

John E. Selent
(502) 540-2315 (direct)
(502) 585-2207; (502) 585-2207 (faxes)
john.selent@dinsmore.com

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MAR 03 2016

PUBLIC SERVICE
COMMISSION

March 2, 2016

VIA FEDERAL EXPRESS

Hon. James W. Gardner
Acting Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
Frankfort KY 40601-8924

**Re: *Tariff Filing of Ballard Rural Telephone Cooperative Corporation, Inc.*; Case
No. 2016-00042**

Dear Acting Executive Director Gardner:

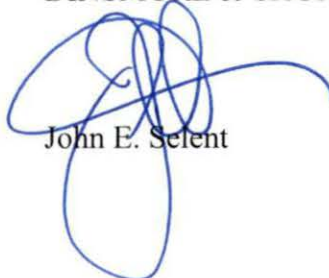
On behalf of Ballard Rural Telephone Cooperative Corporation, Inc., I have enclosed for filing with the Public Service of the Commonwealth of Kentucky one (1) original and ten (10) copies of the following documents.

- 1) Application for a General Adjustment in Rates;
- 2) Motion for Waiver of Certain Rate Application Filing Requirements; and
- 3) Petition for Confidential Treatment.

Thank you, and if you have any questions with regard to this matter, please call me.

Very truly yours,

DINSMORE & SHOHL LLP



John E. Selent

JES/bmt
Enclosures

RECEIVED

MAR 03 2016

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**APPLICATION OF BALLARD RURAL TELEPHONE)
COOPERATIVE CORPORATION, INC.) CASE NO. 2016-00042
FOR A GENERAL ADJUSTMENT IN RATES)**

APPLICATION

Applicant Ballard Rural Telephone Cooperative Corporation, Inc. ("Ballard"), 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 Ballard's November 26, 2014 rate floor proceeding in Case No. 2014-00330, 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 June 1, 2016.

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 Ballard 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. As a 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 2016 rate floor obligations are met no later than June 1, 2016 (the “2014 Rate Floor Order”). *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.

Ballard’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 Ballard 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 Ballard, 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 Ballard 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 Ballard to make up that revenue directly from its customer-members.

* * * * *

In support of its Application, Ballard states as follows:

1. Pursuant to 807 KAR 5:001, Section 14(1): (i) the full name of the applicant is Ballard Rural Telephone Cooperative Corporation, Inc.; (ii) the mailing address of the applicant is 159 West Second Street, P.O. Box 209, La Center, KY 42056; and (iii) the electronic mailing address of the applicant is sjones@brtc.net.

2. Pursuant to 807 KAR 5:001, Section 14(2), Ballard states that it is currently in good standing in the Commonwealth of Kentucky, where it is incorporated. A certified copy of Ballard's Articles of Incorporation and all amendments thereto is on file with the Commission in Case No. 2013-00190 (Exhibit 2 to Application).

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

a. Ballard is a rural incumbent local exchange carrier serving all of Ballard County and parts of western McCracken County. Ballard was established in 1951 as a member owned cooperative to provide local telephone service to business and individual members within the exchanges of Bandana, Barlow, Gage, Heath, Kevil, La Center, and Wickliffe ("Service Territory"). Ballard provides 3,480 residential lines and 1,019 business lines to its members. Ballard is an eligible telecommunications carrier ("ETC"), and it is also the carrier of last resort ("COLR") in the Service Territory. In 2015, Ballard received \$1,518,156 from the High Cost Loop Support ("HCLS") Fund to support its COLR responsibilities in the Service Territory.

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 Ballard 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, Ballard requires an adjustment of its rates to comply with the 2014 Rate Floor Order, thereby maintaining eligibility for the fiscal year 2016 maximum amount of HCLS funding.

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

5. Pursuant to 807 KAR 5:001, Section 16(1)(b)(3), Ballard 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 June 1, 2016, at least 30 days from the date the Application is filed.

6. Pursuant to 807 KAR 5:001, Section 16(1)(b)(4), Ballard 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), Ballard 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), Ballard 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), Ballard, which has more than twenty (20) customers and is not a sewage utility, has provided notice to its customers by including the notice with customer bills mailed no later than the date the Application is submitted to the Commission. A copy of the notice sent to customers is attached hereto as part of Exhibit 3.

c. Pursuant to 807 KAR 5:001, Section 17(3), an affidavit verifying Ballard's provision of the required notice to its customers is attached hereto as part of Exhibit 3.

d. Pursuant to 807 KAR 5:001, Section 17(4), Ballard 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 Ballard'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 Ballard 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 Ballard is not a water district.

9. Pursuant to 807 KAR 5:001, Section 16(2), Ballard states that it notified the Commission in writing of its intent to file the Application on January 14, 2016, 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 in Exhibit 4 of this Application. Pursuant to 807 KAR 5:001, Section 16(2)(a), the notice of intent stated that the Application will be supported by a historical test period. Pursuant to 807 KAR 5:001, Section 16(2)(c), Ballard 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 that 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 Ballard 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 Ballard'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 Ballard's Motion for Waiver of Certain Rate Application Requirements ("Motion for Waiver") filed contemporaneously with this Application, Ballard 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 Ballard has gross annual revenues in excess of \$5,000,000.00.

14. Pursuant to 807 KAR 5:001, Section 16(4)(d), Ballard estimates that the total amount of revenue increase resulting from the proposed rate adjustment will be approximately \$100,728.00.

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

16. Pursuant to 807 KAR 5:001, Section 16(4)(f), Ballard states that the proposed rate adjustment will increase the average affected customer bill by \$2.00. 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), Ballard states that its proposed rate increase will affect both its Residential and Business customer classes. Ballard's analysis of customers' bills and the corresponding revenue impact are provided in Ballard'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), Ballard states that parts A and B of its 2014 RUS operating report, the most recently available to Ballard, containing its TIER calculation, which assesses Ballard's actual revenue position compared to its required operating revenues, are attached as Exhibit 5. To the extent the Commission believes this section imposes additional requirements relevant to this Application, Ballard respectfully seeks waiver of those requirements for the reasons set forth in its accompanying Motion for Waiver.

19. As more fully explained in Ballard's Motion for Waiver, Ballard 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), Ballard states that it follows the Uniform System of Accounts.

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

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

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

24. As more fully explained in Ballard's Motion for Waiver, Ballard seeks waiver of 807 KAR 5:001, Section 16(4)(n), requiring a summary of the latest depreciation study.

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, Ballard 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 Ballard has never made a stock or bond offering.

27. As more fully explained in Ballard's Motion for Waiver, Ballard seeks waiver of 807 KAR 5:001, Section 16(4)(q), requiring the annual report to shareholders or members with statistical supplements. Ballard does not prepare such documents and instead presents its financial results to its members at its annual meeting.

28. As more fully explained in Ballard's Motion for Waiver, Ballard 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 Ballard 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 Ballard 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 Ballard is not an electric, gas, sewage, or water utility.

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

33. The requirements of 807 KAR 5:001, Section 16(5), are inapplicable because Ballard's Application does not include any pro forma adjustments. To the extent the Commission believes the requirements of this section apply to this Application, Ballard 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 Ballard 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 Ballard 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 Ballard 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, Ballard has provided an estimate of the annual revenue to be received in 2016 from HCLS in Exhibit 1, Attachment A.

