

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES

REPORT ON AUDIT OF CONSOLIDATED FINANCIAL
STATEMENTS AND ADDITIONAL INFORMATION

For the Years Ended
December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2021 and 2020, 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, 2021 and 2020, 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 29, 2022 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

Glasgow, Kentucky
March 29, 2022

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
BALANCE SHEETS
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Current assets		
Cash and cash equivalents	\$ 5,625,573	\$ 7,629,277
Temporary cash investments	3,589,319	4,251,965
Cash, RUS construction fund	6,235,265	6,228,662
Marketable securities	13,500,897	6,040,430
Accounts receivable, less allowance for doubtful accounts of \$264,141 in 2021 and \$223,263 in 2020.	1,740,589	1,389,293
Materials and supplies at average cost which is less than net realizable value	4,950,832	4,362,238
Accrued interest receivable	222,616	216,384
Prepaid expenses	458,745	596,274
Total current assets	<u>36,323,836</u>	<u>30,714,523</u>
Other assets		
Cash investments	23,635,743	35,276,073
Marketable securities	101,086,465	-
Nonregulated investments	306,731	460,895
Investment in affiliated companies	14,739,477	74,105,109
Total other assets	<u>139,768,416</u>	<u>109,842,077</u>
Telecommunication plant, at cost (substantially all pledged as collateral on long-term debt to RUS)		
Telecommunication plant in service	136,853,024	125,439,557
Telecommunication plant under construction	27,772,226	22,384,686
Nonoperating plant-land	52,008	52,008
Total telecommunication plant, at cost	164,677,258	147,876,251
Less accumulated depreciation	<u>(94,034,631)</u>	<u>(88,372,745)</u>
Total telecommunication plant, net	<u>70,642,627</u>	<u>59,503,506</u>
Total Assets	<u>\$ 246,734,879</u>	<u>\$ 200,060,106</u>

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

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
BALANCE SHEETS, CONCLUDED
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Current liabilities:		
Accounts payable, includes construction contracts payable of \$649,273 in 2021 and \$290,234 in 2020	2,840,763	2,431,584
Income tax payable	-	412,361
Customer deposits	5,800	6,100
Accrued expenses	<u>2,742,824</u>	<u>2,626,733</u>
Total current liabilities	<u>5,589,387</u>	<u>5,476,778</u>
Long-term liabilities:		
Deferred income taxes	<u>1,893,137</u>	<u>5,288,695</u>
Total long term liabilities	<u>1,893,137</u>	<u>5,288,695</u>
Other liabilities and deferred credits:		
Deferred charges	<u>2,748,282</u>	<u>2,769,578</u>
Total other liabilities and deferred credits	<u>2,748,282</u>	<u>2,769,578</u>
Members' equities:		
Patronage capital	105,527,379	69,103,388
Other equities	128,387,220	117,526,629
Accumulated other comprehensive income (loss)	205,814	(2,256,298)
Other member capital	<u>2,383,660</u>	<u>2,151,336</u>
Total members' equities	<u>236,504,073</u>	<u>186,525,055</u>
Total liabilities and members' equities	<u>\$ 246,734,879</u>	<u>\$ 200,060,106</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Local network services	\$ 8,736,426	\$ 8,528,968
Network access services	13,393,651	12,650,308
Miscellaneous operating revenue	2,707,345	2,422,946
Uncollectible revenue	<u>(131,302)</u>	<u>(112,012)</u>
Total operating revenues	<u>24,706,120</u>	<u>23,490,210</u>
 Operating expenses:		
Plant specific operations	4,140,620	4,836,329
Plant nonspecific operations	6,313,086	6,580,739
Depreciation	6,580,552	6,639,015
Customer operations	1,372,014	1,462,655
Corporate operations	<u>3,619,165</u>	<u>2,947,469</u>
Total operating expenses	<u>22,025,437</u>	<u>22,466,207</u>
 Nonregulated Income	<u>4,190,417</u>	<u>3,337,656</u>
 Operating income	<u>6,871,100</u>	<u>4,361,659</u>
 Nonoperating income	5,013,997	12,293,870
Sale of investment in affiliated company	48,187,068	-
Provision for income taxes	<u>(11,792,080)</u>	<u>(2,117,229)</u>
Nonoperating income net of taxes	<u>41,408,985</u>	<u>10,176,641</u>
 Income before interest	<u>48,280,085</u>	<u>14,538,300</u>
 Net Income	<u>\$ 48,280,085</u>	<u>\$ 14,538,300</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Net Income	\$ 48,280,085	\$ 14,538,300
Other comprehensive income		
Postretirement benefit other than pension:		
Unrecognized gain (loss) on assets	75,588	(1,382,170)
Unrealized gain (loss) on marketable securities	<u>2,386,524</u>	<u>468,771</u>
Total comprehensive income	<u>\$ 50,742,197</u>	<u>\$ 13,624,901</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, 2021 and 2020

