

DUO COUNTY TELEPHONE COOPERATIVE CORPORAT
AND SUBSIDIARIES

REPORT ON AUDIT OF CONSOLIDATED FINANC
STATEMENTS AND ADDITIONAL INFORMATION

For the Years Ended
December 31, 2011 and 2010

CAMPBELL, MYERS & RUTLEDGE
CERTIFIED PUBLIC ACCOUNTANTS

PUBLIC SERVICE COMMISSION
ANNUAL REPORT BRANCH

APR 6 2012

RECEIVED
EXAMINED BY _____

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES

REPORT ON AUDIT OF CONSOLIDATED FINANCIAL
STATEMENTS AND ADDITIONAL INFORMATION

For the Years Ended
December 31, 2011 and 2010

CAMPBELL, MYERS & RUTLEDGE, PLLC

Certified Public Accountants

Cindy L. Greer, CPA
L. Joe Rutledge, CPA
Jonathan W. Belcher, CPA
R. Brent Billingsley, CPA

Skip R. Campbell, CPA
Charles E. Rutledge, CPA
Sammie D. Parsley, CPA
Ryan A. Mosier, CPA
Jenna B. Pace, CPA

410 South Broadway
Glasgow, KY 42141
Telephone (270) 651-2163
Fax (270) 651-6677
www.cmr-cpa.com

Board of Directors
Duo County Telephone
Cooperative Corporation, Inc.
Jamestown, Kentucky 42629

In planning and performing our audit of the financial statements of Duo County Telephone Cooperative Corporation, Inc., as of and for the year ended December 31, 2011 and 2010, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers, we considered Duo County Telephone Cooperative Corporation, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

7 CFR 1773.33 requires comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of the internal control

over financial reporting, of compliance with specific RUS loan and security instrument provisions, and of additional matters. The specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33(e)(2), and related party transactions and investments. In addition, our audits of the financial statements also included the procedures specified in 7 CFR Part 1773.38 - .45. Our objective was not to provide an opinion on these specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports other than our independent auditors' report, and our independent auditors' report on internal control over financial reporting and on compliance and other matters, all dated March 21, 2012 or summary of recommendations related to our audits have been furnished to management.

Our comments on specific aspects of the internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters regarding Duo County Telephone Cooperative Corporation, Inc.'s internal control over financial reporting and its operation that we consider to be a material weakness as previously defined with respect to:

- The accounting procedures and records;
- The process for accumulating and recording labor, material, and overhead costs, and the distribution of these costs to construction, retirement, and maintenance or other expense accounts; and
- The materials control.

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

Management's responsibility for compliance with laws, regulations, contracts, and grants is set forth in our independent auditors' report on internal control over financial reporting and on compliance and other matters dated March 21, 2012, and should be read in conjunction with this report. At your request, we have performed the procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts, and grants. The procedures we performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract, agreement or lease between the borrower and an affiliate for the year ended December 31, 2011 of Duo County Telephone Cooperative Corporation, Inc.:
 1. Obtained and read a borrower-prepared schedule of new written contracts, agreements or leases entered into during the year between the borrower and an affiliate as defined in 1773.33(e)(2)(i).
 2. Reviewed Board of Director minutes to ascertain whether board-approved written contracts are included in the borrower-prepared schedule.
 3. Noted the existence of written RUS approval of each contract listed by the borrower.
- Procedure performed with respect to the requirement to submit RUS Form 479 to the RUS:
 1. Agreed amounts reported in Form 479 to Duo County Telephone Cooperative Corporation, Inc.'s records.

The results of our tests indicate that, with respect to items tested, Duo County Telephone Cooperative Corporation, Inc., complied in all material respects, with the specific RUS loan and security instrument provisions referred to below. The specific provisions tested, as well as any exceptions noted, include the requirements that:

- The borrower has obtained written approval from RUS to enter into any contract, agreement or lease with an affiliate as defined in 1773.33(e)(2)(i); and
- The borrower has submitted its Form 479 to the RUS and the Form 479, Financial and Statistical Report, as of December 31, 2011, represented by the borrower as having been submitted to RUS is in agreement with Duo County Telephone Cooperative Corporation, Inc.'s audited records in all material respects.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audits of the financial statements of Duo County Telephone Cooperative Corporation, Inc., nothing came to our attention that caused us to believe that Duo County Telephone Cooperative Corporation, Inc., failed to comply with respect to:

- The reconciliation of continuing property records to the controlling general ledger plant accounts addressed at 7 CFR Part 1773.33(c)(1);
- The clearing of the construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR Part 1773.33(c)(2);
- The retirement of plant addressed at 7 CFR Part 1773.33(c)(3) and (4);

- The approval of the sale, lease or transfer of capital assets and disposition of proceeds for the sale or lease of plant, material, or scrap addressed at 7 CFR 1773.33(c)(5);
- The disclosure of material related party transactions, in accordance with Statement of Financial Accounting Standards No. 57, Related Party Transactions, for the year ended December 31, 2011 in the financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33(e); and
- The detailed schedule of investments.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The detailed schedule of investments in affiliated companies required by 7 CFR 1773.33(i), (schedule attached), is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Diversified Holding Corporation is a wholly owned subsidiary which invests in businesses providing cellular telephone service and cable television service. The Cooperative accounts for the investment on the equity basis.

Bluegrass Network LLC represents the Cooperative's 20% investment in a partnership which provides cellular telephone service. The Cooperative accounts for the investment on the equity basis.

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.

Campbell, Myers & Ratledge, PLLC
Certified Public Accountants

March 21, 2012

Duo County Telephone Coop. Corp., Inc.
Subsidiary Investment Schedule

	Diversified Holding Corp.	Bluegrass Network LLC
Book Value of Investments as of 12/31/89	\$0	\$0
Investment Advances as of 12/31/90	\$3,400,000	\$0
Dividends as of 12/31/90	\$0	N/A
Partnership Distribution as of 12/31/90	N/A	\$0
Undistributed Earnings(Loss) as of 12/31/90	\$19,208	\$0
Book Value of Investments as of 12/31/90	\$3,419,208	\$0
Investment Advances as of 12/31/91	\$1,100,000	\$0
Dividends as of 12/31/91	\$0	N/A
Partnership Distribution as of 12/31/91	N/A	\$0
Undistributed Earnings(Loss) as of 12/31/91	\$89,940	\$0
Book Value of Investments as of 12/31/91	\$4,609,148	\$0
Investment Advances as of 12/31/92	\$130,000	\$0
Dividends as of 12/31/92	\$0	N/A
Partnership Distribution as of 12/31/92	N/A	\$0
Undistributed Earnings(Loss) as of 12/31/92	(\$23,732)	\$0
Book Value of Investments as of 12/31/92	\$4,715,416	\$0
Investment Advances as of 12/31/93	\$300,000	\$0
Dividends as of 12/31/93	\$0	N/A
Partnership Distribution as of 12/31/93	N/A	\$0
Undistributed Earnings(Loss) as of 12/31/93	\$14,582	\$0
Book Value of Investments as of 12/31/93	\$5,029,998	\$0
Investment Advances as of 12/31/94	\$540,000	\$5,000
Dividends as of 12/31/94	\$0	N/A
Partnership Distribution as of 12/31/94	N/A	\$0
Undistributed Earnings(Loss) as of 12/31/94	\$122,030	\$0
Book Value of Investments as of 12/31/94	\$5,692,028	\$5,000
Investment Advances as of 12/31/95	\$160,000	\$341,000
Dividends as of 12/31/95	\$0	N/A
Partnership Distribution as of 12/31/95	N/A	\$0
Undistributed Earnings(Loss) as of 12/31/95	\$469,230	\$158
Book Value of Investments as of 12/31/95	\$6,321,258	\$346,158

