

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.  
AND SUBSIDIARIES

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REPORT ON AUDIT OF CONSOLIDATED FINANCIAL  
STATEMENTS AND ADDITIONAL INFORMATION

For the Years Ended  
December 31, 2019 and 2018



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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Duo County Telephone Cooperative Corporation, Inc. and subsidiaries which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related statements of income, comprehensive income, patronage capital and other equities, and cash flows, for the years then ended and 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of Duo County Telephone Cooperative Corporation, Inc. and subsidiaries as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Duo County Telephone Cooperative Corporation, Inc. and subsidiaries' basic financial statements. The consolidating balance sheets, consolidating statements of income and comprehensive income, and consolidating statements of cash flows are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The consolidating balance sheets, consolidating statements of income and comprehensive income, and consolidating statements of cash flows are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information in Schedules I – III, is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2020 on our consideration of the Cooperative'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Duo County Telephone Cooperative Corporation, Inc. and subsidiaries' internal control over financial reporting and compliance.

*Campbell, Myers & Rutledge, PLLC*

Certified Public Accountants

March 26, 2020

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.  
AND SUBSIDIARIES  
BALANCE SHEETS  
December 31, 2019 and 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Current assets		
Cash and cash equivalents	\$ 5,489,095	\$ 5,686,750
Temporary cash investments	3,579,864	3,574,356
Cash, RUS construction fund	203	203
Marketable Securities	5,352,529	4,000,377
Accounts receivable, less allowance for doubtful accounts of \$54,189 in 2019 and \$54,189 in 2018.	1,202,383	1,212,964
Materials and supplies at average cost which is less than net realizable value	2,135,328	2,660,305
Accrued interest receivable	286,862	232,376
Prepaid expenses	802,102	606,115
Total current assets	18,848,366	17,973,446
Other assets		
Cash investments	45,909,502	39,448,129
Nonregulated investments	358,978	191,272
Investment in affiliated companies	68,667,878	64,945,752
Total other assets	114,936,358	104,585,153
Telecommunication plant, at cost (substantially all pledged as collateral on long-term debt to RUS)		
Telecommunication plant in service	119,921,330	119,060,277
Telecommunication plant under construction	14,139,888	8,442,918
Nonoperating plant-land	52,008	52,008
Total telecommunication plant, at cost	134,113,226	127,555,203
Less accumulated depreciation	(82,173,391)	(79,555,231)
Total telecommunication plant, net	51,939,835	47,999,972
Total Assets	\$ 185,724,559	\$ 170,558,571

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

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.  
AND SUBSIDIARIES  
BALANCE SHEETS, CONCLUDED  
December 31, 2019 and 2018

LIABILITIES AND MEMBERS' EQUITIES

	<u>2019</u>	<u>2018</u>
Current liabilities:		
Current portion of long-term debt	\$ 110,680	\$ 105,266
Accounts payable, includes construction contracts payable of \$103,277 in 2019 and \$106,780 in 2018	2,278,421	1,169,045
Customer deposits	7,100	7,400
Accrued expenses	<u>2,332,856</u>	<u>2,114,746</u>
Total current liabilities	<u>4,729,057</u>	<u>3,396,457</u>
Long-term liabilities:		
Deferred income taxes	<u>5,652,623</u>	<u>8,256,522</u>
Total long term liabilities	<u>5,652,623</u>	<u>8,256,522</u>
Other liabilities and deferred credits:		
Deferred credit	<u>1,818,164</u>	<u>1,650,430</u>
Total other liabilities and deferred credits	<u>1,818,164</u>	<u>1,650,430</u>
Members' equities:		
Patronage capital	67,574,761	59,053,893
Other equities	105,297,758	97,378,895
Accumulated other comprehensive income (loss)	(1,342,900)	(1,022,170)
Other member capital	<u>1,995,096</u>	<u>1,844,544</u>
Total members' equities	<u>173,524,715</u>	<u>157,255,162</u>
Total liabilities and members' equities	<u>\$ 185,724,559</u>	<u>\$ 170,558,571</u>

The accompanying notes 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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Local network services	\$ 8,743,114	\$ 9,020,072
Network access services	13,019,869	11,542,132
Carrier billing and collection	23,576	26,756
Miscellaneous operating revenue	2,331,883	2,238,498
Uncollectible revenue	<u>(119,265)</u>	<u>(158,837)</u>
Total operating revenues	<u>23,999,177</u>	<u>22,668,621</u>
 Operating expenses:		
Plant specific operations	4,481,064	9,297,547
Plant nonspecific operations	6,737,921	1,880,825
Depreciation	6,343,439	6,959,739
Customer operations	1,373,726	1,377,140
Corporate operations	<u>2,912,919</u>	<u>2,766,154</u>
Total operating expenses	<u>21,849,069</u>	<u>22,281,405</u>
 Nonregulated Income	<u>2,743,018</u>	<u>2,462,073</u>
 Operating income	<u>4,893,126</u>	<u>2,849,289</u>
 Nonoperating income	9,621,707	8,573,422
Provision for income taxes	<u>2,707,710</u>	<u>(555,972)</u>
Nonoperating income net of taxes	<u>12,329,417</u>	<u>8,017,450</u>
 Income before interest	<u>17,222,543</u>	<u>10,866,739</u>
 Net Income	<u>\$ 17,222,543</u>	<u>\$ 10,866,739</u>