	Patronage Capital			Accumulated Other Comprehensive Income	Other Equities
	Assignable	Assigned	Balance		
Balances, January 1, 2020	\$ 15,954,952	\$ 51,619,809	\$ 67,574,761	\$ (1,342,899)	\$ 105,297,758
Patronage capital assigned for the year ended December 31, 2020	(5,006,250)	5,006,250	-	-	-
Refund of overcollected Federal Excise tax for prior year	-	12,577	12,577	-	-
Transfer nonoperating margins for 2020	(12,228,871)	-	(12,228,871)	-	12,228,871
Postretirement benefit other than pension Unrecognized gain/(loss) on assets	-	-	-	(1,382,170)	-
Net income for the year ended December 31, 2020	14,538,300	-	14,538,300	-	-
Other comprehensive income	-	-	-	468,771	-
Distribution of patronage capital	-	(793,379)	(793,379)	-	-
Balances, December 31, 2020	<u>13,258,131</u>	<u>55,845,257</u>	<u>69,103,388</u>	<u>(2,256,298)</u>	<u>117,526,629</u>
Patronage capital assigned for the year ended December 31, 2021	(3,683,516)	3,683,516	-	-	-
Refund of overcollected Federal Excise tax for prior year	-	5,807	5,807	-	-
Transfer nonoperating margins for 2021	(10,860,591)	-	(10,860,591)	-	10,860,591
Postretirement benefit other than pension Unrecognized gain/(loss) on assets	-	-	-	75,588	-
Net income for the year ended December 31, 2021	48,280,085	-	48,280,085	-	-
Other comprehensive income	-	-	-	2,386,524	-
Distribution of patronage capital	-	(1,001,310)	(1,001,310)	-	-
Balances, December 31, 2021	<u>\$ 46,994,109</u>	<u>\$ 58,533,270</u>	<u>\$ 105,527,379</u>	<u>\$ 205,814</u>	<u>\$ 128,387,220</u>

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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Operating income	\$ 6,871,100	\$ 4,361,659
Adjustments to reconcile net income to net cash provided by operating activities:		
Sale of investment in affiliated company	48,187,068	-
Nonoperating income	5,013,997	12,293,870
Provision from income taxes	(11,792,080)	(2,117,229)
Depreciation and amortization	6,580,552	6,639,015
Income from investment in affiliated companies	(1,709,072)	(9,275,603)
Refund of Federal Excise taxes	5,807	12,577
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(357,528)	(116,432)
Decrease (increase) in inventory	(588,594)	(2,226,910)
Decrease (increase) in prepaid expenses	137,529	205,828
(Decrease) increase in accounts payable	409,179	159,375
(Decrease) increase in customer deposits	(300)	(1,000)
(Decrease) increase in deferred taxes	(3,395,558)	(363,928)
(Decrease) increase in accrued income taxes	(412,361)	412,361
(Decrease) increase in accrued expenses	<u>116,091</u>	<u>296,393</u>
Net cash provided by operating activities	<u>49,065,830</u>	<u>10,279,976</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(17,719,673)	(14,202,686)
Decrease (increase) in nonregulated investments	154,164	(101,917)
Investment in affiliated companies	71,062,572	8,299,601
Investments - other	(578,612)	962,358
Purchases of temporary investments	(1,752,261)	(2,584,417)
Maturity of temporary investments	1,748,684	1,912,315
Purchases of cash investments	(13,595,000)	(6,534,934)
Maturity of cash investments	12,935,000	10,254,953
Purchases of marketable securities	<u>(102,739,470)</u>	<u>-</u>
Net cash used in investing activities	<u>(50,484,596)</u>	<u>(1,994,727)</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from financing activities:		
Distributions of patronage capital	\$ (1,001,310)	\$ (793,379)
Principal payments to Rural Utilities Service	-	(110,680)
(Decrease) increase in deferred credits	(21,296)	951,414
Distribution from CC, LLC to Duo County Telephone	-	-
Increase in capital stock	-	(120,000)
Other member capital	<u>444,271</u>	<u>156,240</u>
Net cash (used) provided by financing activities	<u>(578,335)</u>	<u>83,595</u>
Net (decrease) increase in cash and cash equivalents	(1,997,101)	8,368,844
Cash and cash equivalents at beginning of year	<u>13,857,939</u>	<u>5,489,095</u>
Cash and cash equivalents at end of year	<u>\$ 11,860,838</u>	<u>\$ 13,857,939</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income taxes	<u>\$ 15,600,000</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, 2021 AND 2020