Duo County Telephone Coop. Corp., Inc.
Subsidiary Investment Schedule

	Diversified Holding Corp.	Bluegrass Network LLC
Investment Advances as of 12/31/96	\$0	\$400,000
Dividends as of 12/31/96	\$0	N/A
Partnership Distribution as of 12/31/96	N/A	\$0
Undistributed Earnings(Loss) as of 12/31/96	\$600,451	\$15,389
Book Value of Investments as of 12/31/96	\$6,921,709	\$761,547
Investment Advances as of 12/31/97	\$0	\$190,000
Dividends as of 12/31/97	\$0	N/A
Partnership Distribution as of 12/31/97	N/A	\$0
Undistributed Earnings(Loss) as of 12/31/97	\$876,694	\$32,110
Book Value of Investments as of 12/31/97	\$7,798,403	\$983,657
Investment Advances as of 12/31/98	\$0	\$0
Dividends as of 12/31/98	\$0	N/A
Partnership Distribution as of 12/31/98	N/A	(\$28,114)
Undistributed Earnings(Loss) as of 12/31/98	\$678,663	\$182,619
Book Value of Investments as of 12/31/98	\$8,477,066	\$1,138,162
Investment Advances as of 12/31/99	\$0	\$0
Dividends as of 12/31/99	\$0	N/A
Partnership Distribution as of 12/31/99	N/A	\$0
Undistributed Earnings(Loss) as of 12/31/99	\$844,128	\$216,047
Book Value of Investments as of 12/31/99	\$9,321,194	\$1,354,209
Investment Advances as of 12/31/00	\$0	\$0
Dividends as of 12/31/00	\$0	N/A
Partnership Distribution as of 12/31/00	N/A	\$0
Undistributed Earnings(Loss) as of 12/31/00	\$662,365	\$193,730
Book Value of Investments as of 12/31/00	\$9,983,559	\$1,547,939
Investment Advances as of 12/31/01	\$0	\$0
Dividends as of 12/31/01	\$0	N/A
Partnership Distribution as of 12/31/01	N/A	\$0
Undistributed Earnings(Loss) as of 12/31/01	\$788,508	\$149,778
Book Value of Investments as of 12/31/01	\$10,772,067	\$1,697,717
Investment Advances as of 12/31/02	\$0	\$0
Dividends as of 12/31/02	\$0	N/A
Partnership Distribution as of 12/31/02	N/A	\$0
Undistributed Earnings(Loss) as of 12/31/02	\$984,763	\$146,181
Book Value of Investments as of 12/31/02	\$11,756,830	\$1,843,898

Duo County Telephone Coop. Corp., Inc.
Subsidiary Investment Schedule

	Diversified Holding Corp.	Bluegrass Network LLC
Investment Advances as of 12/31/03	\$3,000,000	\$0
Dividends as of 12/31/03	\$0	\$0
Partnership Distribution as of 12/31/03	N/A	(\$1,200)
Undistributed Earnings(Loss) as of 12/31/03	\$958,217	\$141,384
Book Value of Investments as of 12/31/03	\$15,715,047	\$1,984,082
Investment Advances as of 12/31/04	\$770,000	\$0
Dividends as of 12/31/04	\$0	\$0
Partnership Distribution as of 12/31/04	N/A	(\$4,719)
Undistributed Earnings(Loss) as of 12/31/04	\$2,055,836	\$231,989
Correct 2003 Earnings (Loss)	\$0	\$140
Book Value of Investments as of 12/31/04	\$18,540,883	\$2,211,492
Total Investment Advances	\$9,400,000	\$936,000
Total Dividends	\$0	N/A
Partnership Distributions as of 12/31/04	N/A	(\$34,033)
Total Undistributed Earnings(Loss)	\$9,140,883	\$1,309,525
Total Book Value of Investments	\$18,540,883	\$2,211,492
Investment Advances as of 12/31/05	\$0	\$0
Dividends as of 12/31/05	\$0	\$0
Partnership Distribution as of 12/31/05	N/A	(\$3,392)
Undistributed Earnings(Loss) as of 12/31/05	\$2,877,510	\$257,798
Book Value of Investments as of 12/31/05	\$21,418,393	\$2,465,898
Total Investment Advances	\$9,400,000	\$936,000
Total Dividends	\$0	N/A
Partnership Distributions as of 12/31/05	N/A	(\$37,425)
Total Undistributed Earnings(Loss)	\$12,018,393	\$1,567,323
Total Book Value of Investments	\$21,418,393	\$2,465,898
Investment Advances as of 12/31/06	\$3,000,000	\$0
Dividends as of 12/31/06	\$0	\$0
Partnership Distribution as of 12/31/06	N/A	(\$575,458)
Undistributed Earnings(Loss) as of 12/31/06	\$4,777,093	\$248,792
Book Value of Investments as of 12/31/06	\$29,195,487	\$2,139,233
Total Investment Advances	\$12,400,000	\$936,000
Total Dividends	\$0	N/A
Partnership Distributions as of 12/31/06	N/A	(\$612,883)
Total Undistributed Earnings(Loss)	\$16,795,486	\$1,816,115
Total Book Value of Investments	\$29,195,486	\$2,139,233

