

DUPREE MUTUAL FUNDS

IMPORTANT CHANGES REGARDING COST BASIS FOR MUTUAL FUND ACCOUNTS

Summary:

In the past, we have voluntarily kept track of the average cost basis of accounts at Dupree Mutual Funds as a courtesy to shareholders. For the 2011 tax year, we will send you an informational cost basis statement early in 2012 that shows average cost for redemptions in 2011, and as before, you will receive a 1099-B showing any sales you have made in 2011 and the proceeds of those sales.

Due to new tax rules, we will be required to report cost basis to the IRS for shares you acquire after December 31, 2011 when they are sold. IF YOU WOULD LIKE US TO CONTINUE USING THE AVERAGE COST BASIS METHOD FOR YOUR ACCOUNT FOR SHARES ACQUIRED IN 2012 AND BEYOND, NO ACTION IS REQUIRED ON YOUR PART.

Starting January 1, 2012, new tax rules require mutual fund companies to provide cost-basis reporting to the IRS and to taxpayers for shares in non-retirement accounts acquired on or after January 1, 2012 when those shares are sold.

- Shares acquired on or before December 31, 2011 are not affected by this new law, and are referred to as **non-covered** shares. We will continue to keep track of the *average cost* of these shares as a courtesy to shareholders, but as before, this cost basis will not be reported to the IRS when shares are redeemed. You may use this average cost we track for **non-covered** shares when preparing your taxes. We do not have the ability to track **non-covered** share cost basis for you using any method other than average cost.
- Shares acquired after December 31, 2011 are considered **covered** shares for tax reporting purposes. This means that, upon redemption, the cost basis of those shares will be reported to the IRS starting in 2013 for the 2012 tax year. Starting in 2013, the 1099-B you receive will show the proceeds for sales of any **covered** shares and also the cost basis for those transactions.
- All shares held at the end of 2011 will be **non-covered** shares, and we will begin reporting **covered and non-covered** share cost basis to you on your statements early in 2012. Over time most accounts will hold a mix of **covered** and **non-covered** shares depending on subscription and redemption activity. As you redeem shares in 2012 and beyond, your **non-covered** shares will be depleted first.
- In the past, we provided average cost information and shareholders had the ability to perform their own cost basis calculations if they chose to do so. Beginning with the 2012 tax year (the taxes you will file in 2013) you must use the cost basis we have calculated and reported for you for redemptions of **covered** shares. **We have selected AVERAGE COST as the default method for covered shares going forward, as we anticipate it will best serve the needs of the majority of our shareholders. If you would like to use the average cost method for your covered shares, no action is required on your part.** If you desire to elect an alternative cost basis method (usually only in special circumstances upon consultation with a tax adviser), this election must be made in writing, signed by the account holders, and mailed to Dupree Mutual Funds, P.O. Box 1149, Lexington, KY 40588, before any redemptions of **covered** shares are made in 2012.

PLEASE RETAIN THIS INFORMATION FOR FUTURE REFERENCE WITH OTHER IMPORTANT TAX RECORDS