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 subsidiary Cumberland Cellular, LLC. 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 all or parts of a seven-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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Land	\$ 649,208	\$ 619,698
Buildings	8,846,048	8,199,142
Central Office Equipment	30,567,368	29,400,554
Cable and Wire Facilities	89,573,013	80,194,752
Furniture and Office Equipment	1,000,524	990,963
General Purpose Computers	1,363,806	1,354,420
Vehicles	1,397,656	1,357,716
Other Work Equipment	811,879	678,790
Intangible - CATV	1,638,902	1,638,902
Goodwill	1,004,620	1,004,620
	<u>\$ 136,853,024</u>	<u>\$ 125,439,557</u>

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2021 AND 2020

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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Income from operations	\$ 7,548,793	\$ 6,534,269
Expenses	<u>(3,358,376)</u>	<u>(3,196,613)</u>
Nonregulated income	<u>\$ 4,190,417</u>	<u>\$ 3,337,656</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. As of 1/1/2021 Cumberland Cellular, LLC owns 20% of Bluegrass Telecom and 62.5% of Cumberland Cellular Partnership. In March 2021, Cumberland Cellular Partnership sold all assets. The partnership is still open pending final settlement of all contract details. It is estimated the partnership will close during 2022. 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, LLC, 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, LLC for 2021 and 2020.

In July 2006, the Cooperative's affiliate Cumberland Cellular, LLC 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, LLC for 2021 and 2020.

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2021 AND 2020

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>2021</u>		<u>2020</u>	
	<u>Carrying</u>	<u>Bank</u>	<u>Carrying</u>	<u>Bank</u>
	<u>Amount</u>	<u>Balance</u>	<u>Amount</u>	<u>Balance</u>
Insured (FDIC)	\$ 5,393,991	\$ 5,391,683	\$ 872,356	\$ 862,095
Uninsured				
Collateral held by pledging bank's trust department in Cooperative's name	<u>6,466,847</u>	<u>11,856,655</u>	<u>12,985,583</u>	<u>14,282,386</u>
Total deposits	<u>\$ 11,860,838</u>	<u>\$ 17,248,338</u>	<u>\$ 13,857,939</u>	<u>\$ 15,144,481</u>

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2021 AND 2020

3. Marketable Securities:

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, 2021 and 2020 have been segregated as follows:

	<u>December 31, 2021</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain/(Loss)</u>
Cash Equivalents	\$ 5,882,944	\$ 5,882,944	\$ -
Equity Securities	106,317,894	108,704,418	2,386,524
Total Available-For-Sale	<u>\$ 112,200,838</u>	<u>\$ 114,587,362</u>	<u>\$ 2,386,524</u>
	<u>December 31, 2020</u>		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain/(Loss)</u>
Cash Equivalents	\$ 307,755	\$ 307,755	\$ -
Equity Securities	5,263,904	5,732,675	468,771
Total Available-For-Sale	<u>\$ 5,571,659</u>	<u>\$ 6,040,430</u>	<u>\$ 468,771</u>

Available-for-sale securities are carried in the financial statements at fair market value and included in marketable securities on the financial statements. Net unrealized holding gains and losses in the amount of \$2,386,524 have been included in accumulated other comprehensive income for the year ended December 31, 2021 and \$468,771 for December 31, 2020.

US GAAP provides a framework for fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The methodology for measuring fair value specifies a three-tier hierarchy of valuation techniques based upon whether the inputs to those valuation techniques are based on quoted prices or identical assets or liabilities (Level 1), significant other observable inputs (Level 2), or significant other unobservable inputs that reflects a company's own assumptions of market participation valuation (Level 3).

4. 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.