Duo County Telephone Coop. Corp., Inc.
Subsidiary Investment Schedule

	Diversified Holding Corp.	Bluegrass Network LLC
Investment Advances as of 12/31/07	\$1,000,000	\$0
Dividends as of 12/31/07	\$0	\$0
Partnership Distribution as of 12/31/07	N/A	(\$200,000)
Undistributed Earnings(Loss) as of 12/31/07	\$5,683,016	\$288,504
Book Value of Investments as of 12/31/07	\$35,878,503	\$2,227,736
Total Investment Advances	\$13,400,000	\$936,000
Total Dividends	\$0	N/A
Partnership Distributions as of 12/31/07	N/A	(\$812,883)
Total Undistributed Earnings(Loss)	\$22,478,503	\$2,104,619
Total Book Value of Investments	\$35,878,503	\$2,227,736
Investments Advances as of 12/31/08	\$0	\$0
Dividends as of 12/31/08	\$0	\$0
Partnership Distribution as of 12/31/08	N/A	(\$200,000)
Undistributed Earnings (Loss) as of 12/31/08	\$6,490,036	\$386,497
Book Value of Investments as of 12/31/08	\$42,368,539	\$2,414,233
Total Investment Advances	\$13,400,000	\$936,000
Total Dividends	\$0	N/A
Partnership Distribution as of 12/31/08	N/A	(\$1,012,883)
Total Undistributed Earnings (Loss)	\$28,968,539	\$2,491,116
Total Book Value of Investments	\$42,368,539	\$2,414,233
Investments Advances as of 12/31/09	\$0	\$0
Dividends as of 12/31/09	\$0	\$0
Partnership Distribution as of 12/31/09	N/A	(\$200,000)
Undistributed Earnings (Loss) as of 12/31/09	\$6,945,556	\$424,140
Book Value of Investments as of 12/31/09	\$49,314,095	\$2,638,373
Total Investment Advances	\$13,400,000	\$936,000
Dividends as of 12/31/09	\$0	N/A
Partnership Distributions as of 12/31/09	N/A	(\$1,212,883)
Total Undistributed Earnings (Loss)	\$35,914,095	\$2,915,256
Total Book Value of Investments	\$49,314,095	\$2,638,373
Investments Advances as of 12/31/10	\$0	\$0
Dividends as of 12/31/10	\$0	\$0
Partnership Distribution as of 12/31/10	N/A	(\$200,000)
Undistributed Earnings (Loss) as of 12/31/10	\$7,336,840	\$389,345
Book Value of Investments as of 12/31/10	\$56,650,935	\$2,827,718
Total Investment Advances	\$13,400,000	\$936,000
Dividends as of 12/31/10	\$0	N/A
Partnership Distributions as of 12/31/10	N/A	(\$1,412,883)
Total Undistributed Earnings (Loss)	\$43,250,935	\$3,304,601
Total Book Value of Investments	\$56,650,935	\$2,827,718

Duo County Telephone Coop. Corp., Inc.
Subsidiary Investment Schedule

	Diversified Holding Corp.	Bluegrass Network LLC
Investments Advances as of 12/31/11	\$0	\$0
Dividends as of 12/31/11	\$0	\$0
Partnership Distribution as of 12/31/11	N/A	(\$200,000)
Undistributed Earnings (Loss) as of 12/31/11	\$7,174,007	\$557,902
Book Value of Investments as of 12/31/11	\$63,824,942	\$3,185,620
Total Investment Advances	\$13,400,000	\$936,000
Dividends as of 12/31/11	\$0	N/A
Partnership Distributions as of 12/31/11	N/A	(\$1,612,883)
Total Undistributed Earnings (Loss)	\$50,424,942	\$3,862,503
Total Book Value of Investments	\$63,824,942	\$3,185,620

CAMPBELL, MYERS & RUTLEDGE, PLLC

Certified Public Accountants

Cindy L. Greer, CPA
L. Joe Rutledge, CPA
Jonathan W. Belcher, CPA
R. Brent Billingsley, CPA

Skip R. Campbell, CPA
Charles E. Rutledge, CPA
Sammie D. Parsley, CPA
Ryan A. Mosier, CPA
Jenna B. Pace, CPA

410 South Broadway
Glasgow, KY 42141
Telephone (270) 651-2163
Fax (270) 651-6677
www.cmr-cpa.com

March 21, 2012

To the Board of Directors
Duo County Cooperative Corporation, Inc.

We have audited the financial statements of Duo County Cooperative Corporation, Inc. for the year ended December 31, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated December 2, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Duo County Cooperative Corporation, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2011. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Duo County Cooperative Corporation, Inc's financial statements was:

Management's estimate of the depreciable lives of capital assets is based on the required guidelines as determined by their regulatory body, Kentucky Public Service Commission. We evaluated the key factors and assumptions used to develop the appropriate asset lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 21, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of Duo County Cooperative Corporation, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Campbell, Myers & Ratledge, PLLC

CONTENTS

	<u>Pages</u>
Independent Auditors' Report	1
Consolidated Financial Statements:	
Balance Sheets	2 - 3
Statements of Income	4
Statements of Patronage Capital and Other Equities	5
Statements of Cash Flows	6 - 7
Notes to Consolidated Financial Statements	8 -14
Additional Information:	
Independent Auditors' Report on Consolidating Information	15
Schedule I - Consolidating Balance Sheet	16
Schedule II - Consolidating Statement of Income	17
Schedule III – Consolidating Statement of Cash Flows	18 - 19
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>	20 - 21

CAMPBELL, MYERS & RUTLEDGE, PLLC

Certified Public Accountants

Cindy L. Greer, CPA
L. Joe Rutledge, CPA
Jonathan W. Belcier, CPA
R. Brent Billingsley, CPA

Skip R. Campbell, CPA
Charles E. Rutledge, CPA
Sammie D. Parsley, CPA
Ryan A. Mosier, CPA
Jenna B. Pace, CPA

410 South Broadway
Glasgow, KY 42141
Telephone (270) 651-2163
Fax (270) 651-6677
www.cmr-cpa.com

Independent Auditors' Report

Board of Directors
Duo County Telephone Cooperative Corporation, Inc.
Jamestown, Kentucky 42629

We have audited the accompanying consolidated balance sheets of Duo County Telephone Cooperative Corporation, Inc. and Subsidiaries, as of December 31, 2011 and 2010, and the related consolidated statements of revenue, patronage capital and memberships and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Duo County Telephone Cooperative Corporation, Inc. and Subsidiaries, as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated March 21, 2012, on our consideration of Duo County Telephone Cooperative Corporation, Inc.'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. 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 considered in assessing the results of our audit.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants

March 21, 2012

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
BALANCE SHEETS, December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,781,279	\$ 3,798,060
Temporary Cash Investments	12,525,588	5,165,751
Cash, RUS construction fund	72,214	97,203
Accounts receivable, less allowance for doubtful accounts of \$184,417 in 2011 and \$204,059 in 2010.	2,163,277	1,363,029
Materials and supplies at average cost which is less than market	2,214,257	1,667,007
Accrued interest receivable	151,684	112,848
Prepaid expenses	227,574	180,911
Total current assets	<u>22,135,873</u>	<u>12,384,809</u>
Other assets		
Cash Investments	14,062,164	21,446,939
Nonregulated investments	352,860	300,496
Investment in affiliated companies	41,603,888	39,640,502
Deferred charges	2,642,386	2,634,183
Total other assets	<u>58,661,298</u>	<u>64,022,120</u>
Telephone plant, at cost (substantially all pledged as collateral on long-term debt to RUS)		
Telephone plant in service	80,499,348	76,182,643
Telephone plant under construction	9,984,320	6,334,313
Nonoperating plant-land	52,008	52,008
Total	90,535,676	82,568,964
Less accumulated depreciation	<u>49,482,010</u>	<u>45,848,744</u>
Telephone plant, net	<u>41,053,666</u>	<u>36,720,220</u>
	<u>\$ 121,850,837</u>	<u>\$ 113,127,149</u>

The accompanying are an integral
part of the financial statements.