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



DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.  
AND SUBSIDIARIES  
STATEMENTS OF COMPREHENSIVE INCOME  
For The Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net Income	\$ 17,222,543	\$ 10,866,739
Other comprehensive income		
Postretirement benefit other than pension:		
Unrecognized gain (loss) on assets	(1,548,835)	377,722
Change in unrealized gain (loss) on marketable securities	<u>1,228,105</u>	<u>(373,367)</u>
Total comprehensive income	<u>\$ 16,901,813</u>	<u>\$ 10,871,094</u>

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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, 2019 and 2018

	Patronage Capital			Accumulated Comprehensive Income	Other Equities
	Assignable	Assigned	Balance		
Balances, January 1, 2018	\$ 6,456,574	\$ 48,419,876	\$ 54,876,450	\$ (1,026,525)	\$ 91,477,014
Patronage capital assigned for the year ended December 31, 2017	(1,822,284)	1,822,284	-	-	-
Refund of overcollected Federal Excise tax for prior year	-	3,752	3,752	-	-
Adjustment for prior refunds	-	-	-	-	-
Transfer nonoperating margins for 2018	(5,901,881)	-	(5,901,881)	-	5,901,881
Postretirement benefit other than pension Unrecognized loss on assets	-	-	-	377,722	-
Net income for the year ended December 31, 2018	10,866,739	-	10,866,739	-	-
Other comprehensive income	-	-	-	(373,367)	-
Distribution of patronage capital	-	(791,167)	(791,167)	-	-
Balances, December 31, 2018	9,599,148	49,454,745	59,053,893	(1,022,170)	97,378,895
Patronage capital assigned for the year ended December 31, 2018	(2,947,876)	2,947,876	-	-	-
Refund of overcollected Federal Excise tax for prior year	-	8,886	8,886	-	-
Adjustment for prior refunds	-	-	-	-	-
Transfer nonoperating margins for 2019	(7,918,863)	-	(7,918,863)	-	7,918,863
Postretirement benefit other than pension Unrecognized loss on assets	-	-	-	(1,548,835)	-
Net income for the year ended December 31, 2019	17,222,543	-	17,222,543	-	-
Other comprehensive income	-	-	-	1,228,105	-
Distribution of patronage capital	-	(791,698)	(791,698)	-	-
Balances, December 31, 2019	\$ 15,954,952	\$ 51,619,809	\$ 67,574,761	\$ (1,342,900)	\$ 105,297,758

The accompanying notes 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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Net income	\$ 17,222,543	\$ 10,866,739
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,343,439	6,959,739
Income from investment in affiliated companies	(7,149,268)	(6,987,310)
Refund of Federal Excise taxes	8,886	3,752
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(10,799)	787,920
Decrease (increase) in inventory	524,977	631,039
Decrease (increase) in prepaid expenses	(195,987)	28,672
(Decrease) increase in accounts payable	1,076,270	(212,447)
(Decrease) increase in customer deposits	(300)	(600)
(Decrease) increase in deferred taxes	(2,603,899)	(654,756)
(Decrease) increase in accrued expenses	<u>218,110</u>	<u>(278,312)</u>
Net cash provided by operating activities	<u>15,433,972</u>	<u>11,144,436</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(7,803,372)	(8,089,127)
Plant removal costs	(2,479,833)	(124,710)
Decrease (increase) in nonregulated investments	(167,706)	17,285
Investment in affiliated companies	3,658,820	5,136,960
Investments - other	(1,442,843)	(873,758)
Purchases of temporary investments	(864,864)	(1,975,000)
Maturity of temporary investments	859,356	5,513,093
Purchases of cash investments	(18,140,136)	(18,080,476)
Maturity of cash investments	<u>11,416,086</u>	<u>6,334,192</u>
Net cash used in investing activities	<u>(14,964,492)</u>	<u>(12,141,541)</u>

The accompanying notes 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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from financing activities:		
Distributions of patronage capital	\$ (791,698)	\$ (791,167)
Principal payments to Rural Utilities Service	(43,171)	5,160
(Decrease) increase in deferred credits	167,734	1,010,704
Other member capital	<u>-</u>	<u>139,998</u>
Net cash (used) provided by financing activities	<u>(667,135)</u>	<u>364,695</u>
Net (decrease) increase in cash and cash equivalents	(197,655)	(632,410)
Cash and cash equivalents at beginning of year	<u>5,686,750</u>	<u>6,319,160</u>
Cash and cash equivalents at end of year	<u>\$ 5,489,095</u>	<u>\$ 5,686,750</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest (amounts capitalized of \$11,682 in 2019 and \$14,119 in 2018)	<u>\$ 11,682</u>	<u>\$ 14,119</u>
Income taxes	<u>\$ 204,324</u>	<u>\$ 1,496,854</u>

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

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

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 intercompany 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 and its subsidiaries, provide telecommunication services 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.

