FOOTHILLS RURAL TELEPHONE COOPERATIVE
AND SUBSIDIARY
KY 522

FINANCIAL REPORT

DECEMBER 31, 2025

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Foothills Rural Telephone Cooperative and Subsidiary
Staffordsville, Kentucky

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Foothills Rural Telephone Cooperative and Subsidiary (the Cooperative), which comprise the consolidated balance sheets as of December 31, 2025 and 2024, and the related consolidated statements of income and comprehensive income, changes in members' equities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Foothills Rural Telephone Cooperative and Subsidiary as of December 31, 2025 and 2024, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Foothills Rural Telephone Cooperative and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Foothills Rural Telephone Cooperative and Subsidiary's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Certified Public Accountants and Advisors

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Foothills Rural Telephone Cooperative and Subsidiary's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Foothills Rural Telephone Cooperative and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2026, on our consideration of Foothills Rural Telephone Cooperative and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Foothills Rural Telephone Cooperative and Subsidiary's 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 Foothills Rural Telephone Cooperative and Subsidiary's internal control over financial reporting and compliance.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
April 30, 2026

FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
December 31, 2025 and 2024

	2025	2024
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 26,138,900	$ 28,013,274
Accounts receivable, less allowance for credit losses of $216,756 in 2025 and $169,228 in 2024	954,394	889,678
Other receivables	861,990	882,163
Materials and supplies	4,487,713	3,745,720
Investment securities	1,825,405	1,471,715
Prepaid income taxes	590,046	339,778
Prepaid expenses	566,311	471,036
Total current assets	35,424,759	35,813,364
NON-CURRENT ASSETS		
Investment securities	2,027,746	2,350,743
Associated organizations	32,502,995	33,175,697
Pension plan prefunding	240,901	574,399
Nonregulated investments	3,026,641	3,517,781
Total non-current assets	37,798,283	39,618,620
PROPERTY, EQUIPMENT AND INTANGIBLES		
In service	159,164,296	153,833,515
Under construction	19,369,679	13,683,055
	178,533,975	167,516,570
Less accumulated depreciation	115,642,253	109,117,088
	62,891,722	58,399,482
Intangibles	3,431,827	3,431,827
Less accumulated amortization	1,400,000	1,166,666
	2,031,827	2,265,161
	$ 138,146,591	$ 136,096,627

The Notes to Consolidated Financial Statements are an integral part of these statements.

	2025	2024
LIABILITIES AND MEMBERS' EQUITIES		
CURRENT LIABILITIES		
Accounts payable	$ 2,031,100	$ 1,719,408
Customer deposits	90,760	97,040
Accrued expenses	1,015,885	1,706,123
Total current liabilities	3,137,745	3,522,571
NON-CURRENT LIABILITIES		
Accumulated postretirement benefits	8,032,700	8,915,349
Deferred tax liabilities	5,273,000	4,567,000
Total non-current liabilities	13,305,700	13,482,349
MEMBERS' EQUITIES		
Memberships and capital investments	590,438	609,495
Patronage capital and retained earnings	124,037,336	122,761,591
Donated capital	124,537	124,537
Accumulated comprehensive (loss)	(3,049,165)	(4,403,916)
Total members' equities	121,703,146	119,091,707
	$ 138,146,591	$ 136,096,627

FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years Ended December 31, 2025 and 2024

	2025	2024
Operating revenues:		
Local network service	$ 12,738,550	$ 11,568,350
Network access service	13,765,685	13,395,174
Carrier billing and collection	414,126	416,682
Miscellaneous	803,060	764,635
Less provision for uncollectibles	(91,499)	(221,268)
Total operating revenues	27,629,922	25,923,573
Operating expenses:		
Plant specific operations	13,063,838	11,753,198
Plant non-specific operations	1,318,022	1,427,958
Depreciation and amortization	7,130,064	6,822,572
Customer operations	2,639,776	2,627,873
Corporate operations	2,522,231	2,659,502
Taxes, other than income	606,369	831,385
Total operating expenses	27,280,300	26,122,488
Operating income (loss)	349,622	(198,915)
Other income (expense):		
Other nonoperating (expense)	(281,552)	(171,096)
Other interest (expense)	(1,308)	(5,038)
Income in associated organizations	409,393	1,840,094
Total other income	126,533	1,663,960
Income before income taxes	476,155	1,465,045
Income tax (expense)	(718,009)	(834,642)
Net income (loss) before nonregulated income	(241,854)	630,403
Nonregulated income, net	3,631,189	3,768,124
Net income	3,389,335	4,398,527
Other comprehensive income (loss)		
Accumulated postretirement benefits (expenses)	1,348,913	(450,304)
Investment gains	5,838	3,013
	1,354,751	(447,291)
Total comprehensive income	$ 4,744,086	$ 3,951,236

The Notes to Consolidated Financial Statements are an integral part of these statements.

FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITIES
Years Ended December 31, 2025 and 2024

		Patronage Capital							Accumulated Other Comprehensive	
	Memberships	Assigned	Assignable	Unassigned	Unlocated	Retirements	Total	Other Equities	(Loss)	Total
Balance, January 1, 2024	$ 622,406	$ 113,653,087	$ 4,201,067	$ 42,878,795	$ 1,201,090	$ (41,716,749)	$ 120,217,290	$ 124,537	$ (3,956,625)	$ 117,007,608
Allocate margins	- -	4,265,988	(4,201,067)	(64,921)	- -	- -	- -	- -	- -	- -
Net income	- -	- -	4,398,527	- -	- -	- -	4,398,527	- -	- -	4,398,527
Postretirement benefit obligations										
Adjustment	- -	- -	- -	- -	- -	- -	- -	- -	(663,856)	(663,856)
Amortization	- -	- -	- -	- -	- -	- -	- -	- -	213,552	213,552
Investment gains	- -	- -	- -	- -	- -	- -	- -	- -	3,013	3,013
Memberships issued, net	(12,911)	- -	- -	- -	- -	- -	- -	- -	- -	(12,911)
Refunds of capital credits	- -	- -	- -	- -	- -	(1,854,226)	(1,854,226)	- -	- -	(1,854,226)
Other equities	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -
Balance, December 31, 2024	609,495	117,919,075	4,398,527	42,813,874	1,201,090	(43,570,975)	122,761,591	124,537	(4,403,916)	119,091,707
Allocate margins	- -	3,077,361	(4,398,527)	1,321,166	- -	- -	- -	- -	- -	- -
Net income	- -	- -	3,389,335	- -	- -	- -	3,389,335	- -	- -	3,389,335
Postretirement benefit obligations										
Adjustment	- -	- -	- -	- -	- -	- -	- -	- -	1,135,361	1,135,361
Amortization	- -	- -	- -	- -	- -	- -	- -	- -	213,552	213,552
Investment gains	- -	- -	- -	- -	- -	- -	- -	- -	5,838	5,838
Memberships issued, net of refunds	(19,057)	- -	- -	- -	- -	- -	- -	- -	- -	(19,057)
Refunds of capital credits	- -	- -	- -	- -	- -	(2,113,590)	(2,113,590)	- -	- -	(2,113,590)
Other equities	- -	- -	- -	- -	- -	- -	- -	- -	- -	- -
Balance, December 31, 2025	$ 590,438	$ 120,996,436	$ 3,389,335	$ 44,135,040	$ 1,201,090	$ (45,684,565)	$ 124,037,336	$ 124,537	$ (3,049,165)	$ 121,703,146

The Notes to Consolidated Financial Statements are an integral part of these statements.

FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2025 and 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,389,335	$ 4,398,527
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,130,064	6,822,572
Income from associated organizations	(409,393)	(1,840,094)
Change in assets and liabilities, net of the effects of investing and financing activities:		
Accounts receivable, net	(64,716)	397,620
Other receivables	20,173	87,131
Material and supplies	(741,993)	(835,367)
Prepaid income taxes	(250,268)	25,085
Prepaid expenses	(95,275)	2,535
Pension plan prefunding	333,498	284,853
Accounts payable	311,692	436,189
Customer deposits	(6,280)	(74,115)
Deferred tax liabilities	706,000	241,458
Accrued expenses	(690,238)	(62,174)
Net cash provided by operating activities	9,632,599	9,884,220
CASH FLOWS FROM INVESTING ACTIVITIES		
Plant additions	(10,576,378)	(9,400,268)
Salvage, net of removal cost	40,805	(20,677)
Sales of investments	35,000	103,066
Purchase of investments	(4,307)	(114,396)
Nonregulated property	48,459	9,212
Associated organizations	1,082,095	2,209,488
Net cash (used in) investing activities	(9,374,326)	(7,213,575)
CASH FLOWS FROM FINANCING ACTIVITIES		
Membership and other equities	(19,057)	(12,911)
Retirements of capital credits	(2,113,590)	(1,854,226)
Net cash (used in) financing activities	(2,132,647)	(1,867,137)
Net increase (decrease) in cash and cash equivalents	(1,874,374)	803,508
Cash and cash equivalents:		
Beginning of year	28,013,274	27,209,766
End of year	$ 26,138,900	$ 28,013,274
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for interest	$ 1,308	$ 5,038
Income taxes paid	262,277	568,228

The Notes to Consolidated Financial Statements are an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

Foothills Rural Telephone Cooperative (the Cooperative) maintains its records in accordance with policies prescribed or permitted by the Kentucky Public Service Commission (PSC) and the United States Department of Agriculture, Rural Utilities Service (RUS) Uniform System of Accounts, which conform in all material respects with generally accepted accounting principles. The significant policies are as follows:

Principles of consolidation

The consolidated financial statements include the accounts of the Cooperative and its wholly owned Subsidiary, Cellular Services, LLC (Cellular Services). All significant inter-company accounts and transactions have been eliminated.

Nature of business

The Cooperative has completed construction allowing it to expand its services network. This network establishes the Cooperative as a full-service network (FSN) provider allowing it to provide expanded video services with over 200 channels, high-definition television and Video on Demand. It is also able to provide high speed internet, virtual private networks, and voice over internet protocol (VoIP). This is accomplished through Fiber to the Home (FTTH) technology.

Use of estimates

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates used in the preparation of the consolidated financial statements.

Cash and cash equivalents

For purposes of the statement of cash flows, the Cooperative considers temporary investments having original maturities of three months or less to be cash equivalents. The Cooperative maintains its cash balances, which may exceed the federally insured limit, with several financial institutions. Management believes that credit risk related to the accounts is minimal.