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
BALANCE SHEETS, December 31, 2011 and 2010

LIABILITIES AND MEMBERS' EQUITIES

	<u>2011</u>	<u>2010</u>
Current liabilities:		
Current portion of long-term debt	\$ 3,566,000	\$ 3,235,000
Accounts payable, includes construction contract payables of \$529,814 in 2011 and \$181,245 in 2010	1,659,871	856,213
Customer deposits	15,125	17,999
Accrued expenses	<u>2,172,631</u>	<u>2,257,368</u>
Total current liabilities	<u>7,413,627</u>	<u>6,366,580</u>
Deferred income taxes-noncurrent	10,634,735	9,310,136
Long-term debt	<u>3,204,659</u>	<u>6,100,321</u>
Total long term liabilities	13,839,394	15,410,457
Other liabilities and deferred credits:		
Deferred credit	<u>161,084</u>	<u>125,715</u>
Total other liabilities and deferred credits	<u>161,084</u>	<u>125,715</u>
Members' equities:		
Patronage capital	46,726,796	45,333,330
Other equities	52,614,301	44,871,053
Other member capital	<u>1,095,635</u>	<u>1,020,014</u>
Total members' equities	<u>100,436,732</u>	<u>91,224,397</u>
	<u>\$ 121,850,837</u>	<u>\$ 113,127,149</u>

The accompanying are an integral
part of the financial statements.

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
STATEMENTS OF INCOME

For The Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Local network services	\$ 8,302,660	\$ 7,997,919
Network access services	9,044,811	9,146,506
Carrier billing and collection	115,994	130,150
Miscellaneous operating revenue	1,848,639	1,658,986
Uncollectible revenue	<u>(102,287)</u>	<u>(96,804)</u>
Total operating revenues	<u>19,209,817</u>	<u>18,836,757</u>
 Operating expenses:		
Plant specific operations	7,008,339	6,029,181
Plant nonspecific operations	1,262,573	1,317,078
Depreciation	5,403,784	5,532,119
Customer operations	1,518,939	1,519,119
Corporate operations	2,646,098	2,292,726
Extraordinary items	<u>191,305</u>	<u>(25,497)</u>
Total operating expenses	<u>18,031,038</u>	<u>16,664,726</u>
 Operating income	<u>1,178,779</u>	<u>2,172,031</u>
 Nonoperating income	13,427,653	13,030,711
Provision for income taxes	<u>(5,361,199)</u>	<u>(5,623,147)</u>
Nonoperating income net of taxes	<u>8,066,454</u>	<u>7,407,564</u>
 Income before interest and nonregulated income	9,245,233	9,579,595
 Interest on long-term debt to RUS, net of interest capitalized \$145,851 in 2011 and \$78,173 in 2010	444,770	635,889
 Nonregulated Income	<u>1,121,411</u>	<u>1,134,467</u>
 Net Income	<u>\$ 9,921,874</u>	<u>\$ 10,078,173</u>

The accompanying are an integral
part of the financial statements.

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
STATEMENTS OF PATRONAGE CAPITAL AND OTHER EQUITIES
For The Years Ended December 31, 2011 and 2010

	Patronage Capital			Other Equities
	Assignable	Assigned	Balance	
Balances, January 1, 2010	\$ 9,223,908	\$ 33,917,683	\$ 43,141,591	\$ 37,724,798
Patronage capital assigned for the year ended December 31, 2009	(3,322,274)	3,322,274	-	-
Refund of overcollected Federal Excise tax for prior year	-	12,748	12,748	-
Transfer nonoperating margins for 2009	(7,146,806)	-	(7,146,806)	7,146,255
Net income for the year ended December 31, 2010	10,078,173	-	10,078,173	-
Distribution of patronage capital	-	(752,376)	(752,376)	-
Balances, December 31, 2010	8,833,001	36,500,329	45,333,330	44,871,053
Patronage capital assigned for the year ended December 31, 2010	(2,334,925)	2,334,925	-	-
Refund of overcollected Federal Excise tax for prior year	-	8,904	8,904	-
Adjustment for prior refunds	-	(2,946)	(2,946)	-
Transfer nonoperating margins for 2010	(7,743,248)	-	(7,743,248)	7,743,248
Net income for the year ended December 31, 2011	9,921,874	-	9,921,874	-
Distribution of patronage capital	-	(791,118)	(791,118)	-
Balances, December 31, 2011	\$ 8,676,702	\$ 38,050,094	\$ 46,726,796	\$ 52,614,301

The accompanying are an integral
part of the financial statements.

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Net income	\$ 9,921,874	\$ 10,078,173
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,403,784	5,532,119
Income from investment in affiliated companies	(12,651,225)	(12,261,641)
Refund of Federal Excise taxes	8,904	12,748
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(331,323)	497,000
Decrease (increase) in inventory	(547,250)	(272,685)
Decrease (increase) in prepaid expenses	(85,499)	(271,270)
(Decrease) increase in accounts payable	334,733	(457,864)
(Decrease) increase in customer deposits	(2,874)	(3,550)
(Decrease) increase in deferred taxes	1,324,599	1,638,353
(Decrease) increase in accrued income taxes	-	(975,660)
(Decrease) increase in accrued expenses	<u>(84,737)</u>	<u>(20,471)</u>
Net cash provided by operating activities	<u>3,290,986</u>	<u>3,495,252</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(9,769,506)	(3,649,311)
Plant removal costs	(15,670)	(43,687)
Salvage recovered from retirement of plant	45,000	44,200
Decrease (increase) in nonregulated investments	(52,364)	81,060
Investment in affiliated companies	11,047,767	10,947,234
Investments - other	(359,928)	(2,712)
Investment in Rus Cushion of Credit	-	999,546
Purchases of temporary investments	(16,527,936)	(26,426,782)
Maturity of temporary investments	16,552,874	16,615,602
Decrease (increase) in deferred charges	<u>(8,203)</u>	<u>(23,173)</u>
Net cash used in investing activities	<u>912,034</u>	<u>(1,458,023)</u>

The accompanying are an integral
part of the financial statements.