Telecommunications Plant:

Telecommunications 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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Land	\$ 662,156	\$ 662,156
Buildings	8,187,975	8,187,975
Central Office Equipment	27,890,949	27,653,800
Cable and Wire Facilities	76,336,511	75,679,115
Furniture and Office Equipment	990,992	1,007,441
General Purpose Computers	1,265,176	1,238,263
Vehicles	1,341,840	1,385,796
Other Work Equipment	711,604	711,604
Intangible - CATV	1,529,507	1,529,507
Goodwill	1,004,620	1,004,620
	<u>\$ 119,921,330</u>	<u>\$ 119,060,277</u>

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED  
DECEMBER 31, 2019 AND 2018

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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Income from operations	\$ 5,761,665	\$ 5,712,748
Expenses	<u>(3,018,647)</u>	<u>(3,250,675)</u>
Net income	<u>\$ 2,743,018</u>	<u>\$ 2,462,073</u>

Investment in Affiliated Companies:

This balance represents the Cooperative's investments in affiliates for the purpose of providing cellular telephone services, video services and broadband services. Duo County Telephone Cooperative Corporation, Inc. owns 20% of Bluegrass Network, LLC. Cumberland Cellular, Inc. owns 20% of Bluegrass Telecom and 62.5% of Cumberland Cellular Partnership. All of these investments are 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 2019 and 2018.

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 2019 and 2018.

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED  
DECEMBER 31, 2019 AND 2018

1. Summary of Significant Accounting Policies, Concluded:

Accounts and Notes Receivable:

The Cooperative estimates uncollectable accounts as a percentage of monthly revenues and compares this to invoices dated over 90 days when they are considered uncollectible. The Cooperative writes off receivables as a charge to the allowance for credit losses, in their estimation, it is probable that the receivable is worthless.

Inventories:

Inventory is accounted for at the lower of cost or net realizable value using the average cost method. Inventory consists of materials and expendable supplies held for future consumption or capitalization. The cost is recorded as an expense or capitalized as inventory items are consumed.

Other Equities:

This balance represents accumulated margins from non-patronage source income primarily from subsidiary operations.

Other Member Capital:

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

Postretirement Benefit Plans:

The Corporation sponsors a defined benefit plan that provides medical insurance coverage to retirees and their dependents. Participating retirees who were employed as of July 30, 2004 and their dependents contributed 0% of the project cost of coverage. For employees hired after July 30, 2004 the Corporation contributed 100% until spouse and retiree were 65. For employees hired after December 1, 2012, the Corporation pays no health insurance for retirees.

2. Cash and Cash Equivalents:

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

	<u>2019</u>		<u>2018</u>	
	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 820,427	\$ 812,317	\$ 830,725	\$ 716,742
Uninsured				
Collateral held by pledging bank's trust department in Cooperative's name	<u>4,668,871</u>	<u>5,188,506</u>	<u>4,856,228</u>	<u>5,760,047</u>
Total deposits	<u>\$ 5,489,298</u>	<u>\$ 6,000,823</u>	<u>\$ 5,686,953</u>	<u>\$ 6,476,789</u>

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED  
DECEMBER 31, 2019 AND 2018

3. Investments:

Marketable securities have been classified as available-for-sale according to management's intent. Realized gains and losses on all marketable securities are determined by specific identification and are charged or credited to earnings.

Cost and fair value of the company's available-for-sale securities at December 31, 2019 and 2018 have been segregated as follows:

	<u>December 31, 2019</u>		
	<u>Cost</u>	<u>Market</u>	<u>Unrealized Gain/(Loss)</u>
Cash Equivalents	\$ 204,597	\$ 204,597	\$ -
Equity Securities	<u>3,919,827</u>	<u>5,147,932</u>	<u>1,228,105</u>
Total Available-For-Sale	<u>\$ 4,124,424</u>	<u>\$ 5,352,529</u>	<u>\$ 1,228,105</u>

Available-for-sale securities are carried in the financial statements at fair market value and included in other investments on the financial statements. Net unrealized holding gains and losses in the amount of \$1,228,105 have been included in accumulated other comprehensive income for the year ended December 31, 2019 and (\$373,367) for December 31, 2018.

4. 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:

	Amortized	Net Unrealized	Market
	<u>Cost</u>	<u>Gains(Losses)</u>	<u>Value</u>
U.S. Treasury Securities - 2019	\$ 49,822,240	\$ (52,607)	\$ 49,874,847
U.S. Treasury Securities - 2018	\$ 43,065,716	\$ (101,654)	\$ 42,964,062



DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED  
DECEMBER 31, 2019 AND 2018

4. Temporary Cash Investments, Concluded:

The maturities of held to maturity investments and their approximate market value at December 31, 2019 and 2018, were as follows:

	<u>2019</u>		<u>2018</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)	\$ 13,240,860	\$ 13,153,374	\$ 11,751,716	\$ 12,096,239
Due after one year	<u>36,581,380</u>	<u>36,721,473</u>	<u>31,314,000</u>	<u>30,867,823</u>
	<u>\$ 49,822,240</u>	<u>\$ 49,874,847</u>	<u>\$ 43,065,716</u>	<u>\$ 42,964,062</u>

5. Mortgage Notes:

Long-term debt is represented by mortgage notes payable to the United States of America. Principal and interest payments are due in both monthly and quarterly installments. It is estimated that installments of \$110,680 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, 2019, the Cooperative has unadvanced loan funds in amount of \$8,694,713.