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2021 AND 2020

4. Investments, Concluded:

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 <u>Cost</u>	Net Unrealized <u>Gains(Losses)</u>	Market <u>Value</u>
U.S. Treasury Securities - 2021	\$ 134,116,626	\$ 7,695,798	\$ 141,812,424
U.S. Treasury Securities - 2020	\$ 40,807,288	\$ 579,576	\$ 40,227,712

The maturities of held to maturity investments and their approximate market value at December 31, 2021 and 2020, were as follows:

	<u>2021</u>		<u>2020</u>	
	Amortized <u>Cost</u>	<u>Value</u>	Amortized <u>Cost</u>	Market <u>Value</u>
Due in one year or less (included in cash and temporary cash investments)	\$ 19,251,418	\$ 18,879,295	\$ 13,306,200	\$ 13,059,576
Due after one year	<u>114,865,208</u>	<u>122,933,129</u>	<u>27,501,088</u>	<u>27,168,136</u>
	<u>\$ 134,116,626</u>	<u>\$ 141,812,424</u>	<u>\$ 40,807,288</u>	<u>\$ 40,227,712</u>

5. Mortgage Notes:

Long-term debt is represented by mortgage notes payable to the United States of America. All long term debt due to RUS was paid off as of December 31, 2020

Following is a summary of outstanding long-term debt:

	<u>2021</u>	<u>2020</u>
Due to United States of America:		
5% First Mortgage Notes	\$ -	\$ -
3.56% - 5.05% First Mortgage Notes	<u>-</u>	<u>-</u>
Total due to the United States of America	<u>-</u>	<u>-</u>
Less unadvanced loans	-	-
Less RUS advanced payments	-	-
Less current maturities	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>

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, 2021 AND 2020

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 2021 and 2020 consists of the following:

	<u>2021</u>	<u>2020</u>
Current income tax expense	\$ 15,187,638	\$ 2,481,157
Deferred income taxes	<u>(3,395,558)</u>	<u>(363,928)</u>
Provision for income taxes	<u>\$ 11,792,080</u>	<u>\$ 2,117,229</u>

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

	<u>2021</u>	<u>2020</u>
Differences in Depreciation Methods	<u>\$ 1,893,137</u>	<u>\$ 5,288,695</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, 2021 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 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, 2021 and 2020:

Deferred Credits:	<u>2021</u>	<u>2020</u>
OPEB Reserve	\$ 82,911	\$ 2,698
Dark Fiber	2,657,871	2,763,133
Information Systems	<u>7,500</u>	<u>3,747</u>
	<u>\$ 2,748,282</u>	<u>\$ 2,769,578</u>

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2021 AND 2020

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, 2021 and 2020 were \$888,611 and \$773,554. 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>2021</u>	<u>2020</u>
Accumulated post retirement benefit obligation	\$ (16,966,503)	\$ (14,435,536)
Fair value of plan assets - end of year	<u>18,729,618</u>	<u>15,690,621</u>
Funded status	<u>\$ 1,763,115</u>	<u>\$ 1,255,085</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>2021</u>	<u>2020</u>
Net periodic benefit plan cost	\$ (199,088)	\$ 63,264

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.

Other Plan information as follows at December 31:

	<u>2021</u>	<u>2020</u>
Unrecognized net gain reported as a increase to equity	<u>\$ (5,086,348)</u>	<u>\$ (5,161,936)</u>

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>2021</u>	<u>2020</u>
Expected return on Plan assets	7.00%	7.00%
Discount rate	3.00%	3.75%

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
DECEMBER 31, 2021 AND 2020

8. Pension Plan, Concluded:

For measurement purposes, a seven percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2020. The rate was assumed to decrease gradually each year to a rate of five percent by 2021 and remain at that level thereafter:

2022	5.50%	6.00%
2023	5.00%	5.50%
2024	5.00%	5.00%
2025	5.00%	5.00%
2026	5.00%	5.00%
2027-2029	5.00%	

The discount rate used in determining the accumulated postretirement benefit obligation was 3.00% and 3.75% for the years ending December 31, 2021 and 2020, respectively.

Expected benefit payments from the plan for the year ending December 31, 2022 total \$506,510.

An additional 1% increase in the trend utilized for measurement purposes in 2021 would have resulted in an increase in the accumulated postretirement benefit obligation of approximately \$2,808,000.

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 2021 and 2020 were approximately \$335,000 and \$315,000. Total employer contributions related to the Plan for 2021 and 2020 were approximately \$151,000 and \$144,000.