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS, CONCLUDED
For The Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from financing activities:		
Distributions of patronage capital	\$ (791,118)	\$ (752,376)
Principal payments to Rural Utilities Service	(2,347,162)	(4,245,360)
Principal payments to CoBank	(217,500)	(207,500)
(Decrease) increase in deferred credits	35,369	507
Other member capital	<u>75,621</u>	<u>78,832</u>
Net cash (used) provided by financing activities	<u>(3,244,790)</u>	<u>(5,125,897)</u>
Net (decrease) increase in cash and cash equivalents	958,230	(3,088,668)
Cash and cash equivalents at beginning of year	<u>3,895,263</u>	<u>6,983,931</u>
Cash and cash equivalents at end of year	<u>\$ 4,853,493</u>	<u>\$ 3,895,263</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest, net of interest capitalized of \$145,851 in 2011 and \$78,173 in 2010	<u>\$ 460,581</u>	<u>\$ 661,440</u>
Income taxes	<u>\$ 3,944,590</u>	<u>\$ 4,844,079</u>

The accompanying are an integral
part of the financial statements.

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Principles of Consolidation:

The consolidated financial statements include the accounts of Duo County Telephone Cooperative Corporation, Inc. and its wholly owned subsidiaries, Diversified Holding Corporation and Cumberland Cellular, Inc. All material inter-company transactions have been eliminated.

General:

The Cooperative maintains its accounts in accordance with the Uniform System of Accounts prescribed for telephone companies by the Federal Communications Commission. The financial statements reflect the application of certain accounting policies described in this note.

Nature of Business:

Duo County Telephone Cooperative Corporation, Inc. Cooperative Corporation, Inc., provides telephone service in a four-county area of south central Kentucky. The Cooperative grants credit to customers, substantially all of whom are local residents and commercial businesses.

Estimates:

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

Telephone Plant:

Telephone plant is stated at original cost, which includes material, labor, transportation and such indirect items as engineering, supervision and employee fringe benefits. As property units are retired in the ordinary course of business, the cost of the property plus removal cost, less salvage, is charged to accumulated depreciation. Listed below are the major classes of telephone plant as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>	<u>Depreciation Rate</u>
Organization	\$ 55,514	\$ 67,976	-
Land	611,164	611,164	-
Buildings	7,669,519	7,650,024	2.7%
Central Office Equipment	18,147,668	14,462,941	7.5-11.9%
Cable and Wire Facilities	46,873,225	46,828,196	2.2-8.9%
Furniture and Office Equipment	1,437,935	1,385,496	7.5-8.7%
General Purpose Computers	1,253,129	894,097	15.8%
Vehicles	1,281,455	1,138,140	12.1%
Other Work Equipment	635,612	610,482	12.1%
Intangibles-CATV	1,529,507	1,529,507	-
Goodwill	1,004,620	1,004,620	-
	<u>\$ 80,499,348</u>	<u>\$ 76,182,643</u>	

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

1. Summary of Significant Accounting Policies, Continued:

Depreciation:

Depreciation is calculated by the straight-line method designed to amortize the cost of various classes of depreciable assets over their estimated useful lives.

Deregulated Customer Premises Equipment:

Deregulated CPE is stated at cost. The Cooperative 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.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Cooperative considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Nonregulated Investments:

This balance reflects the Cooperative's permanent net investment in deregulated CPE and internet equipment. Following is a summary of net income from deregulated operations for the years ended December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Income from operations	\$ 3,644,856	\$ 3,586,749
Expenses	<u>(2,523,445)</u>	<u>(2,452,282)</u>
Net income	<u>\$ 1,121,411</u>	<u>\$ 1,134,467</u>

Investment in Affiliated Companies:

This balance represents the Cooperative's investments in affiliates for the purpose of providing cellular telephone services. The subsidiary's investment in a cellular partnership is accounted for using the equity method. Additionally, the Cooperative's 20% investment in a partnership is accounted for using the equity method.

In March, 2003, the Cooperative's affiliate Cumberland Cellular, Inc., purchased the assets of a cable television system in Russell County, Kentucky. The operations of the cable system are reflected in the financial statements of Cumberland Cellular, Inc. for 2011 and 2010.

In July, 2006, the Cooperative's affiliate Cumberland Cellular, Inc., purchased the assets of a cable television system in Columbia- Adair County, Kentucky. The operations of the cable system are reflected in the financial statements of Cumberland Cellular, Inc. for 2011 and 2010.

Other Member Capital:

This balance represents unclaimed distributions of patronage capital. After a statutory waiting period, these balances will be re-assigned to the Cooperative's existing patrons.

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

1. Summary of Significant Accounting Policies, Continued:

Postretirement Benefit Plans:

The Cooperative provides health care benefits to retired employees. The Cooperative has prefunded this amount. This cost is being amortized over a twenty-year period per the Kentucky Public Service Commission and the Federal Communication Commission. During 2011 and 2010, \$240,000 and \$180,000 were charged to operations. These amounts represent the actuarially computed net post retirement benefit costs for 2011 and 2010, which include service cost, amortization of the initial obligation and the interest cost.

The annual measurement date is July 1 for other postretirement benefits. The following tables provide information about changes in the benefit obligation and plan assets and the funded status of the Company's postretirement benefit plan:

	July 1, 2011	July 1, 2010
Funded status		
Projected benefit obligation at end of year	\$ (5,196,161)	\$ (3,965,732)
Fair value of plan assets at end of year	7,951,468	6,578,973
Funded (unfunded) status at end of year	\$ 2,755,307	\$ 2,613,241
Net benefit cost consisted of the following:		
Service cost	\$ 176,892	\$ 187,969
Interest cost	318,472	345,934
Expected return on assets	(607,411)	(561,439)
Amortization of prior service cost	32,348	64,698
Amortization of actuarial gain/loss	2,100	81,464
	\$ (77,599)	\$ 118,626

Income Tax Status - Deferred Credit:

The Cooperative was organized under Section 501(c)(12) of the Internal Revenue Code which exempts such organizations from federal income taxes as long as more than 85% of its revenues are received from its members. In 1989, the Internal Revenue Service issued a Technical Advice Memorandum, stating that certain revenues previously considered to be member-sourced were in fact nonmember sourced. Duo County Telephone Cooperative Corporation, Inc. Cooperative Corporation, Inc., continues to pass the 85% test using the traditional method of calculating member-sourced revenues. However, in an effort to comply with the Technical Advice Memorandum, the Cooperative paid federal income taxes for 1990, 1991 and 1992, totaling approximately \$766,000. Due to changes in the Internal Revenue Service's implementation date and other policy changes concerning the Technical Advice Memorandum, the Cooperative has obtained refunds of prior years' federal tax payments of \$358,016.