As of December 31, 2019, the Cooperative has made advanced payments in the amount of \$99,510 on its mortgage notes payable to the United States of America.

Following is a summary of outstanding long-term debt:

	<u>2019</u>	<u>2018</u>
Due to United States of America:		
5% First Mortgage Notes	\$ 210,190	\$ 253,360
3.56% - 5.05% First Mortgage Notes	<u>286,713</u>	<u>286,713</u>
Total due to the United States of America	<u>496,903</u>	<u>540,073</u>
Less unadvanced loans	(286,713)	(286,713)
Less RUS advanced payments	(99,510)	(148,094)
Less current maturities	<u>(110,680)</u>	<u>(105,266)</u>
	<u>\$ -</u>	<u>\$ -</u>

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

2020	\$110,680
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Due to the amount of RUS advanced payments, the balance of long-term debt is shown as current.

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  
DECEMBER 31, 2019 AND 2018

6. Provision for Income Taxes:

The Corporation has been exempt from federal income taxes as a cooperative telephone company under Section 501(c)(12) of the Internal Revenue Code. In 1991, the Internal Revenue Service issued a Technical Advice Memorandum, which interprets certain types of revenues to be excluded in determining when the Cooperative satisfies the 85 percent income test to qualify for tax exempt status. By applying these interpretations, the Cooperative does not qualify in the current year for the tax exempt status and the Corporation files separate corporate tax returns for the parent and each of the subsidiaries. The Company's provision for income taxes differs from applying the statutory U.S. federal income tax rate to income before income taxes. The primary differences result from providing for state income taxes and from deducting certain expenses for financial statement purposes but not for federal tax purposes.

The provision for income taxes for 2019 and 2018 consists of the following:

	<u>2019</u>	<u>2018</u>
Current income tax expense	\$ 551,176	\$ 1,210,728
Deferred income taxes	<u>(3,258,886)</u>	<u>(654,756)</u>
Provision for income taxes	<u>\$ (2,707,710)</u>	<u>\$ 555,972</u>

A cumulative net deferred tax liability is included in other liabilities. The components of the liability are as follows:

	<u>2019</u>	<u>2018</u>
Differences in Depreciation Methods	<u>\$ 5,652,623</u>	<u>\$ 8,256,522</u>

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, 2019 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 2016.

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED  
DECEMBER 31, 2019 AND 2018

7. Deferred Charges:

Following is a summary of amounts recorded as deferred charges approved by RUS per 1773.33(h) as of December 31, 2019 and 2018:

Deferred Credits:	<u>2019</u>	<u>2018</u>
OPEB Reserve	\$ 214,576	\$ 190,754
Dark Fiber	1,585,118	1,441,437
Information Systems	<u>18,470</u>	<u>18,239</u>
	<u>\$ 1,818,164</u>	<u>\$ 1,650,430</u>

8. 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, 2019 and 2018 were \$681,255 and \$671,105. 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 following table summarizes the benefit obligations and the funded status of the defined postretirement health care plan over the two-year period ending December 31:

	<u>2019</u>	<u>2018</u>
Accumulated post retirement benefit obligation	\$ (12,524,385)	\$ (11,277,683)
Fair value of plan assets - end of year	<u>14,690,232</u>	<u>14,319,622</u>
Funded status	<u>\$ 2,165,847</u>	<u>\$ 3,041,939</u>

Amounts included in other comprehensive loss that have not yet been recognized in net periodic benefit cost at December 31 are listed below:

	<u>2019</u>	<u>2018</u>
Unrecognized net gain reported as a increase to equity	<u>\$ (3,779,766)</u>	<u>\$ (2,230,931)</u>

The accumulated loss is a result of the accumulated difference between the actuary's estimates based on actuarial principles and the Cooperative's actual experience with factors such as the length of employment, the discount rate for the Plan obligations, and expected rate of return on plan assets. The change in net loss was driven primarily by the difference between actual return on plan assets and assumed return on plan assets.

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED  
DECEMBER 31, 2019 AND 2018

8. Pension Plan, Continued:

Other Plan information as follows at December 31:

	<u>2019</u>	<u>2018</u>
Net periodic benefit plan cost	\$ (28,140)	\$ (225,118)

The net periodic benefit cost is the amount recognized in the consolidated financial statements as the cost of the Plan for the year. Components of the net periodic benefit costs are service cost, interest cost, and amortization of unrecognized gains/losses and initial obligations.