Investments and allowance for credit losses

Investment securities consist of cash, certificates of deposit in local banks, and debt securities classified as available for sale. Debt securities available for sale are recorded at fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Realized gains or losses are computed based on specific identifications of the securities sold.

Note 1. Summary of Significant Accounting Policies (Continued)

Investments and allowance for credit losses (continued)

Management assesses the financial condition and near-term prospects of the issuer, industry and/or geographic conditions, credit ratings as well as other indicators at the individual security level. Impairments below cost in the estimated fair value of individual available for sale debt securities when there is an intent to sell or for which it is more likely than not the Cooperative will be required to sell before the impairment is recovered, are realized in other income in the statements of income and comprehensive income. When there is not an intent to sell or it is more likely than not the Cooperative will not be required to sell the security before the impairment is recovered, management assesses whether the decline in fair value has resulted from credit losses or other factors. If the present value of discounted cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for available for sale credit losses is recorded. Such losses are limited to the amount that amortized cost exceeds fair value, even if the amount of the credit loss is greater. Any future changes in the allowance for credit losses is recorded as provision for (reversal of) credit losses. Losses attributable to other factors are charged to accumulated other comprehensive income. There was no allowance for credit losses on investments as of December 31, 2025 and 2024.

Investments are required to be categorized based on fair value inputs of Levels 1, 2, or 3 (see Note 2). Investments valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Level 3 inputs are assets measured at fair value on a recurring basis using significant unobservable inputs.

Accounts receivable and allowance for credit losses

The Cooperative operates in the telecommunications industry, and its accounts receivable are primarily derived from telecommunications customer services provided. Accounts receivables are stated at net realizable value. The balance in accounts receivable as of December 31, 2025, 2024 and 2023 was $954,394, $889,678, and $1,287,298, respectively.

The Cooperative estimates expected credit losses on accounts receivable in accordance with *ASC 326, Financial Instruments–Credit Losses*. Accounts receivable are typically collected within thirty days.

For periods prior to the adoption of ASU 2025-05, the Cooperative estimated its allowance for credit losses based on historical loss experience, adjusted for current conditions and reasonable and supportable forecasts of future economic factors that were expected to affect the collectability of outstanding receivables. This estimate was prepared on a pooled basis for receivables with similar risk characteristics. Management updated its estimate at each reporting date to reflect any changes in credit risk since initial recognition.

Effective for the year ended December 31, 2025, the Cooperative early adopted ASU 2025-05, *Measurement of Credit Losses for Accounts Receivable and Contract Assets*. The ASU introduced two optional simplifications for current accounts receivable arising under ASC 606.

Note 1. Summary of Significant Accounting Policies (Continued)

Accounts receivable and allowance for credit losses (continued)

The Cooperative elected both:

1. Current conditions practical expedient – The Cooperative now estimates expected credit losses using historical information adjusted for current conditions as of the balance sheet date without developing forward-looking forecasts, and assumes those conditions remain unchanged for the remaining life of the receivable.

2. Subsequent collections accounting policy election – For receivables collected after year-end and before the consolidated financial statements are available to be issued, the Cooperative records no allowance, consistent with the updated guidance. Remaining uncollected receivables are evaluated based on their delinquency status as of the same subsequent collections evaluation date.

These changes were applied prospectively and did not affect prior year amounts.

Under the updated policy, the allowance for credit losses is derived from the Cooperative's historical loss rates for receivables with similar risk characteristics, adjusted for current conditions as of year-end. The allowance is further adjusted to remove receivables collected prior to the date the financial statements are available to be issued. Management believes this methodology appropriately reflects expected credit losses under the updated guidance.

The Cooperative writes off receivables when specific information indicates the customer is experiencing significant financial difficulty and collection is not expected. Any recoveries of amounts previously written off are recognized in the period received. Changes in the allowance for credit losses are as follows:

	2025	2024
Beginning balance	$ 169,228	$ 131,396
Provision for credit losses	254,165	221,268
Write-offs	(339,501)	(340,843)
Recoveries	132,864	157,407
Ending balance	$ 216,756	$ 169,228

Materials and supplies

Materials and supplies are composed primarily of telephone material and supplies used in the telecommunications plant. The inventory is valued at the lower of cost or net realizable value, cost being determined by the average cost method.

Note 1. Summary of Significant Accounting Policies (Continued)

Telecommunications revenue recognition

Revenues are recognized when earned. Bills are sent to customers on credit based on three (3) monthly billing cycles, with local service being billed a month in advance of service. Sales are concentrated in portions of eight (8) southeastern Kentucky counties. Payments are due 20 days from the date of billing, at which time a disconnect notice is sent to the customer with payment to be made within 10 days.

Interstate revenues are recognized on the cost basis recovery method. Compensation for intrastate/interlata service is received through tariffed access charges as filed with the PSC. These access charges are billed to the interlata long distance carrier and retained by the Cooperative.

Video revenue recognition

Cellular Services' headend equipment provides the Cooperative with the capabilities to provide expanded video services with over 200 channels, high-definition television, and Video on Demand. The monthly charge is based on the capacity utilized by Foothills Telephone and other unrelated companies.