Due to the significant impact and lack of precedence with this tax issue, the Cooperative has accounted for these tax refunds as a Deferred Credit until such time that proper disposition can be determined. The Cooperative continues to be exempt from state income taxes per Kentucky statutes. For the year 2011 and 2010, the Cooperative did not pass the 85% test and will file Form 1120 for the year. It is estimated that Cumberland Cellular, Inc. will owe no additional tax for 2011. No amount has been accrued on the financial statements as of December 31, 2011.

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

1. Summary of Significant Accounting Policies, Concluded:

Subsequent Events:

Management has evaluated subsequent events through March 21, 2012, the date which the financial statements were available to be issued.

Reclassifications:

Certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

2. Mortgage Notes:

Long-term debt is represented by mortgage notes payable to the United States of America and CoBank. Principal and interest payments are due in both monthly and quarterly installments. It is estimated that installments of \$3,235,000 are payable within the next twelve months to the United States of America. The notes are scheduled to be repaid at various times from May, 2009, to April, 2023. At December 31, 2011, the Cooperative has unadvanced loan funds in amount of \$8,734,713. As of December 31, 2011, the Cooperative has made advanced payments in the amount of \$7,386,691 on its mortgage notes payable to the United States of America.

Long-term debt to CoBank is due in quarterly installments of varying amounts through the year 2013. .

Following is a summary of outstanding long-term debt:

	<u>2011</u>	<u>2010</u>
Due to United States of America:		
2% First Mortgage Notes	\$ 112,515	\$ 341,679
5% First Mortgage Notes	1,418,322	1,602,935
4.8375% First Mortgage Notes	197,616	282,143
3.56% - 5.05% First Mortgage Notes	<u>4,768,925</u>	<u>6,617,783</u>
Total Due to the United States of America	6,497,378	8,844,540
Due to CoBank:		
7.97% First Mortgage Note	<u>273,281</u>	<u>490,781</u>
	6,770,659	9,335,321
Less current maturities	<u>(3,566,000)</u>	<u>(3,235,000)</u>
	<u>\$ 3,204,659</u>	<u>\$ 6,100,321</u>

The maturities of long-term debt for each of the five years succeeding the balance sheet date are as follows:

2012	\$3,566,000
2013	3,750,000
2014	4,000,000
2015	4,500,000
2016	4,750,000

The long-term debt agreements and the bylaws of the Cooperative contain restrictions on the return to patrons of capital credits. These restrictions require the maintenance of defined amounts of members' equity and working capital.

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

3. Commitments:

On August 1, 2001, the Cooperative received approval from the Rural Utilities Service and the Rural Telephone Bank for concurrent loans in amount of \$15,491,000 and \$9,036,300. The loans are being used for construction and operation of additional telephone lines and other equipment and services in Adair and Russell Counties. At December 31, 2011, \$9,821,760 of these funds has been advanced. At December 31, 2011, construction contracts for approximately \$15,000,000 have been awarded.

On April 1, 2003, Cumberland Cellular, Inc., entered into a loan agreement with CoBank, to borrow up to \$3,000,000 for the purchase and upgrade of the cable television assets located in Russell Springs, Kentucky. As of December 31, 2011, \$1,513,750 of these funds has been advanced.

4. Cash and Cash Equivalents:

All deposits are in various financial institutions and are carried at cost.

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 941,374	\$ 929,830
Uninsured:		
Collateral held by pledging bank's Trust		
Department in Cooperative's name	2,862,946	2,862,946
Government Securities	1,049,173	1,049,173
Uncollateralized	-	-
Total deposit	<u>\$ 4,853,493</u>	<u>\$ 4,841,949</u>

5. Pension Plan:

The Cooperative has a non-contributory defined benefit pension plan covering substantially all of its employees. Effective July 1, 1984, the Cooperative changed from its original plan to one sponsored by the National Telephone Cooperative Association. At the time of transfer to the new Plan, the Cooperative funded all past service costs. Contributions to this Plan for the years ended December 31, 2011 and 2010, were \$500,581 and \$473,846. The fund covers all vested benefits under the Plan. The Plan has been approved by the Internal Revenue Service. As the Cooperative is only one of several employers participating in the Plan, it is not practicable to determine if the vested benefits of the Cooperative's employees exceed the Cooperative's portion of the Plan assets.

The accumulated plan benefit information using the latest actuarial information applicable for each plan year is as follows:

	<u>January 1, 2011</u>	<u>January 1, 2010</u>
Accumulated benefit obligation	\$ 1,444,785,443	\$1,271,879,210
Plan assets at fair value	<u>1,302,546,012</u>	<u>1,325,350,746</u>
Funded Status	<u>\$ (142,239,431)</u>	<u>\$ (53,471,536)</u>

Additionally, the Cooperative has a 401-(K) Plan. The terms of the Plan call for an elective contribution from employees of 1% or more of their salaries while the Cooperative contributes 1% of their salary. Total pension expenses related to the Plan for 2011 and 2010 were \$33,237 and \$30,313.

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONCLUDED

6. Temporary Cash Investments:

In 1996, the Cooperative adopted Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities". This statement addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities.

All debt securities of the Cooperative are considered to be held to maturity. The carrying amounts and approximate market value of held to maturity investments are:

	<u>Amortized Cost</u>	<u>Net Unrealized Gains(Losses)</u>	<u>Market Value</u>
U.S. Treasury Securities - 2011	<u>\$ 28,596,980</u>	<u>\$ 64,241</u>	<u>\$ 28,661,221</u>
U.S. Treasury Securities - 2010	<u>\$ 28,365,530</u>	<u>\$ (3,687)</u>	<u>\$ 28,361,843</u>

The maturities of held to maturity investments and their approximate market value at December 31, 2011 and 2010, were as follows:

	<u>2011</u>		<u>2010</u>	
	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Amortized Cost</u>	<u>Market Value</u>
Due in one year or less (included in cash and Temporary Cash Investments)	\$ 14,534,816	\$ 14,492,473	\$ 6,918,591	\$ 7,558,179
Due after one year	<u>14,062,164</u>	<u>14,168,748</u>	<u>21,446,939</u>	<u>20,803,664</u>
	<u>\$ 28,596,980</u>	<u>\$ 28,661,221</u>	<u>\$ 28,365,530</u>	<u>\$ 28,361,843</u>

7. Provision for Income Taxes

The Cooperative follows the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles. The Company has no tax position at December 31, 2011 for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. The Cooperative's policy is to classify income tax related interest and penalties in interest expense and other expenses, respectively. No such interest or penalties were recognized during the periods presented.

The Company files income tax returns in the U.S. federal jurisdiction, and various state and local jurisdictions. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2008.

