

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

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

TABLE OF CONTENTS

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



WILLIAMS WILLIAMS & LENTZ
CERTIFIED PUBLIC ACCOUNTANTS

J. David Bailey, III
Sue Cronch-Greenwell
Roger G. Harris
Michael F. Karnes

Mark A. Thomas
Ashley C. Grooms
Kelly D. Scruggs
Benjamin D. Teer

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Ballard Rural Telephone Cooperative Corporation, Inc. which comprise the balance sheets as of June 30, 2018 and 2017, and the related statements of revenues and expenses, changes in patronage capital, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ballard Rural Telephone Cooperative Corporation, Inc. as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2018, on our consideration of Ballard Rural Telephone Cooperative Corporation, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ballard Rural Telephone Cooperative Corporation, Inc.'s internal control over financial reporting and compliance.

Williams, Williams & Lentz, LLP

Paducah, Kentucky
November 2, 2018



WILLIAMS
WILLIAMS
& LENTZ

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

ASSETS

	<u>2018</u>	<u>2017</u>
Current Assets:		
Cash and cash equivalents	\$ 5,890,014	\$ 5,067,012
Certificate of deposit	3,400,983	801,564
Accounts receivable, less allowance for doubtful accounts of \$22,947 for 2018 and \$1,114 for 2017	123,417	141,700
Materials and supplies, at average cost	1,151,459	1,094,716
Other prepayments	190,867	515,420
 Total current assets	 <u>10,756,740</u>	 <u>7,620,412</u>
Noncurrent Assets:		
Investments in affiliates	10,735,457	9,253,515
Nonregulated investment - net nonregulated customer premises equipment	869,649	1,015,053
Other investments	2,061,451	1,361,015
Prepaid retirement benefits	719,494	727,232
Prepaid postemployment benefits	2,810,262	2,618,919
 Total noncurrent assets	 <u>17,196,313</u>	 <u>14,975,734</u>
Property, Plant, and Equipment:		
Telecommunications plant in service	64,234,349	60,055,072
Telecommunications plant under construction	4,589,047	6,344,153
 Totals	 68,823,396	 66,399,225
Less accumulated depreciation	<u>34,786,661</u>	<u>33,351,078</u>
 Net property, plant, and equipment	 <u>34,036,735</u>	 <u>33,048,147</u>
 TOTAL ASSETS	 <u>\$61,989,788</u>	 <u>\$55,644,293</u>

See notes to financial statements.

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

LIABILITIES AND PATRONAGE CAPITAL

	2018	2017
Current Liabilities:		
Accounts payable	\$ 133,267	\$ 505,858
Customers' deposits	30,862	33,674
Current maturities of long-term debt	2,714,769	2,332,629
Accrued property taxes	383,584	158,863
Accrued income taxes	153,578	-
Other accrued expenses	592,121	536,083
 Total current liabilities	 <u>4,008,181</u>	 <u>3,567,107</u>
 Long-Term Debt:		
Mortgage notes due after one year	<u>26,724,675</u>	<u>23,375,461</u>
 Other Liabilities and Deferred Credits:		
Other deferred credits	5	5
Postemployment benefits liability	1,004,030	1,404,789
 Total other liabilities and deferred credits	 <u>1,004,035</u>	 <u>1,404,794</u>
 Total liabilities	 <u>31,736,891</u>	 <u>28,347,362</u>
 Patronage Capital:		
Memberships	48,314	50,232
Margins	30,204,583	27,246,699
 Total patronage capital	 <u>30,252,897</u>	 <u>27,296,931</u>
 TOTAL LIABILITIES AND PATRONAGE CAPITAL	 <u><u>\$61,989,788</u></u>	 <u><u>\$55,644,293</u></u>

See notes to financial statements.