The fair values of the Cooperative's pension Plan assets at December 31, 2021, 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%	\$2,565,958
Vanguard Total Stock Market Index Fund	24.70%	\$4,626,216
Vanguard High Yield Corporate Fund	8.10%	\$1,517,099
Vanguard FTSE All World EX US Index Fund	26.20%	\$4,907,160
Vanguard REIT Index Fund	8.30%	\$1,554,558
Ishares ACWI Minimum Volatility ETF	17.00%	\$3,184,035
Cash	2.00%	\$ 374,592

9. Revenue Recognition:

The timing of recognition of revenue for each performance obligation may differ from the timing of the customer billing, creating a contract asset or contract liability. Short-term contract liabilities are classified as customer deposits. The Cooperative has no contract assets or long-term contract liabilities.

Nature of goods and services

The following is a description of principal activities from which the Cooperative generates its revenues.

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONCLUDED
DECEMBER 31, 2021 AND 2020

9. Revenue Recognition, Continued:

Telecommunication revenues – The Cooperative’s regulated sources of revenue are local network services, network access services (interstate and intrastate), carrier billing, video revenue and other service charges. The Cooperative’s nonregulated sources of revenue are customer premises and equipment, internet activities, long distance services, video services and security and business systems revenue.

Revenues from sales of equipment are recognized when control has transferred to the customer. Telecommunication service revenues are recognized as the related service is provided. Services are deemed to be highly interrelated when the method and timing of transfer and performance risk are the same. Highly interrelated services that are determined to not be distinct have been grouped into single performance obligation. Each month of services promised is a performance obligation. The series of monthly service performance obligations promised over the course of the contract are combined into a single performance obligation for purposes of the allocation.

The Cooperative has made judgements regarding transaction price, including but not limited to issues relating to variable consideration, time value of money and returns. When determined to be significant in the context of the contract, these items are considered in the valuation of transaction price at contract inception or modification, as appropriate.

Multiple performance obligations

The Cooperative sells bundled service and equipment offerings. In these instances, the Cooperative recognizes its revenue based on the relative standalone selling prices for each distinct service or equipment performance obligation or bundles thereof. The Cooperative estimates the standalone selling price of the device or accessory to be its retail price excluding discounts. The Cooperative estimates the standalone selling price of telecommunication service to be the price offered to customers on month-to-month contacts.

From time to time, the Cooperative may offer certain promotions to incentivize customers to switch to, or to purchase additional services from the Company. Under these types of promotions, an eligible customer may receive an incentive in the form of a discount off additional services purchased shown as a rebate or credit to the customer’s monthly bill. Rebates are amortized over the life of the contract and are recognized when included in the customer’s monthly bill.

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONCLUDED
DECEMBER 31, 2021 AND 2020

9. Revenue Recognition, Concluded:

Disaggregation of revenue

In the following table, revenue for the years ended December 30, 2021 and 2020 is disaggregated by type of service.

Regulated Income	<u>2021</u>	<u>2020</u>
Duo County Telephone Cooperative Inc.		
Local network services	\$ 1,769,448	\$ 1,824,639
Network access services	13,393,651	12,650,308
Lease revenue	210,264	166,045
Miscellaneous	<u>1,642,594</u>	<u>1,501,250</u>
	<u>\$ 17,015,957</u>	<u>\$ 16,142,242</u>
Cumberland Cellular, LLC		
Local network services	\$ 6,966,978	\$ 6,704,329
Lease revenue	172,893	131,725
Miscellaneous	<u>681,594</u>	<u>623,925</u>
	<u>\$ 7,821,465</u>	<u>\$ 7,459,979</u>
Nonregulated Income		
	<u>2021</u>	<u>2020</u>
Duo County Telephone Cooperative, Inc.		
Internet services	\$ 7,044,416	\$ 6,077,147
Sales revenue	34,895	65,100
Lease revenue	469,482	369,666
Miscellaneous	<u>-</u>	<u>22,356</u>
	<u>\$ 7,548,793</u>	<u>\$ 6,534,269</u>
Cumberland Cellular, LLC		
Internet services	\$ -	\$ -
Cable television	-	-
Other	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</u>

Contract cost liabilities

Contract cost liabilities include customer deposits. The balance in contract liabilities was \$5,800 and \$6,100 as of December 30, 2021 and 2020, respectively.

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONCLUDED
DECEMBER 31, 2021 AND 2020

10. Subsequent Events:

Management has evaluated subsequent events through March 29, 2022, the date which the financial statements were available to be issued.

