

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

**ELECTRONIC APPLICATION OF SOUTH CENTRAL)
RURAL TELEPHONE COOPERATIVE CORPORATION,) CASE NO. 2017-00092
INC. FOR A GENERAL ADJUSTMENT IN RATES)**

ELECTRONIC APPLICATION

Applicant South Central Rural Telephone Coop. Corp., Inc. (“SCRTC”), by counsel, pursuant to KRS 278.180, 807 KAR 5:001, Sections 14 and 16, and 807 KAR 5:011, Section 6, and consistent with the Public Service Commission of the Commonwealth of Kentucky’s (the “Commission”) May 29, 2013 order in Case No. 2013-00190 (the “2013 Rate Floor Order”) as well as with SCRTC’s April 14, 2016 rate floor proceeding in Case No. 2016-00045, files this application (the “Application”) for authority to adjust its rates and charges for basic local exchange service and gives notice of its intention to increase the same rates and charges effective no later than June 1, 2017.

INTRODUCTION

This Application for a rate increase is necessitated by an order from the Federal Communications Commission (“FCC”) that fundamentally alters the cost structure of providing telecommunications services in high-cost rural areas, like those SCRTC serves. *See In the Matter of Connect America Fund et al.*, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (Nov 18, 2011) (“ICC/USF Order”). For decades prior to the ICC/USF Order, high-cost carriers had received subsidies from the federal government’s “Universal Service Fund” (“USF”). Those USF subsidies were intended to fulfill the Federal Communications Act’s requirement that “[c]onsumers in all regions of the Nation, including . . .

those in rural, insular, and high cost areas, should have access to telecommunications and information services . . . that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.” 47 U.S.C. § 254(b)(3). The FCC found, however, that many rural consumers were paying rates that were less than those paid by consumers in urban areas. ICC/USF Order at ¶ 235. In consequence, the FCC’s ICC/USF Order sets a rate floor equal to the national average of local rates plus state regulated fees. *Id.* at ¶ 238. The ICC/USF Order also “limit[s] high-cost support where local end-user rates plus state regulated fees” do not meet that national rate floor; those carriers’ federal subsidies will be reduced “on a dollar-for-dollar basis . . . , to the extent that [the] carrier’s local rates (plus state regulated fees) do not meet the urban rate floor.” *Id.* at ¶ 239.

On June 10, 2014, the FCC altered the schedule for the imposition of rate floor penalties, effectively requiring carriers to ensure that their 2017 rate floor obligations are met no later than June 1, 2017. *See In the Matter of Connect America Fund et al.*, Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking, FCC 14-54, ¶¶ 79-80.

SCRTC’s proposed rate adjustment is thus necessary to preserve its ability to receive these USF subsidies that are important to its ability to provide telephone and information services in its high-cost rural service territory. Without a minimum rate sufficient to meet the FCC’s new rate floor, high-cost carriers like SCRTC will lose significant federal funding that has historically allowed these carriers to provide service to the most costly, rural customers. That loss of federal funding will threaten the financial existence of these rural carriers like SCRTC, who have important obligations under federal and state law as carriers of last resort. Moreover, the loss of those subsidies would increase the pressure for SCRTC to raise its rates even higher

than the federal rate floor sought here because any loss of federal funds would lead to a need for SCRTC to make up that revenue directly from its customer-members.

* * * * *

In support of its Application, SCRTC states as follows:

1. Pursuant to 807 KAR 5:001, Section 14(1): (i) the full name of the applicant is South Central Rural Telephone Coop. Corp., Inc.; (ii) the mailing address of the applicant is 1399 Happy Valley Road / P.O. Box 159, Glasgow, KY 42142-0159; and (iii) the electronic mailing address of the applicant is Jeff.Eaton@scrtc.net.

2. Pursuant to 807 KAR 5:001, Section 14(2), SCRTC states that it is currently in good standing in the Commonwealth of Kentucky, where it is incorporated. A certified copy of SCRTC's Articles of Incorporation and all amendments was included in its filing in Case 2016-00045.

3. Pursuant to 807 KAR 5:001, Section 16(1)(b)(1), SCRTC provides the following statement of the reason the adjustment is requested. Further details are provided in Exhibit 1 of this Application.

a. SCRTC was established in 1950 as a not-for-profit, member-owned cooperative to provide local telephone service to businesses and residential members within its Kentucky exchanges of Bonnierville, Buffalo, Canmer, Cave City, Center, Edmonton, Fountain Run, Gamaliel, Glasgow (Rural), Hiseville, Horse Cave, Lucas, Magnolia, Munfordville, Summer Shade, Temple Hill ("Service Territory"). SCRTC is a rural incumbent local exchange carrier serving parts of Larue, Hart, Green, Nelson, Barren, Allen, Adair, and Monroe counties and all of Metcalfe County in south central Kentucky. At year-end 2016, SCRTC provided 20,613 residential lines and 3,011 business lines to its members. The Universal Service Administrative

Company reported that SCRTC would receive \$1,657,062 from the High Cost Loop Support (“HCLS”) Fund to support its COLR responsibilities in its Service Territory for 2016 and \$1.35M in calendar year 2017. As a high cost company, all HCLS revenues are crucial for SCRTC to continue to meet its COLR responsibilities and to continue to bring advanced services to the communities it serves.

b. This proceeding was motivated by an order of the FCC that implemented “a rule to limit high-cost support where end-user rates do not meet a specified local rate floor.” See ICC/USF Order at ¶ 235.

c. Under the rule, local exchange carriers such as SCRTC must meet a specified rate floor in each year in order to be eligible to receive the maximum possible amount of HCLS funding from the FCC. Failure to meet the rate floor by the deadline will result in a reduction in HCLS funding that the carrier could have otherwise received for that year. ICC/USF Order at ¶¶ 133, 238-40. Therefore, SCRTC requires an adjustment of its rates to comply with the FCC’s 2017 rate floor, thereby maintaining eligibility for the 2017-2018 maximum amount of HCLS funding.

4. The requirements of 807 KAR 5:001, Section 16(1)(b)(2), are inapplicable because SCRTC does not operate under an assumed name pursuant to KRS 365.015.

5. Pursuant to 807 KAR 5:001, Section 16(1)(b)(3), SCRTC has attached its proposed tariff, in such form as is required by 807 KAR 5:011, as part of Exhibit 2. The proposed effective date of the proposed tariff is May 31, 2017, at least 30 days from the date the Application is filed.

6. Pursuant to 807 KAR 5:001, Section 16(1)(b)(4), SCRTC has attached as part of Exhibit 2 its present tariff using italicizing, underscoring, and strikethroughs to show proposed revisions.

7. Pursuant to 807 KAR 5:001, Section 16(1)(b)(5), SCRTC states that notice has been given in compliance with 807 KAR 5:001, Section 17, as described below:

a. Pursuant 807 KAR 5:001, Section 17(1), SCRTC has posted at its place of business a copy of the Public Notice and will, within five days of the filing of the Application, post on its website a copy of the Public Notice and a hyperlink to the location on the Commission's website where the case documents are available. A copy of the Public Notice is attached hereto as part of Exhibit 3.

b. Pursuant to 807 KAR 5:001, Section 17(2), SCRTC, which has more than twenty (20) customers and is not a sewage utility, has provided notice by publishing a legal notice once a week for three (3) consecutive weeks in a prominent manner in a newspaper of general circulation in the utility's service area, the first publication made no later than the date the application is submitted to the commission. A copy of the legal notice attached hereto as part of Exhibit 3.

c. Pursuant to 807 KAR 5:001, Section 17(3), SCRTC will provide no later than forty-five (45) days from the date the application was initially submitted to the commission an affidavit from the publisher verifying the contents of the notice, that the notice was published, and the dates of the notice's publication.

d. Pursuant to 807 KAR 5:001, Section 17(4), SCRTC states that the Public Notice attached to this Application as Exhibit 3 complies with all "Notice Content" requirements prescribed by regulation because it contains all of the following elements:

- i. The proposed effective date and the date the proposed rates are expected to be filed with the Commission;
- ii. The present rates and proposed rates for each customer classification to which the proposed rates will apply;
- iii. The amount of the change requested in both dollar amounts and percentage change for each customer classification to which the proposed rates will apply;
- iv. The effect upon the average bill for each customer classification for the proposed rate change in basic local service;
- v. A statement that a person may examine this Application at SCRTC's offices;
- vi. A statement that a person may examine this Application at the Commission's offices located at 211 Sower Boulevard, Frankfort, Kentucky, Monday through Friday, 8:00 a.m. to 4:30 p.m., or through the Commission's Web site at <http://psc.ky.gov>;
- vii. A statement that comments regarding the Application may be submitted to the Commission through its Web site or by mail to Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602;
- viii. A statement that the rates contained in this notice are the rates proposed by SCRTC but that the Commission may order rates to be charged that differ from the proposed rates contained in the notice;

- ix. A statement that a person may submit a timely written request for intervention to the Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602, establishing the grounds for the request including the status and interest of the party; and
- x. A statement that if the Commission does not receive a written request for intervention within thirty (30) days of initial publication or mailing of the notice, the Commission may take final action on the Application.

8. The requirements of 807 KAR 5:001, Section 16(1)(b)(6), are inapplicable because SCRTC is not a water district.

9. Pursuant to 807 KAR 5:001, Section 16(2), SCRTC states that it notified the Commission in writing of its intent to file the Application on March 3, 2017, at least thirty (30) days but not more than sixty (60) days prior to filing the Application. A copy of the notice of intent is included as Exhibit 4 of this Application. Pursuant to 807 KAR 5:001, Section 16(2)(a), the notice of intent stated if the Application will be supported by a historical test period or a fully forecasted test period. Pursuant to 807 KAR 5:001, Section 16(2)(c), SCRTC sent by electronic mail a .pdf copy of the notice of intent to the Attorney General's Office of Rate Intervention (rateintervention@ag.ky.gov) upon filing it with the Commission. A copy of this email, including the attached notice of intent, is included as part of Exhibit 4 of this Application.

10. The provisions of 807 KAR 5:001, Section 16(3), are inapplicable because SCRTC is not an electric utility.

11. Pursuant to 807 KAR 5:001, Section 16(4)(a), a narrative summary of the particular circumstances that justify and support SCRTC's Application, including a statement of

the reason the adjustment is required, is attached hereto as Exhibit 1 and is incorporated herein by reference. Exhibit 1 is filed subject to a Petition for Confidential Treatment pursuant to 807 KAR 5:001, Section 13, filed contemporaneously with this Application.

12. As more fully explained in SCRTC's Motion for Waiver of Certain Rate Application Requirements ("Motion for Waiver") filed contemporaneously with this Application, SCRTC seeks waiver of 807 KAR 5:001, Section 16(4)(b), requiring the applicant's witnesses' prepared testimony.

13. The requirements of 807 KAR 5:001, Section 16(4)(c) are inapplicable because SCRTC has gross annual revenues in excess of \$5,000,000.00.

14. Pursuant to 807 KAR 5:001, Section 16(4)(d), SCRTC estimates that the total amount of revenue increase resulting from the proposed rate adjustment will be less \$62K per year.

15. The requirements of 807 KAR 5:001, Section 16(4)(e), are inapplicable because SCRTC is not an electric, gas, sewage, or water utility.

16. Pursuant to 807 KAR 5:001, Section 16(4)(f), SCRTC states that the proposed rate adjustment will increase the average affected residential customer bill by \$1.31 per month. Business customers are expected to have an average reduction of \$0.77 per month. Additional details regarding the anticipated impact on affected customers are set forth in Exhibit 1.

17. Pursuant to 807 KAR 5:001, Section 16(4)(g), SCRTC states that its Residential and Business customer classes will be affected by the proposed rate adjustment. SCRTC's analysis of customers' bills and the corresponding revenue impact are provided in SCRTC's responses to the requirements of Section 16(4)(d) and 16(4)(f) in paragraphs 14 and 16 above.

18. Pursuant to 807 KAR 5:001, Section 16(4)(h), SCRTC states that that parts A and B of its 2015 RUS operating report containing its TIER calculation, which assesses SCRTC's actual revenue position compared to its required operating revenues, is attached as Exhibit 5. To the extent the Commission believes this section imposes additional requirements relevant to this Application, SCRTC respectfully seeks waiver of those requirements for the reasons set forth in its accompanying Motion for Waiver.

19. As more fully explained in SCRTC's Motion for Waiver, SCRTC seeks waiver of 807 KAR 5:001, Section 16(4)(i), requiring a reconciliation of the rate base and capital used to determine revenue requirements.

20. Pursuant to 807 KAR 5:001, Section 16(4)(j), SCRTC states the it follows 47 C.F.R Part 32 Uniform System of Accounts.

21. Pursuant to 807 KAR 5:001, Section 16(4)(k), a copy of SCRTC's independent auditor's annual opinion report is included in Exhibit 6. The other requirements of this section are inapplicable because SCRTC's independent auditor has not indicated "the existence of a material weakness in [SCRTC]'s internal controls."

22. The requirements in 807 KAR 5:001, Section 16(4)(l), are inapplicable because SCRTC has not been audited by the FCC.

23. Pursuant to 807 KAR 5:001, Section 16(4)(m), SCRTC states that its most recent PSC Form T is on file with the Commission.

24. Pursuant to 807 KAR 5:001, Section 16(4)(n), SCRTC states a schedule identifying current depreciation rates used by major plant accounts was provided in Case 2016-00045 and is unchanged. To the extent the Commission believes this section requires more

information than SCRTC has provided, SCRTC seeks waiver of 807 KAR 5:001, Section 16(4)(n) for the reasons set for in its Motion for Waiver.

25. Pursuant to 807 KAR 5:001, Section 16(4)(o), requiring a schedule of detailed information regarding all software, programs, and models used to prepare the Application, SCRTC states that it utilized no specialized software, program, or models, and relied on Microsoft Word and Microsoft Excel to prepare the Application and supporting exhibits.