The weighted average assumptions used in the measurement of the Cooperative's benefit obligation are shown in the following table at December 31:

<u>Weighted-average assumptions as of December 31</u>	<u>Percent</u>	
	<u>2019</u>	<u>2018</u>
Expected return on Plan assets	7.00%	7.00%
Discount rate	4.30%	4.30%

For measurement purposes, a seven percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2018. The rate was assumed to decrease gradually each year to a rate of five percent by 2021 and remain at that level thereafter:

2020	6.00%
2021	5.50%
2022	5.00%
2023	5.00%
2024	5.00%
2025-2028	5.00%

The discount rate used in determining the accumulated postretirement benefit obligation was 4.3% and 4.3% for the years ending December 31, 2019 and 2018, respectively.

Expected benefit payments from the plan for the year ending December 31, 2019 total \$417,332.

An additional 1% increase in the trend utilized for measurement purposes in 2018 would have resulted in an increase in the accumulated postretirement benefit obligation of approximately \$2,002,000.

**Defined Contribution Plan**

Additionally, the Cooperative has an elective 401(K) Plan with the Company providing matching contributions as defined in the Savings Plan adoption agreement. Total employee contributions related to the Plan for 2019 and 2018 were approximately \$268,000 and \$248,000. Total employer contributions related to the Plan for 2019 and 2018 were approximately \$131,000 and \$126,000

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.  
AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONCLUDED  
DECEMBER 31, 2019 AND 2018

8. Pension Plan, Concluded:

The fair values of the Cooperative's pension Plan assets at December 31, 2019, by asset category are as follows:

<u>Asset Type</u>	<u>Percentage of Plan Assets</u>	<u>Amount</u>
Vanguard Total Bond Market Index Fund	13.70%	\$2,012,562
Vanguard Total Stock Market Index Fund	24.70%	\$3,628,487
Vanguard High Yield Corporate Fund	8.10%	\$1,189,909
Vanguard FTSE All World EX US Index Fund	26.20%	\$3,848,841
Vanguard REIT Index Fund	8.30%	\$1,219,289
Ishares ACWI Minimum Volatility ETF	17.00%	\$2,497,339
Cash	2.00%	\$ 293,805
	100.00%	14,690,232

9. Subsequent Events:

Management has evaluated subsequent events through March 26, 2020, the date which the financial statements were available to be issued. Effective close-of-business on December 31, 2019, Diversified Holding Corporation ("Holding") was merged with and into Cumberland Cellular, Inc. ("CCI") pursuant to KRS 271B.11-010, *et. seq.* Post-merger, CCI was the surviving entity as a wholly-owned subsidiary of Duo County and effective December 31, 2019, CCI (post-merger) was converted to a Kentucky limited liability company pursuant to KRS 275.376, *et seq.* Post-conversion, Cumberland Cellular, LLC is the resulting entity as a wholly-owned subsidiary of Duo County, and CCI's Board of Directors and officers became the Board of Managers and officers of Cumberland Cellular, LLC. The day-to-day activities and control of Cumberland Cellular, LLC remains substantially the same as those of Cumberland Cellular, Inc. before the reorganization.

10. 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.

11. Related Party Transactions:

Related party transactions have been eliminated during the consolidation of the financial statements for the years ended December 31, 2019 and 2018.

## ADDITIONAL INFORMATION



CAMPBELL, MYERS AND RUTLEDGE, PLLC

Cindy L. Greer, CPA ▪ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ▪ L. Joe Rutledge, CPA ▪ Ryan A. Mosier, CPA ▪ Jenna B. Glass, CPA ▪ Van Shepard, CPA

Independent Auditor's Report  
on Consolidating Information

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. and subsidiaries as of and for the years ended December 31, 2019 and 2018, and our report thereon dated March 26, 2020, which expressed an unmodified opinion on those financial statements appears on pages one and two. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information presented in Schedules I and II and III are 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 26, 2020

**DUO COUNTY TELEPHONE COOPERATIVE CORPORATION INC.**  
**SCHEDULE I – CONSOLIDATING BALANCE SHEET**  
**December 31, 2019**

