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RECEIVED
MAR 7 2016
PUBLIC SERVICE
COMMISSION

March 4, 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 Peoples Rural Telephone Cooperative Corporation, Inc.; Case No. 2016-00044*

Dear Acting Executive Director Gardner:

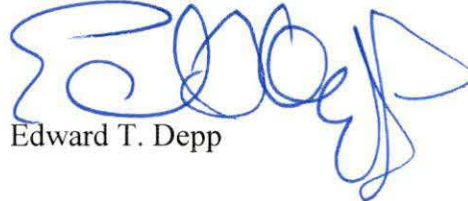
On behalf of Peoples Rural Telephone Cooperative Corporation, Inc., I have enclosed for filing with the Public Service of the Commonwealth of Kentucky one (1) original and ten (10) copies of the following documents.

- 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.

Sincerely yours,

DINSMORE & SHOHL LLP



Edward T. Depp

ETD/bmt
Enclosures

RECEIVED

MAR 7 2016

PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

**APPLICATION OF PEOPLES RURAL TELEPHONE)
COOPERATIVE CORPORATION, INC.) CASE NO. 2016-00044
FOR A GENERAL ADJUSTMENT IN RATES)**

APPLICATION

Applicant Peoples Rural Telephone Cooperative Corporation, Inc. (“PRTC”), 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 PRTC’s November 26, 2014 rate floor proceeding in Case No. 2014-00305, 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 PRTC 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.

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

* * * * *

In support of its Application, PRTC states as follows:

1. Pursuant to 807 KAR 5:001, Section 14(1): (i) the full name of the applicant is Peoples Rural Telephone Cooperative Corporation, Inc.; (ii) the mailing address of the applicant is 1080 Main Street South, P.O. Box 159, McKee, KY 40447-0159; and (iii) the electronic mailing address of the applicant is Keith.Gabbard@prtc.org.

2. Pursuant to 807 KAR 5:001, Section 14(2), PRTC states that it is currently in good standing in the Commonwealth of Kentucky, where it is incorporated. A certified copy of PRTC's Articles of Incorporation and amendments thereto is on file with the Commission in Case No. 2014-00305 (Exhibit 2 to Application).

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

a. PRTC was established in 1950 as a member-owned cooperative to provide local telephone service to business and individual members within the exchanges of McKee, Annville, Booneville, and Sand Gap ("Service Territory"). PRTC is a rural incumbent local exchange carrier serving all of Owsley and Jackson Counties in eastern Kentucky. Pursuant to its 2014 PSC Report, PRTC provided 5,582 residential lines and 1,061 business lines to its members. PRTC 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, PRTC received \$3,830,157 from the High Cost Loop Support ("HCLS") Fund to support its COLR responsibilities in its Service

Territory, and anticipates receiving \$3.7M in calendar year 2016. As a high cost company, all HCLS revenues are crucial for the company to continue to meet its COLR responsibilities and to bring advanced services to the communities it serves.

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

c. Under the rule, local exchange carriers such as PRTC 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, PRTC 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 PRTC does not operate under an assumed name pursuant to KRS 365.015.

5. Pursuant to 807 KAR 5:001, Section 16(1)(b)(3), PRTC 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), PRTC 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), PRTC 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), PRTC 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), PRTC, 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 PRTC'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), PRTC 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 PRTC'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 PRTC 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 PRTC is not a water district.

9. Pursuant to 807 KAR 5:001, Section 16(2), PRTC 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), PRTC 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 PRTC 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 PRTC'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 PRTC's Motion for Waiver of Certain Rate Application Requirements ("Motion for Waiver") filed contemporaneously with this Application, PRTC 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 PRTC has gross annual revenues in excess of \$5,000,000.00.

14. Pursuant to 807 KAR 5:001, Section 16(4)(d), PRTC estimates that the total amount of revenue increase resulting from the proposed rate adjustment will be approximately a net reduction of \$20,823.

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

16. Pursuant to 807 KAR 5:001, Section 16(4)(f), PRTC states that the proposed rate adjustment will increase the average residential 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), PRTC states that because the FCC's rate floor requirements only apply to residential rates, only PRTC's residential customer class will be affected by the proposed rate adjustment. PRTC's analysis of customers' bills and the corresponding revenue impact are provided in PRTC'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), PRTC states that parts A and B of its 2014 RUS operating report, the most recently available to PRTC, containing its TIER calculation, which assesses PRTC'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, PRTC respectfully seeks waiver of those requirements for the reasons set forth in its accompanying Motion for Waiver.

19. As more fully explained in PRTC's Motion for Waiver, PRTC 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), PRTC states that its current chart of accounts was provided in Case 2014-00305 and is unchanged.

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

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

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

24. Pursuant to 807 KAR 5:001, Section 16(4)(n), PRTC states that a schedule identifying current depreciation rates used by major plant accounts was provided in Case 2014-00305 and is unchanged. To the extent the Commission believes this section requires more information than PRTC has provided, PRTC seeks waiver of 807 KAR 5:001, Section 16(4)(n) for the reasons set forth in its accompanying Motion for Waiver.

25. Pursuant to 807 KAR 5:001, Section 16(4)(o), requiring a schedule of detailed information regarding all software, programs, and models used to prepare the Application, PRTC

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 PRTC has never made a stock or bond offering.

27. The requirements of 807 KAR 5:001, Section 16(4)(q), are inapplicable because PRTC does not provide a formal annual report to its members. Instead, PRTC invites its members to an annual meeting to review and discuss its operations. To the extent the Commission believes this section requires the provision of additional materials, PRTC seeks waiver of those requirements for the reasons set forth in its accompanying Motion for Waiver.

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

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

33. The requirements of 807 KAR 5:001, Section 16(5), are inapplicable because PRTC's Application does not include any pro forma adjustments. To the extent the Commission believes the requirements of this section apply to this Application, PRTC 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 PRTC 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 PRTC 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 PRTC 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, PRTC 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, PRTC 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, PRTC 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.

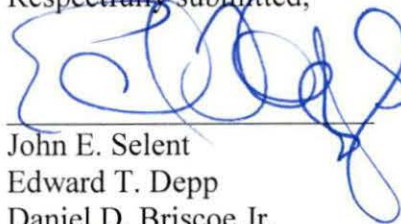
40. Pursuant to ¶ 3.d of the 2013 Rate Floor Order, PRTC has provided an estimate of historical line counts in Exhibit 1, Attachment B. As more fully explained in PRTC's Motion for Waiver, PRTC seeks partial waiver of ¶ 3.d of the 2013 Rate Floor Order, insofar as it requests projected line losses beyond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

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

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

Respectfully submitted,



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*Counsel to Peoples 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 4th day of March, 2016.



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

10192677v1

Description and Reason for Filing

With this filing, Peoples Rural Telephone Cooperative Corporation, Inc. (“PRTC”) proposes to increase its basic residential local service rates by \$2.00, to \$18.00 per month. PRTC will offset this increase to its members with an expanded local calling area for all of its members. 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 mandated 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

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)

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 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, PRTC's basic residential rates are proposed to rise to \$18.00. No change is proposed to PRTC's basic business rates and services which are outside the rate floor requirement of the FCC's Transformation Order and are above the \$18.00 rate floor, in any case. This is PRTC's second rate increase necessitated by the FCC's rate floor. In its 2014 filing,⁵ PRTC offset its rate increase with improvements to broadband speeds and the inclusion of Caller ID with its basic service package. As a result of that filing, PRTC anticipated that its average residential subscriber experienced a less than 2% increase in monthly charges.⁶

In order to meet the 2016 residential rate floor, PRTC must raise its residential rates by an additional \$2 per line. While the company anticipates that its average residential subscriber will have a 3.3% increase in monthly charges,⁷ as discussed further below, PRTC proposes to again provide value-added benefits to its all of subscribers by increasing the number of exchanges included as extended area service ("EAS"). This will allow PRTC's subscribers to enjoy a wider scope of local (i.e., toll-free) calling.