11. 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.

12. Related Party Transactions:

Related party transactions have been eliminated during the consolidation of the financial statements for the years ended December 31, 2021 and 2020.

ADDITIONAL INFORMATION



CAMPBELL, MYERS AND RUTLEDGE, PLLC

Cindy L. Greer, CPA ▪ R. Brent Billingsley, CPA ▪ Ryan A. Mosier, CPA

Skip R. Campbell, CPA ▪ L. Joe Rutledge, CPA ▪ Jenna B. Glass, CPA ▪ L. Caitlin Hagan, 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, 2021 and 2020, and our report thereon dated March 29, 2022, 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

Glasgow, Kentucky
March 29, 2022

**DUO COUNTY TELEPHONE COOPERATIVE CORPORATION INC.
SCHEDULE I – CONSOLIDATING BALANCE SHEET**

December 31, 2021

	Duo County Telephone Cooperative Corp., Inc.	Cumberland Cellular, LLC	Consolidating Entries	Consolidated Totals
ASSETS				
Cash and equivalents	\$ 3,113,633	\$ 2,511,940	\$ -	\$ 5,625,573
Temporary cash investments	2,084,934	1,504,385	-	3,589,319
Cash, RUS construction fund	6,235,265	-	-	6,235,265
Marketable securities	-	13,500,897	-	13,500,897
Accounts receivable	1,296,979	1,078,744	(635,134) (1)	1,740,589
Material and supplies - Regulated	4,514,842	435,990	-	4,950,832
Accrued interest receivable	41,034	181,582	-	222,616
Prepayments	392,391	66,354	-	458,745
Total current assets	<u>17,679,078</u>	<u>19,279,892</u>	<u>(635,134)</u>	<u>36,323,836</u>
Other assets				
Cash investments	5,115,149	18,520,594	-	23,635,743
Marketable securities	-	101,086,465	-	101,086,465
Investments in affiliated company	155,918,410	196,450	(1,400,000) (2)	8,002,838
			(146,712,022) (3)	
Other noncurrent investments	6,736,639	-	-	6,736,639
Nonregulated investments	306,731	-	-	306,731
Total other assets	<u>168,076,929</u>	<u>119,803,509</u>	<u>(148,112,022)</u>	<u>139,768,416</u>
Telephone plant in service	108,174,100	28,678,924	-	136,853,024
Telephone plant under construction	20,473,672	7,350,562	-	27,824,234
Total telephone plant	<u>128,647,772</u>	<u>36,029,486</u>	<u>-</u>	<u>164,677,258</u>
Depreciation reserve	<u>74,627,242</u>	<u>19,407,389</u>	<u>-</u>	<u>94,034,631</u>
Total telephone plant less reserve	<u>54,020,530</u>	<u>16,622,097</u>	<u>-</u>	<u>70,642,627</u>
Total assets	<u>\$ 239,776,537</u>	<u>\$ 155,705,498</u>	<u>\$ (148,747,156)</u>	<u>\$ 246,734,879</u>
LIABILITIES AND EQUITY				
Accounts payable	\$ 2,800,427	675,470	\$ (635,134) (1)	\$ 2,840,763
Customer deposits	5,800	-	-	5,800
Accrued liabilities	2,393,505	349,319	-	2,742,824
Income taxes payable	-	-	-	-
Current portion of long-term debt	-	-	-	-
Total current liabilities	<u>5,199,732</u>	<u>1,024,789</u>	<u>(635,134)</u>	<u>5,589,387</u>
Deferred income taxes-noncurrent	1,893,137	-	-	1,893,137
Total long-term liabilities	<u>1,893,137</u>	<u>-</u>	<u>-</u>	<u>1,893,137</u>
Other deferred credits	1,471,757	1,276,525	-	2,748,282
Total other liabilities and deferred credits	<u>1,471,757</u>	<u>1,276,525</u>	<u>-</u>	<u>2,748,282</u>
Capital stock	-	1,400,000	(1,400,000) (2)	-
Patronage capital credits	105,527,379	-	-	105,527,379
Other equities	128,387,220	146,712,022	(146,712,022) (3)	128,387,220
Accumulated other comprehensive income(loss)	(5,086,348)	5,292,162	-	205,814
Other equities	2,383,660	-	-	2,383,660
Retained margins and capital credits	<u>231,211,911</u>	<u>153,404,184</u>	<u>(148,112,022)</u>	<u>236,504,073</u>
Total liabilities and equity	<u>\$ 239,776,537</u>	<u>\$ 155,705,498</u>	<u>\$ (148,747,156)</u>	<u>\$ 246,734,879</u>