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

	2018	2017
Operating Revenues:		
Basic local network services	\$ 938,172	\$ 975,340
Network access services	3,101,796	3,241,313
Long distance network services	1,510	1,317
Miscellaneous	1,824,582	1,783,631
Net uncollectible revenues	<u>(30,726)</u>	<u>(3,719)</u>
 Total operating revenues	 <u>5,835,334</u>	 <u>5,997,882</u>
Operating Expenses:		
Plant specific operations	804,043	867,866
Plant nonspecific operations	356,348	139,409
Depreciation and amortization	2,500,970	2,222,260
Customer operations	473,499	424,648
Corporate operations	<u>839,650</u>	<u>1,006,955</u>
 Total operating expenses	 <u>4,974,510</u>	 <u>4,661,138</u>
Operating Taxes:		
Property taxes	473,169	511,287
Other operating tax	<u>66,688</u>	<u>73,682</u>
 Total operating taxes	 <u>539,857</u>	 <u>584,969</u>
 Operating margins	 <u>320,967</u>	 <u>751,775</u>
Nonoperating Margins:		
Nonoperating margins before income taxes	5,954,816	5,955,768
Income taxes	<u>1,665,441</u>	<u>2,000,146</u>
 Nonoperating margins	 <u>4,289,375</u>	 <u>3,955,622</u>
 Operating and nonoperating margins before fixed charges	 4,610,342	 4,707,397
Fixed Charges:		
Interest on long-term debt	<u>628,803</u>	<u>510,149</u>
 Operating and nonoperating margins net of fixed charges	 3,981,539	 4,197,248
 Nonregulated margins - net	 <u>(978,332)</u>	 <u>(1,762,183)</u>
 NET MARGINS	 <u><u>\$3,003,207</u></u>	 <u><u>\$2,435,065</u></u>

See notes to financial statements.

BALLARD RURAL TELEPHONE COOPERATIVE CORPORATION, INC.
STATEMENTS OF CHANGES IN PATRONAGE CAPITAL
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	Memberships	Margins			Total
		Unassigned	Assignable	Assigned	
Balance, June 30, 2016	\$ 51,758	\$ 794,193	\$ 30,961	\$24,012,420	\$24,837,574
Membership issued, net of terminations	(1,526)	-	-	-	-
Net margins for the year ended June 30, 2017	-	2,435,065	-	-	2,435,065
Transfer of patronage capital for the year ended December 31, 2016, to assignable status	-	(2,973,945)	2,973,945	-	-
Assignment of patronage capital for the year ended December 31, 2016	-	-	(2,973,945)	2,973,945	-
Refunds of patronage capital	-	-	-	(25,940)	(25,940)
Balance, June 30, 2017	50,232	255,313	30,961	26,960,425	27,246,699
Membership issued, net of terminations	(1,918)	-	-	-	-
Net margins for the year ended June 30, 2018	-	3,003,207	-	-	3,003,207
Transfer of patronage capital for the year ended December 31, 2017, to assignable status	-	(2,758,461)	2,758,461	-	-
Assignment of patronage capital for the year ended December 31, 2017	-	-	(2,758,461)	2,758,461	-
Refunds of patronage capital	-	-	-	(45,323)	(45,323)
BALANCE, JUNE 30, 2018	\$ 48,314	\$ 500,059	\$ 30,961	\$29,673,563	\$30,204,583

See notes to financial statements.

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

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Net margins	\$3,003,207	\$2,435,065
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation	2,500,970	2,222,260
Decrease (increase) in:		
Accounts receivable	18,283	131,303
Materials and supplies	(56,743)	(134,991)
Other prepayments	324,553	529,109
Prepaid retirement benefits	7,738	(365,324)
Prepaid postretirement benefits	(191,343)	(419,127)
Increase (decrease) in:		
Accounts payable	(372,591)	(165,853)
Customers' deposits	(2,812)	2,536
Accrued property taxes	224,721	(29,559)
Postretirement liability	(400,759)	112,598
Accrued income taxes	153,578	-
Other accrued expenses	56,038	(283,243)
Net cash provided by operating activities	<u>5,264,840</u>	<u>4,034,774</u>
Cash Flows from Investing Activities:		
Salvage recovered from plant retirement	54,930	60,728
Purchases of property and equipment (includes nonregulated equipment)	(3,390,244)	(6,446,628)
Plant removal costs	(8,840)	-
Increase in investments in affiliates	(1,481,942)	(503,595)
Net sales (purchases) of other investments	<u>(3,299,855)</u>	<u>(967,646)</u>
Net cash used by investing activities	<u>(8,125,951)</u>	<u>(7,857,141)</u>
Cash Flows from Financing Activities:		
Proceeds from issuance of long-term debt	6,154,564	7,561,800
Payments on long-term debt	(2,423,210)	(2,154,121)
Issuance of memberships, net of refunds	(1,918)	(1,526)
Refunds of patronage capital	<u>(45,323)</u>	<u>(25,940)</u>
Net cash provided by financing activities	<u>3,684,113</u>	<u>5,380,213</u>
Net increase in cash and cash equivalents	823,002	1,557,846
Cash and cash equivalents at beginning of year	<u>5,067,012</u>	<u>3,509,166</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$5,890,014</u></u>	<u><u>\$5,067,012</u></u>

See notes to financial statements.