Fiber to home activities

The Cooperative has launched an expanded services network. This network establishes the Cooperative as a full-service network (FSN) provider allowing it to provide expanded video services with over 200 channels, high-definition television and Video on Demand. It also is able to provide high speed internet, virtual private networks and voice on internet protocol (VoIP). This is accomplished through Fiber to the Home (FTTH) technology. The Cooperative purchases cable transmissions from networks at various amounts based on the number of customers receiving the service.

Taxes

Foothills Telephone and Cellular Services are required to collect, on behalf of taxing authorities, excise taxes, sales, school taxes, and franchise fees. The Cooperative's policy is to exclude tax from revenue when collected and expenses when paid and instead, record collection and payment of taxes through a liability account.

Risk management

The Cooperative is exposed to various forms of losses of assets associated with, but not limited to, fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, workers compensation, etc. Each of these areas is covered through the purchase of commercial insurance.

Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2025 and 2024, these costs were $189,259 and $191,276, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Telecommunications and video plant

Telecommunications and video plant are stated at original cost, which is the cost when first dedicated to public service. Such amount includes applicable supervisory and overhead cost including any construction period interest and taxes. Interest capitalized during the year was zero for 2025 and 2024.

The cost of maintenance and repairs, including renewals of minor items of property, is charged to operating expenses. The cost of replacement of depreciable property units, as distinguished from minor items, is charged to plant. The units of property replaced or retired, including cost of removal, net of any salvage value, is charged to accumulated depreciation.

Provision has been made for depreciation on the basis of estimated lives of assets (as prescribed by the Public Service Commission of Kentucky) using the straight-line method. Rates are as follows:

	Foothills	Cellular Services
General support	2.7% - 15.8%	
Central office switching	7.5%	5.0%
Central office transmission	11.9%	
Cable wire facilities	5.1% - 9.4%	5.1% - 6.6%

Intangible assets

Intangibles purchased in the acquisition of Lycom Communications are recorded at fair value and are being amortized over the life of the asset by the straight-line method.

Income taxes

The Cooperative is exempt from federal and state income taxes under IRS Code Section 501(c)(12). Certain unrelated business activities are subject to federal income taxes. Cellular Services is a "C" corporation that pays income taxes on its net income. Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of investments in associated organizations and accumulated depreciation. The deferred tax assets and liabilities represent future tax return consequences of those differences, which will either be taxable or deductible when the assets or liabilities are recovered or settled.

The Cooperative's accounting policy provides that a tax expense/benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Management believes the Cooperative has no uncertain tax positions resulting in an accrual of tax expense or benefit.

The Cooperative recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Cooperative did not recognize any interest or penalties during the years ended December 31, 2025 and 2024.

Note 1. Summary of Significant Accounting Policies (Continued)

Income taxes (continued)

The Cooperative's income tax return is subject to possible examination by taxing authorities until the expiration of related statutes of limitations on the return, which is generally three years for federal and four years for state.

Comprehensive income

Comprehensive income includes both net income and other comprehensive income. Other comprehensive income represents the change in funded status of the accumulated postretirement benefit obligation and unrealized gains (losses) on available for sale debt securities.

Reclassifications

Certain amounts in the 2024 consolidated financial statements have been reclassified in order to confirm to the 2025 presentation.

Subsequent Events

Management has evaluated subsequent events through April 30, 2026, the date the consolidated financial statements were available to be issued.

Note 2. Fair Value Measurements

The Cooperative's investment securities measured at fair value on a recurring basis are as follows:

		Fair value measurements using:	
	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
December 31, 2025			
Cash	$ 43,860	$ 43,860	$ - -
Certificates of deposit	3,619,541	- -	3,619,541
Debt securities	189,750	- -	189,750
	$ 3,853,151	$ 43,860	$ 3,809,291
December 31, 2024			
Cash	$ 4,755	$ 4,755	$ - -
Certificates of deposit	3,600,282	- -	3,600,282
Debt securities	217,421	- -	217,421
	$ 3,822,458	$ 4,755	$ 3,817,703

Note 2. Fair Value Measurements (Continued)

The amortized cost of cash equivalents and certificates of deposit approximates fair value.

Debt securities, disaggregated by maturity, are as follows for the years ending December 31:

	2025			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Due within one year	$ 19,565	$ 419	$ (23)	$ 19,961
Due from one to five years	172,497	758	(3,466)	169,789
	$ 192,062	$ 1,177	$ (3,489)	$ 189,750

	2024			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Due within one year	$ 34,730	$ - -	$ (206)	$ 34,524
Due from one to five years	190,841	586	(8,530)	182,897
	$ 225,571	$ 586	$ (8,736)	$ 217,421

For the year ended December 31, 2025, proceeds from the sale of available-for-sale debt securities were $35,000, with no associated realized gains and losses. For the year ended, December 31, 2024, proceeds from the sale of available-for-sale debt securities were $95,000, with no associated realized gains and losses.

Unrealized losses on debt securities available-for-sale have not been recognized into income because these securities are guaranteed by either the U.S. Government, other governments, or governmental agencies; management does not intend to sell; it is likely that management will not be required to sell the securities prior to their anticipated recovery, and any decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the securities. The fair value is expected to recover as the securities approach maturity.

As of December 31, 2025, there was no allowance for credit losses for available-for-sale debt securities.