⁴ *Ibid.*, para. 80

⁵ See generally, *In the Matter of: Tariff Filing of Peoples Rural Telephone Cooperative Corporation, Inc.* KY P.S.C. Case 2014-00305

⁶ Reflects average residential invoice.

⁷ When measured against the typical residential service. Approximately 5% of PRTC subscribers purchase only a basic phone line. Including interstate access tariff fees, those subscribers will have an increase of 8% under this proposal, ignoring any savings they may have in long distance charges.

To provide additional value to its members for the \$2 rate increase,⁸ PRTC proposes to expand its local calling area for all of its subscribers to include additional EAS calling to Rockcastle, Lee, Breathitt, Estill, Madison, Laurel, Perry and Clay counties. By doing so, PRTC will provide its members with an EAS area that encompasses twenty-four (24) rate centers, a substantial improvement over the four (4) rate centers incorporated in the company's current local calling area.

By expanding its EAS, PRTC will forgo intrastate originating switched access fees previously billed to the interexchange carriers on these former toll routes. PRTC will use a contracted interexchange carrier as its underlying service provider to terminate traffic to these exchanges. As shown in Attachment C of this Exhibit, PRTC estimates that the annual cost of this greatly expanded calling area will be approximately \$149K per year, slightly higher than revenues it expects to gain through its rate increase. Even without these offsets, however, as shown in the financial support section of this Exhibit, the impact of the FCC's Transformation Order warrants the rate increase proposed in this filing.

Company information

The full name and address the Company is Peoples Rural Telephone Coop. Corp., Inc., 1080 Main Street South, P.O. Box 159, McKee, KY 40447-0159. PRTC was established in 1950 as a member-owned cooperative to provide local telephone service to business and individual members within the exchanges of McKee, Annville, Booneville, and Sand Gap. PRTC is a rural incumbent local exchange carrier serving all of Owsley and Jackson Counties in eastern Kentucky. Pursuant to its 2014 PSC Report, PRTC provided 5,582 residential lines and 1,061 business lines to its members.

⁸ PRTC is also eliminating the "rotary dial" provision of its tariff. This service has been grandfathered to existing business customers and the company no longer has any subscribers to that (now) obsolete discount program.

PRTC 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, PRTC received \$3,830,157 from the High Cost Loop Support (“HCLS”) Fund to support its COLR responsibilities in its Service Territory, and anticipates receiving \$3.7M in calendar year 2016. As a high cost company, all HCLS revenues are crucial for the company to continue to meet its COLR responsibilities and to bring advanced services to the communities it serves.

A schedule of the company’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

While PRTC anticipates that some of its increase in local service revenues will be directly offset by savings in its proposed expanded local calling area, the increase in local residential rates is driven by two factors: first, the offset of HCLS support mandated by the FCC’s Transformation Order requires the company to do so; and, second, FCC-directed reductions in access charges have capped and reduced access compensation available to the company, putting pressure on the company to adjust local service rates in an effort to offset that reduction.

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, PRTC is seeking to increase its residential local exchange rates by \$2.00 but by doing so will retain approximately 3.5% of its total HCLS support, or \$132K per year.

REDACTED

	Subscribers	Current Rate	FCC Floor	At Risk
Residential Based on year end 2015	5,505	\$ 16.00	\$ 18.00	\$ 132,120
Annual 2016 HCLS (See Attachment 1 of this Exhibit)				\$3,725,880
Support at risk absent a rate increase				3.5%

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 PRTC 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 period⁹ and established a phase-down of those allowed amounts over the subsequent 5 years. With this change, PRTC cannot collect more than its current capped revenue amount net 5% *each year*. As shown in the step-down of Eligible State Access Recovery (as depicted in the following table), the cumulative FCC-mandated reduction in its access revenue recovery is [REDACTED] through the current fiscal period.

Access Reduction

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

⁹ October 1, 2010 through September 30, 2011.

REDACTED

Peoples Rural Telephone Coop. Corp., Inc.
Case 2016-00044

Exhibit 1

This is the second rate increase filed by PRTC to meet the FCC rate floor.¹⁰ In its December 1, 2014 filing in Case No. 2014-00303, as in this one, the company raised its residential rates by \$2 while offering offsets to its subscribers. Its 2014 rate floor filing increased revenues by \$79K per year, and the company anticipates that this filing will reduce revenues by \$17K per year. In total, PRTC's adjustments to its local service rates to meet the floor have been largely revenue neutral even as the company works to absorb the broader losses imposed by the FCC's access reform.

Summary

The FCC's Transformation Order continues to dramatically change the revenue sources that have been historically available to rural telephone companies like PRTC and which have been used to meet their COLR obligation and to expand the availability of advanced broadband services to their customers. Unfortunately, for many of these companies, doing so requires upward pressure on local service rates. As shown in this documentation, PRTC has no other options available to it, and it respectfully requests that its tariff revisions be approved.

¹⁰ The company was at the 2013 rate for the majority of its subscribers. It was able to bring all subscribers to the rate floor with the elimination of the "rotary" discount for a very small portion of its customer base.

REDACTED

Peoples Rural Telephone Coop. Corp., Inc.
Case 2016-00044

Exhibit 1

Attachments to this Exhibit:

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

Attachment B: National Exchange Carrier Association Report of Access Lines

Attachment C: Rate Design Exhibit

10192745v2

Peoples Rural Telephone Cooperative
 Case 2016-00044

Exhibit 1, Attachment A

Report Cycle	State	SAC	Study Area Name	Connect America Fund ICC Monthly Support	HCL Monthly Support	ICLS Monthly Support	SNA Monthly Support	Total High Cost Monthly	HCL Quarterly Support
1Q15	KY	260415	PEOPLES RURAL COOP	\$ 158,039	\$ 315,466	\$ 212,961	\$ -	\$ 686,466	\$ 946,398
2Q15	KY	260415	PEOPLES RURAL COOP	\$ 158,039	\$ 321,903	\$ 212,961	\$ -	\$ 692,903	\$ 965,709
3Q15	KY	260415	PEOPLES RURAL COOP	\$ 158,039	\$ 319,675	\$ 215,176	\$ -	\$ 692,890	\$ 959,025
4Q15	KY	260415	PEOPLES RURAL COOP	\$ 158,039	\$ 319,675	\$ 215,176	\$ -	\$ 692,890	\$ 959,025
2015 Total High Cost Loop Support									\$ 3,830,157
1Q16	KY	260415	PEOPLES RURAL COOP	\$ 142,102	\$ 314,576	\$ 215,176	\$ -	\$ 671,854	\$ 943,728
2Q16	KY	260415	PEOPLES RURAL COOP	\$ 142,102	\$ 306,404	\$ 215,176	\$ -	\$ 663,682	\$ 919,212
2016 Annualized Total High Cost Loop Support									\$ 3,725,880

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

REDACTED

Peoples Rural Telephone Cooperative
Case 2016-00044

Exhibit 1, Attachment C

Rate Design Analysis

	Current	Proposed	
Residential Lines	5,505	5,505	
Residential Rate	\$ 16.00	\$ 18.00	
<u>PRTC regulated charges</u>			
Originating access			
Cost to terminate			
Aggregate Monthly losses / cost onsets			\$ 12,745.28
Annualized			\$ 152,943.41
Residential Revenues	\$ 88,080.00	\$ 99,090.00	
Aggregate Revenue Increase			\$ 11,010.00
Annualized			\$ 132,120.00
Net Impact - Annualized			\$ (20,823.41)

Peoples Rural Telephone Coop. Corp., Inc.
Case 2016-00044

Exhibit 2

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

Peoples Rural Telephone Coop. Corp., Inc.
Case 2016-00044

Exhibit 2

Proposed Tariff Pages (To be Filed)

LOCAL EXCHANGE SERVICE

CONTENTS

I.	DESCRIPTION OF OPERATIONS	2
II.	APPLICATION OF RATES	3
III.	LOCAL EXCHANGE RATES AND CHARGES	4
	A. Residence Monthly Local Exchange Access Line Rates	4
	B. Business Monthly Local Exchange Access Line Rates	5
	C. Local Calling Areas	5.1 (N)
IV.	LIFELINE PROGRAM	6
	A. Description of Service	6
	B. Rules and Regulations	6
	C. Rates and Charges	9
V.	TELECOMMUNICATIONS RELAY/TDD	10
VI.	EXCHANGE AREA MAPS	11
	A. McKee Exchange	11
	B. Annville Exchange	11
	C. Sand Gap Exchange	11
	D. Boonville Exchange	11
	Exhibit A	12
	Exhibit B	13
	Exhibit C	14
	Exhibit D	15

Issue Date:

Effective Date: June 1, 2016

Issued by: /s/ Keith Gabbard

Keith Gabbard, Manager

By Authority of Order of the Public Service Commission in
Case No. 2016-00044 dated _____.