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

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

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

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

Property and Equipment

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

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

Depreciation

Provision has been made for depreciation on the basis of estimated lives of assets, using the straight-line method (See Note 6). Depreciation expense for the years ended June 30, 2018 and 2017, totaled \$2,500,970 and \$2,222,260, respectively.

Investments in Affiliates

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

Concentration of Credit Risk

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

Use of Estimates

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

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

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

Postretirement Benefits Other Than Pensions

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

Change in Benefit Obligation:	2018	2017	2016
Accumulated benefit obligation, beginning of year	\$1,404,789	\$ 1,292,191	\$1,147,502
Service cost	22,179	24,765	23,619
Interest cost	41,990	59,119	57,008
Return on assets	(196,718)	(183,324)	(153,985)
Amortization of past service liability	(10,003)	31,784	41,568
Benefits paid	(5,285)	(10,116)	(7,642)
Other adjustments	(252,922)	190,370	184,121
Accumulated benefit obligation, end of year	1,004,030	1,404,789	1,292,191
Prepaid benefits	<u>2,810,262</u>	<u>2,618,919</u>	<u>2,199,792</u>
NET PREPAID BENEFITS, END OF YEAR	<u>\$1,806,232</u>	<u>\$1,214,130</u>	<u>\$ 907,601</u>
Weighted-Average Assumptions:			
Discount rate	4.30%	4.30%	4.50%
Rate of compensation increase	3.00%	3.00%	3.00%
Return on assets	7.00%	7.00%	7.00%

The initial medical inflation rate of 6.5% is anticipated to decline gradually until it reaches a level of 5% by 2022.

Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 2, 2018, the date financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the June 30, 2017 financial statements to make them conform to the June 30, 2018 presentation.

Note 2 - Cash:

At year end, the carrying amount of the Corporation's cash in bank and certificates of deposit was \$11,352,448, and the bank balance was \$11,560,787. As of June 30, 2018, \$5,767,291 of the Corporation's bank balance was covered by FDIC insurance, and the remaining balance of \$5,793,496 was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. Of the remaining balance, \$5,646,148 was uninsured and collateralized with securities held by the pledging bank's agent not in the Corporation's name. The remaining \$147,348 was uninsured and uncollateralized.

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

Note 3 - Investment in Affiliates:

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

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

	<u>2017</u>	<u>2016</u>
Current assets	\$15,016	\$13,755
Noncurrent assets	19,994	19,410
Current liabilities	4,530	4,832
Noncurrent liabilities	5,156	5,105
Revenues	67,915	65,631
Net income	17,096	16,761
Corporation's equity in net income	5,699	5,587

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

	<u>2018</u>	<u>2017</u>
Income from Kentucky RSA Partnership No. 1	\$5,698,605	\$5,586,923
Other nonoperating margins	<u>256,211</u>	<u>368,845</u>
Net nonoperating margins before income taxes	5,954,816	5,955,768
Less income taxes	<u>1,665,441</u>	<u>2,000,146</u>
NET NONOPERATING MARGINS	<u>\$4,289,375</u>	<u>\$3,955,622</u>

Note 4 - Nonregulated Investment:

Nonregulated consumer premises, pay station, and internet equipment are stated at cost. The Corporation provides for depreciation on a straight-line basis at an annual rate of depreciation, which will amortize the cost of the equipment over its estimated useful life.

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

	<u>2018</u>	<u>2017</u>
Nonregulated consumer premises equipment - leased	\$ 123,111	\$ 147,790
Pay stations	-	28,684
Internet equipment	785,186	798,542
Video equipment	3,372,486	4,924,664
Accumulated depreciation	(3,487,618)	(5,152,201)
Nonregulated consumer premises equipment - inventory not in service	<u>76,484</u>	<u>267,574</u>
TOTAL NONREGULATED INVESTMENT	<u>\$ 869,649</u>	<u>\$ 1,015,053</u>

The following annual depreciation rates have been applied for the years ended June 30, 2018 and 2017:

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

(Continued)

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

Note 4 - Nonregulated Investment (Continued):

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

	<u>2018</u>	<u>2017</u>
Income from operations	\$3,486,657	\$ 3,416,827
Expenses	<u>4,464,989</u>	<u>5,179,010</u>
 NET MARGINS FROM NONREGULATED INVESTMENTS	 <u>\$ (978,332)</u>	 <u>\$(1,762,183)</u>

Note 5 - Other Investments:

Other investments include the following at June 30:

	<u>2018</u>	<u>2017</u>
Certificates of deposit at fair market value with maturities in excess of one year	<u>\$2,061,451</u>	<u>\$1,361,015</u>

Note 6 - Investment in Property and Equipment and Depreciation:

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

	<u>2018</u>	<u>2017</u>
Organization	\$ 8,492	\$ 8,492
Land	88,509	88,509
Buildings	2,350,375	2,347,721
Switching equipment	1,878,690	1,872,617
Toll, subscriber carriers and fiber optic equipment	11,141,948	12,107,858
Station apparatus	38,477	38,477
Station and outside connections	5,627,030	4,190,771
Poles, cables, and wires	40,821,405	37,454,514
Furniture and office equipment	1,291,782	735,259
Tools and other work equipment	291,377	469,897
Vehicles and mobile radios	<u>696,264</u>	<u>740,957</u>
 TOTAL PROPERTY AND EQUIPMENT IN SERVICE	 <u>\$64,234,349</u>	 <u>\$60,055,072</u>

The following annual depreciation rates have been applied for the years ended June 30, 2018 and 2017:

	<u>Percent</u>
Buildings	2.70%
Switching equipment	7.50%
Toll and subscriber carriers	10.00%
Station apparatus	15.00%
Station and outside connections	5.50-6.60%
Poles	5.60%
Cables	5.10-6.60%
Wires	9.40%
Furniture and office equipment	7.50-8.70%
Computer equipment	15.80%
Tools and other work equipment	7.50%
Vehicles and mobile radios	12.10-5.80%

(Continued)

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

Note 7 - Pension Plan:

Employer's Participation in a Defined Benefit Multiemployer Plan

Substantially, all employees of the Ballard Rural Telephone Cooperative Corporation, Inc. are covered by the Retirement & Security Program for Employees of the National Telecommunications Cooperative Association and Its Member Systems. The Employer Identification number of the plan sponsor is 52-0741336 and the plan number is 333. The date of the most current annual report (Form 5500 990) is December 31, 2017 and its filing is publicly available.

Pension Protection Zone Status

The PPA Zone Status was Green for 2017 and 2016. The zone status is based on information that the Company received from the plans. Among other factors, plans in the red zone are less than 65% funded, plans in the yellow zone are between 65-80% funded, and plans in the green zone are more than 80% funded. The Funding Improvement/Rehabilitation Plan (FIP/RP) Status indicates plans for which a funding improvement plan or rehabilitation plan is either pending or has been implemented.

Contributions

Ballard Rural Telephone Cooperative Corporation, Inc. presently contributes approximately 9.4% of the annual compensation of each participant. The Company was not listed in the plans' Forms 5500 as providing more than 5% of the total contributions for any of the plans. Employer contributions were \$238,628, \$238,572, and \$184,869 for the years ended June 30, 2018, 2017, and 2016, respectively. Participants are not required to contribute to the plan. The plan has not imposed a critical status surcharge. The Corporation contributes to this plan under collective bargaining agreement terms that cover its union-represented employees. This agreement expires February 1, 2020.

Risk

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

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

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

Note 8 - Long-Term Debt:

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

Long-term debt at June 30, consists of:

	<u>2018</u>	<u>2017</u>
Due Rural Utility Service:		
4.6160 % first mortgage notes	\$ 279,425	\$ 474,201
4.6150 % first mortgage notes	73,308	122,500
4.6950 % first mortgage notes	31,983	53,504
4.7040 % first mortgage notes	251,331	419,807
4.7600 % first mortgage notes	43,654	73,214
3.9960 % first mortgage notes	367,577	615,937
2.4833 % first mortgage notes	1,229	2,076
3.4800 % first mortgage notes	1,192,095	1,268,612
3.7450 % first mortgage notes	579,733	616,346
3.8860 % first mortgage notes	375,344	398,795
3.8450 % first mortgage notes	1,949,710	2,071,927
2.2340 % first mortgage notes	504,853	540,159
2.3840 % first mortgage notes	2,101,820	2,247,053
2.4340 % first mortgage notes	2,752,349	2,942,478
3.0660 % first mortgage notes	309,727	329,920
3.2380 % first mortgage notes	1,152,563	1,228,613
2.9260 % first mortgage notes	370,400	389,467
2.2570% first mortgage notes	3,730,430	3,933,627
1.7549% first mortgage notes	4,133,932	4,368,772
1.9844% first mortgage notes	2,734,970	2,887,385
2.6188% first mortgage notes	3,012,713	-
3.0123% first mortgage notes	<u>3,060,749</u>	<u>-</u>
	<u>\$29,009,895</u>	<u>\$24,984,393</u>
Due Rural Telephone Bank (transferred to Rural Utility Service):		
	<u>2018</u>	<u>2017</u>
5.1300% first mortgage notes	\$ 236,931	\$ 402,034
5.0000% first mortgage notes	<u>192,618</u>	<u>321,663</u>
	<u>429,549</u>	<u>723,697</u>
Totals	29,439,444	25,708,090
Less current maturity	<u>2,714,769</u>	<u>2,332,629</u>
LONG-TERM DEBT DUE AFTER ONE YEAR	<u>\$26,724,675</u>	<u>\$23,375,461</u>