Note 3. Associated Organizations

The amounts for East Kentucky Network, LLC ("EKN") represents Cellular Service's investment in a limited liability company with other telephone companies in eastern Kentucky for the purpose of providing cellular telephone and other services. The investment is accounted for using the equity method since Cellular Services is a 20% member and has the ability to significantly influence EKN's operations and financial policies.

Note 3. Associated Organizations (Continued)

The following is summarized financial information of EKN as of and for the years ended December 31, 2025 and 2024:

	2025	2024
Assets	$ 232,094,938	$ 236,598,267
Liabilities	$ 69,579,963	$ 70,719,782
Equity	$ 162,514,975	$ 165,878,485
Revenues and other income	$ 117,978,454	$ 120,674,255
Expenses and other expenses	$ 115,225,968	$ 111,274,098
Net income	$ 2,752,486	$ 9,400,157

Note 4. Property, Equipment and Intangibles

The major classification of plant service is:

	2025	2024
Telecommunications Plant:		
General support	$ 22,864,922	$ 20,942,683
Central office switching	1,494,371	1,309,724
Central office transmission	18,888,128	17,897,284
Cable wire facilities	91,277,017	91,166,304
Intangibles	3,453	3,453
	134,527,891	131,319,448
Video Plant:		
Headend equipment	6,978,675	6,948,943
Plant assets	17,657,730	15,565,124
	24,636,405	22,514,067
Total	$ 159,164,296	$ 153,833,515

Depreciation expense for the years ended December 31, 2025 and 2024 totaled $6,896,731 and $6,589,239, respectively.

Note 4. Property, Equipment and Intangibles (Continued)

Intangible assets used in operations consist of the following:

	2025	2024	Weighted Average Life (in years)
Customer list	$ 3,431,827	$ 3,431,827	15
Accumulated amortization	(1,400,000)	(1,166,666)	
	$ 2,031,827	$ 2,265,161	

Aggregate amortization expense related to this intangible for the year ended December 31, 2025 and 2024 totaled $233,333 each year. The following represents the total estimated amortization expense for each of the succeeding five years: 2026 - $233,333; 2027 - $233,333; 2028 - $233,333; 2029 - $233,333; 2030 - $233,333.

Note 5. Nonregulated Activities

Deregulated customer premises equipment is stated at cost; material held for lease or resale is stated at average cost. Customer Premises Equipment (CPE) also includes inside wire revenues and expenses. Depreciation is provided on a straight-line basis at 11.9% per year. The Cooperative provides long distance telephone service under the name of Foothills Long Distance (“FLD”). FLD revenues are billed and collected through the Cooperative. A monthly fee is recorded based on telephone usage. FLD purchases minutes of long distance to resell to its customers from an unrelated party. Nonregulated investments also include amounts that the Cooperative has invested to provide internet services to its customers. The Cooperative pays an unrelated party for the help desk and access to the internet system.

The following is a summary of nonregulated activities as of December 31:

	2025	2024
Investments	$ 214,323	$ 262,784
Material and supplies	1,426	1,426
Plant assets	9,136,689	8,649,082
Reserve for depreciation	(6,325,797)	(5,395,511)
	$ 3,026,641	$ 3,517,781

Note 5. Nonregulated Activities (Continued)

	Income	Expenses	Net
Customer premises equipment	$ 26,075	$ 306,075	$ (280,000)
VoIP	305,443	84,985	220,458
Internet activities	9,473,911	6,079,886	3,394,025
Long distance services	424,546	325,705	98,841
Fiber to home video	4,971,517	4,773,652	197,865
Total - 2025	$ 15,201,492	$ 11,570,303	$ 3,631,189

	Income	Expenses	Net
Customer premises equipment	$ 153,876	$ 292,349	$ (138,473)
VoIP	309,590	88,608	220,982
Internet activities	9,082,946	5,841,237	3,241,709
Long distance services	429,142	329,984	99,158
Fiber to home video	5,133,256	4,788,508	344,748
Total - 2024	$ 15,108,810	$ 11,340,686	$ 3,768,124

Note 6. Pension Plan

All eligible non-union employees of the Cooperative participate in the National Telephone Cooperative Association (NTCA) Pension Plan (“R&S Plan”), a defined benefit pension plan qualified under section 401 and tax exempt under section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The Plan sponsor’s identification number is 52-0741336 and the Plan Number is 333. A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers. There have been no significant changes that affect the comparability of 2025 and 2024. The Cooperative uses a December 31 measurement date for the plan.

The Cooperative’s contributions to the R&S Plan in 2025 and 2024 represent less than 5 percent of the total contributions made to the plan by all participating employers. The Cooperative made no contributions to the plan in 2025 and 2024.

In the R&S Plan, a “zone status” determination is not required, and therefore not determined, under the Pension Protection Act (“PPA”) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the R&S Plan was 100 percent funded at December 31, 2025 and 2024, respectively, based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the R&S Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

Note 6. Pension Plan (Continued)

The NTCA Board of Directors amended the 2018 R&S Program specifications at the recommendation of the Plan Trust Committee to include the following changes:

- Basic contribution rates will increase by 19%.
- The program's previous surcharge expired at the end of 2018, and a new surcharge contribution of 50% of the member's elected contribution rate began in 2019. This surcharge is expected to continue for approximately 12 years.
- A prefunding option was added to allow members the option to prefund their future surcharge contributions in a single payment prior to the start of the new surcharge effective in 2019.
- Beginning January 1, 2018, for members that have adopted the Rule-of-85 ("ROE") provision, the ROE charge applies to both the member's elected employer contribution rate and any required employee contribution rate.

