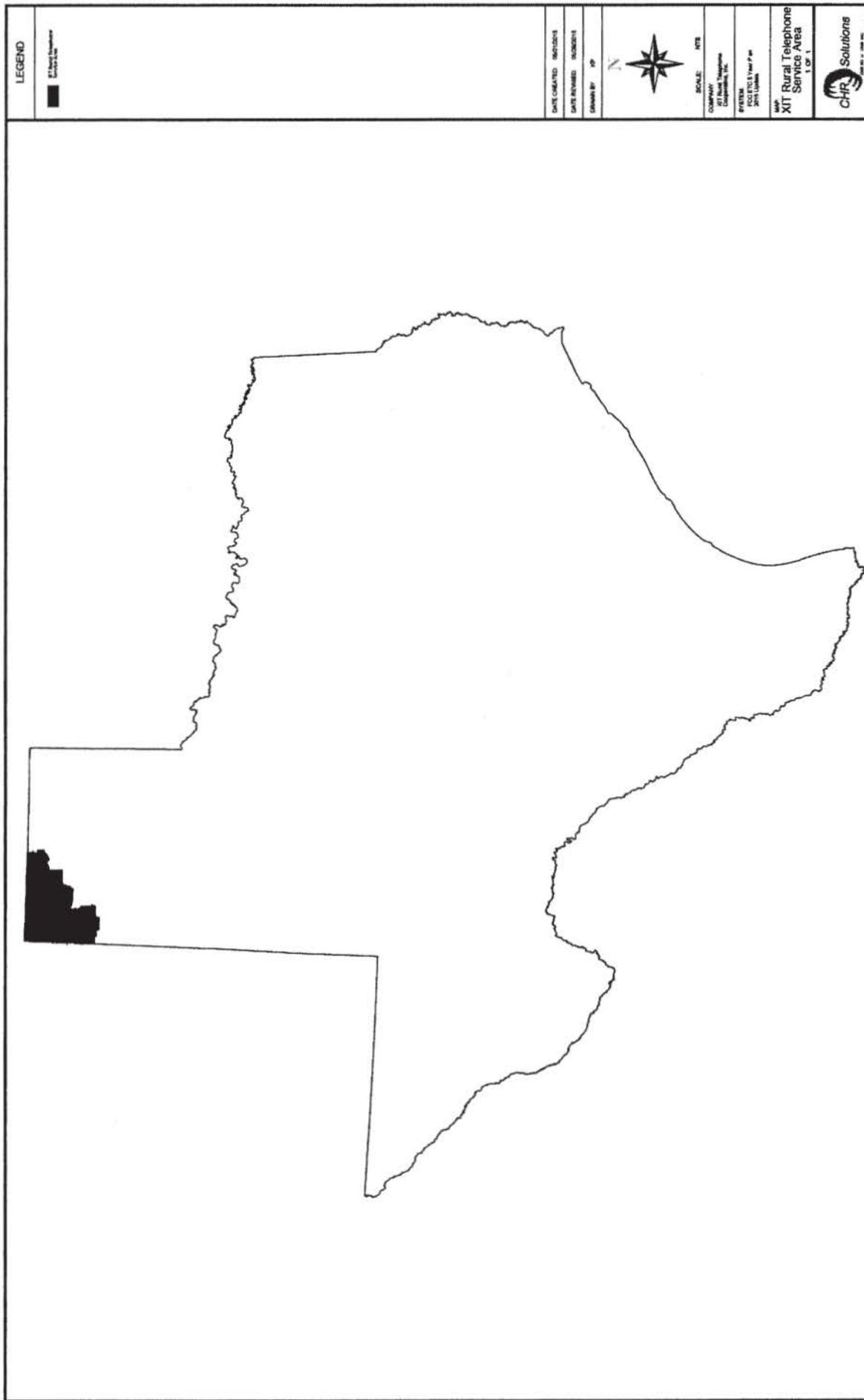