26. The requirements of 807 KAR 5:001, Section 16(4)(p), are inapplicable because SCRTC has never made a stock or bond offering.

27. Pursuant to 807 KAR 5:001, Section 16(4)(q), Exhibit 7 contains the annual report to members. This material is provided to its members as part of its invitation to its annual meeting during which the results are further reviewed.

28. As more fully explained in SCRTC's Motion for Waiver, SCRTC seeks waiver of 807 KAR 5:001, Section 16(4)(r), requiring monthly managerial reports.

29. The requirements of 807 KAR 5:001, Section 16(4)(s), are inapplicable because SCRTC is not required to file the U.S. Securities and Exchange Commission's Form 10-K, Form 8-K, or Form 10-Q.

30. The requirements of 807 KAR 5:001, Section 16(4)(t), are inapplicable because SCRTC has not had any amounts charged or allocated to it by an affiliate or general or home office, and has not paid any monies to an affiliate or a general or home office during the test period or during the previous three (3) calendar years.

31. The requirements of 807 KAR 5:001, Section 16(4)(u), are inapplicable because SCRTC is not an electric, gas, sewage, or water utility.

32. The requirements of 807 KAR 5:001, Section 16(4)(v), are inapplicable because SCRTC has fewer than 50,000 access lines.

33. The requirements of 807 KAR 5:001, Section 16(5), are inapplicable because SCRTC's Application does not include any pro forma adjustments. To the extent the Commission believes the requirements of this section apply to this Application, SCRTC respectfully seeks waiver of those requirements for the reasons set forth in its accompanying Motion for Waiver.

34. The requirements of 807 KAR 5:001, Section 16(6), are inapplicable because SCRTC is not requesting a general adjustment in rates supported by a fully forecasted test period.

35. The requirements of 807 KAR 5:001, Section 16(7), are inapplicable because SCRTC is not requesting a general adjustment in rates supported by a fully forecasted test period.

36. The requirements of 807 KAR 5:001, Section 16(8), are inapplicable because SCRTC is not requesting a general adjustment in rates supported by a fully forecasted test period.

37. Pursuant to ¶ 3.a of the 2013 Rate Floor Order, SCRTC has provided an estimate of the annual revenue to be received in 2017 from HCLS in Exhibit 1, Attachment A.

38. Pursuant to ¶ 3.b of the 2013 Rate Floor Order, SCRTC has provided an estimate of the annual revenue to be lost due to adjustment of terminating access rates in the "Financial Support for Filing" section of Exhibit 1.

39. Pursuant to ¶ 3.c of the 2013 Rate Floor Order, SCRTC has provided an estimate of the annual revenue to be generated by the tariff changes in Exhibit 1 and in response to the requirements of 807 KAR 5:001, Section 16(4)(d), in paragraph 14 above.

40. Pursuant to ¶ 3.d of the 2013 Rate Floor Order, SCRTC has provided an estimate of historical line counts in Exhibit 1, Attachment B. As more fully explained in SCRTC's Motion for Waiver, SCRTC seeks partial waiver of ¶ 3.d of the 2013 Rate Floor Order, insofar as it requests projected line losses beyond those provided in Exhibit 1.

41. Pursuant to ¶ 3.e of the 2013 Rate Floor Order, SCRTC has provided historical and projected universal service support information in the narrative response of Exhibit 1 and in Attachment A thereto. As is certified annually to the Commission, these funds are used by SCRTC to provide voice and advanced data services to its customers, thereby providing its communities with access to critical communications and broadband services.

42. Pursuant to ¶ 3.f of the 2013 Rate Floor Order, SCRTC states that narrative support for the proposed rate adjustment is contained in this Application and in Exhibit 1

WHEREFORE, South Central Rural Telephone Coop. Corp., Inc. respectfully requests that the Public Service Commission of the Commonwealth of Kentucky enter a final order approving SCRTC's proposed revisions to the applicable tariffs and grant all other relief to which it is entitled.

Respectfully submitted,

A handwritten signature in blue ink that reads "Bobby Richardson".

Bobby Richardson, Attorney
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*Counsel to South Central Rural Telephone
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Dated: April 28, 2017

CERTIFICATE OF SERVICE

I certify that, on the date this Application was filed with the Kentucky Public Service Commission, a true and accurate copy of the foregoing was served by Federal Express or by hand delivery upon the persons listed below.

Kentucky Attorney General
Office of Rate Intervention
700 Capitol Avenue, Suite 118
Frankfort, Kentucky 40601-3449

On this the 28th day of April, 2017.



Counsel for SCRTC Telephone Cooperative Corporation, Inc.

Company Information

The full name and address of the company is South Central Rural Telephone Coop. Corp., Inc.¹ (“SCRTC”), 1399 Happy Valley Road / P.O. Box 159, Glasgow, KY 42142-0159. SCRTC was established in 1950 as a not-for-profit, member-owned cooperative to provide local telephone service to businesses and residential members within its Kentucky exchanges of Bonnieville, Buffalo, Canmer, Cave City, Center, Edmonton, Fountain Run, Gamaliel, Glasgow (Rural), Hiseville, Horse Cave, Lucas, Magnolia, Munfordville, Summer Shade, Temple Hill (“Service Territory”). SCRTC is a rural incumbent local exchange carrier serving parts of Larue, Hart, Green, Nelson, Barren, Allen, Adair, and Monroe counties and all of Metcalfe County in south central Kentucky. At year-end 2016, SCRTC provided 20,613 residential lines and 3,011 business lines to its members.

SCRTC is an eligible telecommunications carrier (“ETC”) in the communities it serves and is also the carrier of last resort (“COLR”) in its Service Territory. The Universal Service Administrative Company reported that SCRTC would receive \$1,657,062 in universal service support including High Cost Loop Support (“HCLS”) to support its COLR responsibilities in its Service Territory for 2016 and \$1.35M in calendar year 2017.² As a high cost company, all HCLS revenues are crucial for SCRTC to continue to meet its COLR responsibilities and to continue to bring advanced services to the communities it serves. As discussed below, SCRTC’s receipt of its full HCLS support requires it to meet minimum pricing levels imposed by the Federal Communications Commission (“FCC”).

¹ The company is currently in the process of completing a name change to South Central Rural Telecommunications Cooperative, Inc. but refers to itself here under the name currently appearing on its state and federal tariffs.

² As of March 1, 2017: <http://www.universalservice.org/about/tools/fcc/filings/default.aspx>

A schedule of SCRTC's quarterly high cost support is provided in Attachment A of this exhibit. Historic access line counts, as reported to the National Exchange Carrier Association, are provided in Attachment B.

Description and Reason for Filing

With this filing, SCRTC proposes to increase its basic residential local service rates to \$20.00 per month and to offset the increase with modest reductions in some business service rates and the expansion of local calling to encompass the entire state of Kentucky. This filing is made in response to the FCC's November 18, 2011 order (the "Transformation Order")³ mandating minimum local residential service rate levels as a condition to continued receipt of certain federal universal service support.

This filing is made in response to the FCC's November 18, 2011 order (the "Transformation Order")⁴ mandating minimum local residential service rate levels as a condition to continued receipt of certain federal universal service support. The FCC ordered that Local Exchange Carriers would remain eligible to receive their entire HCLS in a study area only if their rates for residential local exchange service are at or above the rate floor on June 1 of every year, beginning in 2012.⁵ Failure to meet the rate floor results in forfeiture of some HCLS that the carrier would have otherwise received for that year.⁶ The rate floors were established as

³ *In the Matter of Connect America Fund et al.*, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (Nov. 18, 2011).

⁴ *In the Matter of Connect America Fund et al.*, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (Nov. 18, 2011).

⁵ See Transformation Order; *Wireline Competition Bureau Announces Results of Urban Rate Survey for Voice Services; Seeks Comment on Petition for Extension of Time to Comply with New Rate Floor*, Public Notice, DA 14-384 (March 20, 2014) (establishing 2014 rate floor); Report and Order, Declaratory Ruling, Order, Memorandum Opinion And Order, Seventh Order On Reconsideration, and Further Notice of Proposed Rulemaking, FCC 14-54 (June 10, 2014) ("Reconsideration Order") (modifying 2014 rate floor to allow for a phase-in of the residential rate floor).

⁶ Transformation Order at ¶ 239

follows: \$10.00, effective June 1, 2012; \$14.00, effective June 1, 2013; \$16.00, effective December 1, 2014; \$18.00 effective June 1, 2016; and \$20.00 effective June 1, 2017.⁷

SCRTC met the previous rate floor by eliminating the rotary phone discount for a handful of subscribers in 2014 and by raising basic residential rates by \$2.00 in its 2016 filing.⁸ In 2016 filing, SCRTC reduced its business line rates and expanded the local calling area available to all of its customers, offsetting the impact of the rate increases with a greater toll free calling scope.

Proposed Revisions and Customer Impact

With this filing, SCRTC proposes increasing its basic residential rates by \$2.00, to \$20.00, in order to meet the 2017 rate floor. Residential System Wide Calling Plan subscribers will increase 5-cents, from \$19.95 to the \$20.00 rate floor. Because SCRTC proposes to expand its local calling to include the entire state of Kentucky, it will eliminate its premium System Wide Business Calling Plan as obsolete and business subscribers to that plan will see a \$2.00 decrease to \$26.35. SCRTC's residential and business Optional Calling Plan will also be eliminated and subscribers to those plans will see a \$5.00 reduction in that rate. Accordingly, all business subscribers and many residential subscribers will enjoy a rate reduction.

While the company anticipates that its average residential subscriber will have less than a 4% increase in its monthly local service charge and its business subscribers will see a 1.9% reduction,⁹ as discussed further below, SCRTC proposes to provide value-added benefits to all of its subscribers by increasing the number of exchanges included as extended area service ("EAS"), allowing all of its subscribers to enjoy local (i.e., toll-free) calling to the entire state of Kentucky regardless of their long distance service provider. This expansion will provide SCRTC

⁷ Reconsideration Order at ¶ 80.

⁸ See *In the Matter of Tariff Filing of South Central Rural Tele. Coop. Corp., Inc.*, Ky. P.S.C. Case No. 2016-00045

⁹ When measured against the typical residential service.

members with an EAS area that encompasses the entire state of Kentucky and represents the overwhelmingly majority of traffic originated by its members. Because the FCC's Transformation Order mandates that SCRTC raise local rates to be comparable with the national "urban average," this expansion will allow the company to provide a correspondingly urban level of local calling.

Financial Impact

As a consequence of expanding its EAS calling scope, SCRTC will eliminate its monthly recurring rates for its Optional Calling Plan charged to residential and business subscribers and its System Wide Plan charged to its business subscribers. Additionally, SCRTC will forego originating switched access revenue previously billed to interexchange carriers on routes it will convert from toll to EAS. To terminate the traffic to throughout the state of Kentucky, SCRTC will pay a contracted interexchange carrier. Hence, the terminating charges and lost interexchange carrier and end user calling plan revenues are costs that SCRTC expects to incur in expanding its EAS calling.

SCRTC proposes to extend the EAS benefit to both its business and residential subscribers. Accordingly, this filing represents a cost reduction for its business customers who will enjoy EAS calling on routes previously subject to toll charges. Depending on their individual calling needs and rates paid for toll charges, SCRTC expects that, for many of its residential subscribers, the expanded local calling will mitigate the local rate increase and may actually offer savings. All subscribers to its \$5.00 optional calling plans will see a reduction in costs.

As described in Attachment C of this Exhibit, SCRTC estimates that its residential rate increase and business rate decrease minus the costs associated with its greatly expanded calling

area will create a net increase in revenues of approximately \$61,825 per year. Even without these offsets, however, as shown in the financial support section of this Exhibit, the impact of the FCC’s Transformation Order warrants the rate increase proposed in this filing.

Financial Support for Filing

The FCC’s Transformation Order included two requirements that had an immediate impact on state revenues and local service. First, the Transformation Order imposed financial penalties on companies that fail to meet the annual residential rate floor. Second, the Transformation Order capped and reduced charges associated with state access and reciprocal compensation. Combined, these items reduced state revenues and introduced additional potential losses that put pressure on SCRTC to raise its local service rates to meet the FCC’s rate floor.

Beginning in June 2017, companies that fail to meet the 2017 rate floor will lose a dollar in HCLS funding for every dollar they are below the residential rate floor. As shown below, raising its residential rates allows SCRTC to avoid losing \$345,027 per year in HCLS, which constitutes approximately 25.6% of its total anticipated Universal Service Support.

	Subscribers	Current Rate	FCC Floor	Retained HCLS
Residential year-end 2016	14,259	\$ 18.00	\$ 20.00	\$ 342,216
System Wide	4,689	\$ 19.95	\$ 20.00	\$ 2,811
Total Revenues at Risk				\$ 345,027
2017 Universal Service Support (See Attachment A)				\$ 1,350,560
Universal Service Support at risk absent a rate increase				25.6%

Included in the FCC’s Transformation Order is a requirement that carriers cap and reduce their reciprocal, state, and interstate inter-carrier compensation rates (“Access Cap”). The initial Access Cap was based on fiscal year 2011 revenues.¹⁰ As mandated by the FCC, the Access Cap

¹⁰ October 1, 2010 through September 30, 2011.

is reduced by 5% *each year*. As shown in the step-down of Eligible Access Recovery (as depicted in the following table), the cumulative FCC-mandated reduction in SCRTC’s access revenue recovery through the upcoming fiscal period ending June, 2018 is [REDACTED]

	Access Cap	Incremental Reduction	Cumulative Reduction	Percent Lost
FY2011 10/1-9/30	[REDACTED]			
7/2012 - 6/2013	[REDACTED]	[REDACTED]	[REDACTED]	-5%
7/2013 - 6/2014	[REDACTED]	[REDACTED]	[REDACTED]	-10%
7/2014 - 6/2015	[REDACTED]	[REDACTED]	[REDACTED]	-14%
7/2015 - 6/2016	[REDACTED]	[REDACTED]	[REDACTED]	-19%
7/2016 - 6/2017	[REDACTED]	[REDACTED]	[REDACTED]	-23%
7/2017 - 6/2018	[REDACTED]	[REDACTED]	[REDACTED]	-26%
Six-year Aggregate Reduction				

The July, 2017 through June, 2018 tariff period will be [REDACTED] less than the base period revenues collected in FY2011; a 26% reduction to prior revenues. The company’s *incremental* reduction in access revenues [REDACTED] the anticipated net increase proposed in this filing.

