

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

KENTUCKY 525
WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES
MAYFIELD, KENTUCKY

December 31, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
West Kentucky Rural Telephone
Cooperative Corporation, Inc.
Mayfield, Kentucky

We have audited the accompanying consolidated financial statements of West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income, comprehensive income, changes in members' equity and cash flows for the years then ended, and the related notes to the consolidated 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 presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the results of its 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, we have also issued our report dated March 4, 2016 on our consideration of West Kentucky 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 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 and should be read in conjunction with this report in considering the results of our audits.

Sotherow, Paile, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
March 4, 2016

CONSOLIDATED BALANCE SHEETSWEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

	2015	2014
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash - general	\$ 15,738,471	\$ 12,411,068
Telecommunications accounts receivable, less allowances of \$256,745 in 2015 and \$197,320 in 2014	932,492	1,081,395
Other accounts receivable	137,338	324,773
Grants receivable	0	418,421
Materials and supplies	785,631	1,466,687
Prepaid expenses	1,567,275	1,973,216
Prepaid pension	38,581	34,994
Prepaid service contract	20,489	0
Prepaid postretirement benefits	142,000	0
Refundable tax deposit	200,138	281,364
TOTAL CURRENT ASSETS	\$ 19,562,415	\$ 17,991,918
<u>NONCURRENT ASSETS</u>		
Securities available for sale	\$ 40,813,089	\$ 40,189,487
Investments	4,999,288	3,820,326
Prepaid service contract	379,024	0
Nonregulated investments	384,643	486,188
Goodwill	2,799,587	2,799,587
Other intangible assets	2,700,000	3,300,000
Deferred tax asset	196,982	277,647
TOTAL NONCURRENT ASSETS	\$ 52,272,613	\$ 50,873,235
<u>PROPERTY, PLANT AND EQUIPMENT</u>		
Telecommunications plant in service	\$ 146,458,622	\$ 186,798,681
Telecommunications plant under construction	1,126,827	20,522,120
	\$ 147,585,449	\$ 207,320,801
Less accumulated depreciation	68,860,186	121,646,882
TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 78,725,263	\$ 85,673,919
	<u>\$ 150,560,291</u>	<u>\$ 154,539,072</u>

See the accompanying independent auditors' report and notes to financial statements.

CONSOLIDATED BALANCE SHEETS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

	2015	2014
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 533,489	\$ 1,178,297
Advance billings and payments	543,838	533,576
Customer deposits	126,766	194,928
Current maturities on long-term debt	6,555,695	6,210,067
Accrued taxes	1,055,757	423,560
Accrued federal and state income taxes	326,057	37,752
Accrued interest	813	1,565
Accrued rents	217,681	334,114
Accrued salaries and wages	392,468	544,034
Accrued compensated absences	830,823	902,006
Other current liabilities	<u>1,924,432</u>	<u>1,176,400</u>
TOTAL CURRENT LIABILITIES	\$ 12,507,819	\$ 11,536,299
<u>LONG-TERM DEBT</u>	68,072,365	70,093,529
<u>OTHER LIABILITIES</u>		
Deferred compensation	1,011,905	938,661
Postretirement benefits	0	66,475
Deferred taxes	<u>3,445,228</u>	<u>5,159,392</u>
TOTAL LIABILITIES	\$ 85,037,317	\$ 87,794,356
<u>MEMBERS' EQUITY</u>		
Patronage capital	\$ 65,303,858	\$ 64,413,768
Accumulated other comprehensive income	<u>219,116</u>	<u>2,330,948</u>
TOTAL MEMBERS' EQUITY	\$ 65,522,974	\$ 66,744,716
	<u>\$ 150,560,291</u>	<u>\$ 154,539,072</u>

CONSOLIDATED STATEMENTS OF INCOMEWEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

Years ended December 31, 2015 and 2014

	2015	2014
Operating revenues:		
Local network services revenue	\$ 4,815,261	\$ 3,766,403
Network access services revenue	14,488,961	13,790,439
Long distance network services revenue	623,788	821,894
Miscellaneous revenues	1,645,736	1,910,157
Less: Uncollectible revenue	<u>(207,444)</u>	<u>(275,527)</u>
TOTAL OPERATING REVENUES	\$21,366,302	\$20,013,366
Operating expenses:		
Plant specific operations expense	\$ 5,728,543	\$ 4,814,159
Plant nonspecific operations expense	1,694,100	1,714,301
Provision for depreciation and amortization	9,316,936	6,848,008
Customer operations expense	4,765,559	3,883,728
Corporate operations expense	3,264,687	2,365,918
Operating taxes	<u>1,637,031</u>	<u>1,253,591</u>
TOTAL OPERATING EXPENSES	<u>\$26,406,856</u>	<u>\$20,879,705</u>
OPERATING LOSS	\$ (5,040,554)	\$ (866,339)
Other income:		
Interest and dividend income	\$ 1,195,657	\$ 1,785,413
Nonregulated income	6,409,869	2,749,073
Realized gain from sale of securities	1,785,744	544,108
Gain from disposal of asset	3,777	9,257
Bargain purchase gain	0	712,085
Income (Loss) from investments	<u>26,092</u>	<u>(33,739)</u>
TOTAL OTHER INCOME	\$ 9,421,139	\$ 5,766,197

See the accompanying independent auditors' report and notes to financial statements.

CONSOLIDATED STATEMENTS OF INCOME (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

Years ended December 31, 2015 and 2014

	2015	2014
Fixed charges:		
Interest on long-term debt	\$ 2,682,200	\$ 2,617,426
Interest charged to construction - credit	<u>(221,589)</u>	<u>(1,131,064)</u>
TOTAL FIXED CHARGES	<u>\$ 2,460,611</u>	<u>\$ 1,486,362</u>
INCOME BEFORE TAXES ON INCOME	\$ 1,919,974	\$ 3,413,496
Taxes on income	<u>968,939</u>	<u>836,642</u>
NET INCOME	<u><u>\$ 951,035</u></u>	<u><u>\$ 2,576,854</u></u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOMEWEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