The provision for income taxes consists of the following:

Current Income Tax Expense	\$ <u>4,047,738</u>	\$ <u>3,984,794</u>
Deferred Income Taxes	<u>1,313,461</u>	<u>1,638,353</u>
Provision for Income Taxes	<u>\$ 5,361,199</u>	<u>\$ 5,623,147</u>

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONCLUDED

7. Provision for Income Taxes, Concluded:

Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Cooperative's assets and liabilities. Differences are primarily attributable to the use of accelerated methods of depreciation of property and equipment.

ADDITIONAL INFORMATION

CAMPBELL, MYERS & RUTLEDGE, PLLC

Certified Public Accountants

Cindy L. Greer, CPA
L. Joe Rutledge, CPA
Jonathan W. Belcher, CPA
R. Brent Billingsley, CPA

Skip R. Campbell, CPA
Charles E. Rutledge, CPA
Sammie D. Parsley, CPA
Ryan A. Mosier, CPA
Jenna B. Pace, CPA

410 South Broadway
Glasgow, KY 42141
Telephone (270) 651-2163
Fax (270) 651-6677
www.cmr-cpa.com

Independent Auditors' Report on Consolidating Information

Board of Directors
Duo County Telephone Cooperative Corporation, Inc.
Cooperative Corporation, Inc.
Jamestown, Kentucky 42629

We have audited the consolidated financial statements of Duo County Telephone Cooperative Corporation, Inc. and subsidiaries as of and for the years ended December 31, 2011 and 2010, and our report thereon dated March 21, 2012, which expressed an unqualified opinion on those financial statements, appears on page one. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules I, II and III is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies, and it 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 as a whole.

Campbell, Myers & Rutledge, PLLC

Certified Public Accountants

March 21, 2012

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION INC.
SCHEDULE I - CONSOLIDATING BALANCE SHEET
December 31, 2011

	Duo County Telephone Cooperative Corp., Inc.	Diversified Holding Corporation	Cumberland Cellular, Inc.	Consolidating Entries	Consolidated Totals
ASSETS					
Cash and equivalents	\$ 2,966,831	\$ 142,240	\$ 1,672,208	\$ -0-	\$ 4,781,279
Temporary cash investments	2,122,293	-	10,403,295	-	12,525,588
Cash, RUS construction fund	72,214	-	-	-	72,214
Accounts receivable	1,858,234	-	786,606	(1)(481,563)	2,163,277
Material and supplies - Regulated	966,410	-	1,247,847	-	2,214,257
Accrued interest receivable	29,139	-	122,545	-	151,684
Prepayments	227,574	-	-	-	227,574
	<u>8,242,695</u>	<u>142,240</u>	<u>14,232,501</u>	<u>(481,563)</u>	<u>22,135,873</u>
Total current assets					
Other assets	2,426,504	-	11,635,660	-	14,062,164
Cash investments	63,824,942	63,688,423	38,382,825	(2)(26,680,000)	38,329,623
Investments in affiliated company	3,235,620	-	38,645	-	3,274,265
Other investments	352,860	-	-	-	352,860
Nonregulated investments	2,627,829	-	14,557	-	2,642,386
Deferred charges	72,467,755	63,688,423	50,071,687	(127,513,365)	58,661,298
Total other assets					
Telephone plant in service	62,448,891	-	18,102,465	-	80,551,356
Telephone plant under construction	9,398,234	-	586,086	-	9,984,320
Total telephone plant	<u>71,847,125</u>	<u>-</u>	<u>18,688,551</u>	<u>-</u>	<u>90,535,676</u>
Depreciation reserve	42,211,581	-	7,270,429	-	49,482,010
Total telephone plant less reserve	<u>29,635,544</u>	<u>-</u>	<u>11,418,122</u>	<u>-</u>	<u>41,053,666</u>
Total assets	<u>\$ 110,345,994</u>	<u>\$ 63,830,663</u>	<u>\$ 75,722,310</u>	<u>\$ (127,994,928)</u>	<u>\$ 121,850,837</u>
LIABILITIES AND EQUITY					
Accounts payable	\$ 1,427,462	\$ 3,205	\$ 710,767	\$ (1)(481,563)	\$ 1,659,871
Customer deposits	15,125	-	-	-	15,125
Accrued liabilities	1,930,758	2,516	239,357	-	2,172,631
Total current liabilities	<u>3,373,345</u>	<u>5,721</u>	<u>950,124</u>	<u>(481,563)</u>	<u>3,847,627</u>
Deferred income taxes-noncurrent	-	-	10,634,735	-	10,634,735
Total long-term debt	6,497,378	-	273,281	-	6,770,659
Other deferred credits	161,084	-	-	-	161,084
Capital stock	-	13,400,000	13,280,000	(2)(26,680,000)	-
Patronage capital credits	46,726,796	-	-	-	46,726,796
Total retained margins	52,614,301	50,424,942	50,408,423	(3)(100,833,365)	52,614,301
Other equities	1,095,635	-	-	-	1,095,635
Retained margins and capital credits	<u>100,436,732</u>	<u>63,824,942</u>	<u>63,688,423</u>	<u>(127,994,928)</u>	<u>100,436,732</u>
Total liabilities and equity	<u>\$ 110,468,539</u>	<u>\$ 63,830,663</u>	<u>\$ 75,546,563</u>	<u>\$ (127,994,928)</u>	<u>\$ 121,850,837</u>

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
SCHEDULE II CONSOLIDATING STATEMENT OF INCOME
For the Year Ended December 31, 2011

	Duo County Telephone Cooperative Corp., Inc.	Diversified Holding Corporation	Cumberland Cellular, Inc.	Consolidating Entries	Consolidated Totals
Local network services revenue	\$ 3,121,668	\$ -0-	\$ 5,180,992	\$ -0-	\$ 8,302,660
Network access service revenue	9,044,811	-	-	-	9,044,811
Carrier billing and collection revenue	115,994	-	-	-	115,994
Miscellaneous revenues	1,189,477	-	659,162	-	1,848,639
Less: Uncollectible revenues	<u>(20,278)</u>	<u>-</u>	<u>(82,009)</u>	<u>-</u>	<u>(102,287)</u>
Total operating revenues	<u>13,451,672</u>	<u>-</u>	<u>5,758,145</u>	<u>-</u>	<u>19,209,817</u>
Plant specific operating expenses	3,701,771	-	3,306,568	-	7,008,339
Plant nonspecific operating expenses	1,262,573	-	-	-	1,262,573
Depreciation and amortization expense	3,923,628	-	1,480,156	-	5,403,784
Customer operations expense	1,388,444	-	130,495	-	1,518,939
Corporate operations expense	2,048,298	1,110	596,690	-	2,646,098
Extraordinary items	<u>-</u>	<u>-</u>	<u>191,305</u>	<u>-</u>	<u>191,305</u>
Total operating expenses	<u>12,324,714</u>	<u>1,110</u>	<u>5,705,214</u>	<u>-</u>	<u>18,031,038</u>
Telephone operating income (loss)	<u>1,126,958</u>	<u>(1,110)</u>	<u>52,931</u>	<u>-</u>	<u>1,178,779</u>
Nonoperating income	8,258,256	7,175,716	12,343,327	(1)(7,174,007) (1)(7,175,639)	13,427,653
Provision from income taxes	<u>164,447</u>	<u>599</u>	<u>5,196,153</u>	<u>-</u>	<u>5,361,199</u>
Nonoperating income net of taxes	<u>8,093,809</u>	<u>7,175,117</u>	<u>7,147,174</u>	<u>(14,349,646)</u>	<u>8,066,454</u>
Income before interest and nonregulated income	9,220,767	7,174,007	7,200,105	(14,349,646)	9,245,233
Interest on funded debt, net	(420,304)	-	(24,466)	-	(444,770)
Nonregulated income	<u>1,121,411</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,121,411</u>
Net income	<u>\$ 9,921,874</u>	<u>\$ 7,174,007</u>	<u>\$ 7,175,639</u>	<u>\$ (14,349,646)</u>	<u>\$ 9,921,874</u>