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

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

(Continued)

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

Note 8 - Long-Term Debt (Continued):

Long-term debt matures as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Amount</u>
2019	\$ 2,714,769
2020	2,170,354
2021	1,770,896
2022	1,817,477
2023	1,865,358
2024-2028	10,093,257
2029-2033	8,569,106
2034	438,227

Note 9 - Income Taxes:

The Corporation files its income tax returns on a calendar year basis and was exempt from federal income taxes under Internal Revenue Code § 501(c)(12) prior to January 1, 1991 and years 2001 through 2005. A corporation's patronage income is required to equal or exceed 85% of gross receipts to maintain its tax exempt status. From 1991 through 2000 and 2006 through 2017, the Corporation's nonpatronage income exceeded 15% of gross receipts and was subject to federal income taxes on nonmember nonpatronage income. Regardless of its status, the Corporation continues to be subject to federal income taxes on unrelated trade or business income and/or nonmember nonpatronage income. The Corporation incurred federal income taxes of \$1,665,441 and \$2,000,146 for the years ended June 30, 2018 and 2017, respectively.

Note 10 - Return of Capital:

The long-term debt agreement contains restrictions on the return to patrons of capital contributed by them. These restrictions relate in general to the Corporation's net worth and assets (as defined). At June 30, 2018, there was \$2,482,156 available for patronage capital payments.

Note 11 - Cash Flows Disclosures:

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

	<u>2018</u>	<u>2017</u>
Cash:		
Cash - general	\$2,041,103	\$2,429,165
Cash - restricted for construction	3,551,705	2,234,354
Certificates of deposit	<u>297,206</u>	<u>403,493</u>
Total cash	<u>5,890,014</u>	<u>5,067,012</u>
TOTAL CASH AND CASH EQUIVALENTS	<u>\$5,890,014</u>	<u>\$5,067,012</u>

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

(Continued)

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

Note 11 - Cash Flows Disclosures (Continued):

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

	<u>2018</u>	<u>2017</u>
Interest	\$ 698,702	\$ 713,879
Income taxes (nonmember nonpatronage income/unrelated business income)	1,195,000	1,470,000

Interest amounts of \$69,899 and \$203,730 were capitalized on long-term construction projects during the years ended June 30, 2018 and 2017, respectively.

Note 12 - Contingencies:

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



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CERTIFIED PUBLIC ACCOUNTANTS

J. David Bailey, III
Sue Cronch-Greenwell
Roger G. Harris
Michael F. Karnes

Mark A. Thomas
Ashley C. Grooms
Kelly D. Scruggs
Benjamin D. Teer

Independent Auditors' Report on Compliance With Aspects of Contractual Agreements and Regulatory Requirements for Telecommunication Borrowers

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ballard Rural Telephone Cooperative Corporation, Inc. (BRTCC), which comprise the balance sheet as of June 30, 2018, and the related statements of revenues and expenses, changes in patronage capital and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 2, 2018. In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2018, on our consideration of BRTCC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above related to our audit have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that BRTCC failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers*, §1773.33 and clarified in the RUS policy memorandum dated February 7, 2014, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding BRTCC's noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters.

In connection with our audit, we noted no matters regarding BRTCC's accounting and records to indicate that BRTCC did not:

Maintain adequate and effective accounting procedures;

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

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

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

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

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

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

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

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

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

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

Detailed Schedule of Investment in Affiliates:

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

Investment - 33 1/3%	\$ 5,824,307
Earnings for 2017	5,698,605
Prior year's earnings	43,295,438
Distributions	<u>(44,083,893)</u>

Net investment, equity basis	10,734,457
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Solix, Inc.	<u>1,000</u>
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TOTAL INVESTMENTS IN AFFILIATES	<u>\$ 10,735,457</u>
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This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Williams, Williams & Lentz, LLP

Paducah, Kentucky
November 2, 2018



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Ballard Rural Telephone Cooperative Corporation, Inc. which comprise the balance sheet as of June 30, 2018, and the related statements of revenues and expenses, changes in patronage capital, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 2, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Ballard Rural Telephone Cooperative Corporation, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Williams, Williams & Lentz, LLP

Paducah, Kentucky
November 2, 2018



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