Over the past several years, various actions have been taken to sustain the reserve of funds available to help meet the programs legally required minimum contribution amount. However, adverse economic conditions and regulatory changes have negatively affected all pension plans, including the R&S Program. Despite prudent decision-making by the program's trust committee, the R&S Program's minimum contribution amount is projected to exceed the current reserve and member contributions alone will not meet the minimum requirement. This expectation led the program's actuary to recommend a new surcharge contribution that began in 2020. The R&S Program is offering prefunding to give members flexibility in addressing this situation at the Cooperative.

The prefunding contribution is expected to fund the member's surcharge contribution for approximately 12 years.

- Each member's prefunding contribution will be maintained in a notional account within the R&S Program and used to pay that member's surcharge contributions.
- Each member's prefunding account is maintained separately from other member's prefunding accounts.
- Account funds will be invested with other R&S Program assets and grow at the same rate as the program's overall investment returns.
- An annual statement will be provided to each member showing their specific prefunding account activity.

During 2016, the Cooperative prefunded the surcharge in an amount of $2,078,772. This amount is being amortized over the 12-year period the surcharge is expected to continue. The prefunding is invested by NTCA and the earnings are reinvested in the prefunding.

Contributions rates are as follows:

Employer contributions	18.10%	17.20%
Employee contributions	3.90%	3.00%
Rate of 85 charges (% of employee and employer contributions)	5.50%	5.50%
Employer paid surcharge	5.10%	5.42%

Note 7. Accumulated Postretirement Benefits

The Cooperative sponsors a defined benefit plan that provides medical insurance coverage for employees hired before February 1, 2006 to retirees and their dependents. Employees hired after that date are not eligible to receive paid health insurance after retirement. Participating retirees and dependents do not contribute to the projected cost of coverage. Employees qualify with a minimum age of 55 and 20 years of service for the Cooperative. There have been no significant changes that affect the comparability of 2025 and 2024. The Cooperative uses a December 31 measurement date for the plan.

The following illustrates the plan for the years ended December 31, 2025 and 2024:

	2025	2024
Benefit obligation, beginning of year	$ 14,429,359	$ 13,044,726
Service cost	211,412	240,493
Interest cost	757,955	674,696
Benefits paid	(605,701)	(455,764)
Actuarial gain (loss)	(586,756)	925,208
Benefit obligation, end of year	$ 14,206,269	$ 14,429,359
Fair value of plan assets, beginning of year	$ 5,514,010	$ 5,038,522
Actual return on plan assets	1,265,260	931,252
Employer contributions	- -	- -
Benefits paid	(605,701)	(455,764)
Fair value of plan assets, end of year	$ 6,173,569	$ 5,514,010
Reconciliation of funded status:		
Funded status	$ (8,032,700)	$ (8,915,349)
Net amount recognized at year end	$ (8,032,700)	$ (8,915,349)
Amounts recognized in the balance sheet consists of:		
Noncurrent (liabilities)	$ (8,032,700)	$ (8,915,349)
Amounts included in accumulated other comprehensive (loss):		
Unrecognized actuarial (loss)	$ (3,046,852)	$ (4,395,765)
Components of net periodic benefit cost:		
Service cost	$ 211,412	$ 240,493
Interest cost	757,955	674,696
Expected return on plan assets	(463,017)	(385,981)
Amortization cost	221,636	408,140
Net periodic benefit cost	$ 727,986	$ 937,348

Note 7. Accumulated Postretirement Benefits (Continued)

Weight-average assumptions as of December 31:		
Discount rate	5.45%	4.75%
Expected return on plan assets	7.50%	7.50%
Rate of compensation increase	Varies	Varies
Effect of 1% trend sensitivity for medical plan:		
Projected benefit obligation	$ 16,195,861	$ 16,682,867
Net periodic benefit cost	1,123,191	1,376,692

The projected retiree benefit payments are expected to be as follows: 2026 - $605,701; 2027 - $638,712; 2028 - $673,521; 2029 - $710,228; 2030 - $748,936.

The Plan's investments reported at fair value are as follows:

		Fair value measurements using:	
	Fair value	Unadjusted quoted prices (Level 1)	Significant other observable inputs (Level 2)
December 31, 2025			
US Equity	$ 1,524,872	$ 1,524,872	$ - -
International Equity	1,617,475	- -	1,617,475
Low Volatility	1,049,507	- -	1,049,507
High Yield	500,059	- -	500,059
Real Estate	512,406	- -	512,406
Investment Grade Fixed Income	845,779	- -	845,779
Cash	123,471	123,471	- -
	$ 6,173,569	$ 1,648,343	$ 4,525,226
December 31, 2024			
US Equity	$ 1,361,960	$ 1,361,960	$ - -
International Equity	1,444,671	- -	1,444,671
Low Volatility	937,382	- -	937,382
High Yield	446,635	- -	446,635
Real Estate	457,663	- -	457,663
Investment Grade Fixed Income	755,419	- -	755,419
Cash	110,280	110,280	- -
	$ 5,514,010	$ 1,472,240	$ 4,041,770

Note 8. Income Taxes

The components of income tax expense are as follows:

	December 31, 2025	December 31, 2024
Current:		
Federal	$ - -	$ 505,017
State	12,009	88,167
	12,009	593,184
Deferred:		
Federal	341,000	221,458
State	365,000	20,000
	706,000	241,458
	$ 718,009	$ 834,642

Deferred income taxes are provided for the temporary difference between the financial reporting basis and the tax basis of their subsidiary, Cellular Services. Differences are primarily attributable to cost accruals, depreciation of assets and net operating loss carryforwards. For the years ended December 31, 2025 and 2024, the effective tax rate approximated the federal statutory rate of 21% and the state tax rate of 5%.