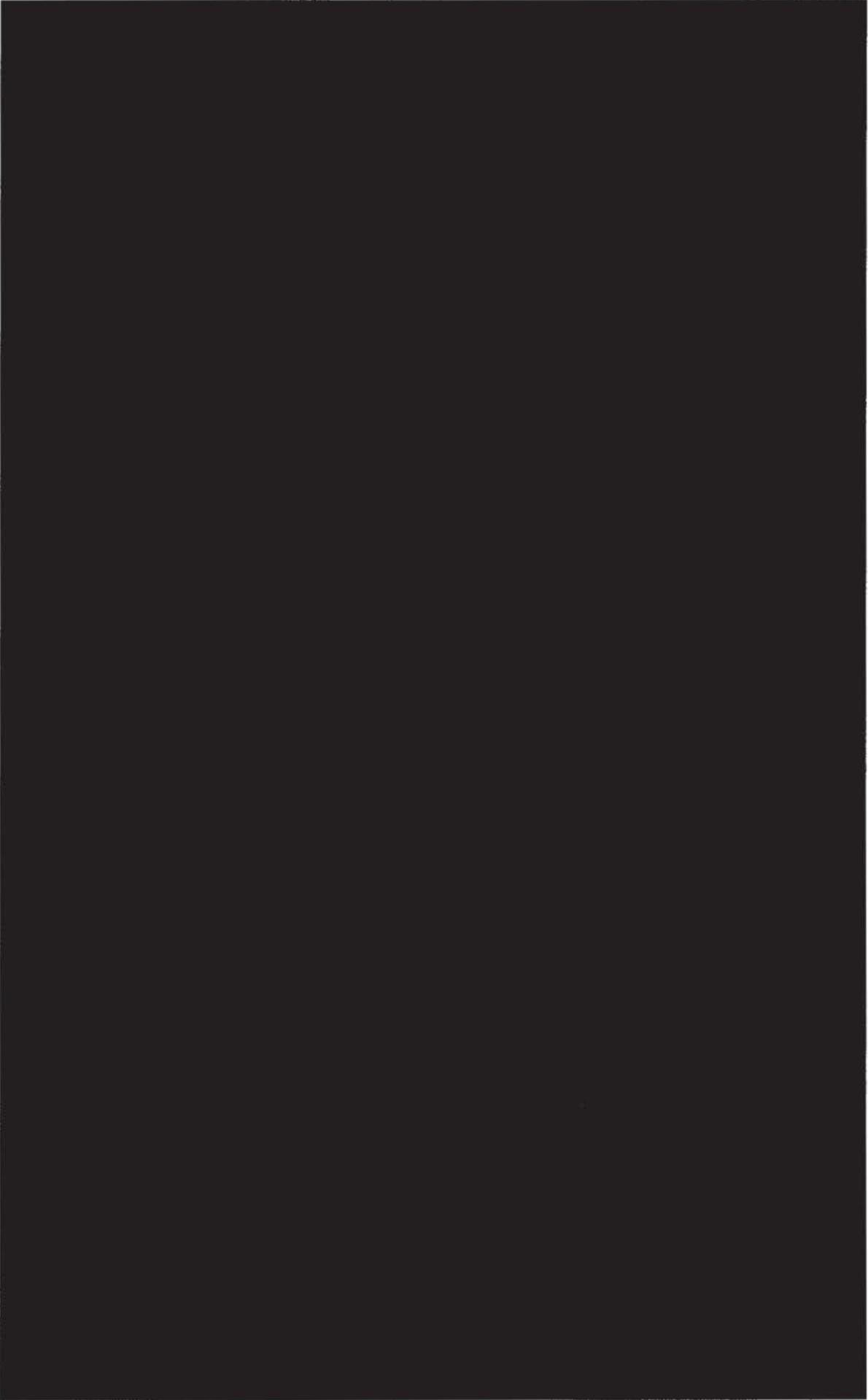


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LINE 510 - SERVICE QUALITY STANDARDS AND CONSUMER PROTECTION RULES COMPLIANCE

XIT Rural Telephone Cooperative, Inc. complies with applicable service quality standards and consumer protection rules for its voice and broadband services.

The rates, terms, and conditions under which the Cooperative operates are outlined in its member services tariff, which is approved by the Public Utility Commission of Texas ("Texas PUC"). The tariff contains provisions regarding the Cooperative's customer service and protection practices.

Service quality standards for voice service are established by the state commission. The Cooperative consistently meets or exceeds those standards and provides reports to the state commission, in accordance with the state commission's rules.

With regard to broadband service, the Cooperative provisions its network and equipment to ensure that its customers can enjoy the speeds to which they subscribe. However, Internet speeds generally result from a "best effort" service and are dependent upon a number of variables, many of which are outside the control of the Cooperative.

The Cooperative complies with any and all consumer protection obligations under state law.

The Cooperative also complies with the following consumer best practices: (1) the Cooperative discloses its rates and terms of service to customers; (2) the Cooperative provides specific disclosures in its advertising; (3) the Cooperative separately identifies carrier charges from taxes on its billing statements; (4) the Cooperative provides ready access to customer service; (5) the Cooperative promptly responds to consumer inquiries and complaints received from government agencies; and (6) the Cooperative abides by policies for protection of consumer privacy.

Finally, the Cooperative has a policy and established operating procedures that comply with the FCC's Customer Proprietary Network Information (CPNI) rules (47 C.F.R. §§64.2001-64.2011). Certification of the Cooperative's compliance with CPNI rules and a description of the Cooperative's operating procedures that ensure compliance are filed annually with the FCC.

LINE 610 - ABILITY TO FUNCTION IN EMERGENCY SITUATIONS

XIT Rural Telephone Cooperative, Inc. is able to function in emergency situations for both voice and broadband service. The Cooperative has a reasonable amount of back-up power to ensure functionality without an external power source. Standby power generators are supplied at the central office, remote switch sites, and repeater sites to ensure functionality without an external power source until power is restored. The network is capable of managing traffic spikes resulting from emergency situations.

The Cooperative is able to reroute traffic around damaged facilities. Although the Cooperative's ability to reroute traffic around damaged facilities is not absolute and may be limited in certain circumstances, there is a restoration plan in place for expeditious recovery of service, including splicing of damaged facilities when warranted.

LINE 1010 – VOICE SERVICES RATE COMPARABILITY

The Wireline Competition Bureau's most recent reasonable comparability benchmark for voice services is \$47.48, which includes the federal subscriber line charge ("SLC").¹

In the exchanges served by XIT Rural Telephone Cooperative, the highest single-line residential local rate, including any mandatory extended area service charge, is \$16.00. When the federal SLC and the state universal service fee are added, the total is below the reasonable comparability benchmark of \$47.48.

¹ *Wireline Competition Bureau Announces Results of 2015 Urban Rate Survey for Fixed Voice and Broadband Services and Posting of Survey Data and Explanatory Notes*, WC Docket No. 10-90, DA 15-470 (rel. April 16, 2015), p. 1.

LINE 1210 – TERMS & CONDITIONS OF VOICE TELEPHONY LIFELINE PLANS

XIT Rural Telephone Cooperative (the Cooperative) offers qualified Lifeline subscribers a discount of \$12.75 (comprised of the federal discount of \$9.25 and a state discount of \$3.50) to a stand-alone residential local exchange service line rate.

In all exchanges served by the Cooperative, the Lifeline rate for single-line residential voice service, including any mandatory extended area service charge and the federal subscriber line charge, is \$9.75 (\$22.50 less the \$12.75 discount).

The local exchange service rate includes an unlimited number of local calling minutes. Additional charges for toll calls associated with the residential local exchange service are billed at the rates of the long distance carrier chosen by the subscriber. Lifeline customers may subscribe to packages and custom calling features at the standard rates offered to all customers, in which case the Lifeline discounts will apply to the portion of the package that is for a stand-alone basic local exchange service line. The attached pages from the Cooperative's Member Services Tariff include the terms and conditions for Lifeline Service.

MEMBER SERVICES TARIFF

LOCAL EXCHANGE SERVICE

IV. LIFELINE PROGRAM

The Lifeline Program is a retail local service offering designed to make telephone service available at reduced rates to qualifying low-income customers.

A. General

1. A qualifying low-income customer subscribing to the Lifeline Program shall receive federal and state reductions to their monthly tariffed residential local exchange access line rate.

2. Nothing in this section shall prohibit a customer who is otherwise eligible for the Lifeline Program from obtaining and using telecommunications equipment and services designed to aid such customer in utilizing qualifying telecommunications services.

3. Lifeline Program reductions do not apply to surcharges, taxes, long distance service, 976 and other information related telecommunications services, and optional services such as custom calling features. Customers may obtain these services, where available, at their discretion.

4. The Lifeline Program rate reductions do not apply to service connection charges.

Issued:
By: Darrell F. Dennis, General Manager
Box 711, Dalhart, TX 79022

Effective: April 2, 2012

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MEMBER SERVICES TARIFF

LOCAL EXCHANGE SERVICE

IV. LIFELINE PROGRAM (Continued)

A. General (Continued)

5. The Cooperative may not disconnect the service of a Lifeline Program customer for the non-payment of toll charges. However, the Cooperative reserves the right to implement toll blocking, at no charge, if the customer incurs a significant balance of unpaid toll bills. The Cooperative will inform the customer, by direct mail, of this change to their service due to the customer's non-payment of toll charges. Upon the customer's payment of all outstanding toll charges, the Cooperative shall remove mandatory toll blocking at no charge.

6. Upon subscribing to the Lifeline Program, a customer will be offered a subscription, at no charge, to toll blocking service (in exchanges where technically available) which denies the customer access to the long distance telecommunications network; however, the customer is under no obligation to accept the subscription to toll blocking.

7. The Lifeline Program rate reductions will not be available on a retroactive basis unless approved by the Public Utility Commission of Texas or the Low-Income Discount Administrator (LIDA).

B. Designated Lifeline Program Services

The Cooperative shall offer voice telephony services that provide the following functionalities as designated Lifeline Program services:

1. Voice grade access to the public switched network or its functional equivalent
2. Minutes of use for local service provided at no additional charge to the customer
3. Access to emergency services
4. Toll blocking service

MEMBER SERVICES TARIFF

LOCAL EXCHANGE SERVICE

IV. LIFELINE PROGRAM (Continued)

C. Eligibility Requirement

1. Qualifying Low-Income (Eligible) Customer Criteria

An eligible customer shall be defined as an individual whose annual household income is at or below 150% of the federal poverty guidelines or in whose household resides a person who receives or has a child who receives benefits from at least one of the following programs:

- a. Medicaid
- b. Food Stamps (Supplemental Nutrition Assistance Program)
- c. Supplemental Security Income (SSI)
- d. Federal Public Housing Assistance (FPHA)
- e. Low-Income Heat and Energy Assistance Program (LIHEAP)
- f. Health benefits coverage under the state Children's Health Insurance Program (CHIP)
- g. National School Lunch Program's Free Lunch Program
- h. Temporary Assistance for Needy Families

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The Lifeline Program rate reductions will be provided to each eligible customer. The Low-Income Discount Administrator (LIDA) will provide a list of eligible customers to the Cooperative each month.

2. Obligations of the Customer

a. Customers whose annual household income is at or below 150% of the federal poverty guidelines or who participate in FPHA or LIHEAP programs may self-enroll for Lifeline Program benefits by completing an application form and returning it to LIDA. LIDA will send a blank application upon customer request. LIDA can be reached at 1-866-4LITEUP. Current customers receiving benefits under Medicaid, Food Stamps, SSI or CHIP will be subject to the Lifeline Program automatic enrollment procedures as provided by the LIDA unless they provide a written request to the LIDA to be excluded from the Lifeline Program.

b. A customer who is eligible for the Lifeline Program, but does not have telephone service at the time LIDA provides its eligibility list to the Cooperative, shall be responsible for initiating a request for the Lifeline Program from the Cooperative.

Issued:
By: Darrell F. Dennis, General Manager
Box 711, Dalhart, TX 79022

Effective: June 1, 2012

MEMBER SERVICES TARIFF

LOCAL EXCHANGE SERVICE

IV. LIFELINE PROGRAM (Continued)

C. Eligibility Requirement (Continued)

3. Obligations of the Cooperative

a. LIDA will provide a list of eligible customers to the Cooperative on a monthly basis. Upon receipt of the list, the Cooperative shall begin reduced billing for those customers within 30 days.

4. Discontinuance of Service

a. Discontinuance of Lifeline Discounts for customers automatically enrolled. The eligibility period for automatically enrolled customers is the length of their enrollment in Texas Health and Human Services Commission (THHSC) benefits plus a period of 60 days for renewal. Automatically enrolled customers will have an opportunity to renew their THHSC benefits or self-enrollment with LIDA upon the expiration of their automatic enrollment.

b. Discontinuance of Lifeline Discounts for customers who have self-enrolled. Individuals not receiving benefits through THHSC programs, but who have met Lifeline income qualifications, are eligible to receive the Lifeline Discount for seven months, which includes a period of 60 days during which the customer may renew their eligibility with LIDA for an additional seven months.

PUBLIC UTILITY COMMISSION OF TEXAS
APPROVED

NOV - 2 '07 DOCKET 34815

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By: Darrell F. Dennis, General Manager
Box 711, Dalhart, TX 79022

MEMBER SERVICES TARIFF

LOCAL EXCHANGE SERVICE

IV. LIFELINE PROGRAM (Continued)

D. Deposit and Credit Requirements

1. The Cooperative shall be prohibited from charging a service deposit in order to initiate the Lifeline Program if the eligible customer voluntarily elects to receive toll blocking.

2. The Cooperative may charge a service deposit if the eligible customer denies subscription to toll blocking upon subscribing to the Lifeline Program.

3. In instances where the Cooperative may require a service deposit, the same credit verification procedures and deposit regulations used for all applicants who apply for service with the Cooperative are also applicable to eligible customers for the Lifeline Program.

E. Service Connection Charges

1. Service connection charges do not apply to eligible customers with existing, qualifying service converting to the Lifeline Program.

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Issued:
By: Jimmy White, Manager
Box 711, Dalhart, TX 79022

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MEMBER SERVICES TARIFF

LOCAL EXCHANGE SERVICE

IV. LIFELINE PROGRAM (Continued)

E. Service Connection Charges (Continued)

2. Service connection charges do apply when:

a. Existing eligible customers request additional non-qualifying services at the time Lifeline program reduced billing is initiated.

b. New customers (those without existing local exchange access service) eligible for the Lifeline Program establish qualifying service.

c. Customers make subsequent moves or changes after initial connection to the Lifeline Program.

F. Lifeline Program Rate Reduction

1. Implementation

The Cooperative shall provide reduced billing to all Lifeline Program eligible customers within its service area in accordance with the Commission's Substantive rules.

In instances where a customer inquires about participation in the Lifeline Program, the Cooperative shall provide contact information for LIDA.

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XIT RURAL TELEPHONE COOPERATIVE, INC.
DALHART, TEXAS

SECTION 4
1st Revised Page 16
Replacing Original Page 16

MEMBER SERVICES TARIFF

LOCAL EXCHANGE SERVICE

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By: Jimmy White, Manager
Box 711, Dalhart, TX 79022

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JUN 05 '01 DOCKET 24058
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MEMBER SERVICES TARIFF

LOCAL EXCHANGE SERVICE

IV. LIFELINE PROGRAM (Continued)

F. Lifeline Program Rate Reduction (Continued)

2. Amounts

The Cooperative shall apply Lifeline Program rate reductions, per eligible customer, as described below.

	<u>Monthly Rate Reduction</u>	
a. Federal Reduction Applied to Federal Subscriber Line Charge and Residential Local Exchange Access Line Charge	47.C.F.R. Section 54.403	D D T
b. Maximum State Reduction to Residential Local Exchange Access Line Rate	\$3.50	T

Issued:
By: Darrell F. Dennis, General Manager
Box 711, Dalhart, TX 79022

Effective: April 2, 2012

LINE 3010 – MILESTONE CERTIFICATION

XIT Rural Telephone Cooperative, Inc. (the “Cooperative”) hereby certifies that the Cooperative has taken reasonable steps to provide upon reasonable request broadband service at actual speeds of 4 Mbps downstream/1 Mbps upstream, with latency suitable for real-time applications, including Voice over Internet Protocol, and usage capacity that is reasonably comparable to reasonably comparable offerings in urban areas, and that requests for such service are met within a reasonable amount of time.

LINE 3012 – COMMUNITY ANCHOR INSTITUTIONS

XIT Rural Telephone Cooperative, Inc. did not newly deploy broadband service to any community anchor institutions in the preceding calendar year (2014).



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
XIT Rural Telephone Cooperative, Inc. and Subsidiaries
Dalhart, Texas

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of XIT Rural Telephone Cooperative, Inc. (a Texas corporation) and subsidiaries as of March 31, 2014, and the related consolidated statement of operations, comprehensive income, members' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 of 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 estimates made by management as well as evaluating the overall consolidated financial statement presentation.

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 financial position of XIT Rural Telephone Cooperative, Inc. and subsidiaries as of March 31, 2014 and 2013, 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

The consolidated financial statements of XIT Rural Telephone Cooperative, Inc. and subsidiaries as of March 31, 2013, were audited by other auditors whose report dated July 15, 2013, expressed an unqualified opinion on those statements.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued a report dated August 21, 2014, on our consideration of XIT Rural Telephone Cooperative, Inc. and subsidiary's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts, 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 and should be read in conjunction with this report in assessing the results of our audit.

Handwritten signature of Kimberly Amthor in cursive script.

Colorado Springs, Colorado
August 21, 2014

**XIT RURAL TELEPHONE COOPERATIVE, INC.
DALHART, TEXAS**

**CONSOLIDATED BALANCE SHEETS
March 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents		
Special construction account		
Temporary investments		
Accounts receivable:		
Due from customers		
Less allowance of [REDACTED] respectively		
Interexchange carriers		
Other		
Grant funds receivable		
Interest receivable		
Materials and supplies, at average cost		
Inventory, at average cost		
Prepayments		
Escrow - sale of wireless assets		
Other current assets		
 OTHER NONCURRENT ASSETS		
Marketable equity securities		
Partnership investments		
Investment in lenders		
Other investments		
Deferred charges		
 PROPERTY, PLANT AND EQUIPMENT		
Telephone plant in service		
Video plant in service		
Wireless plant in service		
 Less accumulated depreciation		
 Plant under construction		
 TOTAL ASSETS		



The accompanying notes are an integral part of these consolidated financial statements.

**XIT RURAL TELEPHONE COOPERATIVE, INC.
DALHART, TEXAS**

**CONSOLIDATED BALANCE SHEETS
March 31, 2014 and 2013**

	2014	2013
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
CURRENT LIABILITIES		
Current portion of long-term debt		
Current portion of deferred grant revenue		
Accounts payable:		
Interexchange carriers		
Other		
Customer deposits		
Accrued income taxes		
Accrued taxes		
Other accrued liabilities		
LONG-TERM DEBT, less current portion		
OTHER NONCURRENT LIABILITIES AND DEFERRED CREDITS		
Deferred income taxes		
Deferred grant revenue, less current portion		
Other deferred credits		
MEMBERS' EQUITY		
Memberships		
Patronage capital assignable		
Patronage capital assigned		
Undistributed earnings of subsidiaries		
Accumulated Other Comprehensive Income		
Noncontrolling interest		
TOTAL LIABILITIES AND MEMBERS' EQUITY		

The accompanying notes are an integral part of these consolidated financial statements.

**XIT RURAL TELEPHONE COOPERATIVE, INC.
DALHART, TEXAS**

**CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended March 31, 2014 and 2013**

	2014	2013
OPERATING REVENUES		
Local network services		
Network access services		
Long distance services		
Internet services		
Video services		
Wireless services		
Nonregulated services		
Grant revenue		
Lease revenue		
Miscellaneous revenue		
OPERATING EXPENSES		
Cost of long distance services		
Cost of internet services		
Cost of video services		
Cost of nonregulated services		
Plant specific operations		
Plant nonspecific operations		
Depreciation and amortization		
Customer operations		
Corporate operations		
General taxes		
OPERATING MARGINS		
OTHER INCOME (EXPENSE)		
Interest and dividend income		
Income from partnerships		
Gain/(loss) on sale of investments		
Loss on disposition of property		
Interest on funded debt		
Other interest deductions		
Other, net		
MARGINS BEFORE INCOME TAXES		
INCOME TAXES		
MARGINS BEFORE NONCONTROLLING INTEREST IN NET INCOME OF SUBSIDIARY		
MINORITY INTEREST IN NET INCOME		
NET MARGINS		

The accompanying notes are an integral part of these consolidated financial statements.

**XIT RURAL TELEPHONE COOPERATIVE, INC.
DALHART, TEXAS**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2014 and 2013**

	2014	2013
NET MARGINS		
Other comprehensive income, net of tax:		
Unrealized gains on securities:		
Unrealized holding gains arising during period, net of tax of		
Reclassification adjustment for gains (losses) included in net income, net of tax of		
Other comprehensive income		
COMPREHENSIVE INCOME		
ADD: COMPREHENSIVE INCOME ATTRIBUTABLE TO THE NONCONTROLLING INTEREST		
COMPREHENSIVE INCOME		

The accompanying notes are an integral part of these consolidated financial statements.

**XIT RURAL TELEPHONE COOPERATIVE, INC.
DALHART, TEXAS**

**CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
Years ended March 31, 2014 and 2013**

	Memberships	Patronage Capital Assignable
Balance at March 31, 2012		
Net margins		
Unrealized gains on securities net of income taxes		
Intercompany Dividend Payment		
Patronage capital retired		
2012 capital credits assigned		
Distribution to noncontrolling interest		
Change in memberships		
Balance at March 31, 2013		
Net margins		
Unrealized gains on securities net of income taxes		
Intercompany Dividend Payment		
Patronage capital retired		
2013 capital credits assigned		
Distribution to noncontrolling interest		
Change in memberships		
Balance at March 31, 2014		

The accompanying notes are an integral part of these consolidated financial statements.

**XIT RURAL TELEPHONE COOPERATIVE, INC.
DALHART, TEXAS**

**CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
Years ended March 31, 2014 and 2013**

Patronage Capital Assigned	Undistributed Earnings of Subsidiaries	Accumulated Other Comprehensive Income	Noncontrolling Interest in Subsidiary	Total Members' Equity
				

The accompanying notes are an integral part of these consolidated financial statements.

**XIT RURAL TELEPHONE COOPERATIVE, INC.
DALHART, TEXAS**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2014 and 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net margins		
Adjustments to reconcile net margins to net cash provided by operating activities:		
Depreciation and amortization		
Deferred income taxes		
Patronage distributions received from business conducted with cooperatives		
Equity income from partnerships		
Distributions received from partnerships		
Noncontrolling interest in net income of subsidiary		
(Gain)/loss on sale of investments		
Loss on disposition of property		
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable		
Inventory		
Prepayments and other		
Increase (Decrease) in:		
Accounts payable		
Accrued taxes		
Other accrued liabilities		
Deferred grant revenue		
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures		
Purchase of investments		
Proceeds from sale of investments		
Cost of removing plant, net of salvage		
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt		
Change in special construction account		
Patronage capital retired		
Distribution to noncontrolling interest		
Adjustment to patronage allocation from patronage investments		
Grant funds received		
Distribution from escrow - sale of wireless		
Change in memberships		
Net cash provided by financing activities		
Net Increase (Decrease) in Cash and Cash Equivalents		
Cash and Cash Equivalents at Beginning of Year		
Cash and Cash Equivalents at End of Year		

The accompanying notes are an integral part of these consolidated financial statements.

**XIT RURAL TELEPHONE COOPERATIVE, INC.
DALHART, TEXAS**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Years ended March 31, 2014 and 2013**

	2014	2013
SUPPLEMENTAL DISCLOSURES		
Noncash investing and financing transactions:		
Acquisitions of property and equipment		
Change in accounts payable		

The accompanying notes are an integral part of these consolidated financial statements.