AT&T INC.
Form 11-K
June 22, 2017

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
(Mark One)
FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to

Commission File Number:1-8610

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

AT&T PUERTO RICO RETIREMENT SAVINGS PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

AT&T INC.

208 S. Akard, Dallas, Texas 75202

AT&T PUERTO RICO RETIREMENT SAVINGS PLAN

Financial Statements, Supplemental Schedules and Exhibit

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Plan Administrator
of the AT&T Retirement Savings Plan and AT&T Puerto Rico Retirement Savings Plan

We have audited each of the accompanying statements of net assets available for benefits of the AT&T Retirement Savings Plan and AT&T Puerto Rico Retirement Savings Plan (collectively referred to as the Plans) as of December 31, 2016 and 2015, and the related statement of changes in net assets available for benefits for each of the Plans for the year ended December 31, 2016. These financial statements are the responsibility of the Plans' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plans' internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plans' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements for each of the Plans referred to above present fairly, in all material respects, the net assets available for benefits of the AT&T Retirement Savings Plan and AT&T Puerto Rico Retirement Savings Plan at December 31, 2016 and 2015, and the changes in their net assets available for benefits for the year ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

The accompanying supplemental schedules of assets held (at end of year) as of December 31, 2016, has been subjected to audit procedures performed in conjunction with the audit of the AT&T Retirement Savings Plan's and AT&T Puerto Rico Retirement Savings Plan's financial statements. The information in the supplemental schedules is the responsibility of the Plans' management. Our audit procedures included determining whether the information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedules. In forming our opinion on the information, we evaluated whether such information, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Dallas, Texas /s/ Ernst & Young LLP
June 22, 2017

Statements of Net Assets Available For Benefits
(Dollars in Thousands)

	December 31, 2016		December 31, 2015	
	AT&T Retirement Savings Plan	AT&T Puerto Rico Retirement Savings Plan	AT&T Retirement Savings Plan	AT&T Puerto Rico Retirement Savings Plan
Assets				
Cash	$19,951	$ -	$-	$ -
Investment in AT&T Savings Plan Master Trust, (Note 4)	31,761,625	88,253	28,829,979	75,898
Investment in DIRECTV Savings Plan Master Trust, (Note 4)	2,303,675	-	-	-
Investments at Fair Value, (Note 4)	3,253	-	-	-
Receivables:				
Notes receivable from participants	694,508	8,083	636,382	7,594
Employer contribution receivable	5,193	-	2,629	60
Participant contribution receivable	4,301	-	4,185	91
Net Assets Available for Benefits	$34,792,506	$ 96,336	$29,473,175	$ 83,643

See Notes to Financial Statements.

Statements of Changes in Net Assets Available For Benefits
For the Year Ended December 31, 2016
(Dollars in Thousands)

	AT&T Retirement Savings Plan	AT&T Puerto Rico Retirement Savings Plan
Net Assets Available for Benefits, December 31, 2015	$29,473,175	$ 83,643
Additions to Net Assets		
Contributions:		
Participant contributions	1,117,483	5,196
Employer contributions	549,832	3,421
Rollover contributions	79,127	53
Investment Income:		
Net income from investment in AT&T Savings Plan Master Trust	3,229,886	8,734
Interest income on notes receivable from participants	25,866	323
Total Additions	5,002,194	17,727
Deductions from Net Assets		
Administrative Expenses	19,533	190
Distributions	2,047,269	4,844
Total Deductions	2,066,802	5,034
Net increase before transfers	2,935,392	12,693
Transfer from other qualified savings plan (Note 1)	2,379,270	-
Transfers from affiliated plans	4,669	-
Net Assets Available for Benefits, December 31, 2016	$34,792,506	$ 96,336

See Notes to Financial Statements.

Notes to Financial Statements
(Dollars in Thousands)
NOTE 1. PLAN DESCRIPTIONS

The following descriptions provide only general information. Detailed provisions covering participant eligibility, participant allotments from pay, participant withdrawals, participant loans, employer contributions and related vesting of contributions and plan expenses are provided in the plan texts and prospectuses. The AT&T Retirement Saving Plan and AT&T Puerto Rico Retirement Savings Plan (collectively referred to as the Plans) are defined contribution plans and are subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

The AT&T Retirement Savings Plan (ARSP) was originally established by BellSouth Corporation (BellSouth) to provide a convenient way for eligible non-management and bargained for employees of participating BellSouth companies to save on a regular and long-term basis. In December 2006, BellSouth was acquired by AT&T Inc. (AT&T). The ARSP became sponsored by AT&T Inc. effective December 31, 2008.

The AT&T Puerto Rico Retirement Savings Plan (ARSP-PR) was originally established by CCPR Inc. to provide a convenient way for eligible employees of its Puerto Rico subsidiary, CCPR Services Inc., and certain affiliates, to save on a regular and long-term basis. The ARSP-PR became sponsored by AT&T effective December 31, 2008.