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
SCHEDULE III CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2011

	Duo County Telephone Cooperative Corp., Inc.	Diversified Holding Corporation	Cumberland Cellular, Inc.	Consolidating Entries	Consolidated Totals
Cash flows from operating activities:					
Net income	\$ 9,921,874	\$ 7,174,007	\$ 7,175,639	\$ (14,349,646)	\$ 9,921,874
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	3,923,628	-	1,480,156	-	5,403,784
Income from investment in affiliated companies	(7,731,910)	(7,175,639)	(12,093,322)	14,349,646	(12,651,225)
Refund of Federal Excise taxes	8,904	-	-	-	8,904
Changes in operating assets and liabilities:					
Decrease (increase) in accounts receivable	(657,900)	-	(154,986)	481,563	(331,323)
Decrease (increase) in inventory	244,866	-	(792,116)	-	(547,250)
Decrease (increase) in prepaid expenses	(85,499)	-	-	-	(85,499)
(Decrease) increase in accounts payable	182,646	425	633,225	(481,563)	334,733
(Decrease) increase in customer deposits	(2,874)	-	-	-	(2,874)
(Decrease) increase in deferred taxes	-	-	1,324,599	-	1,324,599
(Decrease) increase in accrued income taxes	-	-	-	-	-
(Decrease) increase in accrued expenses	(156,039)	-	71,302	-	(84,737)
Net cash provided by operating activities	<u>5,647,696</u>	<u>(1,207)</u>	<u>(2,355,503)</u>	<u>-</u>	<u>3,290,986</u>
Cash flows from investing activities:					
Purchases of property, plant and equipment	(8,941,192)	-	(828,314)	-	(9,769,506)
Plant removal costs	(15,670)	-	-	-	(15,670)
Salvage recovered from retirement of plant	45,000	-	-	-	45,000
Decrease (increase) in nonregulated investments	(52,364)	-	-	-	(52,364)
Investment in affiliated companies	557,903	-	10,489,864	-	11,047,767
Investments - other	(357,902)	-	(2,026)	-	(359,928)
Purchases of temporary investments	(2,357,293)	-	(14,170,643)	-	(16,527,936)
Maturity of temporary investments	8,531,170	-	8,021,704	-	16,552,874
Decrease (increase) in deferred charges	6,354	-	(14,557)	-	(8,203)
Net cash used in investing activities	<u>(2,583,994)</u>	<u>-</u>	<u>3,496,028</u>	<u>-</u>	<u>912,034</u>

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
SCHEDULE III CONSOLIDATING STATEMENT OF CASH FLOWS CONCLUDED
For the Year Ended December 31, 2011

	Duo County Telephone Cooperative Corp., Inc.	Diversified Holding Corporation	Cumberland Cellular, Inc.	Consolidating Entries	Consolidated Totals
Cash flows from financing activities:					
Capital stock issued	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Distributions of patronage capital	(791,118)	-	-	-	(791,118)
Principal payments to Rural Utilities Service	(2,347,162)	-	-	-	(2,347,162)
Principal payments to CoBank	-	-	(217,500)	-	(217,500)
(Decrease) increase in deferred credits	35,369	-	-	-	35,369
Other member capital	75,621	-	-	-	75,621
Net cash (used) provided by financing activities	<u>(3,027,290)</u>	<u>-</u>	<u>(217,500)</u>	<u>-</u>	<u>(3,244,790)</u>
Net (decrease) increase in cash and cash equivalents	36,412	(1,207)	923,025	-	958,230
Cash and cash equivalents at beginning of year	<u>3,002,632</u>	<u>143,447</u>	<u>749,184</u>	<u>-</u>	<u>3,895,263</u>
Cash and cash equivalents at end of year (Notes 1 and 4)	<u>\$ 3,039,044</u>	<u>\$ 142,240</u>	<u>\$ 1,672,209</u>	<u>\$ -0-</u>	<u>\$ 4,853,493</u>
Supplemental disclosures of cash flow information:					
Cash paid during the year for:					
Interest, net of interest capitalized of \$145,851 in 2011 and \$78,173 in 2010	<u>\$ 432,691</u>	<u>\$ -0-</u>	<u>\$ 27,890</u>	<u>\$ -0-</u>	<u>\$ 460,581</u>
Income taxes	<u>\$ 72,000</u>	<u>\$ 175</u>	<u>\$ 3,872,415</u>	<u>\$ -0-</u>	<u>\$ 3,944,590</u>

CAMPBELL, MYERS & RUTLEDGE, PLLC

Certified Public Accountants

Cindy L. Greer, CPA
L. Joe Rutledge, CPA
Jonathan W. Belcher, CPA
R. Brent Billingsley, CPA

Skip R. Campbell, CPA
Charles E. Rutledge, CPA
Sammie D. Parsley, CPA
Ryan A. Mosier, CPA
Jenna B. Pace, CPA

410 South Broadway
Glasgow, KY 42141
Telephone (270) 651-2163
Fax (270) 651-6677
www.cmr-cpa.com

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*

Board of Directors
Duo County Telephone Cooperative Corporation, Inc.
Jamestown, Kentucky 42629

We have audited the consolidated financial statements of Duo County Telephone Cooperative Corporation, Inc., as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated March 21, 2012. 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.

Internal Control Over Financial Reporting

Management of Duo County Telephone Cooperative Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audits, we considered Duo County Telephone Cooperative Corporation, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Corporation's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Duo County 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 audits, 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*.

This report is intended solely for the information and use of the Board of Directors, management, the Rural Utilities Service, and supplemental lenders, and is not intended to be and should not be used by anyone other than these specified parties.

Campbell, Myers & Ratledge, PLLC

Certified Public Accountants

March 21, 2012