	Duo County Telephone Cooperative Corp., Inc.	Diversified Holding Corporation	Cumberland Cellular, Inc.	Consolidating Entries	Consolidated Totals
<b>ASSETS</b>					
Cash and equivalents	\$ 1,492,459	\$ 131,103	\$ 3,865,533	\$ -	\$ 5,489,095
Temporary cash investments	1,599,939	-	1,979,925	-	3,579,864
Cash, RUS construction fund	203	-	-	-	203
Marketable securities	-	-	5,352,529	-	5,352,529
Accounts receivable	1,282,118	-	524,459	(604,194) (1)	1,202,383
Material and supplies - Regulated	1,682,754	-	452,574	-	2,135,328
Accrued interest receivable	86,003	-	200,859	-	286,862
Prepayments	605,599	-	196,503	-	802,102
Total current assets	<u>6,749,075</u>	<u>131,103</u>	<u>12,572,382</u>	<u>(604,194)</u>	<u>18,848,366</u>
Other assets					
Cash investments	16,770,139	-	29,139,363	-	45,909,502
Investments in affiliated company	106,569,470	100,349,085	55,318,583	(2,680,000) (2)	61,416,593
Other investments	7,236,360	-	14,925	-	7,251,285
Nonregulated investments	358,978	-	-	-	358,978
Total other assets	<u>130,934,947</u>	<u>100,349,085</u>	<u>84,472,871</u>	<u>(200,820,545)</u>	<u>114,936,358</u>
Telephone plant in service	96,967,773	-	22,953,557	-	119,921,330
Telephone plant under construction	7,750,179	-	6,441,717	-	14,191,896
Total telephone plant	104,717,952	-	29,395,274	-	134,113,226
Depreciation reserve	65,743,416	-	16,429,975	-	82,173,391
Total telephone plant less reserve	38,974,536	-	12,965,299	-	51,939,835
Total assets	<u>\$ 176,658,558</u>	<u>\$ 100,480,188</u>	<u>\$ 110,010,552</u>	<u>\$ (201,424,739)</u>	<u>\$ 185,724,559</u>
<b>LIABILITIES AND EQUITY</b>					
Accounts payable	\$ 1,644,482	\$ 6,212	1,231,921	(604,194) (1)	\$ 2,278,421
Customer deposits	7,100	-	-	-	7,100
Accrued liabilities	1,990,283	2,516	340,057	-	2,332,856
Current portion of long-term debt	110,680	-	-	-	110,680
Total current liabilities	<u>3,752,545</u>	<u>8,728</u>	<u>1,571,978</u>	<u>(604,194)</u>	<u>4,729,057</u>
Deferred income taxes-noncurrent	-	-	5,652,623	-	5,652,623
Total long-term liabilities	<u>-</u>	<u>-</u>	<u>5,652,623</u>	<u>-</u>	<u>5,652,623</u>
Other deferred credits	1,818,164	-	-	-	1,818,164
Total other liabilities and deferred credits	<u>1,818,164</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,818,164</u>
Capital stock	-	1,400,000	1,280,000	(2,680,000) (2)	-
Patronage capital credits	67,574,761	-	-	-	67,574,761
Total retained margins	105,297,758	99,071,460	99,069,085	(198,140,545) (3)	105,297,758
Accumulated other comprehensive income(loss)	(3,779,766)	-	2,436,866	-	(1,342,900)
Other equities	1,995,096	-	-	-	1,995,096
Retained margins and capital credits	<u>171,087,849</u>	<u>100,471,460</u>	<u>102,785,951</u>	<u>(200,820,545)</u>	<u>173,524,715</u>
Total liabilities and equity	<u>\$ 176,658,558</u>	<u>\$ 100,480,188</u>	<u>\$ 110,010,552</u>	<u>\$ (201,424,739)</u>	<u>\$ 185,724,559</u>



DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.  
SCHEDULE II - CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME  
For the Year Ended December 31, 2019

	Duo County Telephone Cooperative Corp., Inc.	Diversified Holding Corporation	Cumberland Cellular, Inc.	Consolidating Entries	Consolidated Totals
Local network services revenue	\$ 2,089,426	\$ -	\$ 6,653,688	\$ -	\$ 8,743,114
Network access service revenue	13,019,869	-	-	-	13,019,869
Carrier billing and collection revenue	23,576	-	-	-	23,576
Miscellaneous revenues	1,616,849	-	715,034	-	2,331,883
Less: Uncollectible revenues	<u>(13,710)</u>	<u>-</u>	<u>(105,555)</u>	<u>-</u>	<u>(119,265)</u>
<b>Total operating revenues</b>	<u>16,736,010</u>	<u>-</u>	<u>7,263,167</u>	<u>-</u>	<u>23,999,177</u>
Plant specific operating expenses	4,481,064	-	-	-	4,481,064
Plant nonspecific operating expenses	1,853,784	-	4,884,137	-	6,737,921
Depreciation and amortization expense	5,017,496	-	1,325,943	-	6,343,439
Customer operations expense	1,214,732	-	158,994	-	1,373,726
Corporate operations expense	<u>1,921,904</u>	<u>2,280</u>	<u>988,735</u>	<u>-</u>	<u>2,912,919</u>
<b>Total operating expenses</b>	<u>14,488,980</u>	<u>2,280</u>	<u>7,357,809</u>	<u>-</u>	<u>21,849,069</u>
Nonregulated income	<u>2,743,018</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,743,018</u>
Telephone operating income (loss)	<u>4,990,048</u>	<u>(2,280)</u>	<u>(94,642)</u>	<u>-</u>	<u>4,893,126</u>
Nonoperating income	12,277,783	10,669,574	8,009,006	(10,667,294) (1)	9,621,707
Provision from income taxes	<u>(45,288)</u>	<u>-</u>	<u>2,752,998</u>	<u>(10,667,362) (1)</u>	<u>2,707,710</u>
<b>Nonoperating income net of taxes</b>	<u>12,232,495</u>	<u>10,669,574</u>	<u>10,762,004</u>	<u>(21,334,656)</u>	<u>12,329,417</u>
<b>Income before interest</b>	<u>17,222,543</u>	<u>10,667,294</u>	<u>10,667,362</u>	<u>(21,334,656)</u>	<u>17,222,543</u>
<b>Net income</b>	17,222,543	10,667,294	10,667,362	(21,334,656)	17,222,543
Other comprehensive income and post retirement benefits	<u>(1,548,835)</u>	<u>-</u>	<u>1,228,105</u>	<u>-</u>	<u>(320,730)</u>
<b>Total comprehensive income</b>	<u>\$ 15,673,708</u>	<u>\$ 10,667,294</u>	<u>\$ 11,895,467</u>	<u>\$ (21,334,656)</u>	<u>\$ 16,901,813</u>