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
SCHEDULE II - CONSOLIDATING STATEMENT OF INCOME AND COMPREHENSIVE INCOME
For the Year Ended December 31, 2021

	Duo County Telephone Cooperative Corp., Inc.	Cumberland Cellular, LLC	Consolidating Entries	Consolidated Totals
Local network services revenue	\$ 1,769,448	\$ 6,966,978	\$ -	\$ 8,736,426
Network access service revenue	13,393,651	-	-	13,393,651
Miscellaneous revenues	1,852,858	854,487	-	2,707,345
Less: Uncollectible revenues	<u>(18,649)</u>	<u>(112,653)</u>	<u>-</u>	<u>(131,302)</u>
Total operating revenues	<u>16,997,308</u>	<u>7,708,812</u>	<u>-</u>	<u>24,706,120</u>
Plant specific operating expenses	4,140,620	-	-	4,140,620
Plant nonspecific operating expenses	1,612,645	4,700,441	-	6,313,086
Depreciation and amortization expense	5,279,756	1,300,796	-	6,580,552
Customer operations expense	1,172,381	199,633	-	1,372,014
Corporate operations expense	<u>2,250,435</u>	<u>1,368,730</u>	<u>-</u>	<u>3,619,165</u>
Total operating expenses	<u>14,455,837</u>	<u>7,569,600</u>	<u>-</u>	<u>22,025,437</u>
Nonregulated income	<u>4,190,417</u>	<u>-</u>	<u>-</u>	<u>4,190,417</u>
Telephone operating income (loss)	<u>6,731,888</u>	<u>139,212</u>	<u>-</u>	<u>6,871,100</u>
Nonoperating income	53,340,277	4,467,234	(52,793,514) (1)	5,013,997
Sale of investment in affiliated company	-	48,187,068	-	48,187,068
Provision from income taxes	<u>(11,792,080)</u>	<u>-</u>	<u>-</u>	<u>(11,792,080)</u>
Nonoperating income net of taxes	<u>41,548,197</u>	<u>52,654,302</u>	<u>(52,793,514)</u>	<u>41,408,985</u>
Income before interest	<u>48,280,085</u>	<u>52,793,514</u>	<u>(52,793,514)</u>	<u>48,280,085</u>
Net income	48,280,085	52,793,514	(52,793,514)	48,280,085
Other comprehensive income and post retirement benefits	<u>75,588</u>	<u>2,386,524</u>	<u>-</u>	<u>2,462,112</u>
Total comprehensive income	<u>\$ 48,355,673</u>	<u>\$ 55,180,038</u>	<u>\$ (52,793,514)</u>	<u>\$ 50,742,197</u>

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
SCHEDULE III CONSOLIDATING STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2021

	Duo County Telephone Cooperative Corp., Inc.	Cumberland Cellular, LLC.	Consolidating Entries	Consolidated Totals
Cash flows from operating activities:				
Operating income	\$ 6,731,888	\$ 139,212	\$ -	\$ 6,871,100
Adjustments to reconcile net income to net cash provided by operating activities:				
Sale of investment in affiliated company	-	48,187,068	-	48,187,068
Nonoperating income	53,340,277	4,467,234	(52,793,514)	5,013,997
Provision from income taxes	(11,792,080)	-	-	(11,792,080)
Depreciation and amortization	5,279,756	1,300,796	-	6,580,552
Income from investment in affiliated companies	(139,212)	(1,569,860)	-	(1,709,072)
Refund of Federal Excise taxes	5,807	-	-	5,807
Changes in operating assets and liabilities:				
Decrease (increase) in accounts receivable	211,880	(589,010)	19,602	(357,528)
Decrease (increase) in inventory	(606,154)	17,560	-	(588,594)
Decrease (increase) in prepaid expenses	95,332	42,197	-	137,529
(Decrease) increase in accounts payable	455,564	(26,783)	(19,602)	409,179
(Decrease) increase in customer deposits	(300)	-	-	(300)
(Decrease) increase in deferred taxes	(3,395,558)	-	-	(3,395,558)
(Decrease) increase in accrued income taxes	(412,361)	-	-	(412,361)
(Decrease) increase in accrued expenses	(28,321)	144,412	-	116,091
Net cash provided by operating activities	<u>49,746,518</u>	<u>52,112,826</u>	<u>(52,793,514)</u>	<u>49,065,830</u>
Cash flows from investing activities:				
Purchases of property, plant and equipment	(15,771,720)	(1,947,953)	-	(17,719,673)
Decrease (increase) in nonregulated investments	154,164	-	-	154,164
Investment in affiliated companies	(53,470,345)	71,739,403	52,793,514	71,062,572
Investments - other	(587,343)	8,731	-	(578,612)
Purchases of temporary investments	(745,610)	(1,006,651)	-	(1,752,261)
Maturity of temporary investments	745,000	1,003,684	-	1,748,684
Purchases of cash investments	(810,000)	(12,785,000)	-	(13,595,000)
Maturity of cash investments	2,075,000	10,860,000	-	12,935,000
Purchases of marketable securities	-	(102,739,470)	-	(102,739,470)
Net cash used in investing activities	<u>(68,410,854)</u>	<u>(34,867,256)</u>	<u>52,793,514</u>	<u>(50,484,596)</u>