LOCAL EXCHANGE SERVICE

III. LOCAL EXCHANGE SERVICE RATES AND CHARGES

1. The rates quoted herein also entitle the subscribers of this exchange to call, without additional charge, subject to usage caps provided for in (2), below, the exchanges listed in Section C of this Tariff.
2. Services are for normal residential and business use, exclusive of autodialing, telemarketing, or other similar services that would generate unusually high volumes of outbound traffic. The Company reserves the right to identify and modify the terms of service to subscribers identified as exceeding typical usage including the introduction of usage caps, if necessary.

(N)

A. Residence Monthly Local Exchange Access Line Rates (1)

(N)

<u>Exchange</u>	<u>NPA/NXX</u>	<u>1-Party</u>
McKee	(606-287)	\$18.00 (I)
Annville	(606-364)	\$18.00 (I)
Sand Gap	(606-965)	\$18.00 (I)
Boonville	(606-593)	\$18.00 (I)

(1) Rates for Access Line Service do not include a charge for an instrument or other customer premises equipment.

Issue Date:

Effective Date: June 1, 2016

Issued by: /s/ Keith Gabbard

Keith Gabbard, Manager

By Authority of Order of the Public Service Commission in
Case No. 2016-00044 dated _____.

LOCAL EXCHANGE SERVICE

III. LOCAL EXCHANGE SERVICE RATES AND CHARGES (continued)

B. Business Monthly Local Exchange Access Line Rates (1)

<u>Exchange</u>	<u>NPA/NXX</u>	<u>1-Party</u>	(D)	<u>PBX</u>	(D)
McKee	(606-287)	\$21.10	(D)	\$34.00	(D)
Annville	(606-364)	\$21.1	(D)	\$34.00	(D)
Sand Gap	(606-965)	\$21.10	(D)	\$34.00	(D)
Boonville	(606-593)	\$21.10	(D)	\$34.00	(D)

(1) Rates for Access Line Service do not include a charge for an instrument or other customer premises equipment.

(D)
|
(D)

Issue Date:

Effective Date: June 1, 2016

Issued by: /s/ Keith Gabbard

Keith Gabbard, Manager

By Authority of Order of the Public Service Commission in
Case No. 2016-00044 dated _____.

LOCAL EXCHANGE SERVICE

III. LOCAL EXCHANGE SERVICE RATES AND CHARGES

C. LOCAL CALLING AREAS

All Company exchanges will receive local calling to the areas listed below:

Annville
Beattyville
Berea
Boonville
Brodhead
Buckhorn
Canoe
Corbin
E. Bernstadt
Hazard
Irvine
Jackson
Kirksville
Leatherwood
Livingston
London
Manchester
McKee
Mt Vernon
Oneida
Richmond
Sand Gap
Vicco
Waco

(N)

(N)

Issue Date:

Effective Date: June 1, 2016

Issued by: /s/ Keith Gabbard
Keith Gabbard, Manager

By Authority of Order of the Public Service Commission in
Case No. 2016-00044 dated _____.

Peoples Rural Telephone Coop. Corp., Inc.
Case 2016-00044

Exhibit 2

Proposed Tariff Pages (with Black Line)

LOCAL EXCHANGE SERVICE

CONTENTS

I.	DESCRIPTION OF OPERATIONS	2
II.	APPLICATION OF RATES	3
III.	LOCAL EXCHANGE RATES AND CHARGES	4
	A. Residence Monthly Local Exchange Access Line Rates	4
	B. Business Monthly Local Exchange Access Line Rates	5
	C. Local Calling Areas	5.1 (N)
IV.	LIFELINE PROGRAM	6
	A. Description of Service	6
	B. Rules and Regulations	6
	C. Rates and Charges	9
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VI.	EXCHANGE AREA MAPS	11
	A. McKee Exchange	11
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	C. Sand Gap Exchange	11
	D. Boonville Exchange	11
	Exhibit A	12
	Exhibit B	13
	Exhibit C	14
	Exhibit D	15

Issue Date: _____

Effective Date: June 1, 2016

Issued by: /s/ Keith Gabbard

Keith Gabbard, Manager

By Authority of Order of the Public Service Commission in
Case No. 2016-00044 dated.

Issued: March 30, 1998

Effective: April 29, 1998

By: Keith Gabbard, Manager

LOCAL EXCHANGE SERVICE

III. LOCAL EXCHANGE SERVICE RATES AND CHARGES

1. The rates quoted herein also entitle the subscribers of this exchange to call, without additional charge, subject to usage caps provided for in (2), below, the exchanges listed in Section C of this Tariff. (N)
2. Services are for normal residential and business use, exclusive of autodialing, telemarketing, or other similar services that would generate unusually high volumes of outbound traffic. The Company reserves the right to identify and modify the terms of service to subscribers identified as exceeding typical usage including the introduction of usage caps, if necessary. (N)

A. Residence Monthly Local Exchange Access Line Rates (1)

<u>Exchange</u>	<u>NPA/NXX</u>	<u>1-Party</u>
McKee	(606-287)	\$ 16 <u>18</u> .00 (I)
Annville	(606-364)	\$ 16 <u>18</u> .00 (I)
Sand Gap	(606-965)	\$ 16 <u>18</u> .00 (I)
Boonville	(606-593)	\$ 16 <u>18</u> .00 (I)

(1) Rates for Access Line Service do not include a charge for an instrument or other customer premises equipment.

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

Issued by: /s/ Keith Gabbard
Keith Gabbard, Manager

By Authority of Order of the Public Service Commission in
Case No. 20142016-00305044 dated ~~November 26, 2014~~.

LOCAL EXCHANGE SERVICE

III. LOCAL EXCHANGE SERVICE RATES AND CHARGES (continued)

B. Business Monthly Local Exchange Access Line Rates (1)

<u>Exchange</u>	<u>NPA/NXX</u>	<u>1-Party</u>	<u>Rotary(2)</u>	<u>PBX</u>	<u>PBX-Rotary (3)</u>
McKee	(606-287)	\$21.10	\$18.00(D)	\$34.00	\$31.50(D)
Annville	(606-364)	\$21.1	\$18.00(D)	\$34.00	\$31.50(D)
Sand Gap	(606-965)	\$21.10	\$18.00(D)	\$34.00	\$31.50(D)
Boonville	(606-593)	\$21.10	\$18.00(D)	\$34.00	\$31.50(D)

(1) Rates for Access Line Service do not include a charge for an instrument or other customer premises equipment.

(D)

(2) ~~As of the effective date of this tariff sheet, subscription to Tone Dialing is mandatory for subscription to new service or moves of existing service to new locations. The rate for Tone Dialing is thus included in the rate for basic local service.~~

(3) ~~Only applicable to existing customers with rotary dial service as of the effective date of this tariff sheet.~~

(D)

Issue Date: _____

Effective Date: June 1, 2016

Issued by: /s/ Keith Gabbard

Keith Gabbard, Manager

By Authority of Order of the Public Service Commission in
Case No. 2016-00044 dated _____,

Issued: March 30, 1998

Effective: April 29, 1998

By: Keith Gabbard, Manager

LOCAL EXCHANGE SERVICE

III. LOCAL EXCHANGE SERVICE RATES AND CHARGES

C. LOCAL CALLING AREAS

(N)

All Company exchanges will receive local calling to the areas listed below:

Annville
Beattyville
Berea
Boonville
Brodhead
Buckhorn
Canoe
Corbin
E. Bernstadt
Hazard
Irvine
Jackson
Kirksville
Leatherwood
Livingston
London
Manchester
McKee
Mt Vernon
Oneida
Richmond
Sand Gap
Vicco
Waco

(N)

Issue Date: _____

Effective Date: June 1, 2016

Issued by: /s/ Keith Gabbard
Keith Gabbard, Manager

By Authority of Order of the Public Service Commission in
Case No. 2016-00044 dated _____.