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.  
SCHEDULE III CONSOLIDATING STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2019

	Duo County Telephone Cooperative Corp., Inc.	Diversified Holding Corporation	Cumberland Cellular, Inc.	Consolidating Entries	Consolidated Totals
Cash flows from operating activities:					
Net income	\$ 17,222,543	\$ 10,667,294	\$ 10,667,362	\$ (21,334,656)	\$ 17,222,543
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation and amortization	5,017,496	-	1,325,943	-	6,343,439
Income from investment in affiliated companies	(10,667,294)	(10,667,361)	(7,149,269)	21,334,656	(7,149,268)
Refund of Federal Excise taxes	8,886	-	-	-	8,886
Changes in operating assets and liabilities:					
Decrease (increase) in accounts receivable	(56,154)	-	28,802	16,553	(10,799)
Decrease (increase) in inventory	471,470	-	53,507	-	524,977
Decrease (increase) in prepaid expenses	(76,816)	-	(119,171)	-	(195,987)
(Decrease) increase in accounts payable	284,592	(30)	808,261	(16,553)	1,076,270
(Decrease) increase in customer deposits	(300)	-	-	-	(300)
(Decrease) increase in deferred taxes	-	-	(2,603,899)	-	(2,603,899)
(Decrease) increase in accrued expenses	145,384	-	72,726	-	218,110
Net cash provided by operating activities	<u>12,349,807</u>	<u>(97)</u>	<u>3,084,262</u>	<u>-</u>	<u>15,433,972</u>
Cash flows from investing activities:					
Purchases of property, plant and equipment	(3,463,205)	-	(4,340,167)	-	(7,803,372)
Plant removal costs	(2,479,833)	-	-	-	(2,479,833)
Decrease (increase) in nonregulated investments	(167,706)	-	-	-	(167,706)
Investment in affiliated companies	-	-	3,658,820	-	3,658,820
Investments - other	(1,450,494)	-	7,651	-	(1,442,843)
Purchases of temporary investments	(859,939)	-	(4,925)	-	(864,864)
Maturity of temporary investments	859,356	-	-	-	859,356
Purchases of cash investments	(7,289,508)	-	(10,850,628)	-	(18,140,136)
Maturity of cash investments	2,208,820	-	9,207,266	-	11,416,086
Net cash used in investing activities	<u>(12,642,509)</u>	<u>-</u>	<u>(2,321,983)</u>	<u>-</u>	<u>(14,964,492)</u>

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.  
SCHEDULE III CONSOLIDATING STATEMENT OF CASH FLOWS, CONCLUDED  
For the Year Ended December 31, 2019

	Duo County Telephone Cooperative Corp., Inc.	Diversified Holding Corporation	Cumberland Cellular, Inc.	Consolidating Entries	Consolidated Totals
Cash flows from financing activities:					
Distributions of patronage capital	\$ (791,698)	\$ -	\$ -	\$ -	\$ (791,698)
Principal payments to Rural Utilities Service	(43,171)	-	-	-	(43,171)
(Decrease) increase in deferred credits	167,734	-	-	-	167,734
Other member capital	-	-	-	-	-
Net cash (used) provided by financing activities	<u>(667,135)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(667,135)</u>
Net (decrease) increase in cash and cash equivalents	(959,837)	(97)	762,279	-	(197,655)
Cash and cash equivalents at beginning of year	<u>2,452,296</u>	<u>131,200</u>	<u>3,103,254</u>	<u>-</u>	<u>5,686,750</u>
Cash and cash equivalents at end of year (Notes 1 and 4)	<u>\$ 1,492,459</u>	<u>\$ 131,103</u>	<u>\$ 3,865,533</u>	<u>\$ -</u>	<u>\$ 5,489,095</u>
Supplemental disclosures of cash flow information:					
Cash paid during the year for:					
Interest, net of interest capitalized of \$11,682 in 2019 and \$14,119 in 2018	<u>\$ 11,682</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,682</u>
Income taxes	<u>\$ -</u>	<u>\$ 175</u>	<u>\$ 204,149</u>	<u>\$ -</u>	<u>\$ 204,324</u>



Cindy L. Greer, CPA ▪ R. Brent Billingsley, CPA

Skip R. Campbell, CPA ▪ L. Joe Rutledge, CPA ▪ Ryan A. Mosier, CPA ▪ Jenna B. Glass, CPA ▪ Van Shepard, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Duo County Telephone Cooperative Corporation, Inc. and subsidiaries, which comprise the balance sheets as of December 31, 2019 and 2018 and the related statements of income, comprehensive income, patronage capital and other equities, and cash flows for the years then ended, and related notes to the consolidated financial statements, and have issued our report thereon dated March 26, 2020.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Campbell, Myers & Rutledge, PLLC*