The Plans participate in the AT&T Savings Plan Master Trust (AT&T Master Trust) for certain participant investment fund options as described below. The AT&T Master Trust invests in the AT&T Savings Group Investment Trust (Group Trust) for the remaining participant investment fund options. The Bank of New York (BNY) Mellon Corporation (BNY Mellon) serves as trustee for both the AT&T Master Trust and Group Trust. With respect to the ARSP-PR, BNY Mellon serves as a U.S. custodian pursuant to a custodian agreement and Oriental Financial Group serves as trustee of the associated trust known as the AT&T Puerto Rico Retirement Savings Plan Trust. Fidelity Investments Institutional Operations Company, Inc. (Fidelity) serves as recordkeeper for the Plans.

Effective December 31, 2016, the Company merged the DIRECTV 401(k) Plan into the ARSP. As a result of the merger, net assets in the amount of $2,355,620 were transferred into the ARSP on December 31, 2016, and included in the Transfers from other qualified savings plans line on the Statement of Changes in Net Assets Available for Benefits. The DIRECTV Master Trust was merged into the AT&T Savings Plan Master Trust in January 2017. State Street Bank and Trust Company (State Street) serve as the trustee of the DIRECTV Savings Plan Master Trust (DIRECTV Master Trust), and with the completion of the trust merger, State Street's role as trustee was terminated. All provisions of the ARSP remain the same.

Effective December 31, 2016, the Company merged the Alascom 401(k) Plan (Alascom) into the ARSP. As a result of the merger, net assets in the amount of $23,650 were transferred into the ARSP on December 31, 2016, and included in the Transfers from other qualified savings plans line on the Statement of Changes in Net Assets Available for Benefits. The assets of Alascom were merged into the AT&T Savings Plan Master Trust in January 2017, Wells Fargo Bank, N.A. (Wells Fargo) serves as the trustee of the investments held outside of the master trusts, and with the completion of the trust merger, Wells Fargo's role as trustee was terminated. All provisions of the ARSP will remain the same.

During 2016, participants could invest their contributions in one or more of 11 funds in 1% increments:

· AT&T Total Return Bond Fund*
· AT&T U.S. Stock Fund*
· AT&T International Stock Fund*
· AT&T Stable Value Fund*
· AT&T Age-Based Asset Allocation Funds
· Small and Mid-Sized U.S. Stock Index Fund**
· International Stock Index Fund**
· Large Cap U.S. Stock Index Fund**
· AT&T Shares Fund**
· Fidelity BrokerageLink®**

(based on retirement date)**
· Total U.S. Stock Market Index Fund**

* Investment fund option of the Group Trust.
** Investment fund option of the AT&T Master Trust.

Participants contribute to the Plans through payroll allotments. The Company contributes to the Plans by matching the participants' contributions based on the provisions of the respective plan. For the ARSP, some matching contributions are made in the form of cash and are participant directed immediately upon allocation. The majority of Company matching contributions for the ARSP and all Company matching contributions for the ARSP-PR are made solely in the form of shares of AT&T's common stock. Matching contributions made in stock into the ARSP are held in an Employee Stock Ownership Plan (ESOP), which is part of the AT&T Shares Fund, within the AT&T Master Trust. Matching contributions made in stock into the ARSP-PR are held in a separate stock bonus portion of the ARSP-PR. Company contributions made to the Plans can be immediately diversified into any of the fund options above.

Notes to Financial Statements (Continued)
(Dollars in Thousands)

Dividends on AT&T shares held in the ARSP can either be reinvested in the AT&T Shares Fund on a quarterly basis, or paid into a short-term interest bearing fund for distribution (or pass-through) before the end of the year. Interest earned on dividends held in the short-term interest bearing fund are used to purchase additional units of the AT&T Shares Fund in the participant's account. During 2016, participants in the ARSP elected to receive $27,369 in dividend distributions, which are included in distributions on the statements of changes in net assets available for benefits. Dividends on AT&T shares held in the ARSP are reinvested in the AT&T Shares Fund on a quarterly basis. Dividends on AT&T shares held in the ARSP-PR are not eligible for pass-through and are reinvested in the AT&T Shares Fund on a quarterly basis.

Each participant is entitled to exercise voting rights attributable to the AT&T shares allocated to their account and is notified by the Company prior to the time that such rights may be exercised. Subject to the fiduciary provisions of ERISA, the trustee will not vote any allocated shares for which instructions have not been given by the participant. The trustee votes any unallocated shares in the same proportion as it votes those shares that were allocated to the extent the proportionate vote is consistent with the trustee's fiduciary obligation under ERISA. Participants have the same voting rights in the event of a tender or exchange offer.

Although it has not expressed any intent to do so, AT&T has the right under the Plans to discontinue its contributions at any time and to terminate the Plans subject to the provisions of ERISA. In the event that the Plans are terminated, subject to the conditions set forth by ERISA, the account balances of all participants shall be 100% vested.