Summary

The FCC’s Transformation Order continues to dramatically change the revenue sources that have been historically available to rural telephone companies like SCRTC and which have been used to meet their COLR obligation and to expand the availability of advanced broadband services to their customers. Unfortunately, for many of these affected companies, doing so requires upward pressure on local service rates. Because SCRTC faces competition and is a member-owned cooperative, absent compelling pressure from the FCC for both reductions in access support and penalties associated with the rate floor, the company would not have otherwise imposed rate increases on its subscribers. As shown in this documentation, SCRTC

has no other realistic options available to it, and it respectfully requests that its tariff revisions be approved.

Attachments to this Exhibit:

Attachment A: SCRTC Quarterly Universal Service Support 2016-2017

Attachment B: National Exchange Carrier Association Report of Access Lines

Attachment C: Rate Impact Analysis

**South Central Rural Telephone Cooperative
Case 2017-00092**

Exhibit 1, Attachment A

Report Cycle	State	SAC	Study Area Name	Connect America Fund ICC Monthly Support	HCL Monthly Support	ICLS Monthly Support	Total High Cost Monthly	HCL Quarterly Support
1Q16	KY	260418	SOUTH CENTRAL RURAL	\$ 193,626	\$ 142,115	\$ 253,312	\$ 589,053	\$ 426,345
2Q16	KY	260418	SOUTH CENTRAL RURAL	\$ 193,518	\$ 140,674	\$ 253,312	\$ 587,504	\$ 422,022
3Q16	KY	260418	SOUTH CENTRAL RURAL	\$ 193,518	\$ 127,450	\$ 292,604	\$ 613,572	\$ 382,350
4Q16	KY	260418	SOUTH CENTRAL RURAL	\$ 193,626	\$ 142,115	\$ 253,312	\$ 589,053	\$ 426,345
2016 Annualized Total High Cost Loop Support								\$ 1,657,062
1Q17	KY	260418	SOUTH CENTRAL RURAL	\$ 175,401	\$ 113,295	\$ 252,555	\$ 541,251	\$ 339,885
2Q17	KY	260418	SOUTH CENTRAL RURAL	\$ 175,401	\$ 111,798	\$ 252,555	\$ 539,754	\$ 335,395
2017 Annualized Total High Cost Loop Support								\$ 1,350,560

Exhibit 1, Attachment B has been omitted from the public filing. It has been provided under a petition for confidential treatment

	Demand	Rate	Impact	Monthly	Annual
EAS Conversion					
Estimated Composite Intrastate Access Rate		\$ 0.03662			
Cost to Terminate - Including Stimulation					
Termination to LD Carrier		\$			
Fixed Transport		\$			
Regulated Costs Onsets			\$ 17,486.22	\$ (17,486.22)	\$ (209,834.67)
Local Rates and Elimination of OCP					
OCP Elimination					
Residential Optional Calling (currently \$5)	775	\$ (5.00)	\$ (3,875.00)		
Business Optional Calling (currently \$5)	85	\$ (5.00)	\$ (425.00)		
			\$ (4,300.00)		
Local Rate Increase					
Residential - Basic Service (currently \$18)	14,259	\$ 2.00	\$ 28,518.00		
Residential - Sys Wide (currently \$19.95)	4,686	\$ 0.05	\$ 234.30		
Business - Sys Wide (currently \$28.35)	907	\$ (2.00)	\$ (1,814.00)		
Business (rate remains at \$26.35)	1,997	\$ -	\$ -		
	21,849		\$ 26,938.30		
Net Impact Local Rate and OCP			\$ 22,638.30	\$ 22,638.30	\$ 271,659.60
Aggregate Impact on Proposed EAS expansion				\$ 5,152.08	\$ 61,824.93
Average Monthly Impact - Local rates only; ignores Long Distance cost savings					
All Customers	21,849	\$ 22,638	\$ 1.04	5.2%	
Residential Customers	18,945	\$ 24,877	\$ 1.31	7.0%	
Business Customers	2,904	\$ (2,239)	\$ (0.77)	-2.8%	

South Central Rural Telephone Coop. Corp., Inc.
Case 2017-00092

Exhibit 2

- Proposed Tariff Pages (Proposed)
- Proposed Tariff Pages (Proposed with Black Line)

Proposed Tariff Pages (To be Filed)

CONTENTS (Cont'd)

	<u>Section / Page</u>
Reserved for Future Use	Section 10
Centrex	Section 11
ISDN	Section 12
Public Telephone Service	Section 13
Reserved For Future Use (T)	Section 14
Private Line Service	Section 15
Foreign Exchange Service	Section 16
CATV Pole Attachments	Section 17
Customer Invoice	Attachment A
Exchange Maps	Attachment B

Issue Date: April 28, 2017

Effective Date: May 31, 2017

Issued By: /s/ Jeff Eaton

Jeff Eaton, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2017-00092 dated _____.

5. BASIC LOCAL EXCHANGE SERVICE (Cont'd)

5.1 Exchange Service (Cont'd)

5.1.3 Maps

Maps that indicate and define the exchange limits of the respective exchanges are filed with the Kentucky Public Service Commission and are included as Attachment B of this Tariff.

5.2 Local Calling Areas

5.2.1 General

1. The rates in this Tariff entitle callers to receive local calling (i.e., toll-free) to the local calling areas throughout the state of Kentucky.

(C)
|
(C)

Issue Date: April 28, 2017
Effective Date: May 31, 2017

Issued By: /s/ Jeff Eaton
Jeff Eaton, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2017-00092 dated _____.

**SOUTH CENTRAL RURAL TELEPHONE
COOPERATIVE CORPORATION, INC.
LOCAL EXCHANGE TARIFF**

**PSC KY TARIFF NO. 3
SECTION 5**
1st Revised Sheet No. 5
Replaces Original Sheet No. 5

5. BASIC LOCAL EXCHANGE SERVICE (Cont'd)

(D)

(D)

Issue Date: April 28, 2017
Effective Date: May 31, 2017

Issued By: /s/ Jeff Eaton
Jeff Eaton, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2017-00092 dated _____

**SOUTH CENTRAL RURAL TELEPHONE
COOPERATIVE CORPORATION, INC.
LOCAL EXCHANGE TARIFF**

**PSC KY TARIFF NO. 3
SECTION 5**
2nd Revised Sheet No. 6
Replaces 1st Revised Sheet No. 6

5. BASIC LOCAL EXCHANGE SERVICE (Cont'd)

(D)

(D)

Issue Date: April 28, 2017
Effective Date: May 31, 2017

Issued By: /s/ Jeff Eaton
Jeff Eaton, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2017-00092 dated _____.

5. BASIC LOCAL EXCHANGE SERVICE (Cont'd)

5.3 Basic Exchange Line Service

5.3.1 Description

Basic Line Service provides a Customer with a single, voice-grade telephonic communications channel that can be used to place or receive one call at a time. Basic Lines are provided for connection of Customer-provided single station sets or facsimile machines to the public switched telecommunications network. Each Basic Line may be configured into a rotary line hunt group with other Company-provided Basic Lines.

Each Basic Line is provided with touchtone feature.

5.3.2 Rates

Rates do not include a charge for instrument or other customer premises' wiring or equipment. Rates for additional services, including installation charges, are shown elsewhere in this Tariff.

	<u>Monthly Rates</u> <u>All Exchanges</u>
Residential	\$20.00 (I)
Business	\$26.35

Issue Date: April 28, 2017
Effective Date: May 31, 2017

Issued By: /s/ Jeff Eaton
Jeff Eaton, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2017-00092 dated _____

**SOUTH CENTRAL RURAL TELEPHONE
COOPERATIVE CORPORATION, INC.
LOCAL EXCHANGE TARIFF**

**PSC KY TARIFF NO. 3
SECTION 14**
1st Revised Sheet No.1
Replaces Original Sheet No. 1

SECTION 14 – RESERVED FOR FUTURE USE

(D)

(D)

Issue Date: April 28, 2017
Effective Date: May 31, 2017

Issued By: /s/ Jeff Eaton
Jeff Eaton, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2017-00092 dated _____.

**SOUTH CENTRAL RURAL TELEPHONE
COOPERATIVE CORPORATION, INC.
LOCAL EXCHANGE TARIFF**

**PSC KY TARIFF NO. 3
SECTION 14**
3rd Revised Sheet No. 2
Replaces 2nd Revised Sheet No. 2

(D)

(D)

Issue Date: April 28, 2017
Effective Date: May 31, 2017

Issued By: /s/ Jeff Eaton
Jeff Eaton, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2017-00092 dated _____.

**SOUTH CENTRAL RURAL TELEPHONE
COOPERATIVE CORPORATION, INC.
LOCAL EXCHANGE TARIFF**

**PSC KY TARIFF NO. 3
SECTION 14**
2nd Revised Sheet No. 5
Replaces 1st Revised Sheet No. 5

(D)

(D)

Issue Date: April 28, 2017
Effective Date: May 31, 2017

Issued By: /s/ Jeff Eaton
Jeff Eaton, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2017-00092 dated _____.

**SOUTH CENTRAL RURAL TELEPHONE
COOPERATIVE CORPORATION, INC.
LOCAL EXCHANGE TARIFF**

**PSC KY TARIFF NO. 3
SECTION 14**
1st Revised Sheet No. 6
Replaces Original Sheet No. 6

(D)

(D)

Issue Date: April 28, 2017
Effective Date: May 31, 2017

Issued By: /s/ Jeff Eaton
Jeff Eaton, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2017-00092 dated _____.

**SOUTH CENTRAL RURAL TELEPHONE
COOPERATIVE CORPORATION, INC.
LOCAL EXCHANGE TARIFF**

**PSC KY TARIFF NO. 3
SECTION 14**
2nd Revised Sheet No. 7
Replaces 1st Revised Sheet No. 7

(D)

(D)

Issue Date: April 28, 2017
Effective Date: May 31, 2017

Issued By: /s/ Jeff Eaton
Jeff Eaton, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2017-00092 dated _____.

Proposed Tariff Pages (with Black Line)

CONTENTS (Cont'd)

	<u>Section / Page</u>
Reserved for Future Use (T)	Section 10
Centrex	Section 11
ISDN	Section 12
Public Telephone Service	Section 13
Optional Calling Plans <u>Reserved For Future Use</u>	Section 14
Private Line Service	Section 15
Foreign Exchange Service	Section 16
CATV Pole Attachments	Section 17
Customer Invoice	Attachment A
Exchange Maps	Attachment B

Issue Date: April 28, 2017

Effective Date: May 31, 2017

Issued By: /s/ Jeff Eaton

Jeff Eaton, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2017-00092 dated _____.

5. BASIC LOCAL EXCHANGE SERVICE (Cont'd)

5.1 Exchange Service (Cont'd)

5.1.3 Maps

Maps that indicate and define the exchange limits of the respective exchanges are filed with the Kentucky Public Service Commission and are included as Attachment B of this Tariff.

5.2 Local Calling Areas

5.2.1 General

1. The rates in this Tariff entitle callers to receive local calling (i.e., toll-free) to the local calling areas ~~indicated in Section 5.2.2, below.~~ calls to areas not listed in Section 5.2.2 will be subject to applicable long distance charges by the long distance provider throughout the state of Kentucky.

(C)

(DC)

(D)

Issue Date: ~~April 18, 2016~~ 28, 2017
Effective Date: ~~June 1, 2016~~ May 31, 2017

Issued By: /s/ Jeff Eaton
Jeff Eaton, ~~Interim~~ General Manager

By Authority of Order of the Public Service Commission in
Case No. ~~2016~~ 2017-0004592 dated ~~April 14, 2016~~ _____.

5. BASIC LOCAL EXCHANGE SERVICE (Cont'd)

~~5.2 Local Calling Areas (continued)~~

~~5.2.2 List of Local Calling Exchanges~~

~~Exchange Local Calling Area~~

~~Block A~~

~~Magnolia Bonnieville, Buffalo, Canmer, Hodgenville,
Munfordville~~

~~Buffalo Canmer, Hodgenville, Magnolia~~

~~Bonnieville Canmer, Horse Cave, Magnolia, Munfordville~~

~~Block B~~

~~Canmer Bonnieville, Buffalo, Cave City, Center, Horse
Cave, Magnolia, Munfordville~~

~~Center Canmer, Cave City, Edmonton, Hiseville, Horse
Cave, Munfordville, Summer Shade~~

~~Horse Cave Bonnieville, Canmer, Cave City,
Center, Hiseville, Munfordville~~

~~Munfordville Bonnieville, Canmer, Cave City, Center, Horse
Cave, Magnolia~~

Issue Date: April 28, 2017

Effective Date: May 31, 2017

Issued By: /s/ Jeff Eaton

Jeff Eaton, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2017-00092 dated _____

5. BASIC LOCAL EXCHANGE SERVICE (Cont'd)

~~5.2 Local Calling Areas (cont'd)~~

~~5.2.2 List of Local Calling Exchanges (cont'd)~~

Exchange ————— Local Calling Area

Block C

~~Edmonton ————— Center, Glasgow (City and Rural) (T), Lucas,
Summer Shade~~

~~Fountain Run ————— Gamaliel, Glasgow (City and Rural) (T), Lucas,
Temple Hill, Tompkinsville~~

~~Gamaliel ————— Fountain Run, Glasgow (City and Rural) (T),
Lucas, Temple Hill, Tompkinsville~~

~~Hiseville ————— Cave City, Center, Glasgow (City and Rural)
(T), Horse Cave, Lucas, Park City~~

~~Summer Shade ————— Center, Edmonton, Glasgow (City and Rural)
(T), Lucas, Temple Hill~~

~~Temple Hill ————— Fountain Run, Gamaliel, Glasgow (City and
Rural) (T), Lucas, Summer Shade,
Tompkinsville~~

Block D

~~Cave City ————— Canmer, Center, Glasgow (City and Rural) (T),
Hiseville, Horse Cave, Lucas, Munfordville,
Park City~~

~~Glasgow Rural (T) ————— Cave City, Edmonton, Fountain Run, Gamaliel,
Hiseville, Park City, Summer Shade, Temple
Hill~~

~~Lucas ————— Cave City, Edmonton, Fountain Run, Gamaliel,
Glasgow (City and Rural) (T), Hiseville, Park
City, Summer Shade, Temple Hill~~

Issue Date: ~~April 18, 2016~~ April 28, 2017

Effective Date: ~~May 31, 2017~~ June 1, 2016

Issued By: /s/ Jeff Eaton

Jeff Eaton, ~~Interim~~ General Manager

By Authority of Order of the Public Service Commission in

Case No. 2017-0009245 dated April 14, 2016.