38. Pursuant to ¶ 3.b of the 2013 Rate Floor Order, Ballard 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, Ballard 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, Ballard has provided an estimate of historical line counts in Exhibit 1, Attachment B. As more fully explained in Ballard’s Motion for Waiver, Ballard 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, Ballard 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 Ballard 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, Ballard states that narrative support for the proposed rate adjustment is contained in this Application and in Exhibit 1.

WHEREFORE, Ballard Rural Telephone Cooperative Corporation, Inc., respectfully requests that the Public Service Commission of the Commonwealth of Kentucky enter a final order approving Ballard’s proposed revisions to the applicable tariffs and grant all other relief to which it is entitled.

Respectfully submitted,



John E. Selent

Edward T. Depp

Daniel D. Briscoe Jr.

DINSMORE & SHOHL LLP

101 South Fifth Street

Suite 2500

Louisville, KY 40202

Phone: (502) 540-2300

Fax: (502) 585-2207

john.selent@dinsmore.com

tip.depp@dinsmore.com

daniel.briscoe@dinsmore.com

*Counsel to Ballard Rural Telephone
Cooperative Corporation, Inc.*

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 2nd day of March, 2016.



*Counsel to Ballard Rural Telephone
Cooperative Corporation, Inc.*

10166932v1

Description and Reason for Filing

With this filing, Ballard Rural Telephone Cooperative Corporation, Inc. (“Ballard”) proposes to increase its basic residential and business local service rates by \$2.00, to \$18.00 per month. This filing is made in response to the November 18, 2011 order by the Federal Communications Commission that mandates minimum local residential service rate levels as a condition of continued receipt of certain federal universal service supports. In that Order¹ (the so-called “Transformation Order”) the FCC required that local exchange rates be set at or above a rate floor of \$10, as of June 1, 2012; \$14 as of June 1, 2013; and at an “urban rate” – at that time undefined – on or before June 1, 2014 (“2014 rate floor”). The Transformation Order mandated that Companies with rate levels below the applicable rate floor be penalized with a dollar for dollar reduction in federal high cost loop support (“HCLS”).

On March 20, 2014 the FCC released the results of its controversial urban rate floor survey² that established the 2014 rate floor of \$20.46; if implemented, this floor would have become the basis on which HCLS recipients below the floor would be subject to the loss of funding as required by the FCC’s Transformation Order. On June 20, 2014 the FCC issued an Order on Reconsideration³ that modified the proposed 2014 urban rate floor to allow for a phase-in of the residential rate floor. Under its revised implementation schedule, companies were given the option to implement the rates over a 4-year period:

Therefore, we waive the application of section 54.318(b) for lines reported July 1, 2014, with a rate of \$14 or above. Commencing January 2, 2015 (reflecting rates as of December 1, 2014), and thereafter, through June 30, 2016, we waive section 54.318(b) to the extent reported lines are greater than or equal to \$16. For the

¹ *In the Matter of Connect America Fund et al.*, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161 (Nov 18, 2011)

² *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, Released March 20, 2014

³ 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)

period between July 1, 2016, and June 30, 2017, we waive section 54.318(b) to the extent reported rates are greater than or equal to \$18, or the 2016 rate floor, whichever is lower. For the period between July 1, 2017, and June 30, 2018, we waive section 54.318(b) to the extent reported rates are greater than or equal to \$20, or the 2017 rate floor, whichever is lower.⁴

Proposed Revisions and Customer Impact

With this filing, Ballard's basic residential and business rates are proposed to rise to \$18.00. When measured in regulated monthly costs, Ballard anticipates that its average increase in monthly charges will be 6.3% and 5.8% for residential and business customers, respectively. While Ballard recognizes that only its residential rates are subject to the rate floor, as noted in its filing in Case 2014-00330, absent revision to both its business and residential rates, its residential subscribers would be paying more for basic local service than its business subscribers.⁵ Rather than introduce an inexplicable rate disparity, Ballard is proposing to increase its business rates in concert with its residential rates, allowing them to remain at parity with each other.

Company information

The full name and address of the company is Ballard Rural Telephone Cooperative Corporation, Inc., 159 West Second Street, P.O. Box 209, La Center, KY 42056. Ballard was established in 1951 as a member-owned cooperative to provide local telephone service to business and individual members within the exchanges of Bandana, Barlow, Gage, Heath, Kevil, La Center, and Wickliffe. Ballard is a not-for-profit rural incumbent local exchange carrier serving all of Ballard County and parts of western McCracken County. Per its 2014 PSC Report, Ballard provided 3,480 residential lines and 1,019 business lines to its members.

⁴ *Ibid.* para. 80

⁵ See *Application of Ballard Rural Telephone Cooperative Corporation, Inc. For a General Adjustment in Rates*, KY P.S.C. Case 2014-00330, Exhibit 1.

Ballard is an eligible telecommunications carrier (“ETC”) in the communities it serves and is also the carrier of last resort (“COLR”) in its service area. In 2015, Ballard received \$1,518,156 from the High Cost Loop Support (“HCLS”) Fund to support its COLR responsibilities in its service territory, and anticipates receiving the same in calendar year 2016. As a high cost company, all HCLS revenues are crucial for Ballard to continue to meet its COLR responsibilities and to bring advanced services to the communities it serves.

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

Financial Support for Filing

Ballard is in the 4th year of a five (5) year plan to deploy fiber-to-the-premises throughout its service territory. Doing so allows the company to dramatically upgrade its broadband network to increase available broadband speeds by as much as 400% and to add a standardized tier supporting 50M/5M with additional available speeds up to a Gigabyte in each direction as requested by our members to meet their specific broadband needs. In addition, Ballard improved its survivability through the construction of a fiber ring linking all seven (7) of its rate centers. As noted in its two Applications for a Certificate of Convenience and Public Necessity,⁶ the total cost to deploy its state of the art network is expected to be \$39M. Ballard relies on both the universal service fund and access revenues to finance these improvements; both of these revenue streams have been altered by the FCC in its Transformation Order. First, the offset of HCLS support mandated by the FCC’s Order requires that Ballard raise rates to be eligible to continue to draw from this fund. Second, FCC-directed reductions in access charges have capped and

⁶ See *In the Application of Ballard Rural Telephone Cooperative for a Certificate of Convenience and Necessity*, KY P.S.C. Cases 2009-00119 and 2013-00418

REDACTED

Ballard Rural Telephone Coop. Corp., Inc.
Case 2016-00042

Exhibit 1

reduced access compensation available to Ballard, separately adding pressure to raise local service rates.

Companies that fail to meet the 2016 rate floor will experience a dollar for dollar reduction in HCLS beginning in July, 2016. As shown below, Ballard is seeking to increase its local exchange rates by \$2.00 but by doing so will retain approximately 5.4% of its total HCLS support, or \$81K per year.

	Subscribers	Current Rate	FCC Floor	At Risk
Residential Based on year-end 2015	3,386	\$ 16.00	\$ 18.00	\$ 81,264
Annual HCLS (See Attachment A of this Exhibit)				\$ 1,508,508
Support at risk absent a rate increase				5.4%

Included in the FCC's Transformation Order is a requirement that carriers cap and reduce not only their reciprocal, state and interstate inter-carrier compensation rates but also the overall revenues a carrier is allowed to collect. Under the formula specified in the Transformation Order, the FCC capped terminating access revenues from intercarrier compensation at the levels collected in the FCC's 2011 initial base period⁷ and established a phase-down of those allowed amounts over the subsequent 5 years. With this change, Ballard cannot collect more than its current capped revenue amount, net 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 Ballard's access revenue recovery is [REDACTED] through the fiscal period ending June, 2016.