As of December 31, 2025, Cellular Services has loss carryforwards totaling $5,684,000 that may be offset against future taxable income and these have no expiration date.

The deferred tax assets and (liabilities) in the accompanying balance sheets consist of the following components:

	December 31, 2025	December 31, 2024
Deferred tax assets:		
Federal	$ 1,194,000	$ - -
Deferred tax (liabilities):		
Federal	(5,223,000)	(3,688,000)
State	(1,244,000)	(879,000)
	(6,467,000)	(4,567,000)
Net deferred tax liabilities	$ (5,273,000)	$ (4,567,000)

Note 9. Commitments

The Cooperative has various agreements outstanding with local contractors. Under these agreements, the contractors will perform certain construction, maintenance, and other work at specified hourly rates or unit cost, or on an as needed basis. The duration of these contracts are one to three years.

Note 10. Contingencies

The Cooperative, occasionally, is involved in litigation arising in the normal course of business. While the results of such litigation cannot be predicted with certainty, management, based upon advice of counsel, believes that the final outcome will not have a material adverse effect on the financial statements.

Note 11. 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.

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

Telecommunications revenues – The Cooperative's regulated sources of revenue are local network services, network access services (interstate and intrastate/interlata), 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 VoIP (Voice over Internet Protocol) systems.

Significant judgments

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 a 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 judgments 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 contracts.

Note 11. Revenue Recognition (Continued)

Multiple performance obligations (continued)

From time to time, the Cooperative may offer certain promotions to incentivize customers to switch to, or to purchase additional services from the Cooperative. 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.

Disaggregation of revenue

In the following table, revenue for the years ended December 31, 2025 and 2024 is disaggregated by type of service and timing of revenue recognition. Telecommunication service revenues are recognized over time and equipment sales at a point in time.

	2025	2024
Regulated income:		
Local network services	$ 12,738,550	$ 11,568,350
Network access services	13,765,685	13,395,174
Carrier billing and collections	414,126	416,682
Miscellaneous	803,060	764,635
	$ 27,721,421	$ 26,144,841
Nonregulated income:		
Customer premises equipment	$ 26,075	$ 153,876
VoIP	305,443	309,590
Internet activities	9,473,911	9,082,946
Long distance services	424,546	429,142
Fiber to the home video	4,971,517	5,133,256
	$ 15,201,492	$ 15,108,810

Contract liabilities

Contract liabilities include customer deposits. The balance in contract liabilities was $90,760, $97,040 and $171,155 as of December 31, 2025, 2024 and 2023, respectively.

Note 12. Associated Organizations

During 2004, the Cooperative formed a wholly owned Subsidiary, Cellular Services, LLC, which provides telecommunications services outside of the Cooperative's service territory. The investment consists of the following:

	Investments	Profits (less Dividends)
Beginning of year	$ 11,757,826	$ 40,055,918
Activity for 2025	- -	242,845
End of year	$ 11,757,826	$ 40,298,763

The Cooperative's subsidiary Cellular Services, LLC, is a 20% owner of East Kentucky Network, LLC, that provides cellular and other communications services in Eastern Kentucky. The initial investment was $1,130,000. The investment consists of the following:

	Investments	Profits	Returns
Beginning of year	$ 4,294,013	$ 72,431,297	$ (43,549,613)
Activity for 2025	- -	409,393	(1,082,095)
End of year	$ 4,294,013	$ 72,840,690	$ (44,631,708)

INDEPENDENT AUDITOR'S REPORT ON
THE SUPPLEMENTARY INFORMATION

Board of Directors
Foothills Rural Telephone Cooperative and Subsidiary
Staffordsville, Kentucky

We have audited the consolidated financial statements of Foothills Rural Telephone Cooperative and Subsidiary as of December 31, 2025 and 2024, and our report thereon dated April 30, 2026, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 through 3. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information found on pages 26 and 27, is presented for purposes of additional analysis and 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 information has been subjected to the auditing procedures applied in the audits 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
April 30, 2026

Certified Public Accountants and Advisors

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FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET
December 31, 2025

