

**DUPREE MUTUAL FUNDS
2011 TAX INFORMATION**

Forms 1099-B, 1099-DIV, and 1099-INT are reported on a consolidated tax reporting statement. An explanation of each section of the consolidated 1099 tax reporting statement for non-retirement accounts is provided below. You may not receive all three types of 1099s reported for your account (for example, if you have less than \$10 in dividend income in a tax-free series account, you will not have reportable data for a 1099-INT). Retirement accounts such as IRAs do not receive 1099s.

FORM 1099-B (PROCEEDS FROM BROKER & BARTER EXCHANGE TRANSACTIONS)

When you redeem or exchange mutual fund shares it may result in a taxable gain or a deductible loss. Form 1099-B is used to report gross proceeds received from the sale of shares held in **non-retirement** accounts. The dollar amount reported on your Form 1099-B will be the total amount of redemptions made on an account during calendar year 2011.

FORM 1099-DIV (DIVIDENDS & DISTRIBUTIONS)

We must report to the IRS any taxable income and capital gains distributions paid on your mutual fund account over \$10. Form 1099-DIV will be sent to shareholders of the following funds:

Intermediate Government Bond Series and Taxable Municipal Bond Series

For the ordinary dividends earned on your non-retirement account for amounts greater than \$10. For the Intermediate Gov't Bond Series, **13.62%** of the taxable amount given as ordinary dividends on Line 1 of your Form 1099-DIV is subject to Kentucky state tax.

Kentucky Tax-Free Income Series

To report the capital gain distributions made on the fund's portfolio for amounts greater than \$10. The Kentucky Tax-Free Income Series made a short-term capital gain distribution of .000493 per share and a long-term capital gain distribution of .030871 per share to shareholders of record as of December 2, 2011. Both capital gains distributions were paid on December 30, 2011. These amounts will also be shown on your year-end account statement. Short term capital gains will appear in block 1a and long term capital gains will appear in block 2a on Form 1099-DIV.

Alabama Tax-Free Income Series

To report the capital gain distributions made on your account for amounts greater than \$10. The Alabama Tax-Free Income Series made a long-term capital gain distribution of .006854 per share to shareholders of record as of December 2, 2011. The capital gains distributions were paid on December 30, 2011. Your long term capital gains will appear in block 2a on Form 1099-DIV.

FORM 1099-INT (INTEREST INCOME)

All interest paid on tax-exempt municipal bonds and exempt-interest dividends from a mutual fund over \$10 must be reported on IRS Form 1099-INT. Shareholders invested in any of Dupree's tax-free municipal bond funds will receive Form 1099-INT for amounts greater than \$10.

For investors in our tax-free municipal bond series, the dollar amount reported on Line 8 of Form 1099-INT ("Tax-Exempt Interest") is the total amount of exempt-interest dividends you received during 2011. The total amount of exempt-interest dividends you received during 2011 can also be found on your 12-30-11 year-end account statement. The dollar amount reported on Line 9 of Form 1099-INT ("Specified Private Activity Bond Interest") is zero because Dupree does not buy any municipal bonds that are subject to the Alternative Minimum Tax (AMT) for our tax-free municipal bond series.

This tax information is provided for informational purposes only and should not be construed as legal or tax advice. While the information has been compiled from sources we believe are reliable, we cannot guarantee that such information is accurate, complete, or timely. Dupree Mutual Funds and/or Dupree & Company, Inc. (collectively "Dupree") makes no warranties with regard to such information or results obtained by its use. Dupree disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information. Always consult with an attorney or tax professional regarding your specific legal or tax situation.

PLEASE SAVE YOUR YEAR-END ACCOUNT STATEMENT, COST BASIS STATEMENT, AND THIS TAX INFORMATION SHEET AS YOU OR YOUR TAX PREPARER WILL NEED THEM TO PREPARE YOUR TAXES

RETIREMENT ACCOUNTS

FORM 1099-R (DISTRIBUTIONS FROM PENSIONS, ANNUITIES, RETIREMENT or PROFITSHARING PLANS, IRAS, or INSURANCE CONTRACTS)

Shareholders with IRA accounts invested in the Intermediate Government Bond Series or the Taxable Municipal Bond Series who redeemed (sold) shares in 2011 will be sent a Form 1099-R. The dollar amount reported on your Form 1099-R will be the total amount of distributions you received from your IRA account in 2011. Form 1099-R also shows the federal income tax withheld from your distributions

FORM 5498 (IRA CONTRIBUTION INFORMATION)

Form 5498 reports 2011 contributions and rollovers to Traditional/Roth IRAs and SEP accounts. Form 5498 will be sent to IRA account owners that added money to their IRA account(s) in 2011. The dollar amount reported on Form 5498 is the total amount of contributions made to your account in 2011. Form 5498 also reports the fair market value of the account as of 12/30/11.

For IRA account owners who are age 70 ½ or older, the December 30 market value will be used to calculate your Required Minimum Distribution ("RMD") for tax year 2012. The December 30 market value reported on your Form 5498 should match the market value on your 12/30/11 year-end account statement.

On or before January 31, 2012, we will send all IRA owners 70 ½ or older who are required to take a RMD from their IRA account for 2012 a current calculation of what their RMD payment should be for 2012. You can choose to take the RMD payment at anytime during 2012. It is your responsibility to ensure that all requested distributions satisfy IRS requirements including the requirement that all distributions be taken by December 31, 2012.

Forms 1099-B, 1099-DIV, 1099-INT and 1099-R will be sent to shareholders by January 31, 2012. Form 5498 is sent to shareholders by May 31, 2012 because you can contribute to your IRA for the prior tax year (2011) up until April 16, 2012.

If you have any questions about this information or need additional assistance, please give us a call at 1-800-866-0614.

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