⁷ October 1, 2010 through September 30, 2011.

Step Down of Eligible Access Recovery

	Access Cap	Reduction
FY2011 10/1-9/30		
2012-2013 Fiscal Period		
2013-2014 Fiscal Period		
2014-2015 Fiscal Period		
2015-2016 Fiscal Period		
Cumulative Reduction		

Having not had a local service rate increase since 1976, Ballard recently implemented three rate increases in as many years to meet the applicable residential rate floors. Ballard met the first rate floor of \$10 per line per month on June 1, 2012 by eliminating its rotary line discount and raising residential rates to \$10; an average of \$1.65 per line for the basic service line. Doing so allowed Ballard to eliminate an antiquated rate disparity for a small portion of its subscribers who had the use of Touchtone service but were not paying for the service, in addition to reaching the rate floor.

To meet the second and third rate floors effective June 1, 2013 and December 1, 2014, Ballard increased residential rates to \$14 and \$16, respectively. To reach the \$18 floor, Ballard proposes to increase rates by \$2 effective with this filing. Based on its 2015 year-end access line count and optimistically assuming no losses in access lines, Ballard anticipates that this rate increase will be less than the step down of eligible access recovery for the 2016 fiscal year.

Summary

The FCC's Order continues to dramatically change the revenue sources that have been historically available to rural telephone companies like Ballard and which have been used to meet their COLR obligation and to expand the availability of advanced broadband services to

REDACTED

Ballard Rural Telephone Coop. Corp., Inc.
Case 2016-00042

Exhibit 1

their customers. Unfortunately, for many of these affected companies, doing so requires upward pressure on local service rates. As shown in this documentation, Ballard has no other realistic options available to it, and it respectfully requests that its tariff revisions be approved.

REDACTED

Ballard Rural Telephone Coop. Corp., Inc.
Case 2016-00042

Exhibit 1

Attachments to this Exhibit:

Attachment A: Ballard's quarterly high cost support 2015-2016

Attachment B: National Exchange Carrier Association Report of Access Lines

**Ballard Rural Telephone Cooperative
Case 2016-00042**

Exhibit 1, Attachment A

[illegible]

The Exhibit 1(B) attachment has been omitted from the public filing. It has been provided under a petition for confidential treatment

Ballard Rural Telephone Cooperative Corporation, Inc.
Case 2016-00042

Exhibit 2

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

Ballard Rural Telephone Cooperative Corporation, Inc.
Case 2016-00042

Exhibit 2

Proposed Tariff Pages (To be Filed)

GENERAL SUBSCRIBER SERVICES TARIFF

Ballard Rural Telephone Cooperative Corporation, Inc.

Section C
4th Revised Sheet 4
Cancels 3rd Revised Sheet 4

C. BASIC LOCAL EXCHANGE SERVICE

C.1 Local Exchange Rates (Cont'd)

C.1.2 Monthly exchange service rates as authorized by the Kentucky Public Service Commission (Cont'd)

3. Monthly Rates

A. Bandana, Barlow, Gage, La Center, Wickliffe

	One-Party Service	
	<u>Residence</u>	<u>Business</u>
Network Access Charge	\$18.00 (I)	\$18.00 (I)

B. Heath

	One-Party Service	
	<u>Residence</u>	<u>Business</u>
Network Access Charge	\$18.00 (I)	\$18.00 (I)

C. Kevil

	One-Party Service	
	<u>Residence</u>	<u>Business</u>
Network Access Charge	\$18.00 (I)	\$18.00 (I)

Issue Date:

Effective Date: June 1, 2016

/s/ Randy C. Grogan

By: Randy C. Grogan, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2016-00042 dated _____.

GENERAL SUBSCRIBER SERVICES TARIFF

Ballard Rural Telephone Cooperative Corporation, Inc.

Section J
6th Revised Sheet 4
Cancels 5th Revised Sheet 4

J.3 Charges

Rates:

J.3.2 Key System

Monthly Rates

Capacity, 4 Trunks and 9 Stations

1. Deleted
2. Deleted
3. Key Trunk: By Exchange Rates.

Bandana	\$ 18.00 (I)
Barlow	\$ 18.00 (I)
Gage	\$ 18.00 (I)
Heath	\$ 18.00 (I)
Kevil	\$ 18.00 (I)
La Center	\$ 18.00 (I)
Wickliffe	\$ 18.00 (I)

Capacity, 4 Trunks and 19 stations

1. Deleted
2. Deleted
3. Key Trunk: By Exchange Rates.

Bandana	\$ 18.00 (I)
Barlow	\$ 18.00 (I)
Gage	\$ 18.00 (I)
Heath	\$ 19.53
Kevil	\$ 19.90
La Center	\$ 18.00 (I)
Wickliffe	\$ 18.00 (I)

Issue Date:

Effective Date: June 1, 2016

/ s /Randy C. Grogan

By: Randy C. Grogan, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2016-00042 dated _____.

GENERAL SUBSCRIBER SERVICES TARIFF

Ballard Rural Telephone Cooperative Corporation, Inc.

Section J
6th Revised Sheet 4.1
Cancels 5th Revised Sheet 4.1

J.3 Charges

Rates:

J.3.2 Key System

Monthly Rates

Capacity, 4 Trunks and 19 Stations
4 Intercom Links

1. Deleted	
2. Deleted	
3. Key Trunk: By Exchange Rates.	
Bandana	\$ 18.00 (I)
Barlow	\$ 18.00 (I)
Gage	\$ 18.00 (I)
Heath	\$ 19.53
Kevil	\$ 19.90
La Center	\$ 18.00 (I)
Wickliffe	\$ 18.00 (I)

Capacity, 12 Trunks and 36 Stations
4 Intercom Links

1. Deleted	
2. Deleted	
3. Key Trunk: By Exchange Rates.	
Bandana	\$ 18.00 (I)
Barlow	\$ 18.00 (I)
Gage	\$ 18.00 (I)
Heath	\$ 19.53
Kevil	\$ 19.90
La Center	\$ 18.00 (I)
Wickliffe	\$ 18.00 (I)

Issue Date:

Effective Date: June 1, 2016

/s/ Randy C. Grogan

By: Randy C. Grogan, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2016-00042 dated _____.

GENERAL SUBSCRIBER SERVICES TARIFF

Ballard Rural Telephone Cooperative Corporation, Inc.

Section J

6th Revised Sheet 4.2

Cancels 5th Revised Sheet 4.2

J.3 Charges

Rates:

J.3.2 Key System

Monthly Rates

Capacity, 4 Trunks and 9 Stations (Touchtone)

1. Deleted
2. Deleted
3. Key Trunk: By Exchange Rates.

Bandana	\$ 18.00 (I)
Barlow	\$ 18.00 (I)
Gage	\$ 18.00 (I)
Heath	\$ 18.00 (I)
Kevil	\$ 18.00 (I)
La Center	\$ 18.00 (I)
Wickliffe	\$ 18.00 (I)

Capacity, 12 Trunks and 19 Stations (Touchtone)

1. Deleted
2. Deleted
3. Key Trunk: By Exchange Rates.

Bandana	\$ 18.00 (I)
Barlow	\$ 18.00 (I)
Gage	\$ 18.00 (I)
Heath	\$ 19.53
Kevil	\$ 19.90
La Center	\$ 18.00 (I)
Wickliffe	\$ 18.00 (I)

Issue Date:

Effective Date: June 1, 2016

/ s /Randy C. Grogan

By: Randy C. Grogan, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2016-00042 dated _____.

