC	\$ 100,000
Collateralized with securities held by pledging depository institution in the county's name	3,003,528
Uncollateralized and uninsured	<u>138,166</u>
Total	<u>\$ 3,241,694</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Capital Lease Agreements

A. Ambulance Capital Lease

On December 1, 1999, the county entered into a lease agreement with GEM Capital Corporation for the purpose of obtaining an ambulance. Terms of the lease agreement stipulate 20 quarterly payments in the amount of \$3,335. As of June 30, 2003, the principal balance remaining was \$15,988. Future lease payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 742	\$ 12,699
2005	47	3,289
	<u>\$ 789</u>	<u>\$ 15,988</u>

B. Waterline Capital Lease Agreements

The county has entered into four capital lease agreements with the Kentucky Association of Counties Leasing Trust Program for the construction of various waterlines. The following is a description of the terms of each lease agreement:

- 1) The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program in October 1993, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2003, the principal balance remaining was \$99,000. Future lease payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 5,265	\$ 8,000
2005	4,825	8,000
2006	4,361	9,000
2007	3,821	9,000
2008	3,348	10,000
2009-2013	<u>8,039</u>	<u>55,000</u>
Totals	<u>\$ 29,659</u>	<u>\$ 99,000</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Capital Lease Agreements (Continued)

B. Waterline Capital Lease Agreements (Continued)

- 2) The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program in May 1995, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2003, the principal balance remaining was \$37,000. Future lease payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 2,072	\$ 12,000
2005	1,295	12,000
2006	491	13,000
Totals	<u>\$ 3,858</u>	<u>\$ 37,000</u>

- 3) The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program in September 1995, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2003, the principal balance remaining was \$56,000. Future lease payments are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 3,382	\$ 4,000
2005	3,133	4,000
2006	2,884	4,000
2007	2,635	4,000
2008	2,386	4,000
2009-2013	7,724	24,000
2014-2016	809	12,000
Totals	<u>22,953</u>	<u>\$ 56,000</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Capital Lease Agreements (Continued)

B. Waterline Capital Lease Agreements (Continued)

- 4) The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program in March 1998, for the construction of waterlines. The county has subleased the waterlines to the Pineville Utility Commission. Terms of the agreement stipulate a twenty-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2003, the principal balance remaining was \$297,177. Future lease payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2004	\$ 15,412	\$ 33,000
2005	13,573	35,000
2006	11,647	36,000
2007	9,644	38,000
2008	5,389	41,000
2009-2011	<u>11,688</u>	<u>114,177</u>
Totals	<u>\$ 67,353</u>	<u>\$ 297,177</u>

C. Voting Machine Capital Lease Agreement

The county entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program during January 2002. The lease proceeds were used to acquire 40 voting machines. Terms of the agreement stipulate a five-year repayment schedule, with variable monthly interest payments and variable annual principal payments. As of June 30, 2003, the principal balance remaining was \$152,900. Future lease payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2004	\$ 5,597	\$ 36,200
2005	4,105	37,500
2006	2,560	38,800
2007	<u>957</u>	<u>40,400</u>
Totals	<u>13,219</u>	<u>\$ 152,900</u>

BELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Long-term Debt

On July 1, 2000, the Bell County Public Properties Corporation issued bonds in order to construct the Farmer Helton Judicial Building. On the same day, the Bell County Public Properties Corporation, Administrative Office of the Courts, (AOC) and the county entered into a lease agreement for the purpose of obtaining office rental space for the AOC at the Judicial Building. The financing plan for the project is as follows:

Bell County and the Public Properties Corporation are acting as agents for the AOC in order to plan, design, construct, manage and maintain the Judicial Building. The Public Properties Corporation and the county expect annual rentals for use of the Judicial Building to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the use allowance payment in order to meet the debt service for the bonds.

The use allowance payment commences with occupancy of the Judicial Building by the AOC. The AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until September 1, 2028, but the lease does not legally obligate the AOC to do so.