CUSTOMER NOTICE AFFIDAVIT


AFFIDAVIT

I, Keith Gabbard, am a representative of Peoples Rural Telephone Coop. 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 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: May 20th 2016

On or around March 1st, Peoples Rural Telephone Coop. Corp, Inc. has or will file with the KY Public Service Commission a change in basic local service rates charged to its subscribers due to a Federal Communication Commission mandate. With this change, residential 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 bill increase for residential subscribers will be 3.3%. Because we are greatly expanding our free calling areas, however, for many of our members, there may be a rate reduction based on where they call.

With this change, calls to the eight counties adjacent to our service area will become local calls. You will enjoy free calling to Rockcastle, Lee, Breathitt, Estill, Madison, Laurel, Perry, and Clay Counties.

The need to modify basic service rates 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 have no choice but to request this rate modification.

You may examine this application at the offices of Peoples Rural Telephone Coop. Corp, Inc. located at 1080 Main Street South, McKee, KY 40447 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.



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

January 12, 2016

Dear Mr. Derouen:

Peoples Rural Telephone Cooperative ("PRTC") 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 PRTC 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 PRTC 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 606-287-7101 or Keith.Gabbard@prtc.org.

Sincerely,

A handwritten signature in black ink, appearing to read "Keith Gabbard", is written over a light blue horizontal line.

Keith Gabbard, CEO/General Manager

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

¹ Paragraph 80.

General Manager: Keith Gabbard

P.O. Box 159 U.S. Highway 421 McKee, Kentucky 40447

McKee: (606) 287-7101 Booneville: (606) 593-5000

Fax: (606) 287-8332 Email: prtc@prtcnet.org

Eileen Bodamer

From: Kay Vickers <Kay.Vickers@prtc.org>
Sent: Tuesday, January 12, 2016 12:33 PM
To: rateintervention@ag.ky.gov
Cc: wjstevens@ky.gov; Eileen Bodamer
Subject: Notice of Intent 2016
Attachments: image2016-01-12-122139.pdf

Kay Vickers, Executive Assistant

Peoples Rural Telephone Cooperative
P O Box 159
Mc Kee, Ky 40447
(606) 287-5402
kay.vickers@prtc.org



According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 5833. The time required to complete this information collection is estimated to average 3 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

USDA-RUS FINANCIAL AND STATISTICAL REPORT FOR BROADBAND BORROWERS	This data will be used by RUS to review your financial situation. Your response is required by 7 U.S.C. 901 et seq. and, subject to federal laws and regulations regarding confidential information, will be treated as confidential.	
	BORROWER NAME PEOPLES RURAL TELEPHONE COOPERATIVE CORPORATION, INC	
	ADDRESS MC KEE, Kentucky	
INSTRUCTIONS-Submit report to RUS within 15 days after close of the period	PERIOD ENDING December, 2015	BORROWER DESIGNATION KY1110
CERTIFICATION		
We hereby certify that: 1. 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, and 2. we have fulfilled our obligations under the Loan Documents throughout the year in all material respects.		
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.		
<input checked="" type="checkbox"/> All of the obligations under the RUS loan documents have been fulfilled in all material respects.	<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 notes section of this report.	
Keith Gabbard	01/28/2016 DATE	

PART A. BALANCE SHEET			
ASSETS	BALANCE END OF PERIOD	LIABILITIES AND STOCKHOLDERS' EQUITY	BALANCE END OF PERIOD
CURRENT ASSETS		CURRENT LIABILITIES	
1. Cash and Equivalents	8,494,159	16. Accounts Payable	1,342,794
2. Cash-RUS Construction Fund	384,802	17. Notes Payable	
3. Accounts Receivable	390,429	18. Current Mat. L/T Debt - RLIS	3,840,415
4. Notes Receivable		19. Current Mat. UT Debt-Other	
5. Materials and Inventory	754,030	20. Current Mat.-Capital Leases	
6. Other Current Assets	17,243	21. Other Current Liabilities	
Total Current		Total Current	
7. Assets (1 thru 6)	10,040,663	22. Liabilities (16 thru 21)	5,183,209
NONCURRENT ASSETS		LONG-TERM DEBT	
8. Investment in Affiliated Companies	25,241,058	23. Funded Debt-RUS Notes	14,057,380
9. Other Noncurrent Assets	1,526,403	24. Funded Debt-RTB Notes	
PLANT, PROPERTY, AND EQUIPMENT		25. Funded Debt-FFB Notes	
10. Telecom. Plant-in-Service	77,304,357	26. Funded Debt-Other	
		Total Long-Term	
11. Plant Under Construction	383,398	27. Debt (23 thru 26)	14,057,380
12. Plant Adj., Nonop. Plant, & Goodwill		OTHER LIAB. & DEF. CREDITS	
13. Less Accumulated Depreciation	36,729,279	28. Other Long-Term Liabilities	8,913,068
Net Plant		EQUITY	
14. (10 thru 12 less 13)	40,958,476	29. Cap. Stock Outstand. & Subscribed	
		30. Additional Paid-in-Capital	
		31. Membership and Cap. Certificates	214,740
		32. Patronage Capital Credits	43,388,322
		33. Retained Earnings or Margins	6,009,881
		34. Total Equity (29 thru 34)	49,612,943
TOTAL ASSETS		TOTAL LIABILITIES AND	
15. (7+8+9+14)	77,766,600	35. EQUITY (22+27+28+34)	77,766,600

Total Equity = 63.8 % of Total Assets

USDA-RUS		BORROWER DESIGNATION
FINANCIAL AND STATISTICAL REPORT FOR BROADBAND BORROWERS		KY1110
		PERIOD ENDING December, 2015
PART B. STATEMENTS OF INCOME AND RETAINED EARNINGS OR MARGINS		
ITEM	YEAR-TO-DATE	
1 Local Network Services Revenues		
a Voice		1,968,001
b Video		
c Internet		
i Broadband		3,646,469
ii Other		
2 Network Access Services and Long Distance Revenues		10,926,331
3 Miscellaneous Revenues		194,577
4 Other Operating Income		
5 Uncollectible Revenues		44,936
6. Net Operating Revenues (11 thru 4 less 5)		16,690,442
7 Plant Specific Operations Expense		3,715,959
8 Plant Nonspecific Operations Expense (Excluding Depreciation & Amortization)		1,465,379
9 Customer Operations Expense		1,077,003
10 Corporate Operations Expense		1,592,239
11 Other Operating Expenses		
12. Total Operating Expenses (7 thru 11)		7,850,580
13 Operating Income or Margins (6 less 12)		8,839,862
14 Nonoperating/Nonregulated Net Income		3,702,841
15. EBIDTA (13 + 14)		12,542,703
16 Depreciation Expense		3,997,993
17 Amortization Expense		
18. EBIT (15 - 16 - 17)		8,544,710
19 Interest on Funded Debt		640,505
20 Other Interest Expense		
21 Taxes		
a Property		658,560
b Income		1,235,764
22. Total Net Income or Margins (18-19-20-21)		6,009,881
23 Dividends Declared (Common)		
24 Dividends Paid		
25 Transfers to Patronage Capital		
26 Principal Payments on Long Term Debt and Capital Leases		3,840,415
27 TIER (19 + 20 + 22) / (19 + 20)		10.38

Kentucky 514
Peoples Rural Telephone
Cooperative Corporation
McKee, Kentucky
Audited Financial Statements
December 31, 2014 and 2013