Ballard Rural Telephone Cooperative Corporation, Inc.
Case 2016-00042

Exhibit 2

Proposed Tariff Pages (with Black Line)

GENERAL SUBSCRIBER SERVICES TARIFF

Ballard Rural Telephone Cooperative Corporation, Inc.

Section C

~~3rd~~ ~~4th~~ Revised Sheet 4
Cancels ~~2nd~~ ~~3rd~~ Revised Sheet 4

C. BASIC LOCAL EXCHANGE SERVICE

C.1 Local Exchange Rates (Cont'd)

C.1.2 Monthly exchange service rates as authorized by the Kentucky Public Service Commission (Cont'd)

3. Monthly Rates

A. Bandana, Barlow, Gage, La Center, Wickliffe

	One-Party Service	
	<u>Residence</u>	<u>Business</u>
Network Access Charge	\$46 <u>18</u> .00 (I)	\$46 <u>18</u> .00 (I)

B. Heath

	One-Party Service	
	<u>Residence</u>	<u>Business</u>
Network Access Charge	\$46 <u>18</u> .00 (I)	\$46 <u>18</u> .00 (I)

C. Kevil

	One-Party Service	
	<u>Residence</u>	<u>Business</u>
Network Access Charge	\$46 <u>18</u> .00 (I)	\$46 <u>18</u> .00 (I)

Issue Date: ~~December 1, 2014~~
Effective Date: ~~November 30, 2014~~ June 1, 2016

/s/ Randy C. Grogan
By: Randy C. Grogan, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2014-003302016-00042 dated ~~November 26, 2014~~.

GENERAL SUBSCRIBER SERVICES TARIFF

Ballard Rural Telephone Cooperative Corporation, Inc.

Section J

~~5th-6th~~ Revised Sheet 4
Cancels ~~4th-5th~~ Revised Sheet 4

J.3 Charges

Rates:

J.3.2 Key System

Monthly Rates

Capacity, 4 Trunks and 9 Stations

1. Deleted
2. Deleted
3. Key Trunk: By Exchange Rates.

Bandana	\$ 16 18.00 (I)
Barlow	\$ 16 18.00 (I)
Gage	\$ 16 18.00 (I)
Heath	\$ 16 18.00 (I)
Kevil	\$ 16 18.00 (I)
La Center	\$ 16 18.00 (I)
Wickliffe	\$ 16 18.00 (I)

Capacity, 4 Trunks and 19 stations

1. Deleted
2. Deleted
3. Key Trunk: By Exchange Rates.

Bandana	\$ 16 18.00 (I)
Barlow	\$ 16 18.00 (I)
Gage	\$ 16 18.00 (I)
Heath	\$ 19.53
Kevil	\$ 19.90
La Center	\$ 16 18.00 (I)
Wickliffe	\$ 16 18.00 (I)

Issue Date: ~~December 1, 2014~~

Effective Date: ~~November 30, 2014~~ June 1, 2016

/s/ Randy C. Grogan

By: Randy C. Grogan, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2014-003302016-00042 dated ~~November 26, 2014~~.

GENERAL SUBSCRIBER SERVICES TARIFF

Ballard Rural Telephone Cooperative Corporation, Inc.

Section J

~~5th~~-~~6th~~ Revised Sheet 4.1
Cancels ~~4th~~-~~5th~~ Revised Sheet 4.1

J.3 Charges

Rates:

J.3.2 Key System

Monthly Rates

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4 Intercom Links

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2. Deleted
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Barlow	\$ 46 <u>18</u> .00 (I)
Gage	\$ 46 <u>18</u> .00 (I)
Heath	\$ 19.53
Kevil	\$ 19.90
La Center	\$ 46 <u>18</u> .00 (I)
Wickliffe	\$ 46 <u>18</u> .00 (I)

Capacity, 12 Trunks and 36 Stations
4 Intercom Links

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3. Key Trunk: By Exchange Rates.

Bandana	\$ 46 <u>18</u> .00 (I)
Barlow	\$ 46 <u>18</u> .00 (I)
Gage	\$ 46 <u>18</u> .00 (I)
Heath	\$ 19.53
Kevil	\$ 19.90
La Center	\$ 46 <u>18</u> .00 (I)
Wickliffe	\$ 46 <u>18</u> .00 (I)

Issue Date: ~~December 1, 2014~~

Effective Date: ~~November 30, 2014~~ June 1, 2016

/ s /Randy C. Grogan

By: Randy C. Grogan, General Manager

By Authority of Order of the Public Service Commission in
Case No. 2014-003302016-00042 dated ~~November 26, 2014~~.

GENERAL SUBSCRIBER SERVICES TARIFF

Ballard Rural Telephone Cooperative Corporation, Inc.

Section J

~~5th~~-6th Revised Sheet 4.2
Cancels ~~45th~~ Revised Sheet 4.2

J.3 Charges

Rates:

J.3.2 Key System

Monthly Rates

Capacity, 4 Trunks and 9 Stations (Touchtone)

1. Deleted
2. Deleted
3. Key Trunk: By Exchange Rates.

Bandana	\$ 46 <u>18</u> .00 (I)
Barlow	\$ 46 <u>18</u> .00 (I)
Gage	\$ 46 <u>18</u> .00 (I)
Heath	\$ 46 <u>18</u> .00 (I)
Kevil	\$ 46 <u>18</u> .00 (I)
La Center	\$ 46 <u>18</u> .00 (I)
Wickliffe	\$ 46 <u>18</u> .00 (I)

Capacity, 12 Trunks and 19 Stations (Touchtone)

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2. Deleted
3. Key Trunk: By Exchange Rates.

Bandana	\$ 46 <u>18</u> .00 (I)
Barlow	\$ 46 <u>18</u> .00 (I)
Gage	\$ 46 <u>18</u> .00 (I)
Heath	\$ 19.53
Kevil	\$ 19.90
La Center	\$ 46 <u>18</u> .00 (I)
Wickliffe	\$ 46 <u>18</u> .00 (I)

Issue Date: ~~December 1, 2014~~

Effective Date: ~~November 30, 2014~~ June 1, 2016

/ s /Randy C. Grogan

By: Randy C. Grogan, General Manager

By Authority of Order of the Public Service Commission in

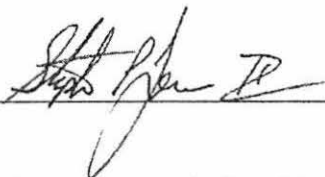
Case No. 20142016-0033042 dated ~~November 26, 2014~~.

CUSTOMER NOTICE AFFIDAVIT

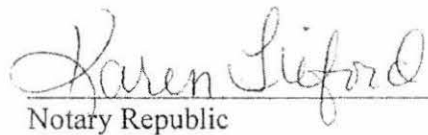
AFFIDAVIT

I, Stephen P. Jones II, am a representative of Ballard Rural Telephone Cooperative Corp Inc. and am authorized to make this statement on its behalf.

I attest that the customer notice accompanying this affidavit was sent to all customers as a bill insert on the following dates: February 15, 2016 and March 1, 2016, in accordance with Section 17(2) of 807 KAR 5:001. I declare under penalty of perjury that the foregoing is true and correct.