	Foothills Rural Telephone Cooperative	Cellular Services	Eliminations	Consolidated
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 23,449,239	$ 2,689,661	$ - -	$ 26,138,900
Accounts receivable, less allowance for credit losses of $216,756	954,394	- -	- -	954,394
Other receivables	14,463,889	- -	(13,601,899)	861,990
Materials and supplies	4,487,713	- -	- -	4,487,713
Investment securities	1,825,405	- -	- -	1,825,405
Prepaid income taxes	- -	590,046	- -	590,046
Prepaid expenses	495,782	70,529	- -	566,311
Total current assets	45,676,422	3,350,236	(13,601,899)	35,424,759
NON-CURRENT ASSETS				
Investment securities	907,395	1,120,351	- -	2,027,746
Associated organizations	52,056,589	32,502,995	(52,056,589)	32,502,995
Pension plan prefunding	240,901	- -	- -	240,901
Nonregulated investments	3,026,641	- -	- -	3,026,641
Total non-current assets	56,231,526	33,623,346	(52,056,589)	37,798,283
PROPERTY, EQUIPMENT AND INTANGIBLES				
In service	134,527,890	24,636,406	- -	159,164,296
Under construction	538,699	18,830,980	- -	19,369,679
	135,066,589	43,467,386	- -	178,533,975
Less accumulated depreciation	104,131,834	11,510,419	- -	115,642,253
	30,934,755	31,956,967	- -	62,891,722
Intangibles	- -	3,431,827	- -	3,431,827
Less accumulated amortization	- -	1,400,000	- -	1,400,000
	- -	2,031,827	- -	2,031,827
	$ 132,842,703	$ 70,962,376	$ (65,658,488)	$ 138,146,591

	Foothills Rural Telephone Cooperative	Cellular Services	Eliminations	Consolidated
LIABILITIES AND MEMBERS' EQUITIES				
CURRENT LIABILITIES				
Accounts payable	$ 2,010,992	$ 13,622,007	$ (13,601,899)	$ 2,031,100
Customer deposits	90,760	- -	- -	90,760
Accrued expenses	1,005,105	10,780	- -	1,015,885
Total current liabilities	3,106,857	13,632,787	(13,601,899)	3,137,745
NON-CURRENT LIABILITIES				
Accumulated postretirement benefits	8,032,700	- -	- -	8,032,700
Deferred tax liabilities	- -	5,273,000	- -	5,273,000
Total non-current liabilities	8,032,700	5,273,000	- -	13,305,700
MEMBERS' EQUITIES				
Memberships and capital investments	590,438	8,257,827	(8,257,827)	590,438
Patronage capital and retained earnings	124,037,336	43,798,762	(43,798,762)	124,037,336
Donated capital	124,537	- -	- -	124,537
Accumulated comprehensive (loss)	(3,049,165)	- -	- -	(3,049,165)
Total members' equities	121,703,146	52,056,589	(52,056,589)	121,703,146
	$ 132,842,703	$ 70,962,376	$ (65,658,488)	$ 138,146,591

FOOTHILLS RURAL TELEPHONE COOPERATIVE AND SUBSIDIARY

CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Year Ended December 31, 2025

	Foothills Rural Telephone Cooperative	Cellular Services	Eliminations	Consolidated
Operating revenues:				
Local network service	$ 1,982,600	$ 10,734,950	$ 21,000	$ 12,738,550
Network access service	13,631,795	133,890	- -	13,765,685
Carrier billing and collection	414,126	- -	- -	414,126
Miscellaneous	841,607	91,302	(129,849)	803,060
Less provision for uncollectibles	(91,499)	- -	- -	(91,499)
Total operating revenues	16,778,629	10,960,142	(108,849)	27,629,922
Operating expenses:				
Plant specific operations	5,107,897	7,991,641	(35,700)	13,063,838
Plant non-specific operations	1,195,883	122,139	- -	1,318,022
Depreciation and amortization	5,909,907	1,220,157	- -	7,130,064
Customer operations	2,534,163	105,613	- -	2,639,776
Corporate operations	1,904,702	617,529	- -	2,522,231
Taxes, other than income	240,441	365,928	- -	606,369
Total operating expenses	16,892,993	10,423,007	(35,700)	27,280,300
Operating income (loss)	(114,364)	537,135	(73,149)	349,622
Other income (expense):				
Other nonoperating income (expense)	(295,878)	14,326	- -	(281,552)
Other interest expense	(1,308)	- -	- -	(1,308)
Income in associated organizations	242,845	409,393	(242,845)	409,393
Total other income (expense)	(54,341)	423,719	(242,845)	126,533
Income before income taxes	(168,705)	960,854	(315,994)	476,155
Income tax (expense)	- -	(718,009)	- -	(718,009)
Net income (loss) before nonregulated income	(168,705)	242,845	(315,994)	(241,854)
Nonregulated income, net	3,558,040	- -	73,149	3,631,189
Net income	3,389,335	242,845	(242,845)	3,389,335
Other comprehensive income				
Accumulated postretirement benefits	1,348,913	- -	- -	1,348,913
Investment gains	5,838	- -	- -	5,838
	1,354,751	- -	- -	1,354,751
Total comprehensive income (loss)	$ 4,744,086	$ 242,845	$ (242,845)	$ 4,744,086

Jones, Nale & Mattingly PLC

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
Foothills Rural Telephone Cooperative and Subsidiary
Staffordsville, Kentucky

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 Foothills Rural Telephone Cooperative and Subsidiary (the Cooperative), which comprise the consolidated balance sheet as of December 31, 2025, and the related consolidated statements of income and comprehensive income, changes in members' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 30, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Cooperative's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 or significant deficiencies may exist that have not been identified.

Certified Public Accountants and Advisors

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's consolidated 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 financial statements. 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.

Jones, Nale & Mattingly PLC

Louisville, Kentucky
April 30, 2026