Alan M. Zumstein
Certified Public Accountant
1032 Chetford Drive
Lexington, Kentucky 40509

CONTENTS

Independent Auditors' Report	1 - 2
Consolidated Financial Statements:	
Balance Sheets	3
Statements of Revenue and Comprehensive Income	4
Statements of Changes in Member's Equities	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 13
Additional Consolidating Information:	
Balance Sheet	14
Statement of Revenue and Comprehensive Income	15
Supplementary Information	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	16 - 17
Independent Auditor's Report on Compliance with Aspects of Contractual Agreements and Regulatory Requirements for Telephone Borrowers	18 - 19

ALAN M. ZUMSTEIN
CERTIFIED PUBLIC ACCOUNTANT

1032 CHETFORD DRIVE
LEXINGTON, KENTUCKY 40509
(859) 264-7147
zumstein@windstream.net

MEMBER
• AMERICAN INSTITUTE OF CPA'S
• KENTUCKY SOCIETY OF CPA'S
• INDIANA SOCIETY OF CPA'S
• AICPA DIVISION FOR FIRMS

Independent Auditor's Report

To the Board of Directors
Peoples Rural Telephone Cooperative

Report on the Financial Statements

I have audited the accompanying financial statements of Peoples Rural Telephone Cooperative and Subsidiary, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of revenue and comprehensive income, changes in equities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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

My responsibility is to express an opinion on these financial statements based on my audits. I did not audit the financial statements of East Kentucky Network, LLC. As discussed in Note 2, these financial statements account for an investment in East Kentucky Network, LLC under the equity method. The investment was \$21,074,941 and \$20,587,861 at December 31, 2014 and 2013 respectively, and the equity in its net margins was \$1,498,639 and \$2,119,214 for the years then ended. The financial statements of East Kentucky Network, LLC were audited by other auditors, whose report has been furnished to me, and my opinion, insofar as it relates to amounts for East Kentucky Network, LLC is based solely on the report of the other auditors. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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, I 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.

To the Board of Directors
Peoples Rural Telephone Cooperative - 2

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Peoples Rural Telephone Cooperative and Subsidiary as of December 31, 2014 and 2013, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued a report dated January 29, 2015, on my consideration of Peoples Rural Telephone Cooperative's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 internal control over financial reporting and compliance.

Report on Supplemental Information

My audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the consolidated financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Alan M. Zumstein

Alan M. Zumstein, CPA
January 29, 2015

Peoples Rural Telephone Cooperative Corporation and Subsidiary
Consolidated Balance Sheets, December 31, 2014 and 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash and cash equivalents	\$ 2,551,048	\$ 2,349,929
Accounts receivable, less allowance for 2014 of \$118,857 and 2013 of \$43,460	103,270	236,163
Other receivables, connecting companies	129,103	72,176
Materials and supplies, at average cost	792,483	1,200,470
Prepaid insurance	2,047	127,914
	<u>3,577,951</u>	<u>3,986,652</u>
Other Assets:		
Marketable securities	5,367,081	5,211,341
Associated organizations	21,074,716	20,587,636
Nonregulated property	2,034,210	1,670,715
	<u>28,476,007</u>	<u>27,469,692</u>
Telecommunications Plant, at original cost:		
In service	73,992,867	74,836,241
Under construction	281,261	2,009,796
	<u>74,274,128</u>	<u>76,846,037</u>
Less accumulated depreciation	33,641,987	31,025,807
	<u>40,632,141</u>	<u>45,820,230</u>
Total	\$ 72,686,099	\$ 77,276,574
<u>Liabilities and Members' Equities</u>		
Current Liabilities:		
Accounts payable	\$ 416,293	\$ 2,284,619
Current portion of long term debt	1,535,000	3,500,000
Advance billings	458,837	434,602
Other current and accrued liabilities	1,018,932	571,259
	<u>3,429,062</u>	<u>6,790,480</u>
Long Term Debt	17,415,069	18,762,960
Accrued Postretirement Benefits	8,606,273	8,250,246
Members' Equities:		
Memberships and capital investment	212,781	211,051
Patronage capital	47,035,126	47,797,571
Donated capital	1,263,919	1,153,197
Accumulated other comprehensive income	(5,276,131)	(5,688,931)
	<u>43,235,695</u>	<u>43,472,888</u>
Total	\$ 72,686,099	\$ 77,276,574

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

Consolidated Statements of Revenue and Comprehensive Income
for the years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Revenue:		
Local network services	\$ 4,789,712	\$ 4,524,422
Network access services	9,964,985	9,926,781
Carrier billing and collection	288,860	184,061
Basic cable revenues	-	75,996
Premium cable revenues	-	7,776
Miscellaneous	117,449	431,481
Less provision for uncollectibles	<u>(66,421)</u>	<u>(97,980)</u>
	<u>15,094,585</u>	<u>15,052,537</u>
Operating Expenses:		
Plant specific operations	3,969,315	4,112,310
Plant nonspecific operations	1,334,519	1,111,194
Depreciation	3,871,122	3,303,006
Programming costs	-	65,457
Customer operations	1,073,824	1,032,891
Corporate operations	1,635,991	1,500,731
Taxes, other than income	<u>860,573</u>	<u>711,187</u>
	<u>12,745,344</u>	<u>11,836,776</u>
Operating margins	<u>2,349,241</u>	<u>3,215,761</u>
Nonoperating Margins		
Other income, principally interest	118,597	88,024
Income (loss) from limited liability companies	1,498,639	2,119,213
Non regulated net income	<u>(3,699,347)</u>	<u>(337,232)</u>
	<u>(2,082,111)</u>	<u>1,870,005</u>
Margins available for fixed charges	267,130	5,085,766
Fixed Charges:		
Interest on long-term debt	<u>691,002</u>	<u>849,114</u>
Provision for income taxes	<u>(92,598)</u>	<u>606,796</u>
Net margins	(331,274)	3,629,856
Comprehensive Income:		
Postretirement benefits	<u>412,800</u>	<u>(2,418,372)</u>
Net Comprehensive Income	<u>\$ 81,526</u>	<u>\$ 1,211,484</u>

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

Statements of Stockholder's and Member's Equities
for the years ended December 31, 2013 and 2014

	<u>Memberships</u>	<u>Patronage Capital</u>	<u>Other Equities</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Members' Equity</u>
Balance - Beginning of year	\$ 208,191	\$ 44,542,146	\$ 1,022,994	\$ (3,270,559)	\$ 42,502,772
Comprehensive income:					
Net income		3,629,856			3,629,856
Amortization				345,000	345,000
Adjust postretirement benefits				(2,763,372)	(2,763,372)
Total comprehensive income					1,211,484
Patronage refund		(374,431)			(374,431)
Other equities			130,203		130,203
Memberships, net	2,860				2,860
Balance - December 31, 2013	211,051	47,797,571	1,153,197	(5,688,931)	43,472,888
Comprehensive income:					
Net income		(331,274)			(331,274)
Amortization				3,176,172	3,176,172
Adjust postretirement benefits				(2,763,372)	(2,763,372)
Total comprehensive income					81,526
Patronage refund		(431,171)			(431,171)
Other equities			110,722		110,722
Memberships, net	1,730				1,730
Balance - December 31, 2014	\$ 212,781	\$ 47,035,126	\$ 1,263,919	\$ (5,276,131)	\$ 43,235,695