Years ended December 31, 2015 and 2014

	2015	2014
Net income	\$ 951,035	\$ 2,576,854
Other comprehensive income:		
Unrealized gain (loss) from securities available for sale	(3,239,291)	(77,769)
Postretirement benefits other than pension:		
Amortization of transition obligation	9,900	(9,900)
Unrecognized gain (loss)	<u>53,300</u>	<u>294,901</u>
OTHER COMPREHENSIVE INCOME (LOSS) BEFORE TAX	\$ (3,176,091)	\$ 207,232
Income tax (expense) benefit related to items of other comprehensive income	<u>1,064,259</u>	<u>26,441</u>
OTHER COMPREHENSIVE INCOME NET OF TAX	<u>\$ (2,111,832)</u>	<u>\$ 233,673</u>
COMPREHENSIVE INCOME	<u><u>\$ (1,160,797)</u></u>	<u><u>\$ 2,810,527</u></u>

See the accompanying independent auditors' report and notes to financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITYWEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

Years ended December 31, 2015 and 2014

	Memberships	Patronage Capital	Accumulated Other Comprehensive Income	Total Members' Equity
Balance at December 31, 2013	\$ 54,689	\$61,864,303	\$ 2,207,595	\$64,126,587
Net income for 2014	0	2,576,854	0	2,576,854
Capital credits paid and applied	0	(82,078)	0	(82,078)
Comprehensive income:				
Acquired subsidiary's beginning accumulated other comprehensive loss	0	0	(110,320)	(110,320)
Unrealized loss from securities available for sale (net of tax)	0	0	(56,156)	(56,156)
Postretirement benefits other than pension:				
Unrecognized loss	0	0	289,829	289,829
Balance at December 31, 2014	\$ 54,689	\$64,359,079	\$ 2,330,948	\$66,744,716
Net income for 2015	0	951,035	0	951,035
Capital credits paid and applied	0	(60,945)	0	(60,945)
Comprehensive income:				
Unrealized loss from securities available for sale (net of tax)	0	0	(2,175,032)	(2,175,032)
Postretirement benefits other than pension:				
Amortization of transition obligation	0	0	9,900	9,900
Unrecognized loss	0	0	53,300	53,300
Balance at December 31, 2015	<u>\$ 54,689</u>	<u>\$65,249,169</u>	<u>\$ 219,116</u>	<u>\$65,522,974</u>

See the accompanying independent auditors' report and notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWSWEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash received from customers	\$ 21,712,902	\$ 20,370,127
Cash paid to suppliers and employees	(15,012,762)	(11,587,103)
Interest and dividends received	1,195,657	1,785,413
Interest paid	(2,461,363)	(1,488,238)
Taxes paid	(3,237,741)	1,242,762
	<u> </u>	<u> </u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,196,693	\$ 10,322,961
Cash flows from investing activities:		
Construction and acquisition of plant	\$ (2,375,205)	\$ (19,435,102)
Decrease (Increase) in grant receivable	418,421	1,992,315
Proceeds from disposal of asset	10,702	9,257
Purchase of securities available for sale	(7,179,713)	(5,619,734)
Proceeds from sales of securities available for sale	6,166,823	4,522,941
Decrease (Increase) in investments	(1,152,870)	1,862,436
Purchase of subsidiaries	0	(2,900,000)
Increase in nonregulated investments	101,545	(173,570)
Decrease (Increase) in:		
Materials and supplies	681,056	46,101
Nonregulated income	6,409,869	2,749,073
	<u> </u>	<u> </u>
NET CASH USED BY INVESTING ACTIVITIES	\$ 3,080,628	\$ (16,946,283)

See the accompanying independent auditors' report and notes to financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from financing activities:		
Payments on long-term borrowings	\$ (6,301,643)	\$ (5,481,283)
Proceeds received from long-term debt	4,626,107	16,735,842
Retirement of capital credits	(60,945)	(82,078)
Postretirement benefits other than pension	(145,275)	(31,968)
Increase (Decrease) in:		
Customer deposits	<u>(68,162)</u>	<u>35,025</u>
 NET CASH PROVIDED BY FINANCING ACTIVITIES	 <u>\$ (1,949,918)</u>	 <u>\$ 11,175,538</u>
 NET INCREASE (DECREASE) IN CASH	 \$ 3,327,403	 \$ 4,552,216
 CASH AT BEGINNING OF YEAR	 <u>12,411,068</u>	 <u>7,858,852</u>
 CASH AT END OF YEAR	 <u>\$ 15,738,471</u>	 <u>\$ 12,411,068</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

Years ended December 31, 2015 and 2014

	2015	2014
Net income	\$ 951,035	\$ 2,576,854
Nonregulated income	(6,409,869)	(2,749,073)
Realized gain from sales of securities	(1,785,744)	(544,108)
Gain from disposal of asset	(3,777)	(9,257)
Bargain purchase gain	0	(712,085)
(Income) Loss from investments	<u>(26,092)</u>	<u>33,739</u>
Net loss from regulated operations	\$ (7,274,447)	\$ (1,403,930)
Adjustments to reconcile net loss from regulated operations to net cash provided by operating activities:		
Depreciation and amortization	\$ 9,916,936	\$ 7,608,775
Decrease (Increase) in:		
Customer and other accounts receivable	336,338	173,559
Prepaid expenses	6,428	(580,809)
Prepaid pension	(3,587)	(34,994)
Refundable tax deposit	81,226	18,636
Deferred tax asset	80,665	3,718
Increase (Decrease) in:		
Accounts payable	(644,808)	(508,626)
Advance billings and payments	10,262	183,202
Accrued taxes	632,197	151,675
Accrued federal and state income taxes	288,305	(383,441)
Accrued interest	(752)	(1,876)
Accrued rents	(116,433)	122,097
Accrued salaries and employee benefits	(222,749)	733,621
Other current liabilities	748,032	(139,297)
Deferred compensation	73,244	838,244
Deferred tax liability	<u>(1,714,164)</u>	<u>3,542,407</u>
TOTAL ADJUSTMENTS	<u>\$ 9,471,140</u>	<u>\$ 11,726,891</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,196,693</u>	<u>\$ 10,322,961</u>

See the accompanying independent auditors' report and notes to financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTSWEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

Note A – West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries provides retail telecommunications and management services to various areas of Kentucky, Tennessee and Alabama. West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries has adopted the following accounting policies:

(1) Principles of Consolidation:

During 2014, West Kentucky Rural Telephone Cooperative Corporation, Inc. (Cooperation) acquired 50% of the outstanding common stock of Synergy Technology Partners, Inc. and Telecom Management Services, Inc. (Subsidiaries). Prior to these acquisitions, the Cooperative owned 50% of each of the mentioned companies' common stock. These investments had been accounted for under the equity method. With the additional investment, the Cooperative now owns 100% of the outstanding common stock of Synergy Technology Partners, Inc. and Telecom Management Services, Inc. Synergy Technology Partners, Inc. provides telecommunication, broadband, long distance, as well as other telecommunications services. Telecom Management Services, Inc. provides management and support services to the Cooperative, as well as other telecommunication companies. The consolidated financial statements include the accounts of the Subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

- (2) The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- (3) Cash equivalents consist primarily of treasury bills and notes and commercial paper with original maturities of 90 days or less. Certificates of deposit and other securities with original maturities over 90 days are classified as temporary investments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

Note A – (Cont'd):

- (4) Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable. No interest is charged on accounts receivable balances that are past due. Past due accounts receivable are based upon contractual terms as defined on customer invoices. Accounts receivable past due 90 days amounted to \$141,716 at December 31, 2015.

The allowance for doubtful accounts is based upon a credit review of the accounts receivable, past bad debt experience, current economic conditions and other pertinent factors which form a basis for determining the adequacy of the allowance. The allowance represents an estimate based upon these and other factors and, it is at least reasonably possible that a change in the estimate can occur, however, management does not anticipate major changes in the estimate.

- (5) Materials and supplies are valued at average cost accumulated in perpetual inventory records, which are periodically adjusted to physical counts.
- (6) Employee vacation pay and sick leave benefits are accrued as the benefits are earned according to an established policy.
- (7) Revenue is recorded upon the billing of telecommunication services net of sales tax.
- (8) Expenditures for maintenance and repairs are charged to operations as they are incurred and betterments are capitalized. Original costs of properties retired are eliminated from property accounts and removal costs are charged to the allowance for depreciation. Salvage value of retired property is credited to the allowance for depreciation.
- (9) Advertising costs are charged to expense as incurred. These costs amounted to \$169,833 in 2015 and \$195,620 in 2014.
- (10) Various amounts for 2014 have been reclassified for comparative purposes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

Note B – Concentrations of Credit Risk:

Deposits:

The Cooperative and its Subsidiaries maintain cash accounts in several commercial banks located within their trade area. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Approximately \$10,508,486 was uninsured at December 31, 2015.

The Cooperative and Telecom Management Services, Inc. both have cash maintained by investment firms totaling \$3,590,364 at December 31, 2015. The investment firms are members of Securities Investors Protection Corporation (SIPC). SIPC provides limited protection for cash held directly by the firms up to \$250,000. Uninsured cash held by investment firms totaled approximately \$2,857,784 at December 31, 2015.

Accounts Receivable:

Telecommunications services are provided to the customers within its trade area on a credit basis in the ordinary course of business. Generally, the accounts receivable generated by the sale of these services are unsecured.

Note C – Broadband Initiatives Program:

Grants receivable represents the amounts due from Rural Utilities Service under the Broadband Initiatives Program (the Program). During 2010, the Cooperative applied for, and was awarded, a loan and grant combination to construct an updated broadband network in its service area. The total amount awarded to the Cooperative was \$123,800,000, of which \$61,900,001 represents eligible loan proceeds and \$61,899,999 which will be awarded as a grant. Under the Program, the Cooperative will be reimbursed for eligible costs associated with the construction of the broadband facilities over a specified period of time. As of December 31, 2015, the Cooperative has received \$55,502,302 in loan proceeds and \$55,502,299 of the grant portion.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

Note D – Securities available for sale consists of United States government agency bonds, stocks, mutual funds, and corporate bonds.

The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Cooperative believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Level 1 – Uses prices and other relevant information generated by active market transactions involving identical or comparable assets that the Cooperative has the ability to access at the measurement date;

Level 2 – Uses inputs other than quoted market prices included within Level 1 that are observable for valuing the asset, either directly or indirectly. This level of the hierarchy may use quoted prices for similar assets in an active or non-active market and may also include insignificant adjustments to market observable inputs;

Level 3 – Uses unobservable inputs used for valuing assets. Unobservable inputs are those that use valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts.

The Cooperative's available for sale securities are grouped and measured at fair value and use the aforementioned fair value hierarchy in the following manner:

	<u>Fair Value</u>	Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale	\$40,813,089	\$40,813,089	\$ 0	\$ 0
Total	\$40,813,089	\$40,813,089	\$ 0	\$ 0

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

Note D – (Cont'd):

The amortized cost of securities and their fair market values are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gain (Loss)</u>	<u>Estimated Market Value</u>
December 31, 2015:			
U.S. Government agencies	\$ 2,452,150	\$ (13,561)	\$ 2,438,589
Stocks	1,301,311	583,844	1,885,155
Mutual funds	28,249,029	466,449	28,715,478
Corporate bonds	3,211,056	83,075	3,294,131
Certificates of deposit	<u>4,100,000</u>	<u>379,736</u>	<u>4,479,736</u>
Available for Sale	<u>\$39,313,546</u>	<u>\$1,499,543</u>	<u>\$40,813,089</u>
December 31, 2014:			
U.S. Government agencies	\$ 2,587,759	\$ 20,627	\$ 2,608,386
Stocks	2,417,718	640,619	3,058,337
Mutual funds	26,024,374	3,378,718	29,403,092
Corporate bonds	<u>4,533,669</u>	<u>586,003</u>	<u>5,119,672</u>
Available for Sale	<u>\$35,563,520</u>	<u>\$4,625,967</u>	<u>\$40,189,487</u>

Gross realized gains and gross realized losses on sales of securities available for sale:

	<u>2015</u>	<u>2014</u>
Gross realized gains:		
Stocks	\$ 71,127	\$ 52,519
Mutual funds	1,719,116	664,934
Corporate bonds	<u>233,457</u>	<u>0</u>
Total Gains	\$ 2,023,700	\$717,453
Gross realized losses:		
Stocks	\$ 0	\$ (92,040)
Mutual funds	(169,974)	0
Corporate bonds	<u>(67,982)</u>	<u>(80,765)</u>
Total Losses	\$ (237,956)	\$(172,805)
Net Realized Gains (Losses)	<u>\$1,785,744</u>	<u>\$ 544,648</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

Note D – (Cont'd):

The following is a summary of maturities of securities available for sale as of December 31, 2015:

	<u>Amortized cost</u>	<u>Fair value</u>
Amounts maturing in:		
Due in one year or less	\$ 3,601,626	\$ 3,790,967
Due from one to five years	4,940,299	5,208,045
Due from six to ten years	282,716	293,720
Due beyond ten years	938,565	919,724
Stocks	1,301,311	1,885,155
Mutual funds	<u>28,249,029</u>	<u>28,715,478</u>
Total	<u>\$39,313,546</u>	<u>\$40,813,089</u>

Note E – Investments*:

	<u>2015</u>	<u>2014</u>
Synergy Wireless, LLC	\$ 10,000	\$ 10,000
Tennessee Independent Telecommunications Group, LLC (Iris Networks) (10.556%)	893,476	867,385
National Telecom Corporation	179,933	179,933
Associated Network Partners, Inc (ANPI)	1,780,634	1,780,634
Rural Trust Insurance Company	993,500	856,000
Codero	1,000,000	0
Cobank	133,930	118,559
Other	<u>7,815</u>	<u>7,815</u>
TOTAL	<u>\$4,999,288</u>	<u>\$3,820,326</u>

*Ownership percentages are in parentheses for investments in which the Cooperative owns a significant portion of the investment. All other investments are carried at cost.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

Note E – (Cont'd):

The following is a summary as of December 31, 2015 of selected financial information from the financial statements of the investments in which the Cooperative owns a significant percentage:

	<u>Iris Networks</u>
Total assets	\$17,910,809
Total liabilities	\$ 9,502,927
Total equity	\$ 8,407,882
Net income	\$ 247,184

Investments carried at cost are normally not evaluated for impairment because it is not practical to estimate the fair value due to insufficient information being available. An evaluation is performed, however, if economic or market concerns warrant such an evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent or ability of the Cooperative to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery of fair value.

Management has not identified any events or circumstances that may have a significant adverse effect on the fair value of any other cost method investment.

Note F – Prepaid service contracts:

Ardmore Telephone Company has entered into an agreement with Tennessee Independent Telecommunications Group, LLC d/b/a Iris Networks for access to Iris Networks' fiber optic network and other facilities. The terms of this agreement are for twenty consecutive years and six months commencing in January of 2015. In consideration for this indefeasible right of use, the Company prepaid Iris Networks \$420,000. This amount is being expensed using the straight line method over the term of the contract.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

Note G – Intangible assets:

Goodwill recorded in the records of Ardmore Telephone Company, Inc. (a subsidiary of Synergy Technology Partners, Inc.) is subject to at least an annual assessment for impairment. Goodwill impairment tests consist of a comparison of each reporting unit's fair value with its carrying value. The fair value of a reporting unit is an estimate of the amount for which the unit as a whole could be sold in a current transaction between willing parties. If the carrying value of a reporting unit exceeds its estimated fair value, goodwill is written down to its implied fair value. During the years ended December 31, 2015 and 2014, the Company determined that there was no impairment of goodwill. The Company incurred substantial costs in the acquisition of intangible assets that include a customer base, regulatory rights, and the trade name of the Company. Management has determined that the useful lives of the customer base and regulatory rights to be ten years. The Company's trade name is deemed to have an indefinite life; therefore, amortization for the trade name has not been recorded.

Identified intangible assets subject to amortization are summarized as follows:

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Balance</u>
Customer base	\$4,000,000	\$2,400,000	\$1,600,000
Regulatory rights	<u>2,000,000</u>	<u>1,200,000</u>	<u>800,000</u>
Amortizable assets	\$6,000,000	\$3,600,000	\$2,400,000
Trade name	<u>300,000</u>	<u>0</u>	<u>300,000</u>
Total Other Intangible Assets	<u>\$6,300,000</u>	<u>\$3,600,000</u>	<u>\$2,700,000</u>

The Company expects amortization expense to be approximately \$600,000 per year for each of the next four years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

Note H – Telephone plant in service and under construction is stated at cost. Listed below are the major classes of the telephone plant as of December 31:

	<u>2015</u>	<u>2014</u>
Land	\$ 1,261,864	\$ 961,866
Buildings	5,100,090	4,828,022
Central office equipment	19,498,473	26,946,273
Poles, cable and wire	70,287,439	103,406,429
Furniture and office equipment	1,803,216	2,461,237
Vehicles and other work equipment	3,952,957	3,848,978
Other communications equipment	<u>209,224</u>	<u>209,224</u>
Telecommunications plant in service as contained on the Cooperative's records	\$102,113,263	\$142,662,027
Franchises	\$ 8,276	\$ 8,276
Land	172,307	172,307
Buildings	2,220,061	2,196,716
Central office equipment	14,467,039	14,497,291
Poles, cable and wire	25,974,455	25,733,037
Furniture and office equipment	817,452	806,280
Vehicles and other work equipment	<u>685,769</u>	<u>722,747</u>
Telecommunications plant in service as contained on the Subsidiary's records	<u>\$ 44,345,359</u>	<u>\$ 44,136,654</u>
Total telecommunications plant in service	<u>\$146,458,622</u>	<u>\$186,798,681</u>

The Subsidiaries provides for depreciation on the straight-line basis at annual rates which will amortize the depreciable property over its useful life.

Telecommunications plant in service and under construction is stated at cost.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

Note H – (Cont'd):

The Cooperative provides for depreciation on a straight-line basis at annual rates which will amortize the depreciable property over its estimated useful life. Such provision, as a percentage of the average balance of telecommunications plant in service was percent in 2015 and 5.38 percent in 2014. Individual depreciation rates are as follows:

	<u>2015</u>	<u>2014</u>
Buildings	2.7%	2.7%
Central office equipment	7.5 – 11.9%	7.5 – 11.9%
Poles, cables and wire	5.1 – 9.4%	5.1 – 9.4%
Furniture and office equipment	7.5 – 15.8%	7.5 – 15.8%
Tools and other work equipment	7.5%	7.5%
Other communications equipment	15%	15%

Note I – A description of long term debt follows:

Synergy Technology Partners, Inc. has entered into a line of credit with CoBank, which permits the Company to borrow up to \$500,000. Outstanding principle balance and any accrued interest are due on January 1, 2015. Long-term debt is represented by mortgage notes payable to the United States of America and CoBank. Substantially all assets are pledged as security for the long-term debt. Following is a summary of the outstanding long-term debt.