Signature: 

Subscribed and sworn to me before this 1st day of March, 2016.


Notary Republic

My commission expires:
July 29, 2018

On or around March 1st, Ballard Rural Telephone Coop., Corp, Inc. will file with the KY Public Service Commission an increase in basic local service rates charged to all subscribers due to a Federal Communication Commission mandate. With this change, residential and business access line rates are proposed to increase from \$16 to \$18. If approved by the PSC, the effective date of this rate change will be June 1, 2016. We anticipate the average increase being 6.3% and 5.8% for residential and business customers, respectively.

This increase is mandated by recent changes enacted by the Federal Communications Commission which set minimal local service rate levels as a condition of continued receipt of federal high cost support that allows us to deploy fiber optic facilities and support advanced voice and broadband services. 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 Ballard Rural Telephone Coop., Corp, Inc. located at 159 West Second Street, LaCenter, KY 42056 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.



btcservices.org
(270) 665-5186
159 West Second Street
P.O. Box 209
La Center, KY 42056

January 12, 2016

Mr. Jeff Derouen, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard, P.O. Box 615
Frankfort, KY 40602-0615

Dear Mr. Derouen:

Ballard Rural Telephone Cooperative Corp., Inc. ("Ballard") 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 Ballard 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 Ballard to have reported line rates greater than or equal to \$18, commencing July 1, 2016 (reflecting rates in effect as of June 1, 2016)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 270-665-5186 or via email at randy.grogan@btc.coop.

Sincerely,

Randy C. Grogan, CEO/General Manager

Cc via email: Jim Stevens, KY PSC
Eileen Bodamer, Bodamer Consulting

¹ Paragraph 80.

Eileen Bodamer

From: Randy Grogan <randy.grogan@btc.coop>
Sent: Tuesday, January 12, 2016 10:47 AM
To: rateintervention@ag.ky.gov
Cc: Jim Stevens; Eileen Bodamer
Subject: Letter of Intent to file application for an adjustment of Ballard Rural Telephone rates
Attachments: Rate Change Intent Letter to KY PSC - January 12, 2016.pdf

Please find attached a letter of intent to file an application for a general adjustment of Ballard Rural Telephone Cooperative's rates.

Randy C. Grogan
CEO/General Manager
BTC
159 West Second Street
P.O. Box 209
La Center, KY 42056
Email: randy.grogan@btc.coop
Phone: (270) 665-5186
Fax: (270) 665-9186



This is a confidential communication. If you received this in error, please delete its content and send a reply to inform us of the error. All electronic communications are monitored by the sender.

USDA-RUS OPERATING REPORT FOR TELECOMMUNICATIONS BORROWERS		<i>This data will be used by RUS to review your financial situation. Your response is required by / U.S.C. 901 et seq. and, subject to federal laws and regulations regarding confidential information, will be treated as confidential.</i> BORROWER NAME Ballard Rural Telephone Cooperative Corporation, Inc. (Prepared with Audited Data)			
<i>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.</i>		PERIOD ENDING December, 2014		BORROWER DESIGNATION KY0515	
CERTIFICATION <i>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.</i> 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 <i>(Check one of the following)</i> <div style="display: flex; justify-content: space-between;"> <div style="width: 45%;"> <input type="checkbox"/> All of the obligations under the RUS loan documents have been fulfilled in all material respects. </div> <div style="width: 45%;"> <input type="checkbox"/> 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 </div> </div>					
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	4,377,233	3,899,940	25. Accounts Payable	159,653	178,427
2. Cash-RUS Construction Fund	346,452	574,633	26. Notes Payable		
3. Affiliates:			27. Advance Billings and Payments		
a. Telecom, Accounts Receivable	96,457	(154,214)	28. Customer Deposits	27,534	27,234
b. Other Accounts Receivable			29. Current Mat. L/T Debt	2,664,096	1,521,918
c. Notes Receivable			30. Current Mat. L/T Debt-Rur. Dev.		
4. Non-Affiliates:			31. Current Mat.-Capital Leases		
a. Telecom, Accounts Receivable	535,957	442,595	32. Income Taxes Accrued		
b. Other Accounts Receivable			33. Other Taxes Accrued	(117,893)	(266,914)
c. Notes Receivable			34. Other Current Liabilities	312,197	437,723
5. Interest and Dividends Receivable			35. Total Current Liabilities (25 thru 34)	3,045,587	1,898,388
6. Material-Regulated	486,747	646,190	LONG-TERM DEBT		
7. Material-Nonregulated	730,035	807,609	36. Funded Debt-RUS Notes	14,971,670	15,693,754
8. Prepayments	237,974	1,005,015	37. Funded Debt-RTB Notes	1,303,248	1,399,724
9. Other Current Assets			38. Funded Debt-FFB Notes		
10. Total Current Assets (1 Thru 9)	6,810,855	7,221,768	39. Funded Debt-Other		
NONCURRENT ASSETS			40. Funded Debt-Rural Develop. Loan		
11. Investment in Affiliated Companies			41. Premium (Discount) on L/T Debt		
a. Rural Development			42. Reacquired Debt		
b. Nonrural Development			43. Obligations Under Capital Lease		
12. Other Investments			44. Adv. From Affiliated Companies		
a. Rural Development			45. Other Long-Term Debt		
b. Nonrural Development	10,470,826	10,354,071	46. Total Long-Term Debt (36 thru 45)	16,274,918	17,093,478
13. Nonregulated Investments	414,362	17,307	OTHER LIAB. & DEF. CREDITS		
14. Other Noncurrent Assets	1,724,203	1,962,949	47. Other Long-Term Liabilities	1,186,031	1,168,049
15. Deferred Charges			48. Other Deferred Credits	5	5
16. Jurisdictional Differences			49. Other Jurisdictional Differences		
17. Total Noncurrent Assets (11 thru 16)	12,609,391	12,334,327	50. Total Other Liabilities and Deferred Credits (47 thru 49)	1,186,036	1,168,054
PLANT, PROPERTY, AND EQUIPMENT			EQUITY		
18. Telecom, Plant-in-Service	49,021,309	48,385,613	51. Cap. Stock Outstand. & Subscribed		
19. Property Held for Future Use			52. Additional Paid-in-Capital		
20. Plant Under Construction	1,498,694	4,926,498	53. Treasury Stock		
21. Plant Adj., Nonop. Plant & Goodwill			54. Membership and Cap. Certificates	55,846	53,633
22. Less Accumulated Depreciation	28,129,359	29,376,649	55. Other Capital		
23. Net Plant (18 thru 21 less 22)	22,390,644	23,935,462	56. Patronage Capital Credits	3,575,214	3,563,571
24. TOTAL ASSETS (10+17+23)			57. Retained Earnings or Margins	17,673,289	19,714,433
	41,810,890	43,491,557	58. Total Equity (51 thru 57)	21,304,349	23,331,637
			59. TOTAL LIABILITIES AND EQUITY (35+46+50+58)	41,810,890	43,491,557