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

Consolidated Statements of Cash Flows
for the years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Net margins	\$ (331,274)	\$ 3,629,856
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	3,871,122	3,303,006
Net loss (profit) in limited liability companies	(1,498,639)	(2,119,213)
Accumulated postretirement benefits	893,827	626,510
Net change in current assets and liabilities:		
Receivables	(103,858)	(1,767,625)
Material and supplies	407,987	8,123
Prepayments	125,867	21,946
Payables	(1,688,502)	3,132,676
Advance billings	24,235	17,850
Accrued expenses	447,673	(167,782)
	<u>2,148,438</u>	<u>6,685,347</u>
Cash Flows from Investing Activities:		
Construction of plant	(1,776,160)	(6,728,669)
Salvage, net of removals	3,093,127	(68,547)
Marketable securities	(155,740)	(133,763)
Associated organizations	1,011,559	1,231,439
Nonregulated property	(363,495)	(282,572)
	<u>1,809,291</u>	<u>(5,982,112)</u>
Cash Flows from Financing Activities:		
Advances of long term debt	1,277,749	3,317,843
Payments on long term debt	(4,590,640)	(4,343,127)
Fund postretirement benefits	(125,000)	(125,000)
Memberships and capital investments	1,730	2,860
Retirements of capital credits	(431,171)	(374,431)
Increase in donated capital	110,722	130,203
	<u>(3,756,610)</u>	<u>(1,391,652)</u>
Net increase in cash balances	201,119	(688,417)
Cash and cash equivalents - beginning of period	<u>2,349,929</u>	<u>3,038,346</u>
Cash and cash equivalents - end of period	<u>\$ 2,551,048</u>	<u>\$ 2,349,929</u>
Supplemental disclosures of cash flows information:		
Interest on long-term debt	\$ 691,148	\$ 847,561

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

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Peoples Rural Telephone Cooperative (the "Cooperative") maintains its records in accordance with policies prescribed or permitted by the Kentucky Public Service Commission ("PSC") and the United States Department of Agriculture, Rural Utilities Service ("RUS") Uniform System of Accounts, which conform in all material respects with generally accepted accounting principles in all material respects. The more significant of these policies are as follows:

Principles of Consolidation The consolidated financial statements include the accounts of the Cooperative and its wholly-owned subsidiary, Peoples Telecom, LLC ("Peoples Telecom"). All significant inter-company accounts and transactions have been eliminated.

Nature of Business The Cooperative is constructing an expanded services network. This network establishes the Cooperative as a full service network ("FSN") provider allowing it to provide expanded video services with over 200 channels, high definition television and Video on Demand. It is also able to provide high speed internet and virtual private networks which will allow it to provide voice on internet protocol ("VoIP"). This is accomplished through Fiber to the Home ("FTTH") technology.

Cash and Cash Equivalents The Cooperative considers all short-term, highly liquid investments with original maturities of three months or less to be cash equivalents.

Off Balance Sheet Risk The Corporation has off-balance sheet risk in that they maintain cash deposits in financial institutions in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2014, the financial institutions reported deposits in excess of the \$250,000 FDIC insured limit on several of the accounts. Deposits and repurchase agreements in excess of the FDIC limits are 100% secured with collateral from each respective financial institution.

Telecommunications Revenue Recognition Revenues are recognized when earned regardless of the period in which they are billed. Bills are sent to customers on credit approximately the 1st of the month with local service being billed a month in advance of service. Sales are concentrated in portions of two southeastern Kentucky counties. Payments are due 15 days from the date of billing. If payment has not been made, then customers are subject to disconnect in another 15 days. The allowance for uncollectible accounts is based on the aging of accounts receivable. Accounts are written off when they are deemed to be uncollectible. There were no customers whose individual account balance exceeded 10% of outstanding accounts receivable at December 31, 2014 or 2013. The number of customers are as follows:

	<u>2014</u>	<u>2013</u>
Access lines	6,830	7,087
Total number of customers	6,445	6,666
Telephone customers	6,132	6,348
Broadband customers	4,011	3,992
Cable television customers	3,785	3,829

Interstate revenues are recognized on the cost basis recovery method. Compensation for intrastate/interlata service is received through tariffed access charges as filed with the FCC. These access charges are billed to the interlata long distance carrier and retained by the Cooperative.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies, continued

CATV Revenue Recognition CATV revenue is recognized when earned regardless of the period in which they are billed. Cable transmission is purchased from networks at various amounts based on the number of customers receiving the service. Sales are concentrated in two southeastern Kentucky counties. There were no customers whose individual account balance exceeded 10% of outstanding accounts receivable at December 31, 2014 and 2013. As customers are being connected through FTTH, they become customers of Peoples Telephone. During 2014 all customers were transferred to FTTH.

Sales Taxes Peoples Telephone and Peoples Telecom are required to collect, on behalf of the State of Kentucky, sales taxes based on 6 percent of gross sales from customers and a 3 percent school tax from certain counties on most gross sales. Peoples Telephone and Peoples Telecom's policy is to exclude sales tax from revenue when collected and expenses when paid and instead, record collection and payment of sales taxes through a liability account.

Fair Value Measurements The Fair Value Measurements and Disclosures Topic of the FASB ASC 820, *Fair Value Measurements and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal, or most advantageous, market for the asset or liability in an orderly transaction between market participants at the measurement date. The Fair Values Measurements Topic establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs when possible. The three levels of inputs used to measure fair value are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities

Level 2: Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3: Prices or valuations that require inputs that are both significant to the fair value measure and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The carrying amounts of the Cooperative's cash and cash equivalents, other receivables, investments, inventories, other assets, trade accounts payable, accrued expenses and liabilities, and other liabilities approximate fair value due to their short maturity. Investments in associated organizations are not considered a financial instrument because they represent nontransferable interests in associated organizations. Other assets and liabilities are not considered financial instruments because they represent activities specifically related to the Cooperative. Long term debt can not be traded in the market, and is specifically for telecommunication cooperatives and, therefore, a value other than its outstanding principal cannot be determined.

The Cooperative may, and also does, invest idle funds in local banks money market accounts and CD's. The inputs used to measure idle funds are Level 1 measurements, as these funds are exchange traded funds in an active market.

Advertising Advertising costs are expensed as incurred.

Comprehensive Income Comprehensive income includes both net margin and other comprehensive income. Other comprehensive income represents the change in funded status of postretirement benefits.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies, continued

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

Telecommunications and CATV Plant Telecommunications and CATV plant are stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. Interest capitalized during the year was \$53,326 for 2014 and \$75,464 for 2013.

Any difference between the purchase price of existing CATV plant facilities and cost when first dedicated to public service is recorded as an acquisition adjustment and are being amortized over a period of 15 years.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expenses. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation. The major classification of plant in service is:

	<u>2014</u>	<u>2013</u>
Telecommunications Plant:		
General support	\$12,912,034	\$12,327,111
Central office switching	1,926,900	1,916,531
Central office transmission	12,946,890	11,658,332
Cable and wire facilities	45,020,944	43,880,495
Intangibles	5,844	5,844
	<u>72,812,612</u>	<u>69,788,313</u>
CATV Plant:		
Distribution and headend plant	1,180,255	4,401,716
General support	-	38,212
Intangibles	-	608,000
	<u>1,180,255</u>	<u>5,047,928</u>
Total	<u>\$73,992,867</u>	<u>\$74,836,241</u>

Depreciation Provision has been made for depreciation on the basis of estimated lives of assets, using the straight-line method. Rates are as follows:

	<u>Telephone</u>	<u>Telecom</u>
General support	2.7%-15.8%	20.0%
Central office switching	7.5%	
Central office transmission	10.0%	
Cable and wire facilities	5.1%-9.4%	5.0%-10.0%

Risk Management The Cooperative is exposed to various forms of losses of assets associated with, but not limited to, fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, workers compensation, etc. Each of these areas is covered through the purchase of commercial insurance.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies, continued

Income Taxes The Cooperative is exempt from federal and state income taxes under IRS Code Section 501(c)(12). Certain unrelated business activities are subject to federal income taxes.

Peoples Telecom is a limited liability company that is taxed as a partnership for federal and state income tax purposes.

Effective January 1, 2008, the Cooperative adopted the provisions of the Income Taxes Topic of the FASB ASC that pertains to accounting for uncertainty in income taxes. The Cooperative had no prior unrecognized tax benefits as a result of the implementation. Management evaluates its potential exposures from tax positions taken that have or could be challenged by taxing authorities. These potential exposures result because taxing authorities may take positions that differ from those taken by management in the interpretation and application of statutes, regulations, and rules. There are no tax positions for which the ultimate deductibility is highly uncertain included in the accompanying financial statements. The Cooperative recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Cooperative did not recognize any interest or penalties during the years ended December 31, 2014 or 2013. The Cooperative's income tax return is subject to possible examination by taxing authorities until the expiration of related statutes of limitations on the return, which is generally three years.