5. BASIC LOCAL EXCHANGE SERVICE (Cont'd)

5.3 Basic Exchange Line Service

5.3.1 Description

Basic Line Service provides a Customer with a single, voice-grade telephonic communications channel that can be used to place or receive one call at a time. Basic Lines are provided for connection of Customer-provided single station sets or facsimile machines to the public switched telecommunications network. Each Basic Line may be configured into a rotary line hunt group with other Company-provided Basic Lines.

Each Basic Line is provided with touchtone feature. ~~(C)~~

5.3.2 Rates

Rates do not include a charge for instrument or other customer premises' wiring or equipment. Rates for additional services, including installation charges, are shown elsewhere in this Tariff.

Monthly Rates
All Exchanges ~~(C)~~

~~(D)~~

~~(D)~~

Residential \$~~18~~20.00 ~~(I)~~

Business \$26.35 ~~(R)~~

~~(D)~~

Issue Date: April ~~18~~28, 2017~~6~~
Effective Date: May 31, 2017~~June 1, 2016~~

Issued By: /s/ Jeff Eaton
Jeff Eaton, ~~Interim~~ General Manager

By Authority of Order of the Public Service Commission in
Case No. ~~2016~~2017-~~00045-00092~~ dated April 14, 2016.

SECTION 14 - ~~OPTIONAL CALLING PLANS~~ RESERVED FOR FUTURE USE

	<u>Sheet No.</u>
14.1 System Wide Call Extend Plan Definition	2
14.2 System Wide Call Extend Plan Scope	2
14.3 System Wide Call Extend Plan Rates	5
14.4 Area Call Extend Plan Definition and Scope	6
14.5 Area Call Extend Plan Rates	7
14.6 Connecting Companies	7

Issue Date: April 28, 2017

Effective Date: May 31, 2017

Issued By: /s/ Jeff Eaton

Jeff Eaton, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2017-00092 dated _____.

**SOUTH CENTRAL RURAL TELEPHONE
COOPERATIVE CORPORATION, INC.
LOCAL EXCHANGE TARIFF**

**PSC KY TARIFF NO. 3
SECTION 14**

2nd-3rd Revised Sheet No. 2
Replaces 2nd 4th Revised Sheet No. 2

~~14. OPTIONAL EXPANDED AREA CALLING SERVICE~~

~~14.1 System Wide Call Extend Plan~~

~~System Wide Call Extend is an optional service offering that provides local calling from the subscriber to all exchanges listed in Section 14.2 of this tariff.~~

~~All System Wide Call Extend service includes a basic exchange line with touchtone plus the additional calling scope defined herein.~~

~~Subscribers to the plan may purchase other services pursuant to this tariff.~~

~~14.2 System Wide Calling Exchanges~~

~~Subscribers to the System Wide Call Extend will receive local calling to the following exchanges:~~

~~Bonnieville, Buffalo, Canmer, Cave City, Center, Magnolia, Edmonton, Fountain Run, Gamaliel, Glasgow, Hiseville, Horse Cave, Lucas, Magnolia, Munfordville, Summer Shade, Temple Hill, Tompkinsville~~

Issue Date: April 28, 2017

Effective Date: May 31, 2017

Issued By: /s/ Jeff Eaton

Jeff Eaton, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2017-00092 dated _____.

**SOUTH CENTRAL RURAL TELEPHONE
COOPERATIVE CORPORATION, INC.
LOCAL EXCHANGE TARIFF**

**PSC KY TARIFF NO. 3
SECTION 14**

1st-2nd Revised Sheet No. 5
Replaces 1st Revised Original Sheet No. 5

14. ~~OPTIONAL EXPANDED AREA CALLING SERVICE~~ (continued)

~~14.3 System Wide Plan Rates~~

	<u>Rate per Line per Month</u>
<u>Residential</u>	\$19.95
<u>Business</u>	\$28.35 (R)

(D)
|
(D)

(C)
|
(C)

Issue Date: April 28, 2017

Effective Date: May 31, 2017

Issued By: /s/ Jeff Eaton

Jeff Eaton, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2017-00092 dated _____.

~~14. OPTIONAL EXPANDED AREA CALLING SERVICE (continued)~~

~~14.4 Area Call Extend Plan — Definition and Scope~~

- ~~1. Nelson Area Call Extend Plan
An optional calling service extending the Buffalo Exchange local calling area only for subscriber access lines from establishments located in Nelson County to Exchanges of Bardstown and New Haven for an additional monthly charge.~~
- ~~2. Green Area Call Extend Plan
An optional calling service extending the Buffalo, Magnolia, Canmer and Center Exchanges local calling area to Exchange of Greensburg for an additional monthly charge.~~
- ~~3. Hardin Area Call Extend Plan
An optional calling service extending the Bonnieville, Buffalo and Magnolia exchanges local calling area to Elizabethtown and South Hardin exchanges for an additional monthly charge.~~
- ~~4. Allen Area Call Extend Plan
An optional calling service extending the Fountain Run, Gamaliel and Lucas Exchange local calling area to Scottsville and Scottsville Rural Exchanges for an additional monthly charge.~~
- ~~5. Adair Area Call Extend Plan
An optional calling service extending the Edmonton Exchange local calling area only for subscriber access lines from establishments located in Adair County to Exchange of Columbia for an additional monthly charge.~~

Issue Date: April 28, 2017

Effective Date: May 31, 2017

Issued By: /s/ Jeff Eaton
Jeff Eaton, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2017-00092 dated _____.

**SOUTH CENTRAL RURAL TELEPHONE
COOPERATIVE CORPORATION, INC.
LOCAL EXCHANGE TARIFF**

**PSC KY TARIFF NO. 3
SECTION 14**

First 2nd Revised Sheet No. 7
Replaces 1st Revised Original Sheet No. 7

14. ~~OPTIONAL EXPANDED AREA CALLING SERVICE~~ (continued)

14.5 ~~Area Call Extend Plan Rates~~

The Call Extend Plan monthly rates limited to residence and business access lines and key/PBX trunk lines are shown here.

1. ~~Nelson Area Call Extend Plan~~

Rate	Code
\$5.00	NECE

~~(Buffalo exchange of Nelson County only)~~

2. ~~Green Area Call Extend Plan~~

Rate	Code
\$5.00	GRCE

~~(Buffalo, Magnolia, Canmer & Center Exchanges)~~

3. ~~Hardin Area Call Extend Plan~~

Rate	Code
\$5.00	HACE

~~(Bonnieville, Buffalo & Magnolia Exchanges)~~

4. ~~Allen Area Call Extend Plan~~

Rate	Code
\$5.00	ALCE

~~(Fountain Run, Gamaliel, & Lucas Exchanges)~~

5. ~~Adair Area Call Extend Plan~~

Rate	Code
\$5.00	ADCE

~~(Edmonton Exchange of Adair County only)~~

14.6 ~~Connecting Companies~~

~~Services described here are available in those exchanges listed in this Section and served by the following independent telephone service providers: (T)~~

~~BellSouth Telecommunications, Inc.~~

~~Verizon South~~

~~North Central Telephone Cooperative~~

~~Additional connectivity with third party providers subject to inter company (C)
agreement. (C)~~

Issue Date: April 28, 2017

Effective Date: May 31, 2017

Issued By: /s/ Jeff Eaton

Jeff Eaton, General Manager

By Authority of Order of the Public Service Commission in

Case No. 2017-00092 dated _____.

On or around April 28, South Central Rural Telecommunications Corporation (SCRTC) will file with the KY Public Service Commission an increase in basic local service rates charged to subscribers due to a **Federal Communication Commission (FCC)** mandate. With this change, basic local residential service rates are proposed to increase from \$18 to \$20; System Wide subscriber rates will increase from \$19.95 to \$20. Basic business rates will be unchanged and business system wide subscribers will see a reduction from \$28.25 to \$26.35. If approved by the PSC, the effective date of this rate change will be May 31, 2017. We anticipate the average residential bill increase will be 4% and the average business will see a decrease of 1.86%. Because we are also expanding our service to make Kentucky state-wide calling as local, most of our members may actually see reductions in their toll bills.

To offset this increase in your local service rate, all calls within the state of Kentucky will become local calls and you will no longer be charged toll for completing direct dialed calls anywhere in the Commonwealth, regardless of who your long distance carrier is.

This increase is mandated by recent changes enacted by the FCC which set minimal local service rate levels as a condition of continued receipt of federal high cost support that allows us to maintain the services offered to our subscribers today and continue the deployment fiber optic facilities to support advanced voice and broadband services of the future. Because this support is vital to the economic health of our community, we had no choice but to request this rate increase.

You may examine this application at the offices of SCRTC located at 1399 Happy Valley Rd., Glasgow, Kentucky 42141 during regular business hours or at the offices of the Kentucky Public Service Commission located at 211 Sower Boulevard, Frankfort, Kentucky, Monday through Friday, 8:00 a.m. to 4:30 p.m., or through the commission's Web site at <http://psc.ky.gov>.

Comments regarding the application may be submitted to the Public Service Commission through its Web site or by mail to Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602. Rates contained in this notice are the rates proposed by the Company but the Public Service Commission may order rates to be charged that differ from the proposed rates contained in this notice.

You may submit a timely written request for intervention to the Public Service Commission, Post Office Box 615, Frankfort, Kentucky 40602, establishing the grounds for the request including the status and interest of the party. If the Commission does not receive a written request for intervention within thirty (30) days of initial publication or mailing of this notice, the Commission may take final action on the application.

Eileen Bodamer

From: Eileen Bodamer
Sent: Friday, March 03, 2017 11:51 AM
To: rateintervention@ag.ky.gov
Cc: Donnie_Bennett@scrtc.net; Jeff Eaton (Jeff.Eaton@scrtc.net)
Subject: Notice of Intent Case 2017-00092
Attachments: SCRTC LOI.pdf

Please accept the attached letter as notice of intent to file a general adjustment in rates.

Eileen M Bodamer



770.649.1886 / (f) 770.645.6545 / mobile 770.363.5870
415 Hepplewhite Dr., Johns Creek GA 30022



South Central Rural Telephone

Cooperative Corporation, Inc.

Executive Director Talina R. Matthews
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

March 3, 2017

Subject: Case No. 17-00092

Dear Executive Director Matthews:

South Central Rural Telecommunications Coop., Inc. ("TELCO") gives this notice pursuant to 807 KAR 5:001 Section 16(2) of its intent to file no sooner than thirty (30) days from today, but not more than sixty (60) days from today, an application for a general adjustment in its rates. The general adjustment in rates will be supported by a twelve (12) month historical test period that may include adjustments for known and measurable changes.

The anticipated rate application is intended to meet the rate floor mandated in 47 CFR § 54.318, compliance with which is required to ensure that TELCO continues to receive high cost support that is essential to its operations. (See In the matter of Connect America Fund, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (Nov. 18, 2011).)

The FCC's June 10, 2014 Order (See Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order On Reconsideration, and Further Notice of Proposed Rulemaking, FCC 14-54) requires TELCO to have reported line rates greater than or equal to \$20, commencing July 1, 2017 (reflecting rates as of June 1, 2017)¹.

A copy of this notice is being emailed to the Attorney General's Office of Rate Intervention by electronic mail at rateintervention@ag.ky.gov.

Please refer any questions to me at 270-678-2111 or Jeff.Eaton@scrtc.net.

Sincerely,

A handwritten signature in black ink that reads 'Jeff Eaton'.

Jeff Eaton, General Manager, COO

Cc via email: Eileen Bodamer, Bodamer Consulting

¹ Paragraph 80.

USDA-RUS

This data will be used by RUS to review your financial situation. Your response is required by 7 U.S.C. 901 et seq. and, subject to federal laws and regulations regarding confidential information, will be treated as confidential.

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

BORROWER NAME

South Central Rural Telephone Cooperative

INSTRUCTIONS-Submit report to RUS within 30 days after close of the period.
For detailed instructions, see RUS Bulletin 1744-2. Report in whole dollars only.

PERIOD ENDING

December, 2015

BORROWER DESIGNATION

KY0505

CERTIFICATION

We hereby certify that the entries in this report are in accordance with the accounts and other records of the system and reflect the status of the system to the best of our knowledge and belief.

ALL INSURANCE REQUIRED BY 7 CFR PART 1788, CHAPTER XVII, RUS, WAS IN FORCE DURING THE REPORTING PERIOD AND RENEWALS HAVE BEEN OBTAINED FOR ALL POLICIES.