Total Equity = 53.65% % of Total Assets

**OPERATING REPORT FOR
TELECOMMUNICATIONS BORROWERS**

BORROWER DESIGNATION

KY0515

PERIOD ENDING

December, 2014

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	934,387	971,244
2. Network Access Services Revenues	3,408,794	2,872,231
3. Long Distance Network Services Revenues	1,538	1,324
4. Carrier Billing and Collection Revenues	0	0
5. Miscellaneous Revenues	1,286,507	1,665,301
6. Uncollectible Revenues	11,546	144,638
7. Net Operating Revenues (1 thru 5 less 6)	5,619,680	5,365,462
8. Plant Specific Operations Expense	895,315	946,474
9. Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)	401,251	287,276
10. Depreciation Expense	2,331,614	2,194,772
11. Amortization Expense	0	0
12. Customer Operations Expense	254,406	267,867
13. Corporate Operations Expense	832,379	876,994
14. Total Operating Expenses (8 thru 13)	4,714,965	4,573,383
15. Operating Income or Margins (7 less 14)	904,715	792,079
16. Other Operating Income and Expenses	229,022	175,638
17. State and Local Taxes	0	0
18. Federal Income Taxes	1,347,691	1,396,487
19. Other Taxes	436,584	494,704
20. Total Operating Taxes (17+18+19)	1,784,275	1,891,191
21. Net Operating Income or Margins (15+16-20)	(650,538)	(923,474)
22. Interest on Funded Debt	691,868	674,982
23. Interest Expense - Capital Leases	0	0
24. Other Interest Expense	8,922	5,680
25. Allowance for Funds Used During Construction	150,877	68,664
26. Total Fixed Charges (22+23+24-25)	549,913	611,998
27. Nonoperating Net Income	4,313,499	5,146,634
28. Extraordinary Items	0	0
29. Jurisdictional Differences	0	0
30. Nonregulated Net Income	(1,970,672)	(1,570,018)
31. Total Net Income or Margins (21+27+28+29+30-26)	1,142,376	2,041,144
32. Total Taxes Based on Income	0	0
33. Retained Earnings or Margins Beginning-of-Year	16,530,913	17,673,289
34. Miscellaneous Credits Year-to-Date		
35. Dividends Declared (Common)	0	0
36. Dividends Declared (Preferred)	0	0
37. Other Debits Year-to-Date		
38. Transfers to Patronage Capital		
39. Retained Earnings or Margins End-of-Period [(31+33+34) - (35+36+37+38)]	17,673,289	19,714,433
40. Patronage Capital Beginning-of-Year	3,625,658	3,575,214
41. Transfers to Patronage Capital		
42. Patronage Capital Credits Retired	50,444	11,643
43. Patronage Capital End-of-Year (40+41-42)	3,575,214	3,563,571
44. Annual Debt Service Payments	2,497,340	2,863,601
45. Cash Ratio [(14+20-10-11) / 7]	0.7416	0.7958
46. Operating Accrual Ratio [(14+20+26) / 7]	1.2544	1.3189
47. TIER [(31+26) / 26]	3.0774	4.3352
48. DSCR [(31+26+10+11) / 44]	1.6113	1.6929

J. DAVID BAILEY, III
C. SUZETTE CRONCH
ROGER G. HARRIS
MICHAEL F. KARNES
MARK A. THOMAS
ASHLEY C. GROOMS
KELLY D. SCRUGGS
BENJAMIN D. TEER

WILLIAMS, WILLIAMS & LENTZ, LLP

CERTIFIED PUBLIC ACCOUNTANTS

~Established 1953~

P.O. Box 2500
PADUCAH, KY 42002-2500
www.wwlcpa.com

601 JEFFERSON
PADUCAH, KY 42001
TELEPHONE: 270-443-3643
FAX: 270-444-0652

1104 PARIS RD, SUITE 100
MAYFIELD, KY 42066
TELEPHONE: 270-247-2124
FAX: 270-247-2028

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, 2015 and 2014, 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, 2015 and 2014, 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 January 6, 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 & Lenty, LLP

Paducah, Kentucky
January 6, 2016

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

FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

TABLE OF CONTENTS

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J. DAVID BAILEY, III
C. SUZETTE CRONCH
ROGER G. HARRIS
MICHAEL F. KARNES
MARK A. THOMAS
ASHLEY C. GROOMS
KELLY D. SCRUGGS
BENJAMIN D. TEER

WILLIAMS, WILLIAMS & LENTZ, LLP

CERTIFIED PUBLIC ACCOUNTANTS

~Established 1953~

P.O. Box 2500
PADUCAH, KY 42002-2500
www.wwlcpa.com

601 JEFFERSON
PADUCAH, KY 42001
TELEPHONE: 270-443-3643
FAX: 270-444-0652

1104 PARIS RD, SUITE 100
MAYFIELD, KY 42066
TELEPHONE: 270-247-2124
FAX: 270-247-2028

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, 2015 and 2014, 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, 2015 and 2014, 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 January 6, 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 & Lenty, LLP

Paducah, Kentucky
January 6, 2016

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

ASSETS

	2015	2014
Current Assets:		
Cash and cash equivalents	\$ 6,809,237	\$ 4,525,613
Certificate of deposit	632,914	149,875
Accounts receivable, less allowance for doubtful accounts of \$4,426 for 2015 and \$5,067 for 2014	348,301	342,898
Materials and supplies, at average cost	779,864	583,029
Other prepayments	783,360	683,132
Total current assets	<u>9,353,676</u>	<u>6,284,547</u>
Noncurrent Assets:		
Investments in affiliates	8,523,559	8,164,645
Nonregulated investment - net nonregulated customer premises equipment	1,171,098	840,766
Other investments	411,659	901,731
Prepaid retirement benefits	419,393	551,001
Prepaid postemployment benefits	2,119,399	1,938,570
Total noncurrent assets	<u>12,645,108</u>	<u>12,396,713</u>
Property, Plant, and Equipment:		
Telecommunications plant in service	48,389,333	49,258,058
Telecommunications plant under construction	6,624,106	2,050,833
Totals	55,013,439	51,308,891
Less accumulated depreciation	<u>30,269,338</u>	<u>29,297,418</u>
Net property, plant, and equipment	<u>24,744,101</u>	<u>22,011,473</u>
TOTAL ASSETS	<u><u>\$46,742,885</u></u>	<u><u>\$40,692,733</u></u>

See notes to financial statements.

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

LIABILITIES AND PATRONAGE CAPITAL

	2015	2014
Current Liabilities:		
Cash overdraft	\$ -	\$ -
Accounts payable	699,572	356,380
Customers' deposits	27,064	26,978
Current maturities of long-term debt	1,600,420	1,736,346
Accrued property taxes	215,341	175,210
Other accrued expenses	582,935	353,264
	<u>3,125,332</u>	<u>2,648,178</u>
Total current liabilities		
	<u>3,125,332</u>	<u>2,648,178</u>
Long-Term Debt:		
Mortgage notes due after one year	20,300,381	17,318,253
	<u>20,300,381</u>	<u>17,318,253</u>
Other Liabilities and Deferred Credits:		
Other deferred credits	5	5
Postemployment benefits liability	1,147,502	1,168,049
	<u>1,147,507</u>	<u>1,168,054</u>
Total other liabilities and deferred credits		
	<u>1,147,507</u>	<u>1,168,054</u>
Total liabilities		
	<u>24,573,220</u>	<u>21,134,485</u>
Patronage Capital:		
Memberships	52,542	55,104
Margins	22,117,123	19,503,144
	<u>22,169,665</u>	<u>19,558,248</u>
Total patronage capital		
	<u>22,169,665</u>	<u>19,558,248</u>
TOTAL LIABILITIES AND PATRONAGE CAPITAL		
	<u>\$46,742,885</u>	<u>\$40,692,733</u>

See notes to financial statements.