	<u>2015</u>
2.00% - 7.00% Rural Development Utilities note Program	\$69,603,060
4.18% CoBank (\$175,000 quarterly plus interest).	<u>5,025,000</u>
	\$74,628,060
Less current maturities	<u>6,555,695</u>
TOTAL	<u>\$68,072,365</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

Note I – (Cont'd):

Principal and interest installments on the above notes are due quarterly and monthly. The maturities of long-term debt for each of the five years succeeding the balance sheet date are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$6,555,695
2017	6,442,584
2018	6,489,176
2019	8,963,868
2020	4,808,853
Beyond five years	<u>41,367,884</u>
TOTAL	<u>\$74,628,060</u>

Note J – As required by the Retirement Benefit Topic of the FASB ASC, the Cooperative accrues all postretirement benefits other than pensions. Under the prescribed accrual method, the obligation for these postretirement benefits is to be fully accrued by the date employees attain full eligibility for such benefits. The cost of medical benefits for current and future associate retirees was recognized as determined under the projected united credit cost method.

Substantially all of the Cooperative's employees are covered under postretirement medical plans. The determination of postretirement benefit cost for these postretirement medical benefit plans is based on comprehensive hospital, medical and surgical benefit provisions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

Note J – (Cont'd)

The following table sets forth the separate funded statuses of the plans and the amounts recognized in the Cooperative's Consolidated Balance Sheet as of December 31, 2015:

	<u>West Kentucky Rural Telephone Cooperative Corporation, Inc.</u>	<u>Telecom Management Services, Inc.</u>	<u>Total</u>
Accumulated postretirement obligation attributable to:			
Retirees	\$ 1,275,400	\$ 50,100	\$ 1,325,500
Other active plan participants	<u>1,381,000</u>	<u>125,000</u>	<u>1,506,000</u>
Total accumulated postretirement benefit obligation	\$ 2,656,400	\$ 175,100	\$ 2,831,500
Fair value of plan assets	<u>(2,972,500)</u>	<u>0</u>	<u>(2,972,500)</u>
Net unfunded (funded) status	<u>\$ (316,100)</u>	<u>\$ 175,100</u>	<u>\$ (141,000)</u>
Amounts recognized in accumulated other comprehensive income:			
Unrecognized net loss	\$ 659,900	\$ (12,900)	\$ 647,000
Unrecognized net transition obligation	0	103,400	103,400
Deferred taxes due to comprehensive loss	<u>0</u>	<u>(34,650)</u>	<u>(34,650)</u>
Total included in accumulated other comprehensive income	<u>\$ 659,900</u>	<u>\$ (55,850)</u>	<u>\$ 715,750</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

Note J – (Cont'd)

Postretirement benefit cost is composed of the following for the year ended December 31, 2015:

	<u>West Kentucky Rural Telephone Cooperative Corporation, Inc.</u>	<u>Telecom Management Services, Inc.</u>	<u>Total</u>
Benefits earned during the year	\$ 64,600	\$ 5,500	\$70,100
Interest on accumulated postretirement benefit obligation	135,300	8,800	144,100
Amortization of transition obligation	14,300	9,900	24,200
Amortization of net losses	52,800	0	52,800
Actual return on plan assets	<u>6,500</u>	<u>0</u>	<u>6,500</u>
Postretirement benefit cost	<u>\$ 273,500</u>	<u>\$ 24,200</u>	<u>\$297,700</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

Note J – (Cont'd)

The following table sets forth the funded status of the Cooperative's plan and the amounts recognized in the Cooperative's Consolidated Balance Sheet as of December 31, 2014:

	<u>West Kentucky Rural Telephone Cooperative Corporation, Inc.</u>	<u>Telecom Management Services, Inc.</u>	<u>Total</u>
Accumulated postretirement obligation attributable to:			
Retirees	\$ 1,439,800	\$115,400	\$ 1,555,200
Other active plan participants	<u>1,345,600</u>	<u>144,675</u>	<u>1,490,275</u>
Total accumulated postretirement benefit obligation	\$ 2,785,400	\$260,075	\$ 3,045,475
Fair value of plan assets	<u>(2,979,000)</u>	<u>0</u>	<u>(2,979,000)</u>
Net unfunded (funded) status	<u>\$ (193,600)</u>	<u>\$260,075</u>	<u>\$ 66,475</u>
Amounts recognized in other comprehensive income:			
Unrecognized net loss	\$ 621,400	\$ 78,900	\$ 700,300
Unrecognized net transition obligation	0	113,300	113,300
Deferred taxes due to comprehensive loss	<u>0</u>	<u>(73,590)</u>	<u>(73,590)</u>
Total included in other comprehensive income	<u>\$ 621,400</u>	<u>\$118,610</u>	<u>\$ 740,010</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

Note J – (Cont'd)

Postretirement benefit cost is composed of the following for the year ended December 31, 2014:

	<u>West Kentucky Rural Telephone Cooperative Corporation, Inc.</u>	<u>Telecom Management Services, Inc.</u>	<u>Total</u>
Benefits earned during the year	\$ 64,400	\$ 7,100	\$ 71,500
Interest on accumulated postretirement benefit obligation	138,400	13,000	151,400
Amortization of transition obligation	0	9,900	9,900
Amortization of net losses	61,300	4,300	65,600
Actual return on plan assets	<u>(186,100)</u>	<u>0</u>	<u>(186,100)</u>
Postretirement benefit cost	<u>\$ 78,000</u>	<u>\$34,300</u>	<u>\$ 112,300</u>

The Medicare and Prescription Drug, Improvement and Modernization Act of 2003 provides for a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the benefit established by the law. Currently, for the plan, the Medicare Part D Subsidy is a reduction to premiums paid for by participants that are at least 65 years old. For 2015 and 2014, premiums for this group of participants were approximately \$50 less than it would have been without the adjustment.

Weighted average assumptions to determine benefit obligations and net period cost for the year ended December 31, 2015:

	<u>West Kentucky Rural Telephone Cooperative Corporation, Inc.</u>	<u>Telecom Management Services, Inc.</u>
Discount rate	5.25%	5.25%
Expected return on plan assets	7.50%	0.00%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

Note J – (Cont'd)

Weighted average assumptions to determine benefit obligations and net period cost for the year ended December 31, 2014:

	<u>West Kentucky Rural Telephone Cooperative Corporation, Inc.</u>	<u>Telecom Management Services, Inc.</u>
Discount rate	5.25%	5.25%
Expected return on plan assets	7.50%	0.00%

Both Companies' expected rate of return on plan assets is determined by the plan assets' historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class.