Certified Public Accountants

March 26, 2020



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH ASPECTS  
OF CONTRACTUAL AGREEMENTS AND REGULATORY REQUIREMENTS  
FOR TELECOMMUNICATION BORROWERS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Duo County Telephone Cooperative Corporation and subsidiaries, which comprise the balance sheet as of December 31, 2019 and 2018, and the related statements of income, comprehensive income and patronage capital and other equities, and cash flows for the years ended, and the related notes to the financial statements, and have issued our report thereon dated March 26, 2020. In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2020, on our consideration of Duo County Telephone Cooperative Corporation, Inc. and subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. No reports other than the reports referred to above have been furnished to management.

In connection with our audit, nothing came to our attention that caused us to believe that Duo County Telephone Cooperative Corporation, Inc. and subsidiaries failed to comply with the terms, covenants, provisions, or conditions of their loan, grant, and security instruments as set forth in 7 CFR Part 1773, *Policy on Audits of Rural Utilities Service Borrowers and Grantees*, 1773.33, insofar as they relate to accounting matters as enumerated below. However, our audit was not directed primarily toward obtaining knowledge of noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Duo County Telephone Cooperative Corporation, Inc. and subsidiaries' noncompliance with the above-referenced terms, covenants, provisions, or conditions of the contractual agreements and regulatory requirements, insofar as they relate to accounting matters. In connection with our audit, we noted no matters regarding Duo County Telephone Cooperative Corporation, Inc. and subsidiaries' accounting and records to indicate that Duo County Telephone Cooperative Corporation, Inc. and subsidiaries did not:

Maintain adequate and effective accounting procedures;

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

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

Clear construction accounts and accrue depreciation on completed construction;

Record and properly price the retirement of plant;

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

Maintain adequate control over materials and supplies;

Prepare accurate and timely Financial and Operating Reports;

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

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

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

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

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

Diversified Holding 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.

Original Investment Cost - 1997 \$ -

Investment Advances:	Diversified <u>Holding Corp.</u>	Bluegrass <u>Network LLC</u>
12/31/90	\$ 3,400,000	\$ -
12/31/91	1,100,000	-
12/31/92	130,000	-
12/31/93	300,000	-
12/31/94	540,000	5,000
12/31/95	160,000	341,000
12/31/96	-	400,000
12/31/97	-	190,000
12/31/98	-	-
12/31/99	-	-
12/31/00	-	-
12/31/01	-	-
12/31/02	-	-
12/31/03	3,000,000	-
12/31/04	770,000	-
12/31/05	-	-
12/31/06	3,000,000	-
12/31/07	1,000,000	-
12/31/08	-	-
12/31/09	-	-
12/31/10	-	-
12/31/11	-	-
12/31/12	(6,000,000)	-
12/31/13	(6,000,000)	-
12/31/14	-	-
12/31/15	-	-
12/31/16	(2,000,000)	(200,000)
12/31/17	(2,000,000)	(200,000)
12/31/18	-	-
12/31/19	-	-
	<u>                    </u>	<u>                    </u>
Total Contributions	<u>\$ (2,600,000)</u>	<u>\$ 536,000</u>



Undistributed (Losses) Earnings:

	Diversified Holding Corp.	Bluegrass Network LLC
12/31/90	\$ 19,208	\$ -
12/31/91	89,940	-
12/31/92	(23,732)	-
12/31/93	14,582	-
12/31/94	122,030	-
12/31/95	469,230	158
12/31/96	600,451	15,389
12/31/97	876,694	32,110
12/31/98	678,663	182,619
12/31/99	844,128	216,047
12/31/00	662,365	193,730
12/31/01	788,508	149,778
12/31/02	984,763	146,181
12/31/03	958,217	141,384
12/31/04	2,055,836	231,989
12/31/05	2,877,511	257,798
12/31/06	4,777,093	248,792
12/31/07	5,683,016	288,504
12/31/08	6,490,036	386,497
12/31/09	6,945,556	424,140
12/31/10	7,336,840	389,346
12/31/11	7,174,008	557,902
12/31/12	7,549,307	654,364
12/31/13	5,054,551	631,435
12/31/14	3,876,399	689,259
12/31/15	4,789,291	789,910
12/31/16	8,083,924	499,125
12/31/17	5,390,367	469,253
12/31/18	7,235,385	609,886
12/31/19	<u>10,667,293</u>	<u>449,298</u>
Total Undistributed (Losses) Earnings	103,071,460	8,654,894
Original Investment and Investment Advances	1,400,000	936,000
Partnership Distribution as of 12/31/19	<u>(4,000,000)</u>	<u>(3,492,884)</u>
Book Value 12/31/19	<u>\$ 100,471,460</u>	<u>\$ 6,098,010</u>

This report is intended solely for the information and use of the board of directors, management, and the RUS and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Campbell, Myers & Rutledge, PLLC*  
Glasgow, Kentucky

March 26, 2020