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

	2015	2014
Operating Revenues:		
Basic local network services	\$ 977,942	\$ 974,285
Network access services	3,412,246	2,860,282
Long distance network services	1,387	1,433
Miscellaneous	1,774,347	1,395,491
Net uncollectible revenues	<u>(152,857)</u>	<u>(8,834)</u>
Total operating revenues	<u>6,013,065</u>	<u>5,222,657</u>
Operating Expenses:		
Plant specific operations	921,512	913,717
Plant nonspecific operations	220,731	312,787
Depreciation and amortization	1,923,885	2,401,904
Customer operations	296,088	237,601
Corporate operations	<u>809,080</u>	<u>764,243</u>
Total operating expenses	<u>4,171,296</u>	<u>4,630,252</u>
Operating Taxes:		
Property taxes	481,047	418,826
Other operating tax	<u>66,605</u>	<u>69,003</u>
Total operating taxes	<u>547,652</u>	<u>487,829</u>
Operating margins	<u>1,294,117</u>	<u>104,576</u>
Nonoperating Margins:		
Nonoperating margins before income taxes	4,950,455	4,703,100
Income taxes	<u>1,577,067</u>	<u>1,414,487</u>
Nonoperating margins	<u>3,373,388</u>	<u>3,288,613</u>
Operating and nonoperating margins before fixed charges	4,667,505	3,393,189
Fixed Charges:		
Interest on long-term debt	<u>588,081</u>	<u>514,843</u>
Operating and nonoperating margins net of fixed charges	4,079,424	2,878,346
Nonregulated margins - net	<u>(1,446,354)</u>	<u>(1,820,202)</u>
NET MARGINS	<u><u>\$2,633,070</u></u>	<u><u>\$1,058,144</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, 2015 AND 2014

	<u>Memberships</u>	<u>Margins</u>			<u>Total</u>
		<u>Unassigned</u>	<u>Assignable</u>	<u>Assigned</u>	
Balance, June 30, 2013	\$57,666	\$(1,926,512)	\$ 30,961	\$20,381,511	\$18,485,960
Membership issued, net of terminations	(2,562)	-	-	-	-
Net margins for the year ended June 30, 2014	-	1,058,144	-	-	1,058,144
Transfer of patronage capital for the year ended December 31, 2013, to assignable status	-	(1,142,376)	1,142,376	-	-
Assignment of patronage capital for the year ended December 31, 2013	-	-	(1,142,376)	1,142,376	-
Refunds of patronage capital	-	-	-	(40,960)	(40,960)
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	<u>\$52,542</u>	<u>\$ 1,074,895</u>	<u>\$ 30,961</u>	<u>\$21,011,267</u>	<u>\$22,117,123</u>

See notes to financial statements.

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

	2015	2014
Cash Flows from Operating Activities:		
Net margins	\$2,633,070	\$1,058,144
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	2,125,563	3,180,946
Decrease (increase) in:		
Accounts receivable	(5,403)	257,732
Materials and supplies	(196,835)	(17,078)
Other prepayments	(100,228)	(285,633)
Prepaid retirement benefits	131,608	(551,001)
Prepaid postretirement benefits	(180,829)	(382,842)
Increase (decrease) in:		
Cash overdraft	-	(21,984)
Accounts payable	343,192	122,954
Customers' deposits	86	(1,004)
Accrued property taxes	40,131	(5,747)
Postretirement liability	(20,547)	(17,982)
Other accrued expenses	229,671	10,551
Net cash provided by operating activities	<u>4,999,479</u>	<u>3,347,056</u>
Cash Flows from Investing Activities:		
Salvage recovered from plant retirement	162,193	18,500
Purchases of property and equipment (includes nonregulated equipment)	(5,350,040)	(3,029,495)
Plant removal costs	(676)	(25,215)
Increase in investments in affiliates	(358,914)	(73,510)
Net sales (purchases) of other investments	<u>7,033</u>	<u>(98,557)</u>
Net cash used by investing activities	<u>(5,540,404)</u>	<u>(3,208,277)</u>
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt	4,505,000	1,860,000
Payments on long-term debt	(1,658,798)	(2,622,804)
Issuance of memberships, net of refunds	(2,562)	(2,562)
Refunds of patronage capital	<u>(19,091)</u>	<u>(40,960)</u>
Net cash provided (used) by financing activities	<u>2,824,549</u>	<u>(806,326)</u>
Net increase (decrease) in cash and cash equivalents	2,283,624	(667,547)
Cash and cash equivalents at beginning of year	<u>4,525,613</u>	<u>5,193,160</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$6,809,237</u></u>	<u><u>\$4,525,613</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, 2015 and 2014, totaled \$2,125,563 and \$3,180,946, 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.

(Continued)

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:

Change in Benefit Obligation:	2015	2014	2013
Accumulated benefit obligation, beginning of year	\$1,168,049	\$1,186,031	\$ 916,263
Service cost	27,313	27,537	30,247
Interest cost	50,595	51,525	51,885
Return on assets	(153,656)	(140,546)	(112,790)
Amortization of past service liability	25,359	27,126	47,037
Benefits paid	(11,750)	(52,115)	(61,507)
Other adjustments	41,592	68,491	314,896
Accumulated benefit obligation, end of year	1,147,502	1,168,049	1,186,031
Prepaid benefits	2,119,399	1,938,570	1,555,728
NET PREPAID BENEFITS, END OF YEAR	\$ 971,897	\$ 770,521	\$ 369,697
Weighted-Average Assumptions:			
Discount rate	4.50%	4.50%	4.50%
Rate of compensation increase	3.00%	3.00%	3.00%
Return on assets	7.25%	7.25%	7.25%

The initial medical inflation rate of 7% is anticipated to decline gradually until it reaches a level of 5% by 2017.

Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through January 6, 2016, the date financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the June 30, 2014 financial statements to make them conform to the June 30, 2015 presentation.

Note 2 - Cash:

At year end, the carrying amount of the Corporation's cash in bank and certificates of deposit was \$7,853,790, and the bank balance was \$8,271,351. As of June 30, 2015, \$1,691,207 of the Corporation's bank balance was covered by FDIC insurance, and the remaining balance of \$6,580,143 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 \$6,580,143, \$110,864 reflects the excess of market value of certificates of deposit over cost, and the remaining balance of \$6,469,279 was uninsured and uncollateralized.