DURING THE PERIOD COVERED BY THIS REPORT PURSUANT TO PART 1788 OF 7CFR CHAPTER XVII
(Check one of the following)

All of the obligations under the RUS loan documents have been fulfilled in all material respects.

There has been a default in the fulfillment of the obligations under the RUS loan documents. Said default(s) is/are specifically described in the Telecom Operating Report

David Davis

3/28/2016

DATE

PART A. BALANCE SHEET

ASSETS	BALANCE PRIOR YEAR	BALANCE END OF PERIOD	LIABILITIES AND STOCKHOLDERS' EQUITY	BALANCE PRIOR YEAR	BALANCE END OF PERIOD
CURRENT ASSETS			CURRENT LIABILITIES		
1. Cash and Equivalents	3,617,135	3,054,950	25. Accounts Payable	3,582,446	2,824,212
2. Cash-RUS Construction Fund	0	0	26. Notes Payable	0	0
3. Affiliates:			27. Advance Billings and Payments	0	0
a. Telecom, Accounts Receivable	452,735	530,296	28. Customer Deposits	263,997	222,037
b. Other Accounts Receivable	0	0	29. Current Mat. L/T Debt	3,180,181	0
c. Notes Receivable	0	0	30. Current Mat. L/T Debt-Rur. Dev.	0	0
4. Non-Affiliates:			31. Current Mat.-Capital Leases	0	0
a. Telecom, Accounts Receivable	0	0	32. Income Taxes Accrued	(2,053,493)	(1,580,758)
b. Other Accounts Receivable	1,442,095	449,222	33. Other Taxes Accrued	(211,092)	429,667
c. Notes Receivable	0	0	34. Other Current Liabilities	1,897,398	2,006,295
5. Interest and Dividends Receivable	4,859	4,859	35. Total Current Liabilities (25 thru 34)	6,659,437	3,901,453
6. Material-Regulated	2,035,200	2,020,783	LONG-TERM DEBT		
7. Material-Nonregulated	865,260	504,380	36. Funded Debt-RUS Notes	0	0
8. Prepayments	1,604,564	1,768,929	37. Funded Debt-RTB Notes	0	0
9. Other Current Assets	0	0	38. Funded Debt-FFB Notes	0	0
10. Total Current Assets (1 Thru 9)	10,021,848	8,333,419	39. Funded Debt-Other	0	0
NONCURRENT ASSETS			40. Funded Debt-Rural Develop. Loan	0	0
11. Investment in Affiliated Companies			41. Premium (Discount) on L/T Debt	0	0
a. Rural Development	0	0	42. Reacquired Debt	0	0
b. Nonrural Development	77,212,786	81,637,434	43. Obligations Under Capital Lease	0	0
12. Other Investments			44. Adv. From Affiliated Companies	0	0
a. Rural Development	0	0	45. Other Long-Term Debt	0	0
b. Nonrural Development	41,239,930	41,647,197	46. Total Long-Term Debt (36 thru 45)	0	0
13. Nonregulated Investments	321,935	6,599	OTHER LIAB. & DEF. CREDITS		
14. Other Noncurrent Assets	0	0	47. Other Long-Term Liabilities	11,893,323	12,725,603
15. Deferred Charges	2,347,602	3,267,384	48. Other Deferred Credits	15,343,646	15,521,462
16. Jurisdictional Differences	0	0	49. Other Jurisdictional Differences	0	0
17. Total Noncurrent Assets (11 thru 16)	121,122,253	126,558,614	50. Total Other Liabilities and Deferred Credits (47 thru 49)	27,236,969	28,247,065
PLANT, PROPERTY, AND EQUIPMENT			EQUITY		
18. Telecom, Plant-in-Service	182,477,678	185,509,830	51. Cap. Stock Outstand. & Subscribed	0	0
19. Property Held for Future Use	0	0	52. Additional Paid-in-Capital	0	0
20. Plant Under Construction	6,292,608	8,164,816	53. Treasury Stock	0	0
21. Plant Adj., Nonop. Plant & Goodwill	0	0	54. Membership and Cap. Certificates	0	0
22. Less Accumulated Depreciation	140,330,107	145,501,675	55. Other Capital	1,580,470	1,772,511
23. Net Plant (18 thru 21 less 22)	48,440,179	48,172,971	56. Patronage Capital Credits	43,403,479	46,442,200
24. TOTAL ASSETS (10+17+23)			57. Retained Earnings or Margins	100,703,925	102,701,775
	179,584,280	183,065,004	58. Total Equity (51 thru 57)	145,687,874	150,916,486
			59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	179,584,280	183,065,004

Total Equity = 82.44% % of Total Assets

USDA-RUS

BORROWER DESIGNATION

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

KY0505

PERIOD ENDING

December, 2015

INSTRUCTIONS- See RUS Bulletin 1744-2

PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS

ITEM	PRIOR YEAR	THIS YEAR
1. Local Network Services Revenues	7,393,589	7,233,887
2. Network Access Services Revenues	12,879,162	12,419,095
3. Long Distance Network Services Revenues	0	0
4. Carrier Billing and Collection Revenues	432,870	432,127
5. Miscellaneous Revenues	1,227,313	1,255,371
6. Uncollectible Revenues	19,920	10,153
7. Net Operating Revenues (1 thru 5 less 6)	21,913,014	21,330,327
8. Plant Specific Operations Expense	4,438,695	4,906,518
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	2,428,349	2,524,710
10. Depreciation Expense	9,150,716	9,251,552
11. Amortization Expense	0	0
12. Customer Operations Expense	1,755,678	1,840,347
13. Corporate Operations Expense	2,506,372	2,320,948
14. Total Operating Expenses (8 thru 13)	20,279,810	20,844,075
15. Operating Income or Margins (7 less 14)	1,633,204	486,252
16. Other Operating Income and Expenses	0	0
17. State and Local Taxes	0	0
18. Federal Income Taxes	0	0
19. Other Taxes	1,388,858	1,449,280
20. Total Operating Taxes (17+18+19)	1,388,858	1,449,280
21. Net Operating Income or Margins (15+16-20)	244,346	(963,028)
22. Interest on Funded Debt	105,216	83,911
23. Interest Expense - Capital Leases	0	0
24. Other Interest Expense	0	0
25. Allowance for Funds Used During Construction	223,230	241,113
26. Total Fixed Charges (22+23+24-25)	(118,014)	(157,202)
27. Nonoperating Net Income	14,194,888	9,387,823
28. Extraordinary Items	0	0
29. Jurisdictional Differences	0	0
30. Nonregulated Net Income	(4,217,380)	(1,505,152)
31. Total Net Income or Margins (21+27+28+29+30-26)	10,339,868	7,076,845
32. Total Taxes Based on Income	0	0
33. Retained Earnings or Margins Beginning-of-Year	84,774,144	100,703,925
34. Miscellaneous Credits Year-to-Date	204,060	0
35. Dividends Declared (Common)	0	0
36. Dividends Declared (Preferred)	0	0
37. Other Debits Year-to-Date	220,835	0
38. Transfers to Patronage Capital	(5,606,688)	5,078,995
39. Retained Earnings or Margins End-of-Period [(31+33+34) - (35+36+37+38)]	100,703,925	102,701,775
40. Patronage Capital Beginning-of-Year	50,733,871	43,403,479
41. Transfers to Patronage Capital	(5,606,688)	5,078,995
42. Patronage Capital Credits Retired	1,723,704	2,040,274
43. Patronage Capital End-of-Year (40+41-42)	43,403,479	46,442,200
44. Annual Debt Service Payments	218,628	87,432
45. Cash Ratio [(14+20-10-11) / 7]	0.5713	0.6114
46. Operating Accrual Ratio [(14+20+26) / 7]	0.9835	1.0378
47. TIER [(31+26) / 26]	-86.6156	-44.0175
48. DSCR [(31+26+10+11) / 44]	88.6097	184.9574

**SOUTH CENTRAL RURAL TELEPHONE
COOPERATIVE CORPORATION, INC.
AND SUBSIDIARY**

**Report on Audit of Consolidated Financial Statements
and Supplementary Information**

**For the Years Ended
June 30, 2016 and 2015**

C O N T E N T S

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CAMPBELL, MYERS AND RUTLEDGE, PLLC

Cindy L. Greer, CPA ▪ L. Joe Rutledge, CPA ▪ Jonathan W. Belcher, CPA ▪ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ▪ Ryan Mosier, CPA ▪ Jenna B. Pace, CPA

Independent Auditors' Report

Board of Directors
South Central Rural Telephone
Cooperative Corporation, Inc.
Glasgow, Kentucky 42141

We have audited the accompanying consolidated financial statements of South Central Rural Telephone Cooperative Corporation, Inc. and subsidiary, which comprise the consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, patronage capital and other equities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these consolidated financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of South Central Rural Telephone Cooperative Corporation, Inc. and subsidiary, as of June 30, 2016 and 2015, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise South Central Rural Telephone Cooperative Corporation, Inc. and subsidiary's basic financial statements. The consolidating schedules on pages 18-21 and the statistical and analytical information on pages 22-23 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This data is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information on pages 18-21 and the statistical and analytical information on pages 22-23 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2016, on our consideration of the South Central Rural Telephone Cooperative Corporation, Inc. and subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South Central Rural Telephone Cooperative Corporation, Inc. and subsidiary's internal control over financial reporting and compliance.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

September 28, 2016

BALANCE SHEETS
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Current assets:		
Cash and cash equivalents	\$ 3,374,693	\$ 5,686,394
Temporary cash investments	500,000	400,000
Accounts and notes receivable, less allowance for doubtful accounts of \$55,935 in 2016 and \$13,978 in 2015	2,351,218	2,104,810
Materials and supplies at average cost	2,659,477	2,738,653
Accrued interest receivable	4,859	4,859
Prepaid expenses	2,995,945	3,752,135
Total current assets	<u>11,886,192</u>	<u>14,686,851</u>
Other assets:		
Marketable securities	40,525,960	40,129,510
Nonregulated investments	823,666	857,139
Investment in affiliated companies	66,464,071	60,600,861
Other deferred charges	1,422,384	4,524,700
Total other assets	<u>109,236,081</u>	<u>106,112,210</u>
Telephone plant, at cost		
Telephone plant in service	210,472,184	201,699,933
Telephone plant under construction	8,859,008	7,768,427
Total	<u>219,331,192</u>	<u>209,468,360</u>
Less accumulated depreciation	<u>156,974,150</u>	<u>152,295,105</u>
Telephone plant, net	<u>62,357,042</u>	<u>57,173,255</u>
	<u>\$ 183,479,315</u>	<u>\$ 177,972,316</u>

	<u>2016</u>	<u>2015</u>
Current liabilities:		
Current portion of long-term debt	\$ -	\$ 1,606,221
Accounts payable	5,200,433	4,738,001
Accrued expenses	3,146,671	3,008,558
Total current liabilities	<u>8,347,104</u>	<u>9,352,780</u>
Long-term liabilities:		
Deferred taxes	15,238,787	15,520,411
Other long-term liabilities	10,873,628	11,391,814
Total long-term liabilities	<u>26,112,415</u>	<u>26,912,225</u>
Members' equities:		
Patronage capital	46,334,548	50,086,074
Accumulated other comprehensive loss	(7,838,134)	(8,879,349)
Other equities	108,757,296	98,925,564
Other member capital	1,766,086	1,575,022
Total members' equities	<u>149,019,796</u>	<u>141,707,311</u>
	<u>\$ 183,479,315</u>	<u>\$ 177,972,316</u>

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

SOUTH CENTRAL RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY
STATEMENTS OF OPERATIONS
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Basic local network service	\$ 7,171,828	\$ 7,303,580
Network access services revenues	12,473,308	12,808,359
Carrier billing and collection	445,975	430,314
Miscellaneous	<u>1,169,138</u>	<u>1,310,239</u>
Total operating revenues	<u>21,260,249</u>	<u>21,852,492</u>
Operating expenses:		
Plant specific operations	4,969,775	4,604,232
Plant nonspecific operations	2,601,804	2,450,587
Depreciation and amortization	8,917,896	9,196,787
Customer operations	1,839,547	1,817,563
Corporate operations	3,070,295	2,211,301
Other operating taxes	<u>1,233,318</u>	<u>1,149,318</u>
Total operating expenses	<u>22,632,635</u>	<u>21,429,788</u>
Operating income	<u>(1,372,386)</u>	<u>422,704</u>
Nonoperating net income	15,140,671	11,169,662
Provision for income taxes	<u>(5,308,939)</u>	<u>(4,022,503)</u>
Income before interest charges	<u>8,459,346</u>	<u>7,569,863</u>
Nonregulated net income (loss)	<u>(368,363)</u>	<u>(2,923,169)</u>
Net income	<u>\$ 8,090,983</u>	<u>\$ 4,646,694</u>

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

SOUTH CENTRAL RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Net income	\$ 8,090,983	\$ 4,646,694
Other comprehensive income (loss)		
Postretirement benefit other than pension:		
Unrecognized gain/(loss) on assets	<u>1,041,215</u>	<u>(311,117)</u>
Comprehensive income	<u>\$ 9,132,198</u>	<u>\$ 4,335,577</u>

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

SOUTH CENTRAL RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY
STATEMENTS OF PATRONAGE CAPITAL AND OTHER EQUITIES
For the Years Ended June 30, 2016 and 2015

