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Return of Private Foundation

or Section 4947(a)(1) Trust Treated as Private Foundation

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Information about Form 990-PF and its separate instructions is at www.irs.gov/form990pf.

OMB No 1545-0052

2014

Open to Public Inspection

For calendar year 2014 or tax year beginning

, and ending

Name of foundation REED CHARITABLE FOUNDATION		A Employer identification number 75-2663460
Number and street (or P.O. box number if mail is not delivered to street address) P.O. BOX 2169	Room/suite	B Telephone number 972-489-3160
City or town, state or province, country, and ZIP or foreign postal code FRISCO, TX 75034		C If exemption application is pending, check here <input type="checkbox"/>
G Check all that apply: <input type="checkbox"/> Initial return <input type="checkbox"/> Final return <input type="checkbox"/> Address change <input type="checkbox"/> Initial return of a former public charity <input type="checkbox"/> Amended return <input type="checkbox"/> Name change		D 1. Foreign organizations, check here <input type="checkbox"/> 2. Foreign organizations meeting the 85% test, check here and attach computation <input type="checkbox"/>
H Check type of organization: <input checked="" type="checkbox"/> Section 501(c)(3) exempt private foundation <input type="checkbox"/> Section 4947(a)(1) nonexempt charitable trust <input type="checkbox"/> Other taxable private foundation		E If private foundation status was terminated under section 507(b)(1)(A), check here <input type="checkbox"/>
I Fair market value of all assets at end of year (from Part II, col (c), line 16) \$ 3,086,238.	J Accounting method: <input checked="" type="checkbox"/> Cash <input type="checkbox"/> Accrual <input type="checkbox"/> Other (specify) _____	F If the foundation is in a 60-month termination under section 507(b)(1)(B), check here <input type="checkbox"/>

Part I Analysis of Revenue and Expenses (The total of amounts in columns (b), (c), and (d) may not necessarily equal the amounts in column (a).)		(a) Revenue and expenses per books	(b) Net investment income	(c) Adjusted net income	(d) Disbursements for charitable purposes (cash basis only)
1 Contributions, gifts, grants, etc., received					
2 Check <input checked="" type="checkbox"/> if the foundation is not required to attach Sch. B					
3 Interest on savings and temporary cash investments		50,711.	50,711.	50,711.	STATEMENT 1
4 Dividends and interest from securities		35,006.	33,342.	35,006.	STATEMENT 2
5a Gross rents					
b Net rental income or (loss)					
6a Net gain or (loss) from sale of assets not on line 10		-13,201.			
b Gross sales price for all assets on line 6a	438,088.				
7 Capital gain net income (from Part IV, line 2)			0.		
8 Net short-term capital gain					
9 Income modifications					
10a Gross sales less returns and allowances					
b Less Cost of goods sold					
c Gross profit or (loss)					
11 Other income					
12 Total. Add lines 1 through 11		72,516.	84,053.	85,717.	
13 Compensation of officers, directors, trustees, etc		12,000.	12,000.	12,000.	0.
14 Other employee salaries and wages					
15 Pension plans, employee benefits					
16a Legal fees					
b Accounting fees	STMT 3	2,070.	0.	2,070.	0.
c Other professional fees					
17 Interest					
18 Taxes	STMT 4	1,477.	0.	0.	0.
19 Depreciation and depletion					
20 Occupancy					
21 Travel, conferences, and meetings					
22 Printing and publications					
23 Other expenses	STMT 5	8,844.	8,844.	8,844.	0.
24 Total operating and administrative expenses. Add lines 13 through 23		24,391.	20,844.	22,914.	0.
25 Contributions, gifts, grants paid		163,125.			163,125.
26 Total expenses and disbursements. Add lines 24 and 25		187,516.	20,844.	22,914.	163,125.
27 Subtract line 26 from line 12:					
a Excess of revenue over expenses and disbursements		-115,000.			
b Net investment income (if negative, enter -0-)			63,209.		
c Adjusted net income (if negative, enter -0-)				62,803.	

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LHA For Paperwork Reduction Act Notice, see instructions.

SCANNED MAY 26 2015

Operating and Administrative Expenses

914-16

6

Part II Balance Sheets		Attached schedules and amounts in the description column should be for end-of-year amounts only		
		Beginning of year	End of year	
		(a) Book Value	(b) Book Value	(c) Fair Market Value
Assets	1 Cash - non-interest-bearing	70,800.	60,668.	60,668.
	2 Savings and temporary cash investments	36,347.	104,188.	104,188.
	3 Accounts receivable ▶			
	Less: allowance for doubtful accounts ▶			
	4 Pledges receivable ▶			
	Less: allowance for doubtful accounts ▶			
	5 Grants receivable			
	6 Receivables due from officers, directors, trustees, and other disqualified persons			
	7 Other notes and loans receivable ▶			
	Less: allowance for doubtful accounts ▶			
	8 Inventories for sale or use			
	9 Prepaid expenses and deferred charges			
	10a Investments - U.S. and state government obligations			
	b Investments - corporate stock			
	c Investments - corporate bonds STMT 6	3,090,926.	2,915,133.	2,915,133.
	11 Investments - land, buildings, and equipment: basis ▶			
Less: accumulated depreciation ▶				
12 Investments - mortgage loans				
13 Investments - other				
14 Land, buildings, and equipment: basis ▶				
Less: accumulated depreciation ▶				
15 Other assets (describe ▶ STATEMENT 7)	3,165.	6,249.	6,249.	
16 Total assets (to be completed by all filers - see the instructions. Also, see page 1, item I)	3,201,238.	3,086,238.	3,086,238.	
Liabilities	17 Accounts payable and accrued expenses			
	18 Grants payable			
	19 Deferred revenue			
	20 Loans from officers, directors, trustees, and other disqualified persons			
	21 Mortgages and other notes payable			
	22 Other liabilities (describe ▶)			
23 Total liabilities (add lines 17 through 22)	0.	0.		
Net Assets or Fund Balances	Foundations that follow SFAS 117, check here ▶ <input type="checkbox"/>			
	24 Unrestricted			
	25 Temporarily restricted			
	26 Permanently restricted			
	Foundations that do not follow SFAS 117, check here ▶ <input checked="" type="checkbox"/>			
	27 Capital stock, trust principal, or current funds	0.	0.	
	28 Paid-in or capital surplus, or land, bldg., and equipment fund	0.	0.	
	29 Retained earnings, accumulated income, endowment, or other funds	3,201,238.	3,086,238.	
30 Total net assets or fund balances	3,201,238.	3,086,238.		
31 Total liabilities and net assets/fund balances	3,201,238.	3,086,238.		

Part III Analysis of Changes in Net Assets or Fund Balances

1 Total net assets or fund balances at beginning of year - Part II, column (a), line 30 (must agree with end-of-year figure reported on prior year's return)	1	3,201,238.
2 Enter amount from Part I, line 27a	2	-115,000.
3 Other increases not included in line 2 (itemize) ▶	3	0.
4 Add lines 1, 2, and 3	4	3,086,238.
5 Decreases not included in line 2 (itemize) ▶	5	0.
6 Total net assets or fund balances at end of year (line 4 minus line 5) - Part II, column (b), line 30	6	3,086,238.

Part IV Capital Gains and Losses for Tax on Investment Income

(a) List and describe the kind(s) of property sold (e.g., real estate, 2-story brick warehouse; or common stock, 200 shs. MLC Co.)	(b) How acquired P - Purchase D - Donation	(c) Date acquired (mo., day, yr.)	(d) Date sold (mo., day, yr.)
1a BMO HARRIS BANK		VARIOUS	VARIOUS
b CAPITAL GAINS DIVIDENDS			
c			
d			
e			

(e) Gross sales price	(f) Depreciation allowed (or allowable)	(g) Cost or other basis plus expense of sale	(h) Gain or (loss) (e) plus (f) minus (g)
a 432,571.		451,289.	-18,718.
b 5,517.			5,517.
c			
d			
e			

Complete only for assets showing gain in column (h) and owned by the foundation on 12/31/69

(i) F.M.V. as of 12/31/69	(j) Adjusted basis as of 12/31/69	(k) Excess of col. (i) over col. (j), if any	(l) Gains (Col. (h) gain minus col. (k), but not less than -0-) or Losses (from col. (h))
a			-18,718.
b			5,517.
c			
d			
e			

2 Capital gain net income or (net capital loss)	{ If gain, also enter in Part I, line 7 If (loss), enter -0- in Part I, line 7	2	-13,201.
3 Net short-term capital gain or (loss) as defined in sections 1222(5) and (6): If gain, also enter in Part I, line 8, column (c). If (loss), enter -0- in Part I, line 8		3	0.

Part V Qualification Under Section 4940(e) for Reduced Tax on Net Investment Income

(For optional use by domestic private foundations subject to the section 4940(a) tax on net investment income.)

If section 4940(d)(2) applies, leave this part blank.

Was the foundation liable for the section 4942 tax on the distributable amount of any year in the base period?

☐ Yes ☒ No

If "Yes," the foundation does not qualify under section 4940(e). Do not complete this part.

1 Enter the appropriate amount in each column for each year; see the instructions before making any entries.

(a) Base period years Calendar year (or tax year beginning in)	(b) Adjusted qualifying distributions	(c) Net value of noncharitable-use assets	(d) Distribution ratio (col. (b) divided by col. (c))
2013	91,000.	3,141,133.	.028970
2012	82,025.	3,173,656.	.025846
2011	510,910.	3,094,580.	.165098
2010	90,000.	2,614,429.	.034424
2009	123,817.	2,543,865.	.048673

2 Total of line 1, column (d)	2	.303011
3 Average distribution ratio for the 5-year base period - divide the total on line 2 by 5, or by the number of years the foundation has been in existence if less than 5 years	3	.060602
4 Enter the net value of noncharitable-use assets for 2014 from Part X, line 5	4	3,125,403.
5 Multiply line 4 by line 3	5	189,406.
6 Enter 1% of net investment income (1% of Part I, line 27b)	6	632.
7 Add lines 5 and 6	7	190,038.
8 Enter qualifying distributions from Part XII, line 4 If line 8 is equal to or greater than line 7, check the box in Part VI, line 1b, and complete that part using a 1% tax rate. See the Part VI instructions.	8	163,125.

Part VI Excise Tax Based on Investment Income (Section 4940(a), 4940(b), 4940(e), or 4948 - see instructions)

1a Exempt operating foundations described in section 4940(d)(2), check here <input type="checkbox"/> and enter "N/A" on line 1. Date of ruling or determination letter: _____ (attach copy of letter if necessary-see instructions)			
b Domestic foundations that meet the section 4940(e) requirements in Part V, check here <input type="checkbox"/> and enter 1% of Part I, line 27b		1	1,264.
c All other domestic foundations enter 2% of line 27b. Exempt foreign organizations enter 4% of Part I, line 12, col. (b).			
2 Tax under section 511 (domestic section 4947(a)(1) trusts and taxable foundations only. Others enter -0-)		2	0.
3 Add lines 1 and 2		3	1,264.
4 Subtitle A (income) tax (domestic section 4947(a)(1) trusts and taxable foundations only. Others enter -0-)		4	0.
5 Tax based on investment income. Subtract line 4 from line 3. If zero or less, enter -0-		5	1,264.
6 Credits/Payments:			
a 2014 estimated tax payments and 2013 overpayment credited to 2014	6a		
b Exempt foreign organizations - tax withheld at source	6b		
c Tax paid with application for extension of time to file (Form 8868)	6c		
d Backup withholding erroneously withheld	6d		
7 Total credits and payments. Add lines 6a through 6d	7		0.
8 Enter any penalty for underpayment of estimated tax. Check here <input checked="" type="checkbox"/> if Form 2220 is attached	8		29.
9 Tax due. If the total of lines 5 and 8 is more than line 7, enter amount owed	9		1,293.
10 Overpayment. If line 7 is more than the total of lines 5 and 8, enter the amount overpaid	10		
11 Enter the amount of line 10 to be: Credited to 2015 estimated tax <input type="checkbox"/> Refunded <input type="checkbox"/>	11		

Part VII-A Statements Regarding Activities

	Yes	No
1a During the tax year, did the foundation attempt to influence any national, state, or local legislation or did it participate or intervene in any political campaign?		X
1b Did it spend more than \$100 during the year (either directly or indirectly) for political purposes (see instructions for the definition)? If the answer is "Yes" to 1a or 1b, attach a detailed description of the activities and copies of any materials published or distributed by the foundation in connection with the activities.		X
1c Did the foundation file Form 1120-POL for this year?		X
d Enter the amount (if any) of tax on political expenditures (section 4955) imposed during the year: (1) On the foundation. \$ 0. (2) On foundation managers. \$ 0.		
e Enter the reimbursement (if any) paid by the foundation during the year for political expenditure tax imposed on foundation managers. \$ 0.		
2 Has the foundation engaged in any activities that have not previously been reported to the IRS? If "Yes," attach a detailed description of the activities		X
3 Has the foundation made any changes, not previously reported to the IRS, in its governing instrument, articles of incorporation, or bylaws, or other similar instruments? If "Yes," attach a conformed copy of the changes		X
4a Did the foundation have unrelated business gross income of \$1,000 or more during the year?		X
b If "Yes," has it filed a tax return on Form 990-T for this year?		
5 Was there a liquidation, termination, dissolution, or substantial contraction during the year? If "Yes," attach the statement required by General Instruction T		X
6 Are the requirements of section 508(e) (relating to sections 4941 through 4945) satisfied either: • By language in the governing instrument, or • By state legislation that effectively amends the governing instrument so that no mandatory directions that conflict with the state law remain in the governing instrument?	X	
7 Did the foundation have at least \$5,000 in assets at any time during the year? If "Yes," complete Part II, col. (c), and Part XV	X	
8a Enter the states to which the foundation reports or with which it is registered (see instructions) NONE		
b If the answer is "Yes" to line 7, has the foundation furnished a copy of Form 990-PF to the Attorney General (or designate) of each state as required by General Instruction G? If "No," attach explanation SEE STATEMENT 8		X
9 Is the foundation claiming status as a private operating foundation within the meaning of section 4942(j)(3) or 4942(j)(5) for calendar year 2014 or the taxable year beginning in 2014 (see instructions for Part XIV)? If "Yes," complete Part XIV		X
10 Did any persons become substantial contributors during the tax year? If "Yes," attach a schedule listing their names and addresses		X

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Part VII-A Statements Regarding Activities (continued)

11	At any time during the year, did the foundation, directly or indirectly, own a controlled entity within the meaning of section 512(b)(13)? If "Yes," attach schedule (see instructions)			X
12	Did the foundation make a distribution to a donor advised fund over which the foundation or a disqualified person had advisory privileges? If "Yes," attach statement (see instructions)			X
13	Did the foundation comply with the public inspection requirements for its annual returns and exemption application?		X	
Website address N/A				
14	The books are in care of JAMES WESLEY REED III Telephone no. 			
	Located at 12256 FAIRWAY MEADOWS DR., FORT WORTH, TX ZIP+4 76179			
15	Section 4947(a)(1) nonexempt charitable trusts filing Form 990-PF in lieu of Form 1041 - Check here and enter the amount of tax-exempt interest received or accrued during the year	15	N/A	
16	At any time during calendar year 2014, did the foundation have an interest in or a signature or other authority over a bank, securities, or other financial account in a foreign country? See the instructions for exceptions and filing requirements for FinCEN Form 114, (formerly TD F 90-22.1). If "Yes," enter the name of the foreign country	16	Yes	No X

Part VII-B Statements Regarding Activities for Which Form 4720 May Be Required

File Form 4720 if any item is checked in the "Yes" column, unless an exception applies.

	Yes	No
1a During the year did the foundation (either directly or indirectly):		
(1) Engage in the sale or exchange, or leasing of property with a disqualified person?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
(2) Borrow money from, lend money to, or otherwise extend credit to (or accept it from) a disqualified person?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
(3) Furnish goods, services, or facilities to (or accept them from) a disqualified person?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
(4) Pay compensation to, or pay or reimburse the expenses of, a disqualified person?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
(5) Transfer any income or assets to a disqualified person (or make any of either available for the benefit or use of a disqualified person)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
(6) Agree to pay money or property to a government official? (Exception. Check "No" if the foundation agreed to make a grant to or to employ the official for a period after termination of government service, if terminating within 90 days.)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
b If any answer is "Yes" to 1a(1)-(6), did any of the acts fail to qualify under the exceptions described in Regulations section 53.4941(d)-3 or in a current notice regarding disaster assistance (see instructions)? Organizations relying on a current notice regarding disaster assistance check here	N/A	1b
c Did the foundation engage in a prior year in any of the acts described in 1a, other than excepted acts, that were not corrected before the first day of the tax year beginning in 2014?		1c X
2 Taxes on failure to distribute income (section 4942) (does not apply for years the foundation was a private operating foundation defined in section 4942(j)(3) or 4942(j)(5)):		
a At the end of tax year 2014, did the foundation have any undistributed income (lines 6d and 6e, Part XIII) for tax year(s) beginning before 2014?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
If "Yes," list the years 		
b Are there any years listed in 2a for which the foundation is not applying the provisions of section 4942(a)(2) (relating to incorrect valuation of assets) to the year's undistributed income? (If applying section 4942(a)(2) to all years listed, answer "No" and attach statement - see instructions.)	N/A	2b
c If the provisions of section 4942(a)(2) are being applied to any of the years listed in 2a, list the years here.		
3a Did the foundation hold more than a 2% direct or indirect interest in any business enterprise at any time during the year?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
b If "Yes," did it have excess business holdings in 2014 as a result of (1) any purchase by the foundation or disqualified persons after May 26, 1969; (2) the lapse of the 5-year period (or longer period approved by the Commissioner under section 4943(c)(7)) to dispose of holdings acquired by gift or bequest; or (3) the lapse of the 10-, 15-, or 20-year first phase holding period? (Use Schedule C, Form 4720, to determine if the foundation had excess business holdings in 2014)	N/A	3b
4a Did the foundation invest during the year any amount in a manner that would jeopardize its charitable purposes?		4a X
b Did the foundation make any investment in a prior year (but after December 31, 1969) that could jeopardize its charitable purpose that had not been removed from jeopardy before the first day of the tax year beginning in 2014?		4b X

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Part VII-B Statements Regarding Activities for Which Form 4720 May Be Required (continued)

5a During the year did the foundation pay or incur any amount to:

(1) Carry on propaganda, or otherwise attempt to influence legislation (section 4945(e))?

☐ Yes ☒ No

(2) Influence the outcome of any specific public election (see section 4955); or to carry on, directly or indirectly, any voter registration drive?

☐ Yes ☒ No

(3) Provide a grant to an individual for travel, study, or other similar purposes?

☐ Yes ☒ No

(4) Provide a grant to an organization other than a charitable, etc., organization described in section 4945(d)(4)(A)? (see instructions)

☐ Yes ☒ No

(5) Provide for any purpose other than religious, charitable, scientific, literary, or educational purposes, or for the prevention of cruelty to children or animals?

☐ Yes ☒ No

b If any answer is "Yes" to 5a(1)-(5), did any of the transactions fail to qualify under the exceptions described in Regulations section 53.4945 or in a current notice regarding disaster assistance (see instructions)?

N/A

Organizations relying on a current notice regarding disaster assistance check here

☒

c If the answer is "Yes" to question 5a(4), does the foundation claim exemption from the tax because it maintained expenditure responsibility for the grant?

N/A

☐ Yes ☐ No

If "Yes," attach the statement required by Regulations section 53.4945-5(d)

6a Did the foundation, during the year, receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?

☐ Yes ☒ No

b Did the foundation, during the year, pay premiums, directly or indirectly, on a personal benefit contract?

6b

X

If "Yes" to 6b, file Form 8870

7a At any time during the tax year, was the foundation a party to a prohibited tax shelter transaction?

☐ Yes ☒ No

b If "Yes," did the foundation receive any proceeds or have any net income attributable to the transaction?

N/A

7b

Part VIII Information About Officers, Directors, Trustees, Foundation Managers, Highly Paid Employees, and Contractors

1 List all officers, directors, trustees, foundation managers and their compensation.

(a) Name and address	(b) Title, and average hours per week devoted to position	(c) Compensation (If not paid, enter -0-)	(d) Contributions to employee benefit plans and deferred compensation	(e) Expense account, other allowances
LYLE D. REED	ADVISORY COMMITTEE			
P.O. BOX 2169				
FRISCO, TX 75034	1.00	0.	0.	0.
NELLIE ROSALIE REED	ADVISORY COMMITTEE			
P.O. BOX 2169				
FRISCO, TX 75034	1.00	0.	0.	0.
JAMES W. REED III	TRUSTEE			
12256 FAIRWAY MEADOWS DR.				
FORT WORTH, TX 76179	1.00	12,000.	0.	0.

2 Compensation of five highest-paid employees (other than those included on line 1). If none, enter "NONE."

(a) Name and address of each employee paid more than \$50,000	(b) Title, and average hours per week devoted to position	(c) Compensation	(d) Contributions to employee benefit plans and deferred compensation	(e) Expense account, other allowances
NONE				

Total number of other employees paid over \$50,000

0

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Part VIII Information About Officers, Directors, Trustees, Foundation Managers, Highly Paid Employees, and Contractors *(continued)***3** Five highest-paid independent contractors for professional services. If none, enter "NONE."

(a) Name and address of each person paid more than \$50,000	(b) Type of service	(c) Compensation
NONE		

Total number of others receiving over \$50,000 for professional services

0

Part IX-A Summary of Direct Charitable Activities

List the foundation's four largest direct charitable activities during the tax year. Include relevant statistical information such as the number of organizations and other beneficiaries served, conferences convened, research papers produced, etc.

	Expenses
1 N/A	
2	
3	
4	

Part IX-B Summary of Program-Related Investments

Describe the two largest program-related investments made by the foundation during the tax year on lines 1 and 2.

	Amount
1 N/A	
2	
All other program-related investments. See instructions.	
3	
Total. Add lines 1 through 3	0.

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Part X**Minimum Investment Return** (All domestic foundations must complete this part. Foreign foundations, see instructions)

1	Fair market value of assets not used (or held for use) directly in carrying out charitable, etc., purposes:		
a	Average monthly fair market value of securities	1a	3,001,848.
b	Average of monthly cash balances	1b	169,921.
c	Fair market value of all other assets	1c	1,229.
d	Total (add lines 1a, b, and c)	1d	3,172,998.
e	Reduction claimed for blockage or other factors reported on lines 1a and 1c (attach detailed explanation)	1e	0.
2	Acquisition indebtedness applicable to line 1 assets	2	0.
3	Subtract line 2 from line 1d	3	3,172,998.
4	Cash deemed held for charitable activities. Enter 1 1/2% of line 3 (for greater amount, see instructions)	4	47,595.
5	Net value of noncharitable-use assets. Subtract line 4 from line 3. Enter here and on Part V, line 4	5	3,125,403.
6	Minimum investment return. Enter 5% of line 5	6	156,270.

Part XI**Distributable Amount** (see instructions) (Section 4942(j)(3) and (j)(5) private operating foundations and certain foreign organizations check here ☐ and do not complete this part.)

1	Minimum investment return from Part X, line 6	1	156,270.
2a	Tax on investment income for 2014 from Part VI, line 5	2a	1,264.
b	Income tax for 2014. (This does not include the tax from Part VI.)	2b	
c	Add lines 2a and 2b	2c	1,264.
3	Distributable amount before adjustments. Subtract line 2c from line 1	3	155,006.
4	Recoveries of amounts treated as qualifying distributions	4	0.
5	Add lines 3 and 4	5	155,006.
6	Deduction from distributable amount (see instructions)	6	0.
7	Distributable amount as adjusted. Subtract line 6 from line 5. Enter here and on Part XIII, line 1	7	155,006.

Part XII**Qualifying Distributions** (see instructions)

1	Amounts paid (including administrative expenses) to accomplish charitable, etc., purposes:		
a	Expenses, contributions, gifts, etc. - total from Part I, column (d), line 26	1a	163,125.
b	Program-related investments - total from Part IX-B	1b	0.
2	Amounts paid to acquire assets used (or held for use) directly in carrying out charitable, etc., purposes	2	
3	Amounts set aside for specific charitable projects that satisfy the:		
a	Suitability test (prior IRS approval required)	3a	
b	Cash distribution test (attach the required schedule)	3b	
4	Qualifying distributions. Add lines 1a through 3b. Enter here and on Part V, line 8, and Part XIII, line 4	4	163,125.
5	Foundations that qualify under section 4940(e) for the reduced rate of tax on net investment income. Enter 1% of Part I, line 27b	5	0.
6	Adjusted qualifying distributions. Subtract line 5 from line 4	6	163,125.

Note. The amount on line 6 will be used in Part V, column (b), in subsequent years when calculating whether the foundation qualifies for the section 4940(e) reduction of tax in those years.

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Part XIII Undistributed Income (see instructions)

	(a) Corpus	(b) Years prior to 2013	(c) 2013	(d) 2014
1 Distributable amount for 2014 from Part XI, line 7				155,006.
2 Undistributed income, if any, as of the end of 2014				
a Enter amount for 2013 only			0.	
b Total for prior years:		0.		
3 Excess distributions carryover, if any, to 2014:				
a From 2009				
b From 2010				
c From 2011				139,530.
d From 2012				
e From 2013				
f Total of lines 3a through e	139,530.			
4 Qualifying distributions for 2014 from Part XII, line 4: ▶ \$ 163,125.				
a Applied to 2013, but not more than line 2a			0.	
b Applied to undistributed income of prior years (Election required - see instructions)		0.		
c Treated as distributions out of corpus (Election required - see instructions)	0.			
d Applied to 2014 distributable amount				155,006.
e Remaining amount distributed out of corpus	8,119.			
5 Excess distributions carryover applied to 2014 (If an amount appears in column (d), the same amount must be shown in column (a))	0.			0.
6 Enter the net total of each column as indicated below:	147,649.			
a Corpus Add lines 3f, 4c, and 4e Subtract line 5				
b Prior years' undistributed income. Subtract line 4b from line 2b		0.		
c Enter the amount of prior years' undistributed income for which a notice of deficiency has been issued, or on which the section 4942(a) tax has been previously assessed		0.		
d Subtract line 6c from line 6b. Taxable amount - see instructions		0.		
e Undistributed income for 2013. Subtract line 4a from line 2a. Taxable amount - see instr.			0.	
f Undistributed income for 2014. Subtract lines 4d and 5 from line 1. This amount must be distributed in 2015				0.
7 Amounts treated as distributions out of corpus to satisfy requirements imposed by section 170(b)(1)(F) or 4942(g)(3) (Election may be required - see instructions)	0.			
8 Excess distributions carryover from 2009 not applied on line 5 or line 7	0.			
9 Excess distributions carryover to 2015. Subtract lines 7 and 8 from line 6a	147,649.			
10 Analysis of line 9:				
a Excess from 2010				
b Excess from 2011				139,530.
c Excess from 2012				
d Excess from 2013				
e Excess from 2014				8,119.

Part XV . Supplementary Information (continued)

3 Grants and Contributions Paid During the Year or Approved for Future Payment				
Recipient Name and address (home or business)	If recipient is an individual, show any relationship to any foundation manager or substantial contributor	Foundation status of recipient	Purpose of grant or contribution	Amount
a Paid during the year				
COKER COLLEGE	NONE	PC	EDUCATION	5,000.
CAMP CRUSADE	NONE	PC	EDUCATION	4,000.
OHIO CHRISTIAN UNIVERSITY	NONE	PC	EDUCATION	100,000.
OKLAHOMA WESLEYAN UNIVERSITY	NONE	PC	EDUCATION	5,000.
DRURY UNIVERSITY	NONE	PC	EDUCATION	49,125.
Total			3a	163,125.
b Approved for future payment				
NONE				
Total			3b	0.

Part XVII Information Regarding Transfers To and Transactions and Relationships With Noncharitable Exempt Organizations

- | | | | | |
|---|--|-------|-----|----|
| 1 | Did the organization directly or indirectly engage in any of the following with any other organization described in section 501(c) of the Code (other than section 501(c)(3) organizations) or in section 527, relating to political organizations? | | Yes | No |
| | a Transfers from the reporting foundation to a noncharitable exempt organization of: | | | |
| | (1) Cash | 1a(1) | | X |
| | (2) Other assets | 1a(2) | | X |
| | b Other transactions: | | | |
| | (1) Sales of assets to a noncharitable exempt organization | 1b(1) | | X |
| | (2) Purchases of assets from a noncharitable exempt organization | 1b(2) | | X |
| | (3) Rental of facilities, equipment, or other assets | 1b(3) | | X |
| | (4) Reimbursement arrangements | 1b(4) | | X |
| | (5) Loans or loan guarantees | 1b(5) | | X |
| | (6) Performance of services or membership or fundraising solicitations | 1b(6) | | X |
| | c Sharing of facilities, equipment, mailing lists, other assets, or paid employees | 1c | | X |
| | d If the answer to any of the above is "Yes," complete the following schedule. Column (b) should always show the fair market value of the goods, other assets, or services given by the reporting foundation. If the foundation received less than fair market value in any transaction or sharing arrangement, show in column (d) the value of the goods, other assets, or services received. | | | |

[illegible]

- 2a** Is the foundation directly or indirectly affiliated with, or related to, one or more tax-exempt organizations described in section 501(c) of the Code (other than section 501(c)(3)) or in section 527? ☐ Yes ☒ No
- b** If "Yes," complete the following schedule.

(a) Name of organization	(b) Type of organization	(c) Description of relationship
N/A		

Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.		
	<div style="display: flex; align-items: center;"> <div style="border-bottom: 1px solid black; width: 100%;"></div> </div>	<div style="display: flex; align-items: center;"> <div style="border-bottom: 1px solid black; width: 100%;"></div> </div>	<div style="display: flex; align-items: center;"> <div style="border-bottom: 1px solid black; width: 100%;"></div> </div>
	Signature of officer or trustee	Date	Title

May the IRS discuss this return with the preparer shown below (see instr. 1)?

☒ Yes
☐ No

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	JILL E. LUNDIE	<i>Jill E. Lundie</i>	4/24/15		P00532038
	Firm's name ▶ DELOITTE TAX LLP				Firm's EIN ▶ 86-1065772
	Firm's address ▶ 4550 E. 53RD ST., STE 110 DAVENPORT, IA 52807				Phone no. (563) 322-4415

FORM 990-PF INTEREST ON SAVINGS AND TEMPORARY CASH INVESTMENTS STATEMENT 1

SOURCE	(A) REVENUE PER BOOKS	(B) NET INVESTMENT INCOME	(C) ADJUSTED NET INCOME
HARRIS TRUST & SAVINGS BANK	50,711.	50,711.	50,711.
TOTAL TO PART I, LINE 3	50,711.	50,711.	50,711.

FORM 990-PF DIVIDENDS AND INTEREST FROM SECURITIES STATEMENT 2

SOURCE	GROSS AMOUNT	CAPITAL GAINS DIVIDENDS	(A) REVENUE PER BOOKS	(B) NET INVEST- MENT INCOME	(C) ADJUSTED NET INCOME
HARRIS TRUST & SAVINGS BANK	40,523.	5,517.	35,006.	33,342.	35,006.
TO PART I, LINE 4	40,523.	5,517.	35,006.	33,342.	35,006.

FORM 990-PF ACCOUNTING FEES STATEMENT 3

DESCRIPTION	(A) EXPENSES PER BOOKS	(B) NET INVEST- MENT INCOME	(C) ADJUSTED NET INCOME	(D) CHARITABLE PURPOSES
ACCOUNTING FEES	1,870.	0.	1,870.	0.
HARRIS BANK	200.	0.	200.	0.
TO FORM 990-PF, PG 1, LN 16B	2,070.	0.	2,070.	0.

FORM 990-PF TAXES STATEMENT 4

DESCRIPTION	(A) EXPENSES PER BOOKS	(B) NET INVEST- MENT INCOME	(C) ADJUSTED NET INCOME	(D) CHARITABLE PURPOSES
TAX PAID WITH PRIOR YEAR RETURN	1,477.	0.	0.	0.
TO FORM 990-PF, PG 1, LN 18	1,477.	0.	0.	0.

FORM 990-PF OTHER EXPENSES STATEMENT 5

DESCRIPTION	(A) EXPENSES PER BOOKS	(B) NET INVEST- MENT INCOME	(C) ADJUSTED NET INCOME	(D) CHARITABLE PURPOSES
AGENCY FEES	8,757.	8,757.	8,757.	0.
INVESTMENT EXPENSES	87.	87.	87.	0.
TO FORM 990-PF, PG 1, LN 23	8,844.	8,844.	8,844.	0.

FORM 990-PF CORPORATE BONDS STATEMENT 6

DESCRIPTION	BOOK VALUE	FAIR MARKET VALUE
BONDS AND NOTES	2,915,133.	2,915,133.
TOTAL TO FORM 990-PF, PART II, LINE 10C	2,915,133.	2,915,133.

FORM 990-PF OTHER ASSETS STATEMENT 7

DESCRIPTION	BEGINNING OF YR BOOK VALUE	END OF YEAR BOOK VALUE	FAIR MARKET VALUE
DIVIDEND RECEIVABLE	2,857.	2,563.	2,563.
ACCRUED INTEREST	308.	0.	0.
FUNDS PAID IN ERROR - TO REIMB	0.	3,686.	3,686.
TO FORM 990-PF, PART II, LINE 15	3,165.	6,249.	6,249.

FORM 990-PF EXPLANATION CONCERNING PART VII-A, LINE 8B STATEMENT 8

EXPLANATION
NOT REQUIRED



MEMO

Date: April 24, 2015

To: Berkshire Hathaway Energy Company Audit File, Des Moines Office

From: Chris Kopiasz, Tax Director, and Chris Hendricks, Tax Manager, Davenport Office

Subject: Memo regarding the procedures performed and significant findings or issues noted related to income taxes in conjunction with a review of interim financial information for Berkshire Hathaway Energy Company & Subsidiaries for the three-month period ended March 31, 2015.

We have performed certain review procedures, as internal Tax Specialists, related to income taxes and the related account balances and disclosures in connection with a review of interim financial information of Berkshire Hathaway Energy Company & Subsidiaries (the "Company" or "BHE") and MidAmerican Energy Company for the three-month period ended March 31, 2015. The purpose of this memo is to summarize the interim review procedures performed related to income taxes. Deloitte component teams perform separate review procedures over PacifiCorp, Nevada Power Company and Sierra Pacific Power Company. The BHE audit team, including tax specialists, obtained the component team tax summary memo of PacifiCorp, Nevada Power Company and Sierra Pacific Power Company for purposes of evaluating the effect on the BHE review. Those tax memos can be found in working paper section 22000.

Comment [CH1]: Open to update reference

The following Tax Specialists provided the audit support summarized in this memo. Chris Kopiasz, Tax Director, Jason Less, Tax Manager, Chris Hendricks, Tax Manager, Amanda Reynolds, Tax Senior and Michael Huettnier, Tax Consultant. Each of these professionals met the necessary requirements to support audits (U.S. AAM G340A, *Using the Work of an Auditor's Internal Specialist*)

This memo is composed of six sections, and each section is further divided into applicable subsections (see Table of Contents below) to further clarify and describe information relevant to the interim review procedures performed.

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MEMO

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A. Identified Misstatements or Disclosure Deficiencies

1 *Identified Misstatements*

2 *Disclosure Deficiencies*

B. Results of Interim Review Procedures

C. Wrap-Up Discussions

RESULTS OF PROCEDURES PERFORMED

We have performed the interim review procedures included in Form 2281SP, *Review of Interim Financial Information Performed in Accordance with the Standards of the PCAOB* and assigned to us, and have documented the results of our review procedures in the supporting working papers

The working papers supporting the conclusions provided in this Quarterly Summary Memo have been provided to the auditors on the engagement team ("auditors"). These working papers have

been prepared in accordance with U.S. AAM requirements and guidance, and a detailed review of the working papers was performed by Jason, Less, Amanda Reynolds and Michael Huettnr. A primary review of the working papers was performed by Chris Kopiasz and Chris Hendricks.

I. SIGNIFICANT INCOME TAX ITEMS AND RELATED RISKS

Based on the audit planning meeting held on April 17, 2015, no significant risks have been identified for the tax accounts. However, we note the following significant income tax items:

NV Energy Net Operating Loss Carryforward Current/Non-Current Classification

Need to add discussion here

II. OBSERVATIONS REGARDING INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes in internal control procedures related to the income tax cycle were noted during review procedures.

III. SUMMARY OF FINANCIAL STATEMENT DATA RELATED TO INCOME TAXES

A. Rate Reconciliation (see working paper 23302)

BHE CONSOLIDATED

As compared to YTD Q1 2014, the ETR increased from 19% to 22% as a result of several items, including:

- 4% increase in the ETR as a result of a decrease in PTCs from \$86.5 million to \$56.6 million from MEC, Renewables, and, PacifiCorp in the current year. The Production Tax Credit has expired for assets not under construction on or after December 31, 2014.
- 1% decrease in the ETR as a result of the tax effect of foreign income primarily attributable increased pre-tax book income at Northern Powergrid and the acquisition of Altalink.

MEC/LLC

As compared to YTD Q1 2014, the MEC ETR decreased from (22.4%) to (29.4%) as a result of several items, including

- 3.7% decrease in the ETR as a result of a substantial decrease in pre-tax net income offset by a decrease in PTCs from \$68.5 million to \$41.4 million in the current year as a result of the expiration of the Production Tax Credit for assets not under construction on or before December 31, 2014.
- 5.2% decrease in the ETR as a result of the effects of ratemaking. The decrease is the result of additional costs of removal for 2015 with the retirement of several units. The increase in cost of removal decreases MEC's overall rate base and results in a lower required return as well as a lower revenue requirement. A lower rate base and revenue requirement leads to a benefit of ratemaking.

- 2% increase in the state tax rate as a related to flow through activity on the utility, primarily due to flow through recognized for the IA Electric jurisdiction.

B. Unrecognized Tax Benefits (see working paper 23303)

ASC740-10

The Q1 ASC740-10 process for the Company and our review was consistent with the prior periods' ASC740-10 process. No significant changes in process were noted. Additionally, the Company had no changes to its policies around ASC740-10 during Q1.

As part of our procedures, we discussed BHE's liability for uncertain tax positions ("UTPs") (ASC740-10 liability) with Lisa Denker, BHE Tax. The Company provided the 2015 ASC740-10 model updated through Q1. See working paper at 23303 for an extract of the model. During quarterly review procedures, we do not review the underlying details of the recognition and measurement elements for UTPs included in the model, unless significant changes in these elements occur during the quarter. Significance was judgmentally selected based on our understanding of the ASC740-10 positions and related activity. See w/p 23303. A detailed analysis will be conducted during the audit of the Company's 12/31/2015 financial statements. For the quarter, we rely on inquiries made of client personnel including the current status of the exams as detailed below.

According to Lisa Denker, BHE Tax, the Company updated its model for the 2015 year based on known events which have occurred or will occur. With respect to booking ASC740-10 adjustments on a quarterly basis, the Company is adjusting for significant items during the quarter in which the event occurs. Insignificant items or items which are a function of taxable income (such as current year state nexus exposures) are recorded pro-rata based on book income.

The Company's model includes the following items:

- Return changes – These items are included in the model for tracking and accounting purposes. New accounts have been created to record the impact of these items in the financial statements. They are excluded from ASC740-10 accounting and disclosure as they do not qualify as 'tax positions' under ASC 740. Any new items identified in the current year are evaluated and an assessment is made of the impact to the prior year financial statements.
- Unrecognized Tax Benefits ("UTB's") – These items relate to liabilities for UTP's including temporary items which consist of a liability and reversals for the same tax position.
- Tax Assets – Unsettled – These items relate to assets for UTP's wherein the Company believes it took a conservative position on its filed returns and seeks to collect the tax refund.
- Tax Assets – Settled – These items primarily relate to reversals of temporary items in which the UTP was settled in a previous examination.

The gross ASC740-10 liability decreased by \$.7 million from 12/31/2014 to 3/31/2015 at BHE consolidated. Through Q1, BHE has recorded \$3.2 million income tax expense related to ASC740-10 items.

Significant additions or reductions (changes to FIN 48 liabilities)

- No significant additions or reductions were identified for the three-month period ended March 31, 2014.

Other FIN 48 Items to Note

- The Company's ASC740-10 model uses an average interest rate to calculate the interest on Federal liability balances after the Berkshire effective date of 3/31/06 rather than specific underpayment or overpayment rates. Berkshire has indicated that they do not gather the information from subsidiaries to determine their overall position by year. This requires the various BHI subsidiaries to estimate the over / under payment to determine the interest rate as Berkshire has indicated that pursuant to the tax sharing agreement that interest charged or earned with the IRS will be pushed to the subsidiaries on a standalone (parent company down) basis rather than a separate return basis. The use of the "average" rate allows BHE to mitigate the variance in interest computation upon settlement with Berkshire rather than possibly greater variance using a separate return basis. The average spread between the interest rate on the underpayment of a large corporation, when the balance exceeds \$100,000, versus the overpayment of a large corporation, when the balance exceeds \$10K, is 4.5% (per Rev. Ruling 2011-5). During Q4 2013, Deloitte tested the maximum variance that could result from using the average rate. The range resulted in amounts less than the CTT at each platform. For Q1 2015, Deloitte has not tested the maximum variance from using the average interest rate since there has been minimal passage of time and there was an overall reduction in the applicable tax positions. Based on the above noted changes in the FIN 48 balance, it is remote that these changes would lead to significant changes in the calculation performed during our Q3 procedures in which the change in interest rate was deemed to have a CTT impact. Further, Deloitte will test the variance during yearend audit testing.
- BHE and Subsidiaries have recorded additional interest and penalties through Q1 2015 for all UTPs where appropriate. Amounts are immaterial for quarterly disclosure as shown at w/p 23304.
- BHE and Subsidiaries have appropriately adjusted its ASC 740-10 state tax reserves related to existing state UTPs. These were considered to be timely adjustments based on information available during the quarter.
- The ASC740-10 balance in the financial statements and related adjustments to the deferred income tax liability and income tax expense appear reasonable and necessary for the Company's UTP's.
- The Company does not assess interest for ASC 740-10 purposes on items during those periods when the Company is in a net operating loss position for tax purposes which is a result of accelerated tax deductions for repairs, 263A adjustment and bonus depreciation. The Company's assessment factors in the reporting group for each specific tax year. The Company does assess interest for tax years in which the company files with Berkshire Hathaway even though the BHE companies may be in a net operating loss position. The company prepares its interest calculation on a stand-alone approach.

Status of Exams

Comment [CH2]: I updated this section through 2014 year-end. Need to follow-up on any updates during Q1

After discussions with Lori Van Zee of BHE, following is the status of Internal Revenue Service ("IRS") and state exams:

- BHE & Subsidiaries are under IRS exam for 2007, 2008 and 2009. IDR's were issued during Q4 of 2009 and an opening conference took place on 3/16/2010. The Revenue Agent's Report was received in August of 2012 and one issue was protested by Berkshire. The Company expects the 2007-2009 cycle to close about the same time as the 2006 cycle, sometime in 2015 after Joint Committee review. All tax positions which were examined by the IRS have been classified as tax corrections. Those items which were not specifically examined were released from ASC740-10 to the P&L as they are not subject to further examination at Appeals.
- BHE & Subsidiaries are under IRS exam for the 2006 second short period tax year. The Company is currently done with appeals but Berkshire Hathaway is not. During 2009, the Company reflected the agreed items through Examination as effectively settled. All 2006 tax positions which were examined by the IRS have been classified as tax corrections. Those items which were not specifically examined were released from ASC740-10 to the P&L.
- The Company has been notified they will be audited by the IRS for the 2010-2011 tax years. The audit began during the fourth quarter of 2012. During the third quarter of 2013, the Company received IDRs and began the response process. The exam is still ongoing.
- The Company has been notified they will be audited by the State of California for tax years 2008-2009. This audit began in March of 2014. No significant developments through Q1 2015.
- During 2014, Employee Plan audits were opened for MEC and PacifiCorp on their retirement and 401k plans. The exam team has issued IDRs but BHE has not had any other contact with them. The estimated closing date for MEC is July 2015 and PacifiCorp's will be soon after.
- PacifiCorp's historical IRS and state examinations will be handled by PacifiCorp. For tax years following the acquisition, Lori Van Zee and Steve Evans will oversee any tax PacifiCorp audit file.

After review of the ASC740-10 liabilities, it appears the Company has sufficient liabilities recorded to cover the potential exposures related to these IRS and state exams.

Separate return vs. Stand-alone return basis

BHE predominantly reports its tax attributes within the financial statements on a stand-alone basis. However, there are a few items which are reported on a separate return basis (see below). The following table summarizes the tax attributes which are impacted by the inclusion in the consolidated Berkshire tax returns and the Company's treatment:

<u>Tax Attribute</u>	<u>Basis</u>
NOLs	Stand-alone
Production Tax Credits	Stand-alone

Section 199 Deduction	Stand-alone
Foreign Tax Credits	Stand-alone
State Income Taxes	Separate
ASC740-10 Interest	Stand-alone

It should be noted that the Company's tax sharing agreement is consistent with the above table.

IV. U.S. TAXATION MATTERS

A. Permanent Differences (see working paper 23302)

Permanent book/tax differences that impact the ETR were reviewed in the ETR workpaper 23302. Any significant fluctuations in the ETR from the prior year were reviewed and specific review procedures were performed. No exceptions were noted. See testing of items at PacifiCorp and NV Energy documented in the 22400 and 22600 sections, respectively.

Comment [CH3]: Open to update references

B. Return-to-Provision ("RTP") Adjustments

As of Q1 the Company has not finalized the 2014 tax returns. Per Lisa Denker, BHE Tax, there have not been any significant RTP adjustments through Q1. BHE will record all other RTP adjustments in Q4 when all tax returns are filed, unless significant items are identified earlier.

C. State Income Taxes

The Company has computed its state income taxes for current and deferred tax balances using the separate return analysis at each platform within the consolidated group. The Company has recorded its separate state income taxes using the same state tax rates as the 12/31/14 year end. The Company believes its filing positions for current and deferred taxes will be consistent. No significant change is expected given the lack of Q1 2015 activity with respect to Company transactions or tax law changes.

The Company implemented its new provision software for the year ended 12/31/13. The benefit of the software is that it more accurately calculates the state consolidated benefit/detriment. For the first quarter of 2015, the Company calculated a state consolidated benefit/detriment of \$4M. The amount was booked in Q3. Overall, the net benefit/detriment for the year related to the state unitary adjustment appears reasonable. The amount provided is consistent with the prior year and our expectations given BHE's materiality threshold. There have been no significant changes in the Company which would cause a significant change from the prior year. Given the size of the benefit/detriment, no further testing deemed necessary for the quarter. A detailed analysis and substantive testing will occur at yearend.

Comment [CH4]: Requested this info from Lisa. Need to update paragraph upon receipt.

D. Valuation Allowances

For Q1, the Company has not changed its positions related to valuation allowances related to its deferred tax assets. We are not aware of any significant changes during the quarter that would cause a change in the Company's assessment. Therefore, the Company's consistent valuation allowance positions appear reasonable.

E. Temporary Items

Deloitte Tax has not specifically reviewed the temporary book/tax differences for the quarter. From a discussion with the Company, there have been no unusual or significant changes in Q1 which would have warranted specific detailed testing. Furthermore, we are not aware of any significant items. We will audit the deferred tax balances during the yearend substantive procedures.

F. ASC 740-30 (Formerly APB 23) Position

The Company routinely distributes the earnings of its Philippines entities to their U.S. shareholders. Accordingly, the Company records a deferred tax liability representing the deferred U.S. tax cost of remitting the undistributed earnings of its Philippines operations which is consistent with FY14 and prior years. The deferred tax liability is offset by foreign tax credits that will be available to offset the U.S. tax payable upon remittance of undistributed earnings of the Philippines entities to their U.S. shareholders.

Casecnan adopted ASC 853, Service Concession Arrangements, on January 1, 2015. The cumulative effect of the adoption was recognized as a positive adjustment in the opening balance of Casecnan retained earnings as of January 1, 2015, resulting in a \$30.9 million increase in the deferred tax liability balance recorded in Casecnan. The Company adjusted its U.S. deferred tax liability for unremitted foreign earnings by \$30.2 million and increased its U.S. deferred tax asset for foreign tax credits by \$35.2 million as a result of the adoption. The \$35.2 million increase in the deferred tax asset for foreign tax credits includes the Company's 85% share of the \$30.9 million increase in the deferred tax liability recorded at Casecnan (\$26.3 million), as well as accrued Philippines withholding taxes that will be payable on distributions from the Philippines to CE Casecnan, Ltd. (\$9.0 million). We discussed the impact of the adoption of ASC 853 with Chris Bailey and reviewed the Company's calculations. Such adjustments appear reasonable based on the calculated impact of ASC 853 and the review procedures performed.

A detailed analysis of the other changes in the deferred tax accounts related to unremitted foreign earnings was not performed as part of our FY15 Q1 quarterly review procedures.

The Company has determined that it will invest the undistributed earnings of its UK and Canadian entities indefinitely. Accordingly, the Company has not recorded a deferred tax liability representing the deferred U.S. tax cost of remitting the undistributed earnings of its UK and Canadian operations. Instead, the Company recognizes an annual ETR benefit representing the difference between the UK and Canadian statutory tax rates and U.S. tax rate of 35%, which is consistent with FY14 and prior years.

V. FOREIGN TAXATION MATTERS

The Company recorded total foreign income tax expense of \$47.1 million for FY15 Q1 as compared to total foreign income tax expense of \$36.7 million for FY14 Q1. The year-over-year difference is primarily attributable increased pre-tax book income at Northern Powergrid and the acquisition of Altalink. Total Q1 foreign income tax expense of \$47.1 million is summarized below.

BHEC & Subsidiaries			
FY15 Q1 Foreign Tax Expense (Benefit)			
<i>Amounts in thousands</i>			
	Pre-Tax Income	Tax Expense	ETR
Northern Powergrid (UK)	160,139	32,973	20.59%
CalEnergy Philippines	17,227	5,696	33.06%
Altalink (Canada)	35,710	7,155	20.04%
BHEC & Other		1,242	
Total		47,066	

Our review of FY15 Q1 foreign tax expense consisted of limited procedures based on materiality and the assessed level of risk of material misstatement. Accordingly, our review procedures consisted of reviewing the various components of FY15 Q1 foreign tax expense for reasonableness based on pre-tax income by jurisdiction and the applicable statutory tax rates, focusing on any significant year-over-year or quarter-over-quarter fluctuations, as well as discussions with the Company and BHEC audit team to understand any changes to the Company's foreign structure. Based on discussions with the Company and BHEC, there were no changes during FY15 Q1 that would have a significant impact on the Company's foreign income tax provision

Northern Powergrid (UK)

The Company recorded Q1 tax expense of \$33.0 million related to Northern Powergrid on pre-tax book income of \$160.1 million for a quarterly ETR of 20.59% which is consistent with the FY14 ETR of 20.94%. The UK statutory corporate income tax rate will reduce from 21.0% to 20.0% effective April 1, 2015 pursuant to the UK Finance Act 2013. The Company's ETR analysis at 23302 is applying a weighted average rate of 20.25% recognizing the fact that Northern Powergrid will be subject to a statutory tax rate of 21.0% for 3 months and 20.0% for 9 months. Total FY15 Q1 tax expense attributable to Northern Powergrid appears reasonable based on the blended UK statutory income tax rate 20.25% and lack of significant permanent items.

CalEnergy Philippines

The Company recorded Q1 tax expense of \$5.7 million related to CalEnergy Philippines based on Q1 pre-tax book income of \$17.2 million for a quarterly ETR of 33.06% which is materially consistent with the FY14 ETR of 32.36. Consistent with FY14, the largest components of the \$5.7 million tax expense include tax expense recorded by CE Casecnan Water & Energy Company ("Casecnan"), the foreign utility company, based on Q3 pre-tax book income of \$18.0 million (\$3.9 million or 21.68%) and accrued Philippines withholding taxes that will be payable on distributions from the Philippines to CE Casecnan, Ltd., a Bermuda entity (\$1.8 million)

The statutory income tax rate in the Philippines remains 30.0%. The 21.68% ETR for Casecnan reflects a \$1.6 million (8.82%) benefit of the Philippine optional standard deduction available to a domestic or resident Philippine corporation in lieu of itemized deductions. Total FY15 tax expense attributable to CalEnergy Philippines appears reasonable as the ETR is materially consistent with FY14 and the fact that there have been no structural or legislative changes during FY15 Q1 that would have a material impact on the expected CalEnergy Philippines ETR

Altalink

The Company recorded Q1 tax expense of \$7.2 million related to Altalink based on Q1 pre-tax book income of \$35.7 million for a quarterly ETR of 20.04%. The statutory rate in Canada varies by jurisdiction with the federal corporate income tax rate of 15% and the provincial corporate income tax rate ranging from 10% to 16%. The combined federal and provincial corporate income tax rate ranges from 25% to 31%. The primary difference between the statutory rate and quarterly ETR of 20.04% is a \$7.1 million favorable permanent item for AFUDC which provides a \$1.8 million (4.97%) benefit in the quarterly ETR.

VI. RESULTS OF INTERIM REVIEW PROCEDURES RELATED TO INCOME TAX ACCOUNT BALANCES AND DISCLOSURES

A. Identified Misstatements or Disclosure Deficiencies

1. Identified Misstatements

None noted in Q1.

2. Disclosure Deficiencies

None noted in Q1. Separate consideration of the presence of a control deficiency will be maintained in the Kern River year-end audit file; however, as such error is clearly trivial for BHE purposes, no further consideration was deemed necessary in the BHE quarterly or audit file.

B. Results of Interim Review Procedures

Based on the interim review procedures performed, we are not aware of any material modifications that should be made to the tax accounts and related disclosures as of March 31, 2015 for them to be in conformity with Generally Accepted Accounting Principles

C. Wrap-Up Discussions

On April XX, 2015 we discussed with Kim Felker and Brent Wilberts the results of procedures performed and the findings enumerated above. During this meeting, we specifically discussed the following:

Comment [CH5]: Open to update date

- Explained our findings documented herein and responded to inquiries from the auditors regarding these findings
- We discussed with the auditors the control implications of any findings documented herein.
- We discussed with the auditors the specific control observations documented in the section "Observations Regarding Internal Control over Financial Reporting"

The Tax Specialists have been provided and read the tax-related risk of material misstatement documentation, including that which is included in the audit planning memorandum and supplements, audit summary memorandum and supplements. During the three-month period ended March 31, 2015, there were no findings or events that altered risk assessment conclusions reached during the prior year audit.

We have discussed misstatement and related matters identified in section VI with the audit engagement team members and understand their plan to address in their working papers

2014 Tax Information Statement

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BMO HARRIS BANK N.A.
111 WEST MONROE STREET 10C
CHICAGO, IL 60603

Account Number: 110011035021
Recipient's Tax ID Number: XX-XXX3460
☐ Corrected ☐ 2nd TIN notice

Recipient's Name and Address:
REED CHARITABLE FOUNDATION
C/O JAMES W. REED III, TRUSTEE
12256 FAIRWAY MEADOWS DR.
FORT WORTH, TX 76179

2014 Proceeds from Broker and Barter Exchange Transactions

Sales are listed at Gross Proceeds less commissions and option premiums.
Cost or Other Basis amounts shown with a "U" are unknown or unsubstantiated.

Description of property

Cusip Number	Date Sold or Disposed	Date Acquired	Proceeds	Cost or Other Basis	Code if any	Adjustments	Net Gain or Loss	Federal Income Tax Withheld	State Tax Withheld
Long Term Sales									
100000.0	BAXTER INTL 4.000%	3/01/14							
071813AZ2	03/01/2014	08/27/2012	100,000.00	105,150.00		0.00	-5,150.00	0.00	0.00
458.58	FHLMC GD PL #G08156	6.000% 10/01/36							
3128MJE63	01/31/2014	10/12/2006	458.58	460.30		0.00	-1.72	0.00	0.00
321.87	FHLMC GD PL #G08156	6.000% 10/01/36							
3128MJE63	03/15/2014	10/12/2006	321.87	323.08		0.00	-1.21	0.00	0.00
324.35	FHLMC GD PL #G08156	6.000% 10/01/36							
3128MJE63	04/15/2014	10/12/2006	324.35	325.57		0.00	-1.22	0.00	0.00
578.62	FHLMC GD PL #G08156	6.000% 10/01/36							
3128MJE63	05/15/2014	10/12/2006	578.62	580.79		0.00	-2.17	0.00	0.00
299.05	FHLMC GD PL #G08156	6.000% 10/01/36							
3128MJE63	06/15/2014	10/12/2006	299.05	300.17		0.00	-1.12	0.00	0.00
379.8	FHLMC GD PL #G08156	6.000% 10/01/36							
3128MJE63	07/15/2014	10/12/2006	379.80	381.02		0.00	-1.42	0.00	0.00
249.85	FHLMC GD PL #G08156	6.000% 10/01/36							
3128MJE63	08/15/2014	10/12/2006	249.85	250.79		0.00	-0.94	0.00	0.00
454.5	FHLMC GD PL #G08156	6.000% 10/01/36							
3128MJE63	09/15/2014	10/12/2006	454.50	456.20		0.00	-1.70	0.00	0.00

FHLMC
TOTAL
(15.77)

This is important tax information and is being furnished to you.

10/21/14 11:04 AM

2014 Tax Information Statement

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Description of property

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220.35	FHLMC GD PL #G08156 8.000%	10/01/36							
3128MJE63	10/15/2014	10/12/2006	220.35	221.18		0.00	-0.83	0.00	0.00
256.8	FHLMC GD PL #G08156 8.000%	10/01/36							
3128MJE63	11/15/2014	10/12/2006	256.80	257.76		0.00	-0.96	0.00	0.00
317.05	FHLMC GD PL #G08156 8.000%	10/01/36							
3128MJE63	12/15/2014	10/12/2006	317.05	318.24		0.00	-1.19	0.00	0.00
343.33	FHLMC GD PL #G08156 8.000%	10/01/36							
3128MJE63	12/31/2014	10/12/2006	343.33	344.62		0.00	-1.29	0.00	0.00
81.76	GOVERNMENT NATIONAL MTG ASSN PASS THRU CTF POOL NO 448661								
36208EMJ9	01/31/2014	04/23/1997	81.76	81.69		0.00	0.07	0.00	0.00
82.31	GOVERNMENT NATIONAL MTG ASSN PASS THRU CTF POOL NO 448661								
36208EMJ9	03/15/2014	04/23/1997	82.31	82.25		0.00	0.06	0.00	0.00
82.85	GOVERNMENT NATIONAL MTG ASSN PASS THRU CTF POOL NO 448661								
36208EMJ9	04/15/2014	04/23/1997	82.85	82.79		0.00	0.06	0.00	0.00
83.41	GOVERNMENT NATIONAL MTG ASSN PASS THRU CTF POOL NO 448661								
36208EMJ9	05/15/2014	04/23/1997	83.41	83.36		0.00	0.05	0.00	0.00
83.96	GOVERNMENT NATIONAL MTG ASSN PASS THRU CTF POOL NO 448661								
36208EMJ9	06/15/2014	04/23/1997	83.96	83.92		0.00	0.04	0.00	0.00

GNMA
TOTAL
-44

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Description of property

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84 52									
36208EMJ9	07/15/2014	04/23/1997	84.52	84.49		0.00	0.03	0.00	0.00
85.09									
36208EMJ9	08/15/2014	04/23/1997	85.09	85.06		0.00	0.03	0.00	0.00
85.65									
36208EMJ9	09/15/2014	04/23/1997	85.65	85.62		0.00	0.03	0.00	0.00
86.22									
36208EMJ9	10/15/2014	04/23/1997	86.22	86.20		0.00	0.02	0.00	0.00
86 8									
36208EMJ9	11/15/2014	04/23/1997	86.80	86.78		0.00	0.02	0.00	0.00
87.37									
36208EMJ9	12/15/2014	04/23/1997	87.37	87.36		0.00	0.01	0.00	0.00
87.96									
36208EMJ9	12/31/2014	04/23/1997	87.96	87.94		0.00	0.02	0.00	0.00
50000.0									
438516AY2	02/15/2014	04/24/2009	50,000.00	51,644.50		0.00	-1,644.50	0.00	0.00
150000.0									
69373UAA5	02/15/2014	12/20/2012	150,000.00	160,561.50		0.00	-10,561.50	0.00	0.00

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Description of property

Cusip Number	Date Sold or Disposed	Date Acquired	Proceeds	Cost or Other Basis	Code if any	Adjustments	Net Gain or Loss	Federal Income Tax Withheld	State Tax Withheld
7000 0									
VANGUARD FIXED INCOME SECS FD SHORT TERM CORP FD ADMIRAL SHS									
922031836	11/18/2014	09/01/2011	75,040.00	75,110.00		0.00	-70.00	0.00	0.00
50000.0									
VODAFONE GROUP PLC 3.375% 11/24/15									
92857W4U4	03/26/2014	11/26/2012	52,309.00	53,586.00		0.00	-1,277.00	0.00	0.00
Total Long Term Sales			432,570.85	451,289.18		0.00	-18,718.33	0.00	0.00

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