As of June 30, 2003, the principal balance remaining was \$5,780,000. Future bond payments are as follows:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 324,501	\$ 95,000
2005	319,383	100,000
2006	314,001	105,000
2007	308,358	110,000
2008	302,451	115,000
2009-2013	1,411,834	680,000
2014-2018	1,199,925	900,000
2019-2023	908,321	1,205,000
2024-2028	494,318	1,640,000
2029	24,278	830,000
Totals	<u>\$ 5,607,370</u>	<u>\$ 5,780,000</u>

BELL COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 6. Commitments and Contingencies

In August 1999, Bell County received a Single-County Local Government Economic Development Fund Grant in the amount of \$800,000, which was assigned to the Bell County Industrial Foundation for disbursement to the Cumberland Gap Provision Company in the form of an \$800,000 loan. This loan was for a period of ten (10) years at three percent (3%) interest. Monthly interest only payments were due for the first three (3) years of the loan term. At the end of that three (3) year period, \$100,000 of the principal amount of the loan was forgiven, based on the Company's degree of compliance with the terms of the jobs requirement, and the remaining balance is being amortized at an interest rate of three percent (3%) per annum over the remaining life of the loan, to be repaid in equal consecutive monthly payments of principal and interest. Cumberland Gap Provision Company pays the note payments to the Bell County Industrial Development Foundation, which pays the payments over to the county, and the county pays the payments over to the Kentucky Economic Development Finance Authority. Upon default of the loan agreement, the Cumberland Gap Provision Company, The Bell County Industrial Foundation, and the Bell County Fiscal Court can be responsible for repayment to the Kentucky Economic Development Finance Authority. As of June 30, 2003, Cumberland Gap Provision Company was in substantial compliance with the terms of the loan agreement.

Principal Balance Due County at June 30, 2003

\$639,448

Note 7. Insurance

For the fiscal year ended June 30, 2003, Bell County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Local Economic Development Fund

The ending cash balance of Local Government Economic Development Fund was \$547,086 as of June 30, 2003. This amount is reserved for the completion of capital projects. The Department for Local Government authorized certain capital construction projects for local administration from the coal severance tax project plan of House Bill 502. These projects were not completed at fiscal year end. As of July 1, 2002, the grant balance was \$1,055,467. During fiscal year ended June 30, 2003, the county received grant receipts totaling \$357,500 and expended grant disbursements totaling \$865,881. The ending balance was \$547,086 as of June 30, 2003.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

BELL COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,707,951	\$ 1,928,885	\$ 220,934
Road and Bridge Fund	929,540	1,015,008	85,468
Jail Fund	741,903	371,937	(369,966)
Local Government Economic Assistance Fund	207,356	539,491	332,135
<u>Special Revenue Fund Type</u>			
Ambulance Service Fund	711,600	662,844	(48,756)
Insurance Premium Tax Fund	362,250	482,691	120,441
Abandoned Mine Land Water Project Fund	29,000	29,000	
Abandoned Mine Land Laurel Fork Water Project Fund	600,000		(600,000)
Local Economic Development Fund	1,528,054	357,500	(1,170,554)
State Grant Fund	222,072	189,476	(32,596)
Federal Grant Fund	593,928	56,623	(537,305)
<u>Debt Service Fund Type</u>			
Cumberland Gap Provision Revolving Loan Fund	82,995	82,111	(884)
Totals	<u>\$ 7,716,649</u>	<u>\$ 5,715,566</u>	<u>\$ (2,001,083)</u>

Reconciliation

Total Budgeted Operating Revenue Above	\$ 7,716,649
Add: Budgeted Prior Year Surplus	2,100,870
Less: Other Financing Uses	<u>(99,902)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures	<u>\$ 9,717,617</u>

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SCHEDULE OF OPERATING REVENUE