Administrative and Operating Expenses; Investment Manager Fees Except to the extent paid by the Company, all expenses incident to the administration and operation of the Plans are charged to participants, either directly to their accounts or through the investment funds offered under the Group Trust or AT&T Master Trust, in accordance with administrative procedures established by the plan administrator. Investment manager fees are charged through the investment funds. Expenses charged directly to participant accounts (e.g., recordkeeping, communications fees) are reflected as a periodic fee on the participant account statements. In addition, expenses and fees with respect to certain transactions and services (e.g., plan loan initiation fees) are charged directly to participants who incur them rather than to the Plans as a whole.

Subsequent Events Effective April 17, 2017, the Company merged the DIRECTV Puerto Rico 401(k) Plan into the ARSP-PR. As a result of the merger, net assets in the amount of $6,623 were transferred into the ARSP-PR in April 2017. All provisions of the ARSP-PR will remain the same.

Effective April 17, 2017, the Company merged the Quickplay 401(k) Plan into the ARSP. As a result of the merger, net assets in the amount of $2,414 were transferred into the ARSP in April 2017. All provisions of the ARSP will remain the same.

NOTE 2. ACCOUNTING POLICIES

The accompanying financial statements were prepared in conformity with U.S. generally accepted accounting principles (GAAP), which require management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Distributions are recorded when paid.

Investment Valuation and Income Recognition Investments are stated at fair value except those investments that are fully benefit-responsive investments which are stated at contract value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements. Investments in securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the year. If no sale was reported on that date, they are valued at the last reported bid price. Shares of registered investment companies (i.e. mutual funds) are valued based on quoted market prices, which represent the net asset value of shares held at year-end.

Common/collective trust funds and 103-12 investment entities (i.e. an investment entity that holds the assets of two or more plans which are not members of a related group or employee benefit plan) are valued at quoted redemption values that represent the net asset values of units held at year-end. Publicly traded partnerships are valued using trades on a national securities exchange based on the last reported sales price on the last business day of the year.

Notes to Financial Statements (Continued)
(Dollars in Thousands)
Investment contracts held by a defined contribution plan are required to be reported at contract value. Contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plans. The Group Trust invests in fully benefit-responsive and synthetic guaranteed investment contracts (Synthetic GICs). The underlying investments of the Synthetic GICs are owned by the Group Trust and are comprised of corporate bonds and notes, registered investment companies and government securities. The contract value of the fully benefit-responsive investment contracts represents contributions plus earnings, less participant withdrawals and administrative expenses.

Purchases and sales of securities are reflected as of the trade date. Dividend income is recognized on the ex-dividend date. Interest earned on investments is recognized on the accrual basis.

Notes Receivable from Participants Notes receivable from participants represent participant loans that are recorded at their unpaid principal balance plus any accrued, but unpaid interest. Interest income on notes receivable from participants is recorded when it is earned. Related fees are recorded as administrative expenses and are expensed when they are incurred. No allowance for credit losses has been recorded as of December 31, 2016 or 2015. If a participant ceases to make loan repayments and the plan administrator deems the participant loan to be a distribution, the participant loan balance is reduced and a distribution is recorded.

Recent Accounting Standards

In February 2017, the Financial Accounting Standards Board issued Accounting Standards Update No. 2017-06, "Employee Benefit Plan Master Trust Reporting" (ASU 2017-06). ASU 2017-06 requires plans to report interests in a master trust and changes in the value of that interest as separate line items on the plan's financial statements. The plans must also disclose the master trust's investments by general type as well as other assets and liabilities and disclose the dollar amount of the plan's interest in each category disclosed. The new standard is effective for fiscal years beginning after December 15, 2018, with retrospective application. Early adoption is permitted. Management is currently evaluating this updated guidance.

NOTE 3. FAIR VALUE MEASUREMENTS

ASC 820, Fair Value Measurement, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:
- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted market prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Notes to Financial Statements (Continued)
(Dollars in Thousands)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation methodologies described in Note 2 may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Plan management 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. There have been no changes in the methodologies used at December 31, 2016 and 2015.

See Note 4 for fair value hierarchy for the Group Trust's and AT&T Master Trust's investments.

NOTE 4. INVESTMENTS

The Plans held investments in the AT&T Master Trust (for certain investment fund options as disclosed in Note 1), and the AT&T Master Trust held an investment in the Group Trust as of December 31, 2016 and 2015, and for the year ended December 31, 2016.

AT&T Savings Plan Master Trust Investments

AT&T established the AT&T Master Trust to manage assets of pooled investment options among various AT&T sponsored employee benefit plans.

Each participating plan's interest in the investment fund options (i.e., separate accounts) of the AT&T Master Trust is based on account balances of the participants and their elected investment fund options. The AT&T Master Trust assets are allocated among the participating plans by assigning to each plan those transactions (primarily contributions, benefit payments, and expenses) that can be specifically identified, and by allocating investment income and administrative expenses related to the AT&T Master Trust on a daily basis based on each participant's account balance within each investment fund option.

The participating plans and ownership percentages of the AT&T Master Trust are listed below:

	December 31,	
	2016	2015
AT&T Retirement Savings Plan	99.72 %	99.74 %
AT&T Puerto Rico Retirement Savings Plan	0.28	