The medical cost trend rate in 2015 for Telecom Management Services, Inc. was approximately 8.0% grading down to an ultimate rate in 2019 of 5.0%. A one percentage point increase in the assumed medical cost trend rates for each future year would have increased the aggregate of the service and interest components of the 2015 net periodic postretirement benefit cost \$14,900 and would have increased the accumulated postretirement benefit obligation by \$175,600 as of December 31, 2015.

Actuarial assumptions for sensitivity analysis are not conducted for West Kentucky Rural Telephone Cooperative Corporation, Inc. because the medical trend rate is assumed to be zero based on the assumption that the employer subsidy is a fixed dollar amount for each retiree.

The Plan for Telecom Management Services, Inc. attempts to mitigate investment risks by balancing between equity and debt classes of investments. Currently, the plan is invested in mutual funds with target allocations of approximately 65% domestic and international stocks, 15% investment grade bonds, 10% high yield bonds, and 10% real estate. Although changes in interest rates may affect the fair value of a portion of the investment portfolios and cause unrealized gains and losses, such gains and losses would not be realized unless the investments are sold. In addition, no plan assets are expected to be returned to the Cooperative in 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

Note J – (Cont'd)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the plan for the Cooperative:

<u>Year</u>	<u>Amount</u>
2016	\$ 159,000
2017	161,000
2018	164,000
2019	168,000
2020	170,000
Years 2021 – 2025	<u>921,000</u>
TOTAL	<u>\$1,743,000</u>

The Companies generally does not make an annual contribution to the plan and a contribution is not anticipated in 2015.

Note K – The Cooperative and Telecom Management Service, Inc. have adopted the retirement and security program of the National Telephone Cooperative Association as a pension plan covering all employees meeting certain age and length of service requirements for which it pays approximately 80% of the cost. The benefits are based on length of service and employee compensation. The Companies' funding policy is to contribute, monthly, the amounts that are within the guidelines of the Internal Revenue Service. The Cooperative's cost was \$502,263 for 2015 and \$445,397 for 2014. Telecom Management Services, Inc.'s cost was \$97,602 for 2015.

Note L – The Companies recognize deferred tax assets and liabilities for future tax consequences of events that have been previously recognized in the Companies' financial statements and tax returns. The measurement of deferred tax assets and liabilities is based on provisions of the enacted tax law; the effects of future changes in tax laws or rates are not anticipated. Measurement is computed using applicable current tax rates.

	<u>2015</u>	<u>2014</u>
Current income tax expense:		
Federal	\$2,159,990	\$ 642,241
State	442,448	20,544
Deferred income tax expense (benefit):		
Federal	(1,355,804)	178,095
State	<u>(277,695)</u>	<u>(4,238)</u>
	<u>\$ 968,939</u>	<u>\$ 836,642</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

Note L – (Cont'd)

The deferred tax balance is primarily the result of differences using accelerated depreciation methods for tax purposes and the differences in tax and book basis of various investments.

	<u>2015</u>	<u>2014</u>
Deferred tax liability at beginning of year	\$5,159,392	\$1,616,985
Acquired liabilities through purchases of subsidiaries	0	3,595,125
Plus current year provision for deferred taxes on income	<u>(1,714,164)</u>	<u>(52,718)</u>
Deferred tax liability at end of year	<u>\$3,445,228</u>	<u>\$5,159,392</u>
Deferred tax asset at beginning of year	\$ 277,647	\$ 281,365
Acquired assets through purchase of subsidiaries	0	222,857
Plus current year provision for deferred taxes on income	<u>(80,665)</u>	<u>(226,575)</u>
Deferred tax asset at end of year	<u>\$ 196,982</u>	<u>\$ 277,647</u>

Included in the change in deferred tax for the year is \$1,109,259 of expense related to recording comprehensive income net of tax.

The individual companies included in the consolidated financial statements are responsible for their share of tax liabilities. All companies are no longer subject to Internal Revenue Service or state taxing authority examinations beyond the statute of limitations for the respective taxing authorities. Penalties and interest, if any, that are assessed by income tax authorities are included in operating expenses. No interest or penalties were recognized during the years ending December 31, 2015 and 2014.

Note M – Labor Force

Approximately 80% of the Cooperative's labor force is subject to a collective bargaining agreement. A five-year agreement was negotiated and approved for the period November 1, 2013 to October 31, 2018 between the Cooperative and the International Brotherhood of Electrical Workers.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

Note N – Deferred compensation:

The Cooperative and Telecom Management Services, Inc. have implemented a deferred compensation agreement for certain management personnel. The plan is maintained in brokerage accounts and is held by the Cooperative. Under the terms of the plan, an amount determined by the Board of Directors of the Cooperative will be paid to an account established on behalf of the management personnel. The deferred compensation is to be paid to the individuals upon retirement or other reasons of discontinued service to the respective Company. Included in securities available for sale of the Consolidated Balance Sheets is \$824,407 at December 31, 2015, that is a part of the deferred compensation agreements.

Note O – Bargain Purchase Gain:

The Cooperative recorded a bargain purchase gain on the acquisition of all the outstanding stock of Synergy Technology Partners, Inc. and Telecom Management Services, Inc. in separate transactions. A bargain purchase is recorded on the parent company's records when the consideration given in the acquisition of a company is less than the fair value of the acquired company's assets less its liabilities. This difference is recognized directly into profit as a bargain purchase. The combined bargain purchase recorded for the acquisition of Synergy Technology Partners, Inc. and Telecom Management Services, Inc. was \$712,085.

Consideration given for the stock of Synergy Technology Partners, Inc. was \$2,900,000 in cash.

Consideration given for the stock of Telecom Management Services, Inc. was the assumption of \$592,390 of liabilities owed by the selling company to Telecom Management Services, Inc.

A benchmark date of June 30, 2014 was used for the purchase of these subsidiaries. Therefore, the consolidated financial statements include the income statement amounts from July 1 through December 31, 2014 of these two subsidiaries.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015 and 2014

Note P – Subsequent events:

Subsequent events are transactions or events that occur subsequent to the date of the financial statements and before the issuance of those financial statements. Management has evaluated transactions and events that occurred subsequent to December 31, 2015 and before the date these financial statements were available to be issued, March 4, 2016, and determined that no additional disclosures are necessary.