BELL COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

Revenue Categories	GOVERNMENTAL FUND TYPE				Totals (Memorandum Only)
	General Fund Type	Special Revenue Fund Type	Capital Projects Fund Type	Debt Service Fund Type	
Taxes	\$ 1,027,379	\$ 482,633	\$	\$	\$ 1,510,012
In Lieu Tax Payments	17,336				17,336
Excess Fees	79,552				79,552
Licenses and Permits	30,259				30,259
Intergovernmental Revenues	2,427,953	632,404	395,246		3,455,603
Charges for Services	47,075	659,097			706,172
Miscellaneous Revenues	134,579	3,942	27	81,994	220,542
Interest Earned	91,188	58	25,744	117	117,107
Total Operating Revenue	<u>\$ 3,855,321</u>	<u>\$ 1,778,134</u>	<u>\$ 421,017</u>	<u>\$ 82,111</u>	<u>\$ 6,136,583</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

BELL COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,349,648	\$ 1,230,354	\$ 119,294
Protection to Persons and Property	804,662	764,923	39,739
General Health and Sanitation	287,590	93,619	193,971
Social Services	11,300	10,075	1,225
Recreation and Culture	78,790	75,790	3,000
Transportation Facilities and Services	51,022	40,879	10,143
Roads	1,043,833	783,939	259,894
Debt Service	36,292	36,292	
Administration	902,489	799,450	103,039
Total Operating Budget - General Fund Type	\$ 4,565,626	\$ 3,835,321	\$ 730,305
Other Financing Uses:			
Capital Lease Agreement-			
Principal on Lease			
Hances Creek Waterline	8,000	8,000	
Highway 92 Waterline	11,000	11,000	
Little Clear Creek Waterline	3,000	3,000	
Hutch Brownies Creek Waterline	31,000	31,000	
Voting Machine	34,900	34,900	
TOTAL BUDGET - GENERAL FUND TYPE	\$ 4,653,526	\$ 3,923,221	\$ 730,305

BELL COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

SPECIAL REVENUE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 2,485,251	\$ 890,827	\$ 1,594,424
Protection to Persons and Property	977,631	946,172	31,459
General Health and Sanitation	1,216,500	79,000	1,137,500
Debt Service	1,340	1,339	1
Capital Projects	222,072	189,477	32,595
Administration	166,202	140,357	25,845
Total Operating Budget - Special Revenue Fund Type	\$ 5,068,996	\$ 2,247,172	\$ 2,821,824
Other Financing Uses: Ambulance Lease- Principal	12,002	12,002	
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 5,080,998</u>	<u>\$ 2,259,174</u>	<u>\$ 2,821,824</u>

DEBT SERVICE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
Debt Service	<u>\$ 82,995</u>	<u>\$ 82,111</u>	<u>\$ 884</u>

SCHEDULE OF OTHER EXPENDITURES

BELL COUNTY
SCHEDULE OF OTHER EXPENDITURES

For The Fiscal Year Ended June 30, 2003

<u>Expenditure Items</u>	<u>Public Properties Corporation Judicial Building Project Fund</u>
Construction	\$ 4,500
Administrative Fees	<u>1,750</u>
Totals	<u><u>\$ 6,250</u></u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William Kelley, Bell County Judge/Executive
Members of the Bell County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Bell County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated November 3, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Bell County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and is described in the accompanying comments and recommendations.

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bell County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Bell County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comments and recommendations.

- The County Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 3, 2004

COMMENTS AND RECOMMENDATIONS

BELL COUNTY
COMMENTS AND RECOMMENDATIONS

For The Fiscal Year Ended June 30, 2003

REPORTABLE CONDITION

The County Lacks Adequate Segregation Of Duties

There is a lack of adequate segregation of duties relating to ambulance mail receipts because one person is solely responsible for opening mail receipts, posting mail receipts and depositing mail receipts. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. However, having one individual who is responsible for these duties increases the risk that misstatements or errors may occur and not be detected in a timely manner. The county should consider delegating some duties to other employees to help strengthen internal controls over ambulance mail receipts. For example, persons who have no access to cash receipts or accounts receivable should open mail and list receipts. Another person could record payments. We recommend that the county develop and implement procedures to help strengthen the internal control structure over ambulance mail receipts.