Significant Event During 2014 all the CATV plant that was purchased through Peoples Telecom was abandoned as customers were all transferred to FTTH. This resulted in a loss on the disposal of those assets of approximately \$3 million.

Subsequent Events Management has evaluated subsequent events through January 23, 2015, the date the financial statements were available to be issued. During the next three (3) years, Peoples Telephone anticipates that it will remove approximately 70% of its existing copper plant. The retired plant should be fully-depreciated at the time it is removed.

Note 2. Investments

The amounts for East Kentucky Network, LLC represents the Cooperative's investment in a limited liability corporation with other telephone companies in eastern Kentucky for the purpose of providing cellular telephone, paging, and other services. The investment is accounted for using the equity method since the Cooperative is a one-fifth owner.

Note 3. Non Regulated Activities

Deregulated customer premises equipment is stated at cost; material held for lease or resale is stated at average cost. CPE also includes inside wire revenues and expenses. Depreciation is provided on a straight-line basis at 11.9% per year.

The Cooperative provides long distance telephone service under the name of Peoples Long Distance (PLD). PLD revenues are billed and collected through Peoples Telephone. A monthly fee is recorded based on telephone usage. PLD purchases minutes of long distance to resell to its customers from an unrelated party.

Non regulated investments also include amounts that the Cooperative has invested to provide internet services to its customers. The Cooperative pays an unrelated party for the help desk and access to the internet system.

Notes to Financial Statements

Note 3. Non Regulated Activities, continued

The following is a summary of non-regulated activities:

	<u>Income</u>	<u>Expenses</u>	<u>Net</u>
Customer premises equipment	\$238,471	\$634,186	(\$395,715)
Internet activities	9,269	193,186	(183,917)
Long distance services	829,070	1,564,221	(735,151)
Fiber to the Home [FTTH]	3,002,806	2,559,523	443,283
Total - 2014	<u>\$4,079,616</u>	<u>\$4,951,116</u>	<u>(\$871,500)</u>

	<u>Income</u>	<u>Expenses</u>	<u>Net</u>
Customer premises equipment	\$538,200	\$586,001	(\$47,801)
Internet activities	6,301	131,841	(125,540)
Long distance services	558,641	1,153,307	(594,666)
Fiber to the Home [FTTH]	1,575,243	1,144,468	430,775
Total - 2013	<u>\$2,678,385</u>	<u>\$3,015,617</u>	<u>(\$337,232)</u>

Note 4. Long Term Debt

All telecommunications assets, except motor vehicles, are pledged as collateral on the long term debt due RUS and Rural Telephone Bank (RTB). Long term debt is as follows:

	<u>2014</u>	<u>2013</u>
Telecommunications loans:		
RUS, 1.945 - 4.234%	\$11,929,521	\$14,507,860
RUS Broadband loan 2.2287% - 4.3994%	7,020,548	6,637,198
RTB, 5% - 5.84%	-	1,117,902
	<u>18,950,069</u>	<u>22,262,960</u>
Less current portion	<u>1,535,000</u>	<u>3,500,000</u>
Long term portion	<u>\$15,450,069</u>	<u>\$18,762,960</u>

The long term debt payable to RUS is due in monthly installments of various amounts through 2032. Unadvanced loan funds of \$5,192,420 for plant additions, were available from RUS at December 31, 2014. These funds will be used for the FTTH project as described earlier.

Principal payments for the next five years are as follows: 2015 - \$1,535,000; 2016 - \$1,640,000; 2017 - \$1,690,000; 2018 - \$1,745,000; 2019 - \$1,500,000. The Cooperative expects to make an additional principal payment during 2015 of approximately \$500,000.

Notes to Financial Statements

Note 5. Patronage Capital

The long term debt agreement contains restrictions on the return to patrons of capital contributed by them. The restrictions relate in general to the Cooperative's net worth and assets, as defined. The net worth of the Cooperative at December 31, 2014, was 56%.

Patronage capital consisted of:

	<u>2014</u>	<u>2013</u>
Assigned	\$30,188,049	\$28,824,857
Assignable	(331,274)	3,629,856
Unassigned	29,482,828	27,216,164
Retirements to date	<u>(12,304,477)</u>	<u>(11,873,306)</u>
Total	<u>\$47,035,126</u>	<u>\$47,797,571</u>

Note 6. Pension Plan

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

The Corporation's contributions to the R&S Plan in 2014 and 2013 represent less than 5 percent of the total contributions made to the plan by all participating employers. The Corporation made contributions to the plan of \$363,396 in 2014 and \$356,125 in 2013. There have been no significant changes that affect the comparability of 2014 and 2013.

In the R&S Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act ("PPA") of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the R&S Plan was between 65 percent and 80 percent funded at January 1, 2014 and 2013 based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the R&S Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

Note 7. Accumulated Postretirement Benefits

The Cooperative sponsors a defined benefit plan that provides medical insurance coverage to retirees and their dependents. The eligibility and participating cost of coverage for retirees and dependents is based on age, years of service, and employment date.

For measurement purposes, an 8.5% annual rate of increase, decreasing by 0.5% per year until 5.5% per year, in the per capita cost of covered health care benefits was assumed. The discount rate used in determining the accumulated benefit obligation was 4.5% for 2014 and 4.5% for 2013.

Notes to Financial Statements

Note 8. Accumulated Postretirement Benefits, continued

The funded status of the plan was as follows:

	<u>2014</u>	<u>2013</u>
Projected benefit obligation	(\$10,913,900)	(\$10,374,566)
Plan assets at fair value	<u>2,307,627</u>	<u>2,124,320</u>
Funded status	<u>(\$8,606,273)</u>	<u>(\$8,250,246)</u>

The components of net periodic postretirement benefit costs are as follows:

	<u>2014</u>	<u>2013</u>
Benefit obligation at beginning of year	<u>\$8,250,246</u>	<u>\$5,330,364</u>
Components of net periodic benefit cost:		
Service cost	334,011	206,333
Interest cost	488,004	458,482
Expected return on assets	<u>(136,815)</u>	<u>(136,815)</u>
Net periodic benefit cost	685,200	528,000
Adjustment	0	2,763,373
Benefits paid	(204,173)	(246,491)
Contributions to plan	<u>(125,000)</u>	<u>(125,000)</u>
Benefit obligation at end of year	<u>\$8,606,273</u>	<u>\$8,250,246</u>

The projected retiree benefit payments are expected to be as follows: 2015 - \$267,000; 2016 - \$262,000; 2017 - \$258,000; 2018 - \$267,000; 2019 - \$270,000.

Note 9. Commitments

The Cooperative has various agreements outstanding with local contractors. Under these agreements, the contractors will perform certain construction, maintenance, and other work at specified hourly rates or unit cost, or on an as needed basis. The duration of these contracts are one to three years.

Note 10. Significant Event

The Cooperative was awarded a Broadband Initiatives Program ("BIP") Grant from the United States of America through the Department of Agriculture, Rural Utilities Service ("RUS"). The project would provide access to broadband internet service to the counties served in southeastern Kentucky. The total project cost is \$25,514,182, of which \$17,859,928 is in the form of a grant. The remaining funds must be secured with RUS debt. The Cooperative started the project during the last quarter of 2010. The Grant required that the project be completed within three (3) years from the date of the Grant; however, RUS granted a two (2) year extension to June 2015.