CONSOLIDATING INFORMATION



INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION

Board of Directors
West Kentucky Rural Telephone
Cooperative Corporation, Inc.
Mayfield, Kentucky

We have audited the consolidated financial statements of West Kentucky Rural Telephone Cooperative Corporation, Inc. and Subsidiaries as of and for the years ended December 31, 2015 and 2014, and our report thereon dated March 13, 2015, which expresses an unmodified opinion on those financial statements, appears on page 5. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements, themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Totherow, Haile, & Welch, PLLC

Certified Public Accountants
McMinnville, Tennessee
March 4, 2016

CONSOLIDATING BALANCE SHEETSWEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015

		West Kentucky Rural Telephone Cooperative, Inc.
		<u>ASSETS</u>
<u>CURRENT ASSETS</u>		
Cash - general		\$ 14,003,584
Telecommunications accounts receivable		883,029
Other accounts receivable		206,756
Materials and supplies		495,316
Prepaid pension		0
Prepaid service contract		0
Prepaid postretirement benefits		316,100
Prepaid expenses		1,537,760
Refundable tax deposit		0
	TOTAL CURRENT ASSETS	\$ 17,442,545
<u>NONCURRENT ASSETS</u>		
Securities available for sale		\$ 40,153,953
Investment in subsidiary		8,805,239
Investments		3,871,858
Prepaid service contract		0
Nonregulated assets		382,409
Goodwill		0
Other intangible assets		0
Deferred tax asset		0
	TOTAL NONCURRENT ASSETS	\$ 53,213,459
<u>PROPERTY, PLANT AND EQUIPMENT</u>		
Telecommunications plant in service		\$ 102,113,263
Telecommunications plant under construction		370,823
		\$ 102,484,086
Less accumulated depreciation		32,508,560
	TOTAL PROPERTY, PLANT AND EQUIPMENT	\$ 69,975,526
		<u>\$ 140,631,530</u>

CONSOLIDATING BALANCE SHEETS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015

Synergy Technology Partners, Inc. and Subsidiary	Telecom Management Services, Inc.	Reclassifications / Eliminations	Total
\$ 971,393	\$ 763,494	\$ 0	\$ 15,738,471
49,463	0	0	932,492
0	267,223	(336,641)	137,338
290,315	0	0	785,631
0	38,581	0	38,581
20,489	0	0	20,489
0	0	(174,100)	142,000
19,560	9,955	0	1,567,275
184,248	15,890	0	200,138
<u>\$ 1,535,468</u>	<u>\$ 1,095,143</u>	<u>\$ (510,741)</u>	<u>\$ 19,562,415</u>
\$ 0	\$ 659,136	\$ 0	\$ 40,813,089
0	0	(8,805,239)	0
133,930	993,500	0	4,999,288
379,024	0	0	379,024
2,234	0	0	384,643
2,799,587	0	0	2,799,587
2,700,000	0	0	2,700,000
127,222	69,760	0	196,982
<u>\$ 6,141,997</u>	<u>\$ 1,722,396</u>	<u>\$ (8,805,239)</u>	<u>\$ 52,272,613</u>
\$ 44,158,963	\$ 186,396	\$ 0	\$ 146,458,622
756,004	0	0	1,126,827
<u>\$ 44,914,967</u>	<u>\$ 186,396</u>	<u>\$ 0</u>	<u>\$ 147,585,449</u>
36,202,463	149,163	0	68,860,186
<u>\$ 8,712,504</u>	<u>\$ 37,233</u>	<u>\$ 0</u>	<u>\$ 78,725,263</u>
<u>\$ 16,389,969</u>	<u>\$ 2,854,772</u>	<u>\$ (9,315,980)</u>	<u>\$ 150,560,291</u>

CONSOLIDATING BALANCE SHEETS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015

		West Kentucky Rural Telephone Cooperative, Inc.
		<u>LIABILITIES AND MEMBERS'</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$	577,138
Advance billings and payments		543,838
Customer deposits		89,716
Current maturities on long-term debt		5,855,695
Accrued taxes		1,042,109
Accrued federal and state income taxes		310,374
Accrued interest		813
Accrued rents		158,960
Accrued salaries and wages		142,045
Accrued compensated absences		623,495
Other current liabilities		<u>1,291,863</u>
TOTAL CURRENT LIABILITIES		\$ 10,636,046
<u>LONG-TERM DEBT</u>		63,747,365
<u>OTHER LIABILITIES</u>		
Advance from related company		80,462
Deferred compensation		67,089
Postretirement benefits other than pension		0
Deferred taxes		<u>495,250</u>
TOTAL LIABILITIES		\$ 75,026,212
<u>MEMBERS' EQUITY</u>		
Memberships		54,689
Capital stock		0
Paid in capital		0
Retained earnings		0
Accumulated comprehensive income		301,459
Patronage capital		<u>65,249,170</u>
		<u>\$ 140,631,530</u>

CONSOLIDATING BALANCE SHEETS (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

December 31, 2015

Synergy Technology Partners, Inc. and Subsidiary	Telecom Management Services, Inc.	Reclassifications / Eliminations	Total
<u>EQUITY</u>			
\$ 195,024	\$ 17,506	\$ (256,179)	\$ 533,489
0	0	0	543,838
37,050	0	0	126,766
700,000	0	0	6,555,695
13,648	0	0	1,055,757
0	15,683	0	326,057
0	0	0	813
58,721	0	0	217,681
25,584	224,839	0	392,468
0	207,328	0	830,823
561,785	70,784	0	1,924,432
<hr/>	<hr/>	<hr/>	<hr/>
\$ 1,591,812	\$ 536,140	\$ (256,179)	\$ 12,507,819
4,325,000	0	0	68,072,365
0	0	(80,462)	0
0	944,816	0	1,011,905
0	174,100	(174,100)	0
2,949,978	0	0	3,445,228
<hr/>	<hr/>	<hr/>	<hr/>
\$ 8,866,790	\$ 1,655,056	\$ (510,741)	\$ 85,037,317
0	0	0	54,689
4,600,000	200,000	(4,800,000)	0
3,490,755	770,761	(4,261,516)	0
(567,576)	311,299	256,277	0
0	(82,344)	0	219,115
0	0	0	65,249,170
<hr/>	<hr/>	<hr/>	<hr/>
\$ 16,389,969	\$ 2,854,772	\$ (9,315,980)	\$ 150,560,291
<hr/>	<hr/>	<hr/>	<hr/>