DUO COUNTY TELEPHONE COOPERATIVE CORPORATION, INC.
SCHEDULE III CONSOLIDATING STATEMENT OF CASH FLOWS, CONCLUDED
For the Year Ended December 31, 2021

	Duo County Telephone Cooperative Corp., Inc.	Cumberland Cellular, LLC	Consolidating Entries	Consolidated Totals
Cash flows from financing activities:				
Distributions of patronage capital	\$ (1,001,310)	\$ -	\$ -	\$ (1,001,310)
(Decrease) increase in deferred credits	29,259	(50,555)	-	(21,296)
Distributions from CC, LLC to Duo County Telephone	20,500,000	(20,500,000)	-	-
Other member capital	<u>444,271</u>	<u>-</u>	<u>-</u>	<u>444,271</u>
Net cash (used) provided by financing activities	<u>19,972,220</u>	<u>(20,550,555)</u>	<u>-</u>	<u>(578,335)</u>
Net (decrease) increase in cash and cash equivalents	1,307,884	(3,304,985)	-	(1,997,101)
Cash and cash equivalents at beginning of year	<u>8,041,014</u>	<u>5,816,925</u>	<u>-</u>	<u>13,857,939</u>
Cash and cash equivalents at end of year (Notes 1 and 4)	<u>\$ 9,348,898</u>	<u>\$ 2,511,940</u>	<u>\$ -</u>	<u>\$ 11,860,838</u>
				-
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Income taxes	<u>\$ 15,600,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,600,000</u>



CAMPBELL, MYERS AND RUTLEDGE, PLLC

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

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, 2021 and 2020 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 29, 2022.

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

Glasgow, Kentucky
March 29, 2022



Cindy L. Greer, CPA ■ R. Brent Billingsley, CPA ■ Ryan A. Mosier, CPA

Skip R. Campbell, CPA ■ L. Joe Rutledge, CPA ■ Jenna B. Glass, CPA ■ L. Caitlin Hagan, CPA

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, 2021 and 2020, 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 29, 2022. In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2022, 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:

Cumberland Cellular LLC 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.

Undistributed (Losses) Earnings:

	Cumberland Cellular LLC	Bluegrass Network LLC
Previous Years Earnings	\$ 71,694,491	\$ 6,627,332
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	10,667,293	449,298
12/31/20	15,347,048	1,311,546
12/31/21	<u>52,793,514</u>	<u>676,831</u>
Total Undistributed (Losses) Earnings	171,212,022	10,643,271
Original Investment and Investment Advances	1,400,000	936,000
Partnership Distribution as of 12/31/21	<u>(24,500,000)</u>	<u>(3,772,883)</u>
Book Value 12/31/21	<u>\$ 148,112,022</u>	<u>\$ 7,806,388</u>

Investment Advances:

	<u>Cumberland Cellular LLC</u>	<u>Bluegrass Network LLC</u>
Previous Years Investment Advances	\$ 1,400,000	\$ 936,000
12/31/16	(2,000,000)	(200,000)
12/31/17	(2,000,000)	(200,000)
12/31/18	-	-
12/31/19	-	-
12/31/20	-	-
12/31/21	<u>(20,500,000)</u>	<u>-</u>
 Total Contributions/ Distributions	 <u>\$ (23,100,000)</u>	 <u>\$ 536,000</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

Glasgow, Kentucky
March 29, 2022