County Judge/Executive William Kelley's Response:

Because of such a small staff we are studying ideas to correct this oversight. We feel we will be able to delegate some duties to others in the near future.

NONCOMPLIANCE

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On August 31, 2002, \$138,166 of the county's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times

County Judge/Executive William Kelley's Response:

To the best of my knowledge this has been taken care of and should not be a problem in the future.

PRIOR YEAR FINDINGS

- Lacks Adequate Segregation Of Duties
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

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CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

BELL COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

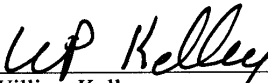
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS


BELL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Bell County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



William Kelley
County Judge/Executive



Sharon Taylor
County Treasurer

APPENDIX C

**County of Bell, Kentucky
General Obligation Improvement Bonds
(Detention Facility Project),
Series 2006**

Statement of Indebtedness of the County Treasurer

STATEMENT OF INDEBTEDNESS
KY CONST. §§157 and 158
KRS §66.041

COMMONWEALTH OF KENTUCKY

COUNTY OF BELL

The undersigned Treasurer of the County of Bell, Commonwealth of Kentucky, does hereby certify that the following statements concerning the financial condition of said County are true and correct as they appear from records of the County:

- | | | |
|-----|--|----------------------|
| 1. | The assessed valuation of all the taxable property in the County as estimated on the last certified assessment is | \$ 851,908,582 |
| 2. | The current population of the County is | 29,672 |
| 3. | The total of all bonds, notes and other obligations currently issued and outstanding, including the present issue of \$3,500,000 is | \$ <u>10,163,400</u> |
| 4. | Bonds, notes and other obligations excluded from the calculation of net indebtedness are as follows: | |
| (a) | Obligations issued in anticipation of the levy or collection of special assessments which are payable solely from those assessments or are otherwise self-supporting obligations | \$ <u>-0-</u> |
| (b) | Obligations issued in anticipation of the collection of current taxes or revenues for the fiscal year which are payable within that fiscal year | \$ <u>500,000</u> |
| (c) | Obligations, which are not self-supporting obligations, issued after July 15, 1996 by any instrumentality of the County created for the purpose of financing public projects for which there has been no pledge to the payment of debt charges of any tax of the County or for which there is no covenant by the County to collect or levy a tax to pay debt charges | \$ <u>0</u> |
| (d) | Self-supporting obligations and other obligations for which there has been no pledge to the payment of debt charges of any tax of the County or for which there is no covenant by the County to collect or levy a tax to pay debt charges | \$ 5,800,000 |
| (e) | Obligations issued to pay costs of public projects to the extent they are issued in anticipation of the receipt of, and are payable as to principal from, federal or state grants within that fiscal year | \$ <u>-0-</u> |
| (f) | Leases entered into under KRS 65.940 to 65.956 after July 15, 1996 which are not tax-supported leases | <u>\$363,400</u> |
| (g) | Bonds issued in the case of an emergency, when the public health or safety should so require | \$ <u>-0-</u> |

(h)	Bonds issued to fund a floating indebtedness	\$ <u>-0-</u>
TOTAL EXEMPT OBLIGATIONS		<u>\$6,663,400</u>

5. The total of bonds, notes and other obligations subject to the debt limitation set forth in KRS 66.041 (3 minus 4) is \$3,500,000
6. The total of bonds, notes and other obligations subject to the debt limitation set forth in KRS 66.041 as computed in 5 above, does not exceed 2%* of the assessed valuation of all the taxable property in the County.
7. The current tax rate of the County, for other than school purposes, upon the value of the taxable real property therein is .130 and taxable personal property is .149 which does not exceed the maximum permissible tax rate for the County as set forth in Section 157 of the Kentucky Constitution.
8. The issuance of the bonds, notes or other obligations set forth in 3 hereof will not cause the tax rate set forth in 7 hereof to increase in an amount which would exceed the maximum permissible tax rate for the County as set forth in Section 157 of the Kentucky Constitution.