CONSOLIDATING STATEMENTS OF INCOMEWEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

Year ended December 31, 2015

	West Kentucky Rural Telephone Cooperative, Inc.
Operating revenues:	
Local network services revenue	\$ 3,290,371
Network access service revenue	11,895,007
Long distance network services revenue	286,270
Broadband and wireless revenue	6,851,181
Retail sales	209,547
Video revenue	4,094,678
Security revenue	262,922
Management fee revenue	0
Professional service revenue	0
Miscellaneous revenue	1,505,567
Less: Uncollectible revenue	<u>(152,463)</u>
TOTAL OPERATING REVENUES	\$ 28,243,080
Operating expenses:	
Plant specific operations expense	\$ 4,535,226
Plant nonspecific operations expense	1,391,340
Provision for depreciation and amortization	7,687,530
Broadband and wireless expense	2,283,165
Cost of goods sold - retail	283,759
Video expenses	4,065,011
Security expenses	148,565
Customer operations expense	2,804,101
Corporate operations expense	2,567,405
Operating taxes	<u>1,393,023</u>
TOTAL OPERATING EXPENSES	\$ 27,159,125
OPERATING INCOME (LOSS)	\$ 1,083,955

CONSOLIDATING STATEMENTS OF INCOME (CON'TD)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

Year ended December 31, 2015

Synergy Technology Partners, Inc. and Subsidiary	Telecom Management Services, Inc.	Reclassifications / Eliminations	Total
\$ 1,524,890	\$ 0	\$ 0	\$ 4,815,261
2,593,954	0	0	14,488,961
337,518	0	0	623,788
0	0	(6,851,181)	0
0	0	(209,547)	0
0	0	(4,094,678)	0
0	0	(262,922)	0
0	1,710,180	(1,710,180)	0
0	1,174,624	(1,174,624)	0
66,299	73,870	0	1,645,736
(54,981)	0	0	(207,444)
\$ 4,467,680	\$2,958,674	\$ (14,303,132)	\$ 21,366,302
\$ 1,171,810	\$ 21,507	\$ 0	\$ 5,728,543
302,760	0	0	1,694,100
1,590,732	38,674	0	9,316,936
0	0	(2,283,165)	0
0	0	(283,759)	0
0	0	(4,065,011)	0
0	0	(148,565)	0
1,079,860	1,466,458	(584,860)	4,765,559
814,665	1,408,833	(1,526,216)	3,264,687
243,039	969	0	1,637,031
\$ 5,202,866	\$2,936,441	\$ (8,891,576)	\$ 26,406,856
\$ (735,186)	\$ 22,233	\$ (5,411,556)	\$ (5,040,554)

CONSOLIDATING STATEMENTS OF INCOME (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

Year ended December 31, 2015

	West Kentucky Rural Telephone Cooperative, Inc.
Other income (expense):	
Interest and dividend income	\$ 1,101,374
Nonregulated income (loss)	(159,043)
Gain from disposal of asset	0
Realized gain from sale of securities available for sale	1,765,021
Income from subsidiaries	222,255
Income from investments	26,092
	<hr/>
TOTAL OTHER INCOME	\$ 2,955,699
Fixed charges:	
Interest on long-term debt	\$ 2,461,932
Interest charged to construction - credit	(221,589)
	<hr/>
TOTAL FIXED CHARGES	\$ 2,240,343
	INCOME BEFORE TAXES ON INCOME
Taxes on income	\$ 1,799,311
	848,276
	<hr/>
NET INCOME	\$ 951,035
	<hr/> <hr/>

CONSOLIDATING STATEMENTS OF INCOME (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

Year ended December 31, 2015

Synergy Technology Partners, Inc. and Subsidiary	Telecom Management Services, Inc.	Reclassifications / Eliminations	Total
\$ 61,702	\$ 32,581	\$ 0	\$ 1,195,657
1,157,356	0	5,411,556	6,409,869
0	3,777	0	3,777
0	20,723	0	1,785,744
0	0	(222,255)	0
0	0	0	26,092
\$ 1,219,058	\$ 57,081	\$ 5,189,301	\$ 9,421,139
\$ 220,144	\$ 124	\$ 0	\$ 2,682,200
0	0	0	(221,589)
\$ 220,144	\$ 124	\$ 0	\$ 2,460,611
\$ 263,728	\$ 79,190	\$ (222,255)	\$ 1,919,974
102,150	18,513	0	968,939
\$ 161,578	\$ 60,677	\$ (222,255)	\$ 951,035

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOMEWEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

Year ended December 31, 2015

	West Kentucky Rural Telephone Cooperative, Inc.
Net income	\$ 951,035
Other comprehensive income:	
Unrealized gain (loss) from securities available for sale	(3,196,357)
Postretirement benefits other than pension:	
Amortization of transition obligation	0
Unrecognized gain	(38,500)
	<hr/>
OTHER COMPREHENSIVE INCOME (LOSS) BEFORE TAX	\$ (2,283,822)
Income tax benefit related to items of other comprehensive income	1,086,759
	<hr/>
COMPREHENSIVE INCOME	<u>\$ (1,197,063)</u>

CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME (CONT'D)WEST KENTUCKY RURAL TELEPHONE COOPERATIVE
CORPORATION, INC. AND SUBSIDIARIES

Year ended December 31, 2015

Synergy Technology Partners, Inc. and Subsidiary	Telecom Management Services, Inc.	Reclassifications / Eliminations	Total
\$ 161,578	\$ 60,677	\$ (222,255)	\$ 951,035
0	(42,934)	0	(3,239,291)
0	9,900	0	9,900
<u>0</u>	<u>91,800</u>	<u>0</u>	<u>53,300</u>
\$ 161,578	\$ 119,443	\$ (222,255)	\$ (2,225,056)
<u>0</u>	<u>(22,500)</u>	<u>0</u>	<u>1,064,259</u>
<u>\$ 161,578</u>	<u>\$ 96,943</u>	<u>\$ (222,255)</u>	<u>\$ (1,160,797)</u>