	Patronage Capital			Accumulated Other Comprehensive Income (Loss)	Other Equities
	Assignable	Assigned	Balance		
Balances, July 1, 2014	\$ (2,909,049)	\$ 57,326,884	\$ 54,417,835	\$ (8,568,232)	\$ 91,778,405
Distribution of patronage capital	-	(1,525,566)	(1,525,566)	-	-
Patronage capital assigned for the year ended December 31, 2014	3,140,518	(3,140,518)	-	-	-
Retirement of patronage capital of estates of deceased members	-	(521,661)	(521,661)	-	-
Transfer of unclaimed patronage capital	215,931	-	215,931	-	-
Postretirement benefit other than pension Unrecognized loss on assets	-	-	-	(311,117)	-
Recalculation of prior year allocated loss	(5,360,467)	5,360,467	-	-	-
Net income for the year ended June 30, 2015:					
Operating margins	(2,500,465)	-	(2,500,465)	-	-
Nonoperating margins	-	-	-	-	7,147,159
Balances, June 30, 2015	(7,413,532)	57,499,606	50,086,074	(8,879,349)	98,925,564
Distribution of patronage capital	-	(1,499,997)	(1,499,997)	-	-
Patronage capital assigned for the year ended December 31, 2015	2,276,953	(2,276,953)	-	-	-
Retirement of patronage capital of estates of deceased members	-	(510,855)	(510,855)	-	-
Transfer of unclaimed patronage capital	75	-	75	-	-
Postretirement benefit other than pension Unrecognized income on assets	-	-	-	1,041,215	-
Net income for the year ended June 30, 2016:					
Operating margins	(1,740,749)	-	(1,740,749)	-	-
Nonoperating margins	-	-	-	-	9,831,732
Balances, June 30, 2016	<u>\$ (6,877,253)</u>	<u>\$ 53,211,801</u>	<u>\$ 46,334,548</u>	<u>\$ (7,838,134)</u>	<u>\$ 108,757,296</u>

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

SOUTH CENTRAL RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Net income	\$ 8,090,983	\$ 4,646,694
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,712,009	10,856,179
Deferred taxes on income	(281,624)	181,081
Changes in operating assets and liabilities:		
Decrease (increase) in temporary cash investments	(100,000)	-
Decrease (increase) in accounts and notes receivable	(246,408)	278,973
Decrease (increase) in inventory	79,176	233,208
Decrease (increase) in prepaid expenses	756,190	(1,812,530)
Increase (decrease) in accounts payable	462,432	(454,571)
Increase (decrease) in accrued expenses	138,113	136,927
Net cash provided by operating activities	<u>19,610,871</u>	<u>14,065,961</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(13,974,852)	(11,175,293)
Plant removal costs	(203,592)	(170,169)
Salvage recovered from retirement of plant	113,357	133,715
Decrease (increase) in nonregulated investment	33,473	706,215
Decrease (increase) in other deferred charges	3,102,316	(3,058,066)
(Increase) in investment in affiliated companies	(5,863,210)	(363,610)
Purchases of Marketable Securities	(13,443,125)	(7,033,657)
Redemptions of Marketable Securities	<u>13,839,575</u>	<u>7,153,314</u>
Net cash used in investing activities	<u>(16,396,058)</u>	<u>(13,807,551)</u>

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

SOUTH CENTRAL RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY
STATEMENTS OF CASH FLOWS, CONCLUDED
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from financing activities:		
Distributions of patronage capital	\$ (1,499,997)	\$ (1,525,566)
Retirements of patronage capital	(510,855)	(521,661)
Principal payments to Federal Financing Bank	(1,606,221)	(3,114,353)
Increase (decrease) in long-term liabilities	(2,327,086)	524,433
Increase (decrease) in other member capital	417,570	98,390
Transfers of unclaimed patronage capital	<u>75</u>	<u>215,931</u>
Net cash provided (used) in financing activities	<u>(5,526,514)</u>	<u>(4,322,826)</u>
Net increase (decrease) in cash and cash equivalents	(2,311,701)	(4,064,416)
Cash and cash equivalents at beginning of year	<u>5,686,394</u>	<u>9,750,810</u>
Cash and cash equivalents at end of year	<u>\$ 3,374,693</u>	<u>\$ 5,686,394</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest (\$237,170 capitalized in 2016 and \$241,585 in 2015)	<u>\$ 26,134</u>	<u>\$ 148,297</u>
Income taxes	<u>\$ 4,769,500</u>	<u>\$ 5,070,000</u>

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

1. Summary of Significant Accounting Policies:Nature of Business:

South Central Rural Telephone Cooperative Corporation, Inc. (the Cooperative), provides telephone service in a nine-county area of south central Kentucky. The Company grants credit to customers, substantially all of whom are local residents and commercial businesses. The Cooperative maintains its accounts in accordance with the Uniform System of Accounts prescribed for telephone companies by the Federal Communications Commission. The consolidated financial statements include the accounts of the Cooperative and its wholly-owned subsidiary, South Central Telcom, LLC. All significant intercompany accounts and transactions have been eliminated.

Estimates:

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

Telephone Plant:

The telephone plant in service and under construction at June 30, 2016 and 2015 is stated substantially at original cost, which includes material, labor, transportation and such indirect items as engineering, supervision, employee fringe benefits and interest on funds used during construction. As property units are retired in the ordinary course of business, the cost of the property plus removal cost, less salvage, is charged to accumulated depreciation. Listed below are the major classes of the telephone plant as of June 30, 2016 and 2015:

	2016	2015
Organization	\$ 20,039	\$ 20,039
Land	714,831	710,978
Buildings	8,482,156	8,003,759
Central Office Equipment	54,803,419	56,488,955
Station Equipment	997,697	997,697
Cable and Wire Facilities	134,532,201	124,705,650
Furniture and Office Equipment	719,231	705,202
General Purpose Computers	4,252,096	4,179,993
Vehicles	5,814,994	5,752,140
Garage and Work Equipment	135,520	135,520
	<u>\$ 210,472,184</u>	<u>\$ 201,699,933</u>

Depreciation:

Depreciation is calculated by the straight-line method designed to amortize the cost of various classes of depreciable assets over their estimated useful lives.

Depreciation for the consolidated financial statements for the years ended June 30, 2016 and 2015 was \$10,712,009 and \$10,856,179 respectively.

1. Summary of Significant Accounting Policies, Continued:Deregulated Customer Premises Equipment:

Deregulated CPE is stated at cost. The Cooperative provides for depreciation on a straight-line basis at an annual rate of depreciation which will amortize the cost of the equipment over its estimated useful life.

Nonregulated Investments:

This balance reflects the Cooperative's permanent investment in deregulated CPE, net of applicable depreciation, plus deregulated inventory and accounts receivable, less deregulated accounts payable.

Following is a summary of net income (loss) from deregulated operations for the years ending June 30, 2016 and 2015, net of intercompany transactions:

	SCRTC		Telcom	
	2016	2015	2016	2015
Income from operations	\$19,517,161	\$17,866,467	\$4,565,332	\$4,135,245
Expenses	19,885,524	20,789,636	4,456,151	3,939,863
Net Income (loss)	<u>\$ (368,363)</u>	<u>\$ (2,923,169)</u>	<u>\$ 109,181</u>	<u>\$ 195,382</u>

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Cooperative considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Accounts and Notes Receivable:

Included in accounts and notes receivable at June 30, 2016 and 2015, is unbilled revenue of \$0 and \$7,893, respectively. The Company estimates uncollectable accounts as a percentage of monthly revenues and compares this to invoices dated over 90 days when they are considered uncollectible. The board of directors write off receivables as a charge to the allowance for credit losses, in their estimation, it is probable that the receivable is worthless.

Other Member Capital:

This balance represents unclaimed distributions of patronage capital. After a statutory waiting period, these balances will be re-assigned to the Cooperative's existing patrons.

Inventories:

Inventory is valued at average cost. Inventory consists of materials and expendable supplies held for future consumption or capitalization. The cost is recorded as an expense or capitalized as inventory items are consumed.

1. Summary of Significant Accounting Policies, Concluded:Investment in Affiliated Companies:

This balance reflects the Cooperative's investment in partnerships and limited liability companies with other telephone companies in Kentucky, for the purpose of providing cellular telephone services and local telephone service. The investment is accounted for using the equity method. Investments in affiliated companies are listed as follows:

	<u>Percentage Owned</u>	<u>2016</u>	<u>2015</u>
RSA #3 Partnership	25%	\$ 20,660,259	\$ 19,031,219
RSA #4 Partnership	50%	32,560,178	29,762,597
Cumberland Cellular Partnership	12.5%	7,751,450	6,910,057
Bluegrass Network, LLC	20%	5,160,079	4,570,308
Bluegrass Telcom, LLC	20%	332,105	326,680
		<u>\$ 66,464,071</u>	<u>\$ 60,600,861</u>

2. Long-Term Debt:

Long-term debt is represented by mortgage notes payable to the United States of America. Principal and interest payments are due in quarterly installments. The notes were repaid during the fiscal year 2016.

	<u>2016</u>	<u>2015</u>
Due to United States of America		
4.1710% First Mortgage Notes - FFB	\$ -	\$ 1,606,221
Advance Payments	-	-
	<u>-</u>	<u>1,606,221</u>
Less current maturities	<u>-</u>	<u>(1,606,221)</u>
Total	<u>\$ -</u>	<u>\$ -</u>

The long-term debt agreements and the bylaws of the Cooperative contain restrictions on the return to patrons of capital credits. These restrictions require the maintenance of defined amounts of members' equity and working capital.

3. Cash and Temporary Investments:

All deposits are in various financial institutions and are carried at cost. Temporary Investments reflect Certificates of Deposit held at various financial institutions. Insured amounts reflect those covered by FDIC or by collateral pledged by the respective financial institutions.

	<u>2016</u>		<u>2015</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured	\$ 3,874,693	\$ 5,717,024	\$ 6,086,394	\$ 6,585,385
Uninsured:				
Uncollateralized	-	-	-	-
Total cash and temporary investments	<u>\$ 3,874,693</u>	<u>\$ 5,717,024</u>	<u>\$ 6,086,394</u>	<u>\$ 6,585,385</u>

4. Pension Plan:

All eligible non-union employees of the Cooperative participate in the National Telephone Association (NTCA) Pension Plan, a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The Plan sponsor's identification number is 52-0741336 and the Plan Number is 333. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

In October, 1988, the Cooperative approved the retroactive purchase of all prior service benefits as of December 31, 1988, at a cost of \$487,804. Contributions to the Plan for the years ended June 30, 2016 and 2015 were \$1,228,528 and \$1,138,310, respectively. The Plan has been approved by the Internal Revenue Service. As the Cooperative is only one of several employers participating in the Plan, it is not practicable to determine if the vested benefits of the Cooperative's employees exceed the Cooperative's portion of the Plan assets.

The following table presents certain information regarding the Plan's status as a whole, derived from actuarial valuations performed as of the dates indicated:

	<u>Pension Benefits</u>	
	<u>January 1, 2016</u>	<u>January 1, 2015</u>
Fair value of plan assets	\$ 1,664,524,653	\$ 1,637,126,366
Present value of accumulated benefits	<u>(1,835,127,306)</u>	<u>(1,690,108,999)</u>
Overfunded/(Unfunded)	<u>\$ (170,602,653)</u>	<u>\$ (52,982,633)</u>

	<u>Pension Benefits</u>	
	<u>January 1, 2016</u>	<u>January 1, 2015</u>
Weighted – average assumptions as of January 1:		
Valuation interest rate	7.00%	7.00%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	age related	age related

5. Postretirement Benefits:

The Corporation sponsors a defined benefit plan that provides medical and life insurance coverage to retirees and their dependents. Participating retirees and dependents contribute 0% of the projected cost of coverage. The plan is partially funded.

The following sets forth the accumulated post-retirement benefit obligation, the change in plan assets, and the component of accrued post-retirement benefit cost and net periodic benefit cost as of June 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Accumulated post-retirement benefit obligation, beginning	\$ 29,776,477	\$ 28,376,002
Service cost	910,914	960,974
Interest cost	1,329,233	1,320,250
Employer contributions	(777,742)	(753,480)
Actuarial loss/(gain)	<u>(1,267,711)</u>	<u>(127,269)</u>
Accumulated post retirement benefit obligation, ending	<u>\$ 29,971,171</u>	<u>\$ 29,776,477</u>
Fair value of plan assets - beginning of year	\$ 17,580,775	\$ 16,696,977
Employer contributions	777,742	753,480
Unrealized gains on assets	779,875	1,091,292
Benefits paid	<u>(910,914)</u>	<u>(960,974)</u>
Fair value of plan assets - end of year	<u>18,227,478</u>	<u>17,580,775</u>
Unfunded status	\$ 11,743,693	\$ 12,195,702
Unrecognized net actuarial loss	<u>7,838,135</u>	<u>8,879,350</u>
Net amount recognized	<u>\$ 3,905,558</u>	<u>\$ 3,316,352</u>
Unfunded status	\$ 11,743,693	\$ 12,195,702
Current liabilities	<u>874,891</u>	<u>884,938</u>
Noncurrent liabilities	<u>\$ 10,868,802</u>	<u>\$ 11,310,764</u>
Service cost	\$ 910,914	\$ 960,974
Interest cost	1,329,233	1,320,250
Amortization of net actuarial gain	320,514	378,163
Expected return on assets	<u>(1,275,923)</u>	<u>(1,274,606)</u>
Net periodic benefit cost	<u>\$ 1,284,738</u>	<u>\$ 1,384,781</u>
Net amount recognized (included in other comprehensive income)	<u>\$ 1,041,215</u>	<u>\$ (311,117)</u>
Amounts in other comprehensive income expected to be realized in the subsequent year - actuarial gain	<u>\$ 320,514</u>	<u>\$ 378,163</u>

SOUTH CENTRAL RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS
June 30, 2016 and 2015

5. Postretirement Benefits, Concluded:

The Discount rate used in determining the accumulated postretirement benefit obligation was 4.5% for the years ending June 30, 2016 and 2015, respectively.

Expected benefit payments from the plan for year ending June 30, 2017 total \$874,981.

The Cooperative contributes to a 401(h) trust that will be used to fund post-retirement benefits for future retirees. These monies are invested with NTCA, who manages such funds for cooperatives. NTCA invests in common stocks, high quality bonds, and US government securities. The estimated rates of return for plan assets are 7.00% and is based on recent historical performance. The investments of the assets are 98% in various Vanguard Funds and 2% in cash.

For measurement purposes, a 7.0% annual rate of increase in the per capita cost of covered health care benefits was used for the year ended June 30, 2016. The anticipated future rates are as follows:

2016	7.00%
2017	6.50%
2018	6.00%
2019	5.00%
2020	5.00%
2021-2025	5.00%

An additional 1% increase in the trend utilized for measurement purposes in 2016 would have resulted in an increase in the accumulated postretirement benefit obligation of approximately 5.9 million.

6. Marketable Securities:

All debt securities of the Cooperative are considered to be held to maturity. The maturities of held to maturity investments and their approximate market values at June 30, 2016 and 2015, were as follows:

	Amortized Cost	Net Unrealized Gains (Losses)	Market Value
June 30, 2016	\$ 41,025,960	\$ (84,358)	\$ 40,941,602
June 30, 2015	\$ 40,529,510	\$ (1,899,126)	\$ 38,630,384
		Amortized Cost	Market Value
Due in one year or less (included in Temporary Cash Investments)		\$ 500,000	\$ 500,000
Due after one year		40,525,960	40,441,602
Balances, June 30, 2016		<u>\$ 41,025,960</u>	<u>\$ 40,941,602</u>
Due in one year or less (included in Temporary Cash Investments)		\$ 400,000	\$ 400,000
Due after one year		40,129,510	38,630,384
Balances, June 30, 2015		<u>\$ 40,529,510</u>	<u>\$ 39,030,384</u>

7. Income Taxes:

The Cooperative has been exempt from federal income taxes as a cooperative telephone company under Section 501(c)(12) of the Internal Revenue Code. In 1991, the Internal Revenue Service issued a Technical Advice Memorandum, which interprets certain types of revenues to be excluded in determining when the Cooperative satisfies the 85 percent income test to qualify for tax exempt status. By applying these interpretations, the Cooperative does not qualify in the current year for the tax exempt status. The Company's provision for income taxes differs from applying the statutory U.S. federal income tax rate to income before income taxes. The primary differences result from providing for state income taxes and from deducting certain expenses for financial statement purposes but not for federal tax purposes.

The provision for income taxes for 2016 and 2015 consists of the following:

Provision for Income Taxes:	<u>2016</u>	<u>2015</u>
Current tax expense	\$ 5,590,563	\$ 3,841,422
Deferred tax (benefit)	<u>(281,624)</u>	<u>181,081</u>
Total	<u>\$ 5,308,939</u>	<u>\$ 4,022,503</u>

A cumulative net deferred tax liability is included in other liabilities. The components of the liability are as follows:

	<u>2016</u>	<u>2015</u>
Differences in depreciation methods	<u>\$ 15,238,787</u>	<u>\$ 15,520,411</u>

The Cooperative follows the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles. The Company has no tax position at June 30, 2016 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The Company's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively. No such interest or penalties were recognized during the periods presented.

The Cooperative files income tax returns in the U.S. federal jurisdiction, and various state and local jurisdictions. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2013.

8. Subsequent Event:

Management has evaluated subsequent events through September 28, 2016, the date the financial statements were available to be issued. In September, 2016, the Cooperative made a prepayment of approximately \$3,983,000 to the National Telephone Cooperative Association Pension Plan. The cooperative will be amortizing this amount over fifteen years.

SUPPLEMENTARY INFORMATION



CAMPBELL, MYERS AND RUTLEDGE, PLLC

Cindy L. Greer, CPA ▪ L. Joe Rutledge, CPA ▪ Jonathan W. Belcher, CPA ▪ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ▪ Ryan Mosier, CPA ▪ Jenna B. Pace, CPA

Independent Auditors' Report
on Consolidating and Supplementary Information

Board of Directors
South Central Rural Telephone
Cooperative Corporation, Inc.
Glasgow, Kentucky 42141

We have audited the consolidated financial statements of South Central Rural Telephone Cooperative Corporation, Inc. and subsidiary as of and for the years ended June, 2016 and 2015, and our report thereon dated September 28, 2016, which expressed an unmodified opinion on those financial statements appears on pages 1-2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information presented on pages 18-21 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and it is not a required part of the consolidated financial statements. The statistical and analytical information also is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating and other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information on pages 18-21 and the statistical and analytical information on pages 22-23, is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Campbell, Myers & Rutledge, PLLC
Certified Public Accountants
Glasgow, Kentucky

September 28, 2016

SOUTH CENTRAL RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY
SCHEDULE I – CONSOLIDATING BALANCE SHEET
June 30, 2016

	South Central Rural Telephone Cooperative Corporation, Inc	South Central Telcom, LLC	Consolidating Entries	Consolidated Totals
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,078,634	\$ 1,296,059	\$ -	\$ 3,374,693
Temporary cash investments	500,000	-	-	500,000
Accounts and notes receivable, less allowance for doubtful accounts of \$55,935	987,732	2,204,066	(840,580)	2,351,218
Materials and supplies at average cost	2,659,477	-	-	2,659,477
Accrued interest receivable	4,859	-	-	4,859
Prepaid expenses	2,995,945	-	-	2,995,945
Total current assets	<u>9,226,647</u>	<u>3,500,125</u>	<u>(840,580)</u>	<u>11,886,192</u>
Other assets:				
Marketable securities	40,525,960	-	-	40,525,960
Nonregulated investments	823,666	-	-	823,666
Investment in affiliated companies	82,420,682	-	(15,956,611)	66,464,071
Other deferred charges	1,249,413	172,971	-	1,422,384
Total other assets	<u>125,019,721</u>	<u>172,971</u>	<u>(15,956,611)</u>	<u>109,236,081</u>
Telephone plant, at cost (substantially all pledged as collateral on long- term debt to RUS):				
Telephone plant in service	187,335,784	23,136,400	-	210,472,184
Telephone plant under construction	8,859,008	-	-	8,859,008
Total telephone plant	<u>196,194,792</u>	<u>23,136,400</u>	<u>-</u>	<u>219,331,192</u>
Less accumulated depreciation	<u>147,185,290</u>	<u>9,788,860</u>	<u>-</u>	<u>156,974,150</u>
Telephone plant, net	49,009,502	13,347,540	-	62,357,042
TOTAL ASSETS	<u>\$ 183,255,870</u>	<u>\$ 17,020,636</u>	<u>\$ (16,797,191)</u>	<u>\$ 183,479,315</u>
LIABILITIES AND MEMBERS' EQUITIES				
Current liabilities:				
Accounts payable	\$ 4,976,988	\$ 1,064,025	(840,580)	\$ 5,200,433
Accrued expenses	3,146,671	-	-	3,146,671
Total current liabilities	<u>8,123,659</u>	<u>1,064,025</u>	<u>(840,580)</u>	<u>8,347,104</u>
Long-term liabilities				
Deferred taxes	15,238,787	-	-	15,238,787
Other long-term liabilities	10,873,628	-	-	10,873,628
Total long-term liabilities	<u>26,112,415</u>	<u>-</u>	<u>-</u>	<u>26,112,415</u>
Members' equities:				
Patronage capital	46,334,548	-	-	46,334,548
Accumulated other comprehensive loss	(7,838,134)	-	-	(7,838,134)
Other equities	108,757,296	15,956,611	(15,956,611)	108,757,296
Other member capital	1,766,086	-	-	1,766,086
Total members' equities	<u>149,019,796</u>	<u>15,956,611</u>	<u>(15,956,611)</u>	<u>149,019,796</u>
TOTAL LIABILITIES AND MEMBERS' EQUITIES	<u>\$ 183,255,870</u>	<u>\$ 17,020,636</u>	<u>\$ (16,797,191)</u>	<u>\$ 183,479,315</u>

SOUTH CENTRAL RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY
SCHEDULE II – CONSOLIDATING STATEMENT OF OPERATIONS
For the Year Ended June 30, 2016

	South Central Rural Telephone Cooperative Corporation, Inc.	South Central Telcom, LLC	Consolidating Entries	Consolidated Totals
Operating revenues:				
Basic local network service	7,171,828	-	-	7,171,828
Network access services revenues	12,473,308	-	-	12,473,308
Carrier billing and collection	445,975	-	-	445,975
Other	1,169,138	-	-	1,169,138
	<u>\$ 21,260,249</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,260,249</u>
Operating expenses:				
Plant specific operations	4,969,775	-	-	4,969,775
Plant nonspecific operations	2,601,804	-	-	2,601,804
Depreciation and amortization	8,917,896	-	-	8,917,896
Customer operations	1,839,547	-	-	1,839,547
Corporate operations	3,070,295	-	-	3,070,295
Other operating taxes	1,233,318	-	-	1,233,318
Total operating expenses	<u>22,632,635</u>	<u>-</u>	<u>-</u>	<u>22,632,635</u>
Operating income	(1,372,386)	-	-	(1,372,386)
Nonoperating net income	15,140,671	258	(258)	15,140,671
Provision for income taxes	(5,308,939)	-	-	(5,308,939)
Nonregulated net income (loss)	<u>(368,363)</u>	<u>109,181</u>	<u>(109,181)</u>	<u>(368,363)</u>
Net Income	<u>\$ 8,090,983</u>	<u>\$ 109,439</u>	<u>\$ (109,439)</u>	<u>\$ 8,090,983</u>

SOUTH CENTRAL RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY
SCHEDULE III – CONSOLIDATING BALANCE SHEET
June 30, 2015

	South Central Rural Telephone Cooperative Corporation, Inc	South Central Telcom, LLC	Consolidating Entries	Consolidated Totals
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 4,444,160	\$ 1,242,234	\$ -	\$ 5,686,394
Temporary cash investments	400,000	-	-	400,000
Accounts and notes receivable, less allowance for doubtful accounts of \$13,978	827,742	2,097,524	(820,456)	2,104,810
Materials and supplies at average cost	2,738,653	-	-	2,738,653
Accrued interest receivable	4,859	-	-	4,859
Prepaid expenses	3,752,135	-	-	3,752,135
Total current assets	<u>12,167,549</u>	<u>3,339,758</u>	<u>(820,456)</u>	<u>14,686,851</u>
Other assets:				
Marketable securities	40,129,510	-	-	40,129,510
Nonregulated investments	857,139	-	-	857,139
Investment in affiliated companies	72,209,642	-	(11,608,781)	60,600,861
Other deferred charges	4,157,929	366,771	-	4,524,700
Total other assets	<u>117,354,220</u>	<u>366,771</u>	<u>(11,608,781)</u>	<u>106,112,210</u>
Telephone plant, at cost (substantially all pledged as collateral on long- term debt to RUS):				
Telephone plant in service	184,370,396	17,329,537	-	201,699,933
Telephone plant under construction	7,768,427	-	-	7,768,427
Total telephone plant	<u>192,138,823</u>	<u>17,329,537</u>	<u>-</u>	<u>209,468,360</u>
Less accumulated depreciation	143,738,957	8,556,148	-	152,295,105
Telephone plant, net	48,399,866	8,773,389	-	57,173,255
TOTAL ASSETS	<u>\$ 177,921,635</u>	<u>\$ 12,479,918</u>	<u>\$ (12,429,237)</u>	<u>\$ 177,972,316</u>
LIABILITIES AND MEMBERS' EQUITIES				
Current liabilities:				
Current portion of long-term debt	\$ 1,606,221	\$ -	\$ -	\$ 1,606,221
Accounts payable	4,687,320	922,338	(871,657)	4,738,001
Accrued expenses	3,008,558	-	-	3,008,558
Total current liabilities	<u>9,302,099</u>	<u>922,338</u>	<u>(871,657)</u>	<u>9,352,780</u>
Long-term liabilities				
Deferred taxes	15,520,411	-	-	15,520,411
Other long-term liabilities	11,391,814	-	-	11,391,814
Total long-term liabilities	<u>26,912,225</u>	<u>-</u>	<u>-</u>	<u>26,912,225</u>
Members' equities:				
Patronage capital	50,086,074	-	-	50,086,074
Accumulated other comprehensive loss	(8,879,349)	-	-	(8,879,349)
Other equities	98,925,564	11,557,580	(11,557,580)	98,925,564
Other member capital	1,575,022	-	-	1,575,022
Total members' equities	<u>141,707,311</u>	<u>11,557,580</u>	<u>(11,557,580)</u>	<u>141,707,311</u>
TOTAL LIABILITIES AND MEMBERS' EQUITIES	<u>\$ 177,921,635</u>	<u>\$ 12,479,918</u>	<u>\$ (12,429,237)</u>	<u>\$ 177,972,316</u>

SOUTH CENTRAL RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARY
SCHEDULE IV – CONSOLIDATING STATEMENT OF OPERATIONS
For the Year Ended June 30, 2015

	South Central Rural Telephone Cooperative Corporation, Inc.	South Central Telcom, LLC	Consolidating Entries	Consolidated Totals
Operating revenues:				
Basic local network service	7,303,580	-	-	7,303,580
Network access services revenues	12,808,359	-	-	12,808,359
Carrier billing and collection	430,314	-	-	430,314
Other	1,310,239	-	-	1,310,239
	<u>\$ 21,852,492</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,852,492</u>
Operating expenses:				
Plant specific operations	4,604,232	-	-	4,604,232
Plant nonspecific operations	2,450,587	-	-	2,450,587
Depreciation and amortization	9,196,787	-	-	9,196,787
Customer operations	1,817,563	-	-	1,817,563
Corporate operations	2,211,301	-	-	2,211,301
Other operating taxes	1,149,318	-	-	1,149,318
Total operating expenses	<u>21,429,788</u>	<u>-</u>	<u>-</u>	<u>21,429,788</u>
Operating income	422,704	-	-	422,704
Nonoperating net income	11,169,662	8,709	(8,709)	11,169,662
Provision for income taxes	(4,022,503)	-	-	(4,022,503)
Nonregulated net income (loss)	<u>(2,923,169)</u>	<u>195,382</u>	<u>(195,382)</u>	<u>(2,923,169)</u>
Net Income	<u>\$ 4,646,694</u>	<u>\$ 204,091</u>	<u>\$ (204,091)</u>	<u>\$ 4,646,694</u>

2017-00092 SOUTH CENTRAL RURAL TELEPHONE COOPERATIVE CORPORATION, INC. Exhibit 6
 STATISTICAL AND ANALYTICAL INFORMATION
 June 30, 2016 and 2015

	2016	2015
<u>Telephone Plant in Service - June 30:</u>	\$ 187,335,784	\$ 184,370,396
Investment per subscriber - June 30	8,003	7,890
Investment per dollar of operating revenue	8.81	8.44
<u>Depreciation Reserve - June 30:</u>	147,185,290	143,738,957
Percent of plant in service	78.57%	77.96%
Annual depreciation	8,917,896	9,196,787
Percent of annual depreciation to plant in service	4.76%	4.99%
<u>Average Annual Revenue Per Subscriber:</u>		
Local service	306	313
Toll service and access charges	533	548
Total operating revenue	908	935
<u>Number of Stations - June 30:</u>		
Residence:		
Main stations	20,420	20,328
Business:		
Main stations (access lines)	2,988	3,041
Total main stations	23,408	23,369

Computations involving number of subscribers are based on the number of subscribers at June 30.

2017-00099 SOUTH CENTRAL RURAL TELEPHONE COOPERATIVE CORPORATION, Exhibit 6
 92 STATISTICAL AND ANALYTICAL INFORMATION, CONCLUDED NO.
 June 30, 2016 and 2015

	2016		2015	
	Amount	Percent	Amount	Percent
Local network service	\$ 7,171,828	33.73%	\$ 7,303,580	33.42%
Network access and long- distance network service	12,473,308	58.67%	12,808,359	58.61%
Miscellaneous	<u>1,615,113</u>	<u>7.60%</u>	<u>1,740,553</u>	<u>7.97%</u>
Total operating revenue	<u>21,260,249</u>	<u>100.00%</u>	<u>21,852,492</u>	<u>100.00%</u>
Cost of telephone service, net of other income and expenses	<u>13,169,266</u>	<u>61.94%</u>	<u>17,205,798</u>	<u>78.74%</u>
Net income	<u>\$ 8,090,983</u>	<u>38.06%</u>	<u>\$ 4,646,694</u>	<u>21.26%</u>

Source of Funds Invested in
Total Assets:

Members' equities	\$149,019,796	81.32%	\$141,707,311	79.64%
Long-term liabilities	26,112,415	14.25%	26,912,225	15.13%
Other liabilities	<u>8,123,659</u>	<u>4.43%</u>	<u>9,302,099</u>	<u>5.23%</u>
Total assets	<u>\$183,255,870</u>	<u>100.00%</u>	<u>\$177,921,635</u>	<u>100.00%</u>



CAMPBELL, MYERS AND RUTLEDGE, PLLC

Cindy L. Greer, CPA ▪ L. Joe Rutledge, CPA ▪ Jonathan W. Belcher, CPA ▪ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ▪ Ryan Mosier, CPA ▪ Jenna B. Pace, CPA

Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in
Accordance with *Government Auditing Standards*

Board of Directors
South Central Rural Telephone
Cooperative Corporation, Inc.
Glasgow, Kentucky 42141

We have audited, in accordance with the 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, the consolidated financial statements of South Central Rural Telephone Cooperative Corporation, Inc. and subsidiary which comprise the consolidated balance sheets as of June 30, 2016 and 2015, and the related consolidated statements of operations, comprehensive income, patronage capital and other equities, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 28, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered South Central Rural Telephone Cooperative Corporation, Inc. and subsidiary's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South Central Rural Telephone Cooperative Corporation, Inc. and subsidiary's internal control. Accordingly, we do not express an opinion on the effectiveness of South Central Rural Telephone Cooperative Corporation, Inc. and subsidiary's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Central Rural Telephone Cooperative Corporation, Inc. and subsidiary's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants
Glasgow, Kentucky

September 28, 2016



Cindy L. Greer, CPA ▪ L. Joe Rutledge, CPA ▪ Jonathan W. Belcher, CPA ▪ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ▪ Ryan Mosier, CPA ▪ Jenna B. Pace, CPA

Independent Auditors' Report on Compliance with Aspects
of Contractual Agreements and Regulatory Requirements
For Telecommunication Borrowers

Board of Directors
South Central Rural Telephone
Cooperative Corporation, Inc.
Glasgow, Kentucky 42141

Independent Auditor's Report

We have audited, 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, the consolidated financial statements of South Central Rural Telephone Cooperative Corporation, Inc. and subsidiary, which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of operations, comprehensive income, patronage capital and other equities, and cash flows for the years ended, and the related notes to the financial statements, and have issued our report thereon dated September 28, 2016. In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2016, on our consideration of South Central Rural Telephone Cooperative Corporation, Inc. and subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that South Central Rural Telephone Cooperative Corporation, Inc. and subsidiary failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, Policy on Audits of Rural Utilities Service Borrowers, &1773.33 clarified in the RUS policy memorandum dated September 28, 2016, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding South Central Rural Telephone Cooperative Corporation, Inc. and subsidiary's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding South Central Rural Telephone Cooperative Corporation, Inc. and subsidiary's accounting and records to indicate that South Central Rural Telephone Cooperative Corporation, Inc. and subsidiary did not:

Maintain adequate and effective accounting procedures;

Utilize adequate and fair methods for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts;

Reconcile continuing property records to the controlling general ledger plant accounts;

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

Seek approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap;

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

Obtain RUS approval to enter into any contract for the management, operation, or maintenance of the borrower's system if the contract covers all or substantially all of the electric system;

Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles;

Comply with the requirements for the detailed schedule of deferred debits and deferred credits which is as follows:

<u>Deferred Debits:</u>	<u>2016</u>	<u>2015</u>
Special Project	\$ -	\$ 211,292
Prepaid Insurance	32,263	28,790
Job Orders	200,276	88,737
South Central Telcom Construction	<u>1,189,845</u>	<u>4,195,881</u>
	<u>\$ 1,422,384</u>	<u>\$ 4,524,700</u>

Record depreciation in accordance with RUS requirements (See RUS Bulletin 183-1, Depreciation Rates and Procedures); and

Comply with the requirements for the detailed schedule of investments. A detailed schedule of investments is as follows:

RSA #3 Partnership represents the Cooperative's 25% investment in a partnership which provides cellular telephone service. The Cooperative accounts for the investment on the equity basis.

RSA #4 represents the Cooperative's 50% investment in a partnership which provides cellular telephone service. The Cooperative accounts for the investment on the equity basis.

Cumberland Cellular Partnership represents the Cooperative's 12.5% investment in a partnership which provides cellular telephone service. The Cooperative accounts for the investment on the equity basis.

Bluegrass Network LLC represents the Cooperative's 20% investment in a partnership which provides cellular telephone service. The Cooperative accounts for the investment on the equity basis.

Bluegrass Telcom represents the Cooperative's 20% investment in a partnership which provides cellular telephone service. The Cooperative accounts for the investment on the equity basis.

	<u>RSA #3</u>	<u>RSA #4</u>	<u>RSA #5</u>	<u>Bluegrass Network LLC</u>	<u>Bluegrass Telecom LLC</u>	<u>Total</u>
Book Value of Investment as of 12/31/13	\$ 19,066,785	\$ 30,294,064	\$ 6,754,487	\$ 3,881,048	\$ 320,997	\$ 60,317,381
Dividends as of 12/31/14	\$ 2,375,000	\$ 5,000,000	\$ 1,239,550	\$ -	\$ 78,105	
Undistributed Earnings/(Loss) as of 12/31/14	\$ 2,339,434	\$ 4,468,533	\$ 1,395,120	\$ 689,260	\$ 83,788	
Return of Capital as of 12/31/14	\$ -	\$ -	\$ -	\$ -	\$ -	
Book Value of Investment as of 12/31/14	\$ 19,031,219	\$ 29,762,597	\$ 6,910,057	\$ 4,570,308	\$ 326,680	\$ 60,600,861
Dividends as of 12/31/15	\$ 2,387,500	\$ 4,300,000	\$ 807,344	\$ 200,000	\$ 50,850	
Undistributed Earnings/(Loss) as of 12/31/15	\$ 4,016,540	\$ 7,097,581	\$ 1,648,737	\$ 789,771	\$ 56,275	
Investment Advances as of 12/31/15	\$ -	\$ -	\$ -	\$ -	\$ -	
Book Value of Investment as of 12/31/15	\$ 20,660,259	\$ 32,560,178	\$ 7,751,450	\$ 5,160,079	\$ 332,105	\$ 66,464,071

During the course of our audit, it was noted that the Cooperative was not able to produce a detailed accounts receivable subsidiary ledger for the period ending June 30, 2016 and reconcile it back to the general ledger. Such a reconciliation and detail is necessary when reviewing month end aged accounts receivable and verifying the amount presented in the general ledger. We recommend a month end accounts receivable subsidiary ledger be maintained and reconciled back to the general ledger monthly. The Cooperative agrees with this finding and will maintain an end of the month detail of the accounts receivable subsidiary ledger.

Our review of detail property records indicated that the Cooperative should make efforts to review its use of work orders. It was noted that during service installation, the classification of exempt materials caused accounting to incorrectly close work-orders to incorrect accounts. We suggest that the Cooperative review the use of these work orders when exempt materials are used and change their policy. The Cooperative agrees with this finding and has implemented the changes.

During the course of our audit, we noted that the Cooperative could strengthen its controls within the contract review process. If an additional layer of review could be added within contractor invoices and stake sheets, it would minimize the risk of being improperly invoiced for construction services. The Cooperative agrees with this finding and will stress the importance of this finding to engineering and add an additional layer of review when reconciling contractor invoices to stake sheets.

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Campbell, Myers & Rutledge, PLLC
Glasgow, Kentucky

September 28, 2016





PROGRAM

Registration

Refreshments

Entertainment:

Joyful Road

Welcome

Meeting Called to Order

Invocation

Proof of Meeting, Notice & Quorum

Reading of Minutes

Treasurer's Report

President's Report

Manager's Report

Nominating Committee Report

Report of Election

Unfinished Business

New Business

Adjournment of Business Meeting

Prize Drawings

BOARD OF TRUSTEES

Zack Kender— President

Jerry Polson—Vice President

Ralph Thompson— Secretary/Treasurer

Ronnie Tucker—Asst. Secretary/Treasurer

Stanley C. Greer

Charles L. Stinson

Robert E. Thompson

Legal Counsel

Bobby Richardson, Attorney

MANAGEMENT

Jeff Eaton.....General Manager

Tina Harlow.....Corporate Exec. Assistant

Janie Gossett.....Human Resources Director

Becky Williams.....Marketing Director

Chris Lawrence.....Business Director

Lonnie Meredith.....Network Manager

Donnie Bennett.....Regulatory/Customer Service Manager

Kyle Jones.....South Central Telcom Manager

ANNUAL FINANCIAL REPORT
STATEMENTS OF OPERATIONS

	July 1, 2015 THRU June 30, 2016	July 1, 2014 THRU June 30, 2015
REVENUE & INCOME		
Local Service	\$ 7,171,000	\$ 7,303,000
Long Distance Access	12,473,000	12,808,000
Other Revenue & Cellular Income (Net of Federal Income Taxes)*	12,215,000	5,654,000
Total Revenue & Income	31,859,000	25,765,000
EXPENSES & DEDUCTIONS		
Operating Expenses & Other Deductions	12,481,000	11,083,000
Depreciation and Amortization	8,918,000	9,197,000
Interest RUS and Other	-	-
Taxes on Cooperative Property	1,233,000	1,150,000
Total Expenses & Deductions	22,632,000	21,430,000
Year's Margin	\$ 9,227,000	\$ 4,335,000
BALANCE SHEETS		
	June 30, 2016	June 30, 2015
ASSETS (What We Own)		
Cash - General Fund	\$ 2,579,000	\$ 4,844,000
Receivables	992,000	833,000
Materials & Supplies	2,659,000	2,738,000
Prepaid expenses	2,996,000	3,752,000
Total Current Assets	9,226,000	12,167,000
Marketable Securities	40,526,000	40,129,000
Other Deferred Assets	1,249,000	4,158,000
Investments Affiliated - Cellular, Net	82,516,000	72,210,000
Investments Affiliated - Other	824,000	857,000
Total Noncurrent Assets	125,115,000	117,354,000
Total Telephone Plant	196,195,000	192,138,000
Accumulated Depreciation	(147,185,000)	(143,738,000)
Net Telephone Plant	49,010,000	48,400,000
Total Noncurrent Assets	174,125,000	165,754,000
TOTAL ASSETS	\$ 183,351,000	\$ 177,921,000
LIABILITIES AND PATRONAGE (What We Owe)		
Accounts & Notes Payable	\$ 7,249,000	\$ 7,696,000
RUS Debt - Current Portion	-	1,606,000
Total Current Liabilities	7,249,000	9,302,000
Accrued & Deferred Liabilities	26,988,000	26,912,000
RUS Debt - Long Term Portion	-	-
Total Noncurrent Liabilities	26,988,000	26,912,000
Patronage Capital & Margins	149,114,000	141,707,000
Total Patronage	149,114,000	141,707,000
TOTAL LIABILITIES AND PATRONAGE	\$ 183,351,000	\$ 177,921,000

* The Cooperative paid Federal Income Taxes of \$4,800,000 in 2016 and \$5,070,000 in 2015