Note 11. Contingencies

The Cooperative, occasionally, is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

* * * * *

Peoples Rural Telephone Cooperative
and Subsidiary
Consolidating Balance Sheet, December 31, 2014

<u>Assets</u>	<u>Telephone</u>	<u>Telecom</u>	<u>Eliminations</u>	<u>Consolidated</u>
Current Assets:				
Cash and cash equivalents	\$ 2,485,092	\$ 65,956		\$ 2,551,048
Accounts receivable, less allowance for Telephone of \$118,857	103,270			103,270
Other receivables, connecting companies	1,442,835		(1,313,732)	129,103
Material and supplies, at average cost	792,483			792,483
Prepayments	2,047			2,047
	<u>4,825,727</u>	<u>65,956</u>	<u>(1,313,732)</u>	<u>3,577,951</u>
Other Assets:				
Marketable securities	5,367,081			5,367,081
Associated organizations	20,938,312		136,404	21,074,716
Nonregulated	2,034,210			2,034,210
	<u>28,339,603</u>		<u>136,404</u>	<u>28,476,007</u>
Utility Plant, at original cost:				
In service	72,812,612	1,180,255		73,992,867
Under construction	281,261			281,261
	<u>73,093,873</u>	<u>1,180,255</u>		<u>74,274,128</u>
Less accumulated depreciation	<u>33,574,202</u>	<u>67,785</u>		<u>33,641,987</u>
	<u>39,519,671</u>	<u>1,112,470</u>		<u>40,632,141</u>
Total	\$ 72,685,001	\$ 1,178,426	\$ (1,177,328)	\$ 72,686,099
<u>Member's Equities and Liabilities</u>				
Current Liabilities:				
Accounts payable	\$ 415,195	\$ 1,314,830	\$ (1,313,732)	\$ 416,293
Current portion of long term debt	1,535,000			1,535,000
Advance billings	458,837			458,837
Accrued expenses	1,018,932			1,018,932
	<u>3,427,964</u>	<u>1,314,830</u>	<u>(1,313,732)</u>	<u>3,429,062</u>
Long Term Debt	<u>17,415,069</u>			<u>17,415,069</u>
Accumulated Postretirement Benefits	<u>8,606,273</u>			<u>8,606,273</u>
Members' Equities:				
Memberships and capital investments	212,781	4,589,848	(4,589,848)	212,781
Patronage capital and retained earnings	47,035,126	(4,726,252)	4,726,252	47,035,126
Donated capital	1,263,919			1,263,919
Accumulated comprehensive income	(5,276,131)			(5,276,131)
	<u>43,235,695</u>	<u>(136,404)</u>	<u>136,404</u>	<u>43,235,695</u>
Total	\$ 72,685,001	\$ 1,178,426	\$ (1,177,328)	\$ 72,686,099

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

Consolidating Statements of Revenue and Comprehensive Income
for the year ended December 31, 2014

	<u>Telephone</u>	<u>Telecom</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating Revenues:				
Local network services	\$ 4,789,712			\$ 4,789,712
Network access services	9,964,985			9,964,985
Carrier billing and collection	288,860			288,860
Basic cable revenues				-
Premium cable revenues				-
Miscellaneous	117,264	295,144	(294,959)	117,449
Less provision for uncollectibles	(66,421)			(66,421)
	<u>15,094,400</u>	<u>295,144</u>	<u>(294,959)</u>	<u>15,094,585</u>
Operating Expenses:				
Plant specific operations	3,848,685	120,630		3,969,315
Plant non specific operations	1,334,519			1,334,519
Depreciation	3,803,337	67,785		3,871,122
Programming costs				-
Customer operations	1,073,824		-	1,073,824
Corporate operations	1,612,996	22,995		1,635,991
Taxes, other than income	860,573			860,573
	<u>12,533,934</u>	<u>211,410</u>	<u>-</u>	<u>12,745,344</u>
	<u>2,560,466</u>	<u>83,734</u>	<u>(294,959)</u>	<u>2,349,241</u>
Nonoperating Margins:				
Other income, principally interest	118,597			118,597
Income in limited liability companies	(1,540,433)		3,039,072	1,498,639
Nonregulated net income and other	(871,500)	(3,122,806)	294,959	(3,699,347)
	<u>(2,293,336)</u>	<u>(3,122,806)</u>	<u>3,334,031</u>	<u>(2,082,111)</u>
Margins available for interest charges	<u>267,130</u>	<u>(3,039,072)</u>	<u>3,039,072</u>	<u>267,130</u>
Interest Charges:				
Long term debt	691,002			691,002
Provision for income taxes	(92,598)			(92,598)
Net Margins	(331,274)	(3,039,072)	3,039,072	(331,274)
Items of Comprehensive Income:				
Postretirement benefits	412,800			412,800
Net Comprehensive Income	<u>\$ 81,526</u>	<u>\$ (3,039,072)</u>	<u>\$ 3,039,072</u>	<u>\$ 81,526</u>

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

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

To the Board of Directors
Peoples Rural Telephone Cooperative

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Peoples Rural Telephone Cooperative, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of revenue and comprehensive income, members' equities and cash flows for the years then ended, and related notes to the financial statements, and have issued my report thereon dated January 29, 2015. My report includes a reference to other auditors who audited the financial statements of East Kentucky Network, LLC, as described in my report on Peoples Rural Telephone's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Peoples Rural Telephone's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Peoples Rural Telephone's internal control. Accordingly, we do not express an opinion on the effectiveness of Peoples Rural Telephone's internal control.

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

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors
Peoples Rural Telephone Cooperative - 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Peoples Rural Telephone's financial statements are free of material misstatement, I performed test 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alan Zumstein

Alan M. Zumstein, CPA
January 29, 2015

ALAN M. ZUMSTEIN
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**Independent Auditor's Report on Compliance with Aspects of Contractual
Agreements and Regulatory Requirements for Telephone Borrowers**

Board of Directors
Peoples Rural Telephone Cooperative

Independent Auditor's Report

I 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 Peoples Rural Telephone Cooperative ("the Cooperative"), which comprise the balance sheet as of December 31, 2014, and the related statements of revenue and comprehensive income, patronage capital, and changes in cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated January 29, 2015. In accordance with *Government Auditing Standards*, we have also issued my report dated January 29, 2015, on my consideration of the Cooperative's internal control over financial reporting and on my 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 related to my audit have been furnished to management.

In connection with my audit, nothing came to my attention that caused me to believe that the Cooperative 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, 2015, insofar as they relate to accounting matters as enumerated below. However, my audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had I performed additional procedures, other matters may have come to my attention regarding the Cooperative'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 my audit, I noted no matters regarding the Cooperative's accounting and records to indicate that the Cooperative 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;

Board of Directors
Peoples Rural Telephone Cooperative - 2

- Maintain adequate control over material and supplies;
- Prepare accurate and timely Financial and Operating Reports;
- Obtain written approval of the RUS to enter into any contract, agreement, or lease with an affiliate as defined in part 1773.33 (e)(2)(i);
- Disclose material related party transactions in the financial statements, in accordance with requirements for related parties in generally accepted accounting principles, and;
- Comply with the requirements for the detailed schedule of investments, which are listed below.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The detail of investments is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and related directly to underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peoples Telephone is a one-fifth (1/5) owner of East Kentucky Network, LLC, which provides cellular and other communication services in Eastern Kentucky. The initial investment was \$10,000. The investment is comprised of the following:

	<u>Investment</u>	<u>Profits</u>	<u>Returns</u>
Beginning of year	\$4,294,013	\$25,829,686	(\$9,536,063)
Activity for 2014	-	1,498,639	(1,011,559)
End of year	<u>\$4,294,013</u>	<u>\$27,328,325</u>	<u>(\$10,547,622)</u>

During 2004, Peoples Telephone formed a wholly-owned subsidiary, Peoples Telecom, LLC, which provides cable television services in Peoples Telephone's service territory. The initial investment was \$1,130,000. The investment is comprised of the following:

	<u>Investment</u>	<u>Profits</u>
Beginning of year	\$4,589,848	(\$1,687,180)
Activity for 2014	-	(3,039,072)
End of year	<u>\$4,589,848</u>	<u>(\$4,726,252)</u>

This report is intended solely for the information and use of the board of directors, management, 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 distributions is not limited.

Alan Zumstein

Alan M. Zumstein, CPA
January 29, 2015