(Continued)

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>2014</u>	<u>2013</u>
Current assets	\$ 7,894	\$ 7,593
Noncurrent assets	17,213	17,451
Current liabilities	4,004	2,844
Noncurrent liabilities	565	488
Revenues	58,558	53,101
Net income	14,476	12,972
Corporation's equity in net income	4,825	4,324

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

	<u>2015</u>	<u>2014</u>
Income from Kentucky RSA Partnership No. 1	\$4,825,576	\$4,323,753
Other nonoperating margins	124,879	379,347
Net nonoperating margins before income taxes	4,950,455	4,703,100
Less income taxes	1,577,067	1,414,487
NET NONOPERATING MARGINS	\$3,373,388	\$3,288,613

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>2015</u>	<u>2014</u>
Nonregulated consumer premises equipment - leased	\$ 123,111	\$ 123,111
Paystations	28,684	28,684
Internet equipment	798,542	806,559
Video equipment	4,148,549	3,648,613
Accumulated depreciation	(4,679,258)	(4,529,805)
Nonregulated consumer premises equipment - inventory not in service	751,470	763,604
TOTAL NONREGULATED INVESTMENT	\$ 1,171,098	\$ 840,766

The following annual depreciation rates have been applied for the years ended June 30, 2015 and 2014:

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

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

	<u>2015</u>	<u>2014</u>
Income from operations	\$ 3,331,230	\$ 3,278,884
Expenses	4,777,584	5,099,086
NET MARGINS FROM NONREGULATED INVESTMENTS	\$ (1,446,354)	\$ (1,820,202)

(Continued)

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

Note 5 - Other Investments:

Other investments include the following at June 30:

	<u>2015</u>	<u>2014</u>
Certificates of deposit at market value with maturities in excess of one year	\$411,639	\$704,652
Annuity valued at cash surrender value	-	197,059
Other investment	<u>20</u>	<u>20</u>
TOTAL OTHER INVESTMENTS	<u>\$411,659</u>	<u>\$901,731</u>

Note 6 - Investment in Property and Equipment and Depreciation:

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

	<u>2015</u>	<u>2014</u>
Organization	\$ 8,492	\$ 8,492
Land	88,509	88,509
Buildings	2,330,967	2,325,847
Switching equipment	1,872,617	2,906,356
Toll, subscriber carriers and fiber optic equipment	11,729,829	11,710,982
Station apparatus	38,477	38,477
Station and outside connections	3,466,450	3,372,620
Poles, cables, and wires	25,641,675	25,604,892
Furniture and office equipment	2,025,386	2,012,247
Tools and other work equipment	462,490	447,903
Vehicles and mobile radios	<u>724,441</u>	<u>741,733</u>
TOTAL PROPERTY AND EQUIPMENT IN SERVICE	<u>\$ 48,389,333</u>	<u>\$ 49,258,058</u>

The following annual depreciation rates have been applied for the years ended June 30, 2015 and 2014:

	<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

(Continued)

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 \$172,800, \$175,840, and \$169,152 for the years ended June 30, 2015, 2014, and 2013, 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.

(Continued)

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>2015</u>	<u>2014</u>
Due Rural Utility Service:		
4.8590 % first mortgage notes	\$ -	\$ 17,222
4.6160 % first mortgage notes	844,175	1,013,826
4.6150 % first mortgage notes	214,205	257,115
4.6950 % first mortgage notes	93,577	112,306
4.7040 % first mortgage notes	733,459	880,034
4.7600 % first mortgage notes	128,200	153,875
3.9960 % first mortgage notes	1,083,302	1,303,937
2.4833 % first mortgage notes	3,707	4,493
3.5450 % first mortgage notes	-	67,924
3.4800 % first mortgage notes	1,412,937	1,482,083
3.7450 % first mortgage notes	685,091	717,926
3.8860 % first mortgage notes	442,718	463,664
3.8450 % first mortgage notes	2,301,006	2,410,298
2.2340 % first mortgage notes	608,186	641,260
2.3840 % first mortgage notes	2,526,170	2,661,632
2.4340 % first mortgage notes	3,307,571	3,481,650
4.9285 % first mortgage notes	-	9,769
3.0660 % first mortgage notes	1,373,082	1,442,631
3.2380 % first mortgage notes	368,168	386,544
2.9260 % first mortgage notes	405,000	-
2.2570 % first mortgage notes	4,100,000	-
	<u>\$20,630,554</u>	<u>\$17,508,189</u>

Due Rural Telephone Bank (transferred to Rural Utility Service):

	<u>2015</u>	<u>2014</u>
5.1300% first mortgage notes	\$ 709,416	\$ 854,228
5.0000% first mortgage notes	560,831	672,124
5.1000% first mortgage notes	-	20,058
	<u>1,270,247</u>	<u>1,546,410</u>
Totals	21,900,801	19,054,599
Less current maturity	<u>1,600,420</u>	<u>1,736,346</u>
LONG-TERM DEBT DUE AFTER ONE YEAR	<u>\$20,300,381</u>	<u>\$17,318,253</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.

(Continued)

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>
2016	\$ 1,600,420
2017	1,694,147
2018	1,948,844
2019	2,023,171
2020	1,428,930
2021-2025	5,430,487
2026-2030	6,258,751
2031-2034	1,516,051

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 2014, 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 \$1,577,067 and \$1,414,187 for the years ended June 30, 2015 and 2014, 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 2012. 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, 2015, there was \$(14,411) available for patronage capital payments.

(Continued)

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>2015</u>	<u>2014</u>
Cash:		
Cash - general	\$5,124,349	\$ 195,980
Cash - restricted for construction	1,394,888	169,633
Certificates of deposit	<u>290,000</u>	<u>290,000</u>
Total cash	6,809,237	655,613
Short-term securities and money markets	<u>-</u>	<u>3,870,000</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$6,809,237</u>	<u>\$4,525,613</u>

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>2015</u>	<u>2014</u>
Interest	\$ 656,493	\$ 665,723
Income taxes (nonmember nonpatronage income/unrelated business income)	1,771,000	1,596,000

Interest amounts of \$68,412 and \$150,877 were capitalized on long-term construction projects during the years ended June 30, 2015 and 2014, 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.

J. DAVID BAILEY, III
C. SUZETTE CRONCH
ROGER G. HARRIS
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MARK A. THOMAS
ASHLEY C. GROOMS
KELLY D. SCRUGGS
BENJAMIN D. TEER

WILLIAMS, WILLIAMS & LENTZ, LLP

CERTIFIED PUBLIC ACCOUNTANTS

~Established 1953~

P.O. Box 2500
PADUCAH, KY 42002-2500
www.wwlcpa.com

601 JEFFERSON
PADUCAH, KY 42001
TELEPHONE: 270-443-3643
FAX: 270-444-0652

1104 PARIS RD, SUITE 100
MAYFIELD, KY 42066
TELEPHONE: 270-247-2124
FAX: 270-247-2028

**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, 2015, 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 January 6, 2016. In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 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 1/3%	\$ 5,824,307
Earnings for 2014	4,825,576
Prior year's earnings	27,323,250
Distributions	<u>(29,450,574)</u>

Net investment, equity basis	8,522,559
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Solix, Inc.	<u>1,000</u>
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TOTAL INVESTMENTS IN AFFILIATES	<u>\$ 8,523,559</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 & Lenty, LLP

Paducah, Kentucky
January 6, 2016

J. DAVID BAILEY, III
C. SUZETTE CRONCH
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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, 2015, 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 January 6, 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

January 6, 2016

BALLARD RURAL TELEPHONE COOPERATIVE CORPORATION, INC.
SCHEDULE OF FINDING AND RESPONSE
FOR THE YEAR ENDED JUNE 30, 2015

A. Finding

At year end, the carrying amount of the Corporation's cash in bank and certificates of deposit was \$7,853,790, and the bank balance was \$8,271,351. As of June 30, 2015, \$1,691,207 of the Corporation's bank balance was covered by FDIC insurance, and the remaining balance of \$6,580,143 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 \$6,580,143, \$110,864 reflects the excess of market value of certificates of deposit over cost, and the remaining balance of \$6,496,279 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 will keep a check on cash account balances in an attempt to maintain account balances within the FDIC coverage limits.