* Includes Series 2005 Bonds

**10% for cities having a population of fifteen thousand or more;
5% for cities having a population of less than fifteen thousand but not less than three thousand; and
3% for cities having a population of less than three thousand; and
2% for counties.

IN WITNESS WHEREOF, I have hereunto set my hand this 1st day of August, 2006.

Bell County Treasurer

Reed & Johnson
Bond Counsel
Lexington, Kentucky

APPENDIX D

**County of Bell, Kentucky
General Obligation Improvement Bonds
(Detention Facility Project),
Series 2006**

Form of Approving Legal Opinion of Bond Counsel

August 1, 2006

County of Bell, Kentucky
Pineville, Kentucky

Community Trust & Investment Company
Middlesboro, Kentucky

**RE: \$3,500,000 County of Bell, Kentucky General Obligation Improvement Bonds
 (Detention Facility Project), Series 2006**

Ladies and Gentlemen:

We have examined the transcript of proceedings relating to the issue of \$3,500,000 General Obligation Improvement Bonds (Detention Facility Project), Series 2006 (the "Series 2006 Bonds"), of the County of Bell, Kentucky (the "Issuer"), dated August 1, 2006, and of the denomination of \$5,000 and any integral multiple thereof. The Series 2006 Bonds mature, bear interest, and are subject to mandatory and optional redemption upon the terms set forth therein. We have also examined a specimen Bond.

Based on this examination, we are of the opinion, based upon laws, regulations, rulings and decisions in effect on the date hereof, that:

1. The Series 2006 Bonds constitute valid obligations of the Issuer in accordance with their terms. The Series 2006 Bonds are a full faith and credit obligation of the Issuer, the payment for which Bell County, Kentucky is obligated to exercise its taxing power, without limit as to rate or amount, upon all taxable property within the Issuer.

2. Interest payable on the Series 2006 Bonds is excludable from gross federal income tax purposes under the Internal Revenue Code of 1986, as amended (the "Code") and interest on the Series 2006 Bonds will not be treated as an item of tax preference in computing the alternative minimum tax imposed on individuals and corporations. However, under the Code, interest on the Series 2006 Bonds will have to be included in "adjusted current earnings" of certain corporations and such corporations would be required to include in the calculation of alternative minimum taxable income seventy-five (75%) percent of the excess of such corporation's adjusted current earnings over their alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for alternative net operating losses) for purposes of determining the alternative minimum tax imposed on such corporations.

3. The interest on the Series 2006 Bonds is not subject to taxation by the Commonwealth of Kentucky, and the Series 2006 Bonds are not subject to ad valorem taxation by the Commonwealth of Kentucky or by any political subdivision thereof.

The Issuer has designated the Series 2006 Bonds as "qualified tax-exempt obligations" with respect to investments by certain financial institutions under Section 265 of the Code.

The opinions set forth above are subject to the condition that the Issuer comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2006 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 the interest on the Series 2006 Bonds to be so included in gross income retroactive to the date of issuance of the Series 2006 Bonds. The Issuer has covenanted to comply with all such requirements. We express no opinion regarding other federal tax consequences arising with respect to the Series 2005 Bonds.

In giving this opinion, we have relied upon covenants and certifications of fact, estimates and expectations made by officials of the Issuer and others contained in the transcript which we have not independently verified. It is to be understood that the enforceability of the Series 2006 Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws in effect from time to time affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in accordance with general principles of equity.

Very truly yours,

REED & JOHNSON

APPENDIX E

**County of Bell, Kentucky
General Obligation Improvement Bonds
(Detention Facility Project),
Series 2006**

Specimen Municipal Bond Insurance Policy

XL CAPITAL ASSURANCE

1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No:

BONDS:

Effective Date:

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. New York time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a 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, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XLCA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. 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 Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

NOTICE IS HEREBY GIVEN THAT A PREMIUM SURCHARGE REQUIRED BY KRS 136.392 IS BEING CHARGED IN RESPECT OF THIS POLICY.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

SPECIMEN

Name:
Title:

SPECIMEN

Name:
Title: