

**BALLARD RURAL TELEPHONE COOPERATIVE  
CORPORATION, INC.**

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FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Balance Sheets	3-4
Statements of Revenues and Expenses	5
Statements of Changes in Patronage Capital	6
Statements of Cash Flows	7
Notes to Financial Statements	8-15
Independent Auditor's Report On Compliance With Aspects Of Contractual Agreements And Regulatory Requirements For Telecommunication Borrowers	16-17
Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	18-19
Schedule of Finding and Response	20

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### Independent Auditor's Report

The Board of Directors  
Ballard Rural Telephone Cooperative  
Corporation, Inc.  
LaCenter, Kentucky

#### Report on the Financial Statements

We have audited the accompanying financial statements of Ballard Rural Telephone Cooperative Corporation, Inc. which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of revenues and expenses, changes in patronage capital, 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 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 an opinion on these 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 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 financial statements.

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

#### *Opinion*

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016, on our consideration of Ballard Rural Telephone Cooperative Corporation, Inc.'s internal control over financial reporting and 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 Ballard Rural Telephone Cooperative Corporation, Inc.'s internal control over financial reporting and compliance.

*Williams, Williams + Luty, 228*

Paducah, Kentucky  
October 31, 2016

**BALLARD RURAL TELEPHONE COOPERATIVE CORPORATION, INC.**  
**BALANCE SHEETS**  
**JUNE 30**

**ASSETS**

	<u>2016</u>	<u>2015</u>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 3,509,166	\$ 6,809,237
Certificate of deposit	540,650	632,914
Accounts receivable, less allowance for doubtful accounts of \$12,006 for 2016 and \$4,426 for 2015	273,003	348,301
Materials and supplies, at average cost	959,725	779,864
Other prepayments	1,044,529	783,360
Total current assets	<u>6,327,073</u>	<u>9,353,676</u>
<b>Noncurrent Assets:</b>		
Investments in affiliates	8,749,920	8,523,559
Nonregulated investment - net nonregulated customer premises equipment	1,166,774	1,171,098
Other investments	654,283	411,659
Prepaid retirement benefits	361,908	419,393
Prepaid postemployment benefits	2,199,792	2,119,399
Total noncurrent assets	<u>13,132,677</u>	<u>12,645,108</u>
<b>Property, Plant, and Equipment:</b>		
Telecommunications plant in service	53,726,745	48,389,333
Telecommunications plant under construction	7,390,223	6,624,106
Totals	61,116,968	55,013,439
Less accumulated depreciation	<u>32,384,182</u>	<u>30,269,338</u>
Net property, plant, and equipment	<u>28,732,786</u>	<u>24,744,101</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 48,192,536</u></u>	<u><u>\$ 46,742,885</u></u>

See notes to financial statements.

**BALLARD RURAL TELEPHONE COOPERATIVE CORPORATION, INC.**  
**BALANCE SHEETS**  
**JUNE 30**

**LIABILITIES AND PATRONAGE CAPITAL**

	<u>2016</u>	<u>2015</u>
<b>Current Liabilities:</b>		
Accounts payable	671,711	699,572
Customers' deposits	31,138	27,064
Current maturities of long-term debt	1,694,146	1,600,420
Accrued property taxes	188,422	215,341
Other accrued expenses	819,326	582,935
	<u>3,404,743</u>	<u>3,125,332</u>
<b>Long-Term Debt:</b>		
Mortgage notes due after one year	18,606,265	20,300,381
<b>Other Liabilities and Deferred Credits:</b>		
Other deferred credits	5	5
Postemployment benefits liability	1,292,191	1,147,502
	<u>1,292,196</u>	<u>1,147,507</u>
Total other liabilities and deferred credits		
	<u>1,292,196</u>	<u>1,147,507</u>
Total liabilities	<u>23,303,204</u>	<u>24,573,220</u>
<b>Patronage Capital:</b>		
Memberships	51,758	52,542
Margins	24,837,574	22,117,123
	<u>24,889,332</u>	<u>22,169,665</u>
Total patronage capital		
	<u>24,889,332</u>	<u>22,169,665</u>
<b>TOTAL LIABILITIES AND PATRONAGE CAPITAL</b>	<u>\$ 48,192,536</u>	<u>\$ 46,742,885</u>

See notes to financial statements.

**BALLARD RURAL TELEPHONE COOPERATIVE CORPORATION, INC.**  
**STATEMENTS OF REVENUES AND EXPENSES**  
**FOR THE YEARS ENDED JUNE 30**

	<u>2016</u>	<u>2015</u>
<b>Operating Revenues:</b>		
Basic local network services	\$ 926,884	\$ 977,942
Network access services	3,107,010	3,412,246
Long distance network services	226	1,387
Miscellaneous	1,982,816	1,774,347
Net uncollectible revenues	<u>(19,892)</u>	<u>(152,857)</u>
Total operating revenues	<u>5,997,044</u>	<u>6,013,065</u>
<b>Operating Expenses:</b>		
Plant specific operations	820,384	921,512
Plant nonspecific operations	196,483	220,731
Depreciation and amortization	2,185,351	1,923,885
Customer operations	393,766	296,088
Corporate operations	<u>783,487</u>	<u>809,080</u>
Total operating expenses	<u>4,379,471</u>	<u>4,171,296</u>
<b>Operating Taxes:</b>		
Property taxes	440,193	481,047
Other operating tax	<u>73,534</u>	<u>66,605</u>
Total operating taxes	<u>513,727</u>	<u>547,652</u>
Operating margins	<u>1,103,846</u>	<u>1,294,117</u>
<b>Nonoperating Margins:</b>		
Nonoperating margins before income taxes	5,651,636	4,950,455
Income taxes	<u>1,878,635</u>	<u>1,577,067</u>
Nonoperating margins	<u>3,773,001</u>	<u>3,373,388</u>
Operating and nonoperating margins before fixed charges	4,876,847	4,667,505
<b>Fixed Charges:</b>		
Interest on long-term debt	<u>457,232</u>	<u>588,081</u>
Operating and nonoperating margins net of fixed charges	4,419,615	4,079,424
Nonregulated margins - net	<u>(1,645,940)</u>	<u>(1,446,354)</u>
<b>NET MARGINS</b>	<u><u>\$2,773,675</u></u>	<u><u>\$2,633,070</u></u>

See notes to financial statements.

**BALLARD RURAL TELEPHONE COOPERATIVE CORPORATION, INC.**  
**STATEMENTS OF CHANGES IN PATRONAGE CAPITAL**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	Memberships	Margins			Total
		Unassigned	Assignable	Assigned	
Balance, June 30, 2014	\$ 55,104	\$ (2,010,744)	\$ 30,961	\$ 21,482,927	\$ 19,503,144
Membership issued, net of terminations	(2,562)	-	-	-	-
Net margins for the year ended June 30, 2015	-	2,633,070	-	-	2,633,070
Transfer of patronage capital for the year ended December 31, 2014, to assignable status	-	452,569	(452,569)	-	-
Assignment of patronage capital for the year ended December 31, 2014	-	-	452,569	(452,569)	-
Refunds of patronage capital	-	-	-	(19,091)	(19,091)
Balance, June 30, 2015	52,542	1,074,895	30,961	21,011,267	22,117,123
Membership issued, net of terminations	(784)	-	-	-	-
Net margins for the year ended June 30, 2016	-	2,773,675	-	-	2,773,675
Transfer of patronage capital for the year ended December 31, 2015, to assignable status	-	(3,054,377)	3,054,377	-	-
Assignment of patronage capital for the year ended December 31, 2015	-	-	(3,054,377)	3,054,377	-
Refunds of patronage capital	-	-	-	(53,224)	(53,224)
<b>BALANCE, JUNE 30, 2016</b>	<b>\$ 51,758</b>	<b>\$ 794,193</b>	<b>\$ 30,961</b>	<b>\$ 24,012,420</b>	<b>\$ 24,837,574</b>

See notes to financial statements.



**BALLARD RURAL TELEPHONE COOPERATIVE CORPORATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30**

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities:</b>		
Net margins	\$2,773,675	\$2,633,070
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	2,185,351	2,125,563
Decrease (increase) in:		
Accounts receivable	75,298	(5,403)
Materials and supplies	(179,861)	(196,835)
Other prepayments	(261,169)	(100,228)
Prepaid retirement benefits	57,485	131,608
Prepaid postretirement benefits	(80,393)	(180,829)
Increase (decrease) in:		
Accounts payable	(27,861)	343,192
Customers' deposits	4,074	86
Accrued property taxes	(26,919)	40,131
Postretirement liability	144,689	(20,547)
Other accrued expenses	236,391	229,671
	<u>4,900,760</u>	<u>4,999,479</u>
<b>Cash Flows from Investing Activities:</b>		
Salvage recovered from plant retirement	26,997	162,193
Purchases of property and equipment (includes nonregulated equipment)	(6,196,684)	(5,350,040)
Plant removal costs	(26)	(676)
Increase in investments in affiliates	(226,361)	(358,914)
Net sales (purchases) of other investments	(150,360)	7,033
	<u>(6,546,434)</u>	<u>(5,540,404)</u>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from issuance of long-term debt	-	4,505,000
Payments on long-term debt	(1,600,389)	(1,658,798)
Issuance of memberships, net of refunds	(784)	(2,562)
Refunds of patronage capital	(53,224)	(19,091)
	<u>(1,654,397)</u>	<u>2,824,549</u>
Net cash provided (used) by financing activities	<u>(1,654,397)</u>	<u>2,824,549</u>
Net increase (decrease) in cash and cash equivalents	(3,300,071)	2,283,624
Cash and cash equivalents at beginning of year	<u>6,809,237</u>	<u>4,525,613</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$3,509,166</u></u>	<u><u>\$6,809,237</u></u>

See notes to financial statements.

**BALLARD RURAL TELEPHONE COOPERATIVE CORPORATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 1 - Nature of Operations and Summary of Significant Accounting Policies:**

Ballard Rural Telephone Cooperative Corporation, Inc. was established in 1951 as a member owned cooperative to provide local telephone service to business and individual members within the boundaries established by the Kentucky Public Service Commission. The Corporation also provides long distance telephone, internet, and video services to its members.

The Corporation maintains its records in accordance with policies prescribed or permitted by the Kentucky Public Service Commission, the United States Department of Agriculture Rural Utility Service, and the Federal Communications Commission. The more significant of these policies are as follows:

**Property and Equipment**

Property and equipment is stated at original cost, which is the cost when first dedicated to public service. Such cost includes applicable supervisory and overhead cost and interest, where applicable.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expense. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to property and equipment. The cost of units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

**Depreciation**

Provision has been made for depreciation on the basis of estimated lives of assets, using the straight-line method (See Note 6). Depreciation expense for the years ended June 30, 2016 and 2015, totaled \$2,185,351 and \$2,125,563, respectively.

**Investments in Affiliates**

Investments in affiliates are accounted for by using the equity method, under which Ballard Rural Telephone Cooperative Corporation, Inc.'s share of earnings will be reflected in income as earned and dividends are credited against the investment in affiliates when received.

**Concentration of Credit Risk**

The Corporation's financial instruments that are exposed to concentration of credit risk consist primarily of cash, U.S. government agency repurchase agreements, and accounts receivable. The Corporation maintains its cash in bank deposit accounts which exceed federally insured and pledged security limits. The Corporation has not experienced any losses in such accounts. The Corporation's accounts receivable result primarily from members and access charges to long distance carriers. The Corporation maintains an allowance for doubtful accounts based on the balance of outstanding member's receivables that are over 120 days old. As a consequence, concentration of credit risk is limited. The financial instruments of the Corporation are carried at cost, which approximates fair value based on the nature of the instrument.

**Use of Estimates**

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

**BALLARD RURAL TELEPHONE COOPERATIVE CORPORATION, INC.**  
NOTES TO FINANCIAL STATEMENTS

**Note 1 - Nature of Operations and Summary of Significant Accounting Policies (Continued):**

**Postretirement Benefits Other Than Pensions**

The Corporation provides postretirement benefits to active employees. These benefits are composed of medical insurance premiums, telephone service, and broadband internet services to be provided by the Corporation after retirement. The following is an analysis of changes in benefit obligation for the years ended June 30:

<b>Change in Benefit Obligation:</b>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Accumulated benefit obligation, beginning of year	\$1,147,502	\$1,168,049	\$1,186,031
Service cost	23,619	27,313	27,537
Interest cost	57,008	50,595	51,525
Return on assets	(153,985)	(153,656)	(140,546)
Amortization of past service liability	41,568	25,359	27,126
Benefits paid	(7,642)	(11,750)	(52,115)
Other adjustments	184,121	41,592	68,491
Accumulated benefit obligation, end of year	<u>1,292,191</u>	<u>1,147,502</u>	<u>1,168,049</u>
Prepaid benefits	<u>2,199,792</u>	<u>2,119,399</u>	<u>1,938,570</u>
 NET PREPAID BENEFITS, END OF YEAR	 <u>\$ 907,601</u>	 <u>\$ 971,897</u>	 <u>\$ 770,521</u>
 <b>Weighted-Average Assumptions:</b>			
Discount rate	4.50%	4.50%	4.50%
Rate of compensation increase	3.00%	3.00%	3.00%
Return on assets	7.00%	7.25%	7.25%

The initial medical inflation rate of 7% is anticipated to decline gradually until it reaches a level of 5% by 2019.

**Subsequent Events**

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through October 31, 2016, the date financial statements were available to be issued.

**Reclassifications**

Certain reclassifications have been made to the June 30, 2015 financial statements to make them conform to the June 30, 2016 presentation.

**Note 2 - Cash:**

At year end, the carrying amount of the Corporation's cash in bank and certificates of deposit was \$4,704,099, and the bank balance was \$4,715,745. As of June 30, 2016, \$1,837,510 of the Corporation's bank balance was covered by FDIC insurance, and the remaining balance of \$2,878,235 was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. Of the remaining balance of \$2,878,235, \$250,359 reflects the excess of market value of certificates of deposit over cost, and the remaining balance of \$2,627,876 was uninsured and uncollateralized.

**BALLARD RURAL TELEPHONE COOPERATIVE CORPORATION, INC.**  
NOTES TO FINANCIAL STATEMENTS

**Note 3 - Investment in Affiliates:**

The Corporation has a 33⅓% interest in Kentucky RSA Partnership No. 1, a cellular telephone company.

Summarized financial information for this investment accounted for by the equity method (Dollars in Thousands) for the years ended December 31 follows:

	<u>2015</u>	<u>2014</u>
Current assets	\$10,897	\$ 7,894
Noncurrent assets	19,640	17,213
Current liabilities	4,192	4,004
Noncurrent liabilities	5,128	565
Revenues	64,043	58,558
Net income	16,716	14,476
Corporation's equity in net income	5,559	4,825

The following is a summary of nonoperating margins- net for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Income from Kentucky RSA Partnership No. 1	\$5,559,689	\$4,825,576
Other nonoperating margins	1,947	124,879
Net nonoperating margins before income taxes	5,561,636	4,950,455
Less income taxes	<u>1,878,635</u>	<u>1,577,067</u>
<b>NET NONOPERATING MARGINS</b>	<u><b>\$3,773,001</b></u>	<u><b>\$3,373,388</b></u>

**Note 4 - Nonregulated Investment:**

Nonregulated consumer premises, pay station, and internet equipment are stated at cost. The Corporation 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.

The following is a summary of the investment balance at June 30:

	<u>2016</u>	<u>2015</u>
Nonregulated consumer premises equipment - leased	\$ 123,111	\$ 123,111
Pay stations	28,684	28,684
Internet equipment	798,542	798,542
Video equipment	4,231,251	4,148,549
Accumulated depreciation	(4,775,967)	(4,679,258)
Nonregulated consumer premises equipment - inventory not in service	<u>761,153</u>	<u>751,470</u>
<b>TOTAL NONREGULATED INVESTMENT</b>	<u><b>\$ 1,166,774</b></u>	<u><b>\$ 1,171,098</b></u>

The following annual depreciation rates have been applied for the years ended June 30, 2016 and 2015:

	<u>Percent</u>
Leased consumer premises equipment	15.00%
Internet equipment	20.00
Video equipment	20.00

**BALLARD RURAL TELEPHONE COOPERATIVE CORPORATION, INC.**  
NOTES TO FINANCIAL STATEMENTS

**Note 4 - Nonregulated Investment (Continued):**

The following is a summary of net margins from nonregulated investments for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Income from operations	\$ 3,335,071	\$ 3,331,230
Expenses	<u>4,981,011</u>	<u>4,777,584</u>
<b>NET MARGINS FROM NONREGULATED INVESTMENTS</b>	<b><u>\$(1,645,940)</u></b>	<b><u>\$(1,446,354)</u></b>

**Note 5 - Other Investments:**

Other investments include the following at June 30:

	<u>2016</u>	<u>2015</u>
Certificates of deposit at market value with maturities in excess of one year	\$654,263	\$411,639
Other investment	<u>20</u>	<u>20</u>
<b>TOTAL OTHER INVESTMENTS</b>	<b><u>\$654,283</u></b>	<b><u>\$411,659</u></b>

**Note 6 - Investment in Property and Equipment and Depreciation:**

Listed below are the major classes of property and equipment as of June 30:

	<u>2016</u>	<u>2015</u>
Organization	\$ 8,492	\$ 8,492
Land	88,509	88,509
Buildings	2,342,737	2,330,967
Switching equipment	1,872,617	1,872,617
Toll, subscriber carriers and fiber optic equipment	11,916,469	11,729,829
Station apparatus	38,477	38,477
Station and outside connections	4,072,572	3,466,450
Poles, cables, and wires	30,137,048	25,641,675
Furniture and office equipment	2,033,539	2,025,386
Tools and other work equipment	465,470	462,490
Vehicles and mobile radios	<u>750,815</u>	<u>724,441</u>
<b>TOTAL PROPERTY AND EQUIPMENT IN SERVICE</b>	<b><u>\$53,726,745</u></b>	<b><u>\$48,389,333</u></b>

The following annual depreciation rates have been applied for the years ended June 30, 2016 and 2015:

	<u>Percent</u>
Buildings	2.70%
Switching equipment	7.50
Toll and subscriber carriers	10.00
Station apparatus	15.00
Station and outside connections	5.50-6.60
Poles	5.60
Cables	5.10-6.60
Wires	9.40
Furniture and office equipment	7.50-8.70
Computer equipment	15.80
Tools and other work equipment	7.50
Vehicles and mobile radios	12.10-15.80

**BALLARD RURAL TELEPHONE COOPERATIVE CORPORATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**Note 7 - Pension Plan:**

**Employer's Participation in a Defined Benefit Multiemployer Plan**

Substantially, all employees of the Ballard Rural Telephone Cooperative Corporation, Inc. are covered by the Retirement & Security Program for Employees of the National Telecommunications Cooperative Association and Its Member Systems. The Employer Identification number of the plan sponsor is 52-0741336 and the plan number is 333. The date of the most current annual report (Form 5500 990) is December 31, 2015 and its filing is publicly available.

**Pension Protection Zone Status**

The plan meets ERISA minimum funding requirements. Section 104 of the Pension Protection Act delayed the effective date of funding rules for certain multiple employer rural cooperative plans until December 31, 2016. As such, funding improvement or rehabilitation plans, if applicable, are not required to be implemented for the current year.

**Contributions**

Ballard Rural Telephone Cooperative Corporation, Inc. presently contributes approximately 7.9% of the annual compensation of each participant. Employer contributions were \$184,869, \$172,800, and \$175,840 for the years ended June 30, 2016, 2015, and 2014, respectively. Participants are not required to contribute to the plan. The plan has not imposed a critical status surcharge. The Corporation contributes to this plan under collective bargaining agreement terms that cover its union-represented employees. This agreement expires February 1, 2017.

**Risk**

The risks of participating in a multiemployer plan differ from those of single-employer plans in the following respects:

- Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to a plan, then the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Corporation chooses to stop participating in a multiemployer plan, it may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal penalty.

**BALLARD RURAL TELEPHONE COOPERATIVE CORPORATION, INC.**  
NOTES TO FINANCIAL STATEMENTS

**Note 8 - Long-Term Debt:**

Substantially, all assets are pledged as collateral on long-term debt to Rural Utility Service and Rural Telephone Bank (transferred to Rural Utility Service).

Long-term debt at June 30, consists of:

	<u>2016</u>	<u>2015</u>
Due Rural Utility Service:		
4.6160 % first mortgage notes	\$ 661,893	\$ 844,175
4.6150 % first mortgage notes	169,474	214,205
4.6950 % first mortgage notes	74,039	93,577
4.7040 % first mortgage notes	580,545	733,459
4.7600 % first mortgage notes	101,401	128,200
3.9960 % first mortgage notes	854,569	1,083,302
2.4833 % first mortgage notes	2,902	3,707
3.4800 % first mortgage notes	1,342,367	1,412,937
3.7450 % first mortgage notes	651,538	685,091
3.8860 % first mortgage notes	421,301	442,718
3.8450 % first mortgage notes	2,189,274	2,301,006
2.2340 % first mortgage notes	574,645	608,186
2.3840 % first mortgage notes	2,388,686	2,526,170
2.4340 % first mortgage notes	3,127,795	3,307,571
3.0660 % first mortgage notes	1,302,243	1,373,082
3.2380 % first mortgage notes	349,436	368,168
2.9260 % first mortgage notes	405,000	405,000
2.2570 % first mortgage notes	<u>4,100,000</u>	<u>4,100,000</u>
	<u>\$19,297,108</u>	<u>\$20,630,554</u>
Due Rural Telephone Bank (transferred to Rural Utility Service):		
	<u>2016</u>	<u>2015</u>
5.1300% first mortgage notes	\$ 558,886	\$ 709,416
5.0000% first mortgage notes	444,417	560,831
	<u>1,003,303</u>	<u>1,270,247</u>
Totals	20,300,411	21,900,801
Less current maturity	<u>1,694,146</u>	<u>1,600,420</u>
LONG-TERM DEBT DUE AFTER ONE YEAR	<u>\$18,606,265</u>	<u>\$20,300,381</u>

Long-term debt payable to the Rural Utility Service is due in monthly installments of varying amounts through 2034.

Long-term debt due Rural Telephone Bank (transferred to Rural Utility Service) is due in monthly installments of varying amounts through 2020.

**BALLARD RURAL TELEPHONE COOPERATIVE CORPORATION, INC.**  
NOTES TO FINANCIAL STATEMENTS

**Note 8 - Long-Term Debt (Continued):**

Long-term debt matures as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Amount</u>
2017	\$1,694,146
2018	1,946,380
2019	2,020,706
2020	1,433,102
2021	1,025,569
2022-2026	5,430,865
2027-2031	5,842,785
2032-2034	906,858

**Note 9 - Income Taxes:**

The Corporation files its income tax returns on a calendar year basis and was exempt from federal income taxes under Internal Revenue Code § 501(c)(12) prior to January 1, 1991 and years 2001 through 2005. A corporation's patronage income is required to equal or exceed 85% of gross receipts to maintain its tax exempt status. From 1991 through 2000 and 2006 through 2015, the Corporation's nonpatronage income exceeded 15% of gross receipts and was subject to federal income taxes on nonmember nonpatronage income. Regardless of its status, the Corporation continues to be subject to federal income taxes on unrelated trade or business income and/or nonmember nonpatronage income. The Corporation incurred federal income taxes of \$1,878,635 and \$1,577,067 for the years ended June 30, 2016 and 2015, respectively.

The Corporation has adopted the accounting standard *Accounting for Uncertain Tax Positions*. This accounting standard provides detailed guidance for financial statement recognition, measurement, and disclosure of uncertain tax positions recognized in the Corporation's financial statements. It requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The Corporation files tax returns in the U.S. federal jurisdiction. With few exceptions, the Corporation is no longer subject to U.S. federal tax examinations by tax authorities for years before 2013. The adoption of this standard had no material effect on the Corporation's financial position, results of operations, or cash flows.

**Note 10 - Return of Capital:**

The long-term debt agreement contains restrictions on the return to patrons of capital contributed by them. These restrictions relate in general to the Corporation's net worth and assets (as defined). At June 30, 2016, there was \$1,561,397 available for patronage capital payments.



**BALLARD RURAL TELEPHONE COOPERATIVE CORPORATION, INC.**  
NOTES TO FINANCIAL STATEMENTS

**Note 11 - Cash Flows Disclosures:**

For purposes of reporting cash flows, cash and cash equivalents include the following at June 30:

	<u>2016</u>	<u>2015</u>
Cash:		
Cash - general	\$3,116,588	\$5,124,349
Cash - restricted for construction	96,011	1,394,888
Certificates of deposit	<u>296,567</u>	<u>290,000</u>
Total cash	<u>3,509,166</u>	<u>6,809,237</u>
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b><u>\$3,509,166</u></b>	<b><u>\$6,809,237</u></b>

The highly liquid purchased debt instruments generally have maturity dates of six months or less.

During the years ended June 30, the Corporation made the following cash payments:

	<u>2016</u>	<u>2015</u>
Interest	\$ 675,294	\$ 656,493
Income taxes (nonmember nonpatronage income/unrelated business income)	2,220,000	1,771,000

Interest amounts of \$218,061 and \$68,412 were capitalized on long-term construction projects during the years ended June 30, 2016 and 2015, respectively.

**Note 12 - Contingencies:**

There are a number of lawsuits that allege the Corporation has inaccurately rendered access bills to Verizon. Similar charges have been filed by Verizon against other carriers nationwide. The court has dismissed all federal claims, but Verizon has indicated it will appeal.

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 MARK A. THOMAS  
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CERTIFIED PUBLIC ACCOUNTANTS  
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### Independent Auditors' Report on Compliance With Aspects of Contractual Agreements and Regulatory Requirements for Telecommunication Borrowers

The Board of Directors  
 Ballard Rural Telephone Cooperative  
 Corporation, Inc.  
 LaCenter, Kentucky

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 financial statements of Ballard Rural Telephone Cooperative Corporation, Inc. (BRTCC), which comprise the balance sheet as of June 30, 2016, and the related statements of revenues and expenses, changes in patronage capital and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2016. In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016, on our consideration of BRTCC'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 and our schedule of finding and response related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that BRTCC 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 and clarified in the RUS policy memorandum dated February 7, 2014, 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 BRTCC'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 BRTCC's accounting and records to indicate that BRTCC 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 written 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 telecommunication system;

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

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

Comply with the requirements for the detailed schedule of deferred debits and deferred credits; and

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

Detailed Schedule of Investment in Affiliates:

Kentucky RSA No. 1 Partnership, a cellular telephone company:

Investment - 33 $\frac{1}{3}$ %	\$ 5,824,307
Earnings for 2015	5,559,689
Prior year's earnings	32,148,826
Distributions	<u>(34,783,902)</u>

Net investment, equity basis	8,748,920
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Solix, Inc.	<u>1,000</u>
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TOTAL INVESTMENTS IN AFFILIATES	<u>\$ 8,749,920</u>
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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.

*Williams, Williams + Luty, LLP*

Paducah, Kentucky  
October 31, 2016

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### Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Governmental Auditing Standards

To the Board of Directors  
 Ballard Rural Telephone Cooperative Corporation, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Ballard Rural Telephone Cooperative Corporation, Inc. which comprise the balance sheet as of June 30, 2016, and the related statements of revenues and expenses, changes in patronage capital, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2016.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ballard Rural Telephone Cooperative Corporation, Inc.'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ballard Rural Telephone Cooperative Corporation, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 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. We did identify one deficiency in internal control, described in the accompanying schedule of finding and response that we consider to be a significant deficiency.

#### Compliance And Other Matters

As part of obtaining reasonable assurance about whether Ballard Rural Telephone Cooperative Corporation, Inc.'s financial statements are free of 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*.

**Ballard Rural Telephone Cooperative Corporation, Inc.'s Response to Findings**

Ballard Rural Telephone Cooperative Corporation, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of finding and response. The Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Williams, Williams + Luty, LLP*

Paducah, Kentucky  
October 31, 2016

**BALLARD RURAL TELEPHONE COOPERATIVE CORPORATION, INC.**  
SCHEDULE OF FINDING AND RESPONSE  
FOR THE YEAR ENDED JUNE 30, 2016

**A. Finding**

At year end, the carrying amount of the Corporation's cash in bank and certificates of deposit exceeded FDIC coverage and \$2,627,876 was uninsured and uncollateralized. Management expects to hold all certificates of deposit to maturity. Management should monitor the cash balances to ensure that amounts remain within the FDIC coverage limits or obtain collateral from the financial institutions to cover the excess.

**B. Management's Response**

Management understands the risk of cash account balances in excess of FDIC coverage limits, and subsequent to June 30, 2016 has transferred their cash accounts to a financial institution that will provide collateral to cover the excess.