

# **Berkshire Wind Power Cooperative Corporation**

Financial Statements

Years Ended December 31, 2011 and 2010

# Berkshire Wind Power Cooperative Corporation

## FINANCIAL STATEMENTS Years Ended December 31, 2011 and 2010

---

### C O N T E N T S

	<u>Page</u>
Independent Auditor's Report.....	1
Management's Discussion and Analysis .....	2-5
Financial Statements:	
Balance Sheets.....	6
Statements of Revenues and Expenses.....	7
Statements of Cash Flows.....	8
Notes to Financial Statements.....	9-26



Baker Tilly Virchow Krause, LLP  
Ten Terrace Ct, PO Box 7398  
Madison, WI 53707-7398  
tel 608 249 6622  
fax 608 249 8532  
bakertilly.com

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Berkshire Wind Power Cooperative Corporation  
Holden, MA

We have audited the accompanying balance sheet of the Berkshire Wind Power Cooperative Corporation (the "Cooperative") as of December 31, 2011, and the related statements of revenues and expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Cooperative as of December 31, 2010, were audited by other auditors, whose report thereon dated July 7, 2011, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cooperative as of December 31, 2011, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis information as listed in the table of contents be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economical, or historical context. The management discussion and analysis does not include a discussion of changes in financial position between 2010 and 2009, as required by accounting principles generally accepted in the United States of America; however, that information is included in the July 7, 2011 report. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United State of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
April 27, 2012

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

# Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis

Years ended December 31, 2011, 2010 and 2009

---

The following discussion and analysis of the Berkshire Wind Power Cooperative Corporation ("Cooperative") provides an overview and analysis of the Cooperative's financial performance during the years ended December 31, 2011 and 2010. This discussion and analysis should be read in conjunction with the Cooperative's financial statements and the accompanying notes.

## COMPANY OVERVIEW

The Cooperative is organized under Chapter 164: Section 47C and Chapter 157 of the General Laws of the Commonwealth of Massachusetts and is constituted as a municipal lighting plant cooperative. The Cooperative was formed by the Massachusetts Municipal Wholesale Electric Company ("MMWEC") and 14 Municipal Light Departments ("Departments") for the purpose of financing, owning, constructing and operating wind generation facilities located on Brodie Mountain in the towns of Hancock and Lanesborough, Massachusetts ("Berkshire Wind Facility"). MMWEC and the Departments are the members of the Cooperative. Any Municipal Light Department may become a member of the Cooperative by executing a Berkshire Wind Power Cooperative Agreement with MMWEC and agreeing to comply with such reasonable terms and conditions for membership as established by the Cooperative's By-laws.

The Cooperative has ten 1.5-megawatt wind turbines, which together with necessary equipment and related facilities comprise the Berkshire Wind Facility. The Cooperative sells energy and capacity to MMWEC pursuant to the Berkshire Wind Power Sales Contract (Power Sales Contract) dated May 21, 2008. MMWEC entered into the Power Sales Contract with the Cooperative pursuant to which MMWEC has agreed to purchase 100% of the capacity and energy output and, to the extent uncommitted to any third party under existing agreements, associated environmental energy attributes of a wind power generating facility by the Berkshire Wind Facility. MMWEC, in turn will sell such capacity and energy to each of the Departments, in their pro rata share, pursuant to 14 identical take or pay Berkshire Wind Power Purchase Agreements (Power Purchase Agreements) dated May 21, 2008. This business will be a self-sustaining operation, capable of providing operational and financial value to MMWEC and the Members.

The financial statements of the Cooperative have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The Balance Sheets are designed to indicate the Cooperative's financial position as of December 31, 2011 and 2010.

The Statements of Revenues and Expenses summarize the Cooperative's operating results and reveals how much income (loss) was earned for the year. As discussed in more detail below, the Cooperative's income (loss) for December 31, 2011 and 2010 was \$0.

The Statements of Cash Flows provide information about the cash receipts and cash payments during the accounting period and also provide information about the investing and financial activities for the same period.

Please refer to Independent Auditors' Report.

# Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis  
Years ended December 31, 2011, 2010 and 2009

## FINANCIAL ANALYSIS

Analysis of the Cooperative's financial position includes a review of the Balance Sheets, the Statements of Revenues and Expenses and the Statements of Cash Flows.

The following tables show the condensed Balance Sheets, the Statements of Revenues and Expenses and the Statements of Cash Flows as of December 31, 2011, 2010 and 2009.

### Condensed Balance Sheets

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets less current portion of restricted special funds	\$ 1,388,964	\$ 858,160	\$ 246,465
Restricted assets including current portion of restricted special funds	9,731,513	12,467,909	14,475,697
Other assets	918,207	1,029,300	821,811
Capital assets	<u>58,067,564</u>	<u>53,416,535</u>	<u>38,664,216</u>
Total assets	<u>\$ 70,106,248</u>	<u>\$ 67,771,904</u>	<u>\$ 54,226,189</u>
Current liabilities	\$ 4,611,057	\$ 1,665,818	\$ 1,227,303
Noncurrent liabilities	<u>65,495,191</u>	<u>66,106,086</u>	<u>52,998,886</u>
Total liabilities	<u>\$ 70,106,248</u>	<u>\$ 67,771,904</u>	<u>\$ 54,226,189</u>

### Condensed Statements of Revenues and Expenses

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues	<u>\$ 5,592,685</u>	<u>\$ -</u>	<u>\$ -</u>
Depreciation expense	964,010	-	-
Other operating expenses	<u>1,070,365</u>	<u>308,146</u>	<u>237,904</u>
Total operating expenses	<u>2,034,375</u>	<u>308,146</u>	<u>237,904</u>
Operating income (loss)	<u>3,558,310</u>	<u>(308,146)</u>	<u>(237,904)</u>
Investment income	19,309	24,841	24,986
Interest and amortization expense	(1,707,285)	(456,536)	(97,188)
Contribution expense	(40,000)	-	-
Increase in amounts payable under terms of the power sales agreements	<u>(1,830,334)</u>	<u>739,841</u>	<u>310,106</u>
Total non-operating (expenses) revenues	<u>(3,558,310)</u>	<u>308,146</u>	<u>237,904</u>
Net revenues and expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Please refer to Independent Auditors' Report.

# Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis  
Years ended December 31, 2011, 2010 and 2009

## FINANCIAL ANALYSIS...continued

### Condensed Statements of Cash Flows

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net cash provided by (used in) operating activities	\$ 4,488,274	\$ (198,274)	\$ (236,570)
Net cash provided by investing activities	(4,985,121)	24,841	24,986
Net cash used in noncapital financing activities	(40,000)	-	-
Net cash used in capital and related financing activities	<u>(7,385,758)</u>	<u>(1,237,736)</u>	<u>14,922,340</u>
Net change in cash and cash equivalents	(7,922,605)	(1,411,169)	14,710,756
Cash and cash equivalents – beginning of year	<u>13,304,916</u>	<u>14,716,085</u>	<u>5,329</u>
Cash and cash equivalents – end of year	<u>\$ 5,382,311</u>	<u>\$ 13,304,916</u>	<u>\$ 14,716,085</u>

The Cooperative's financial statements consist of the financial activity related to the operation of the Berkshire Wind Facility. The following analysis compares 2011 financial results to 2010 financial results.

### BALANCE SHEETS

Current assets, excluding the current portion of restricted special funds, increased by \$530,804. Cash and cash equivalents decreased by \$181,779 primarily due to operational spending since the Cooperative commenced operations in May 2011. Prepaid expenses increased \$50,490 related to changes in the timing of insurance premium payment from the prior year based on the Cooperative's operational date. Accounts receivable increased by \$662,093 due to the timing of receiving payments from the Municipals. At year-end 2010, there was no accounts receivable as the Cooperative did not begin billing for operation and maintenance and other costs until 2011.

Current and noncurrent restricted funds decreased approximately \$2,736,000 driven by decreases in the Construction Fund for construction expenditures paid and the Capitalized Interest account for payment of interest accrued totaling \$6,196,040. These decreases were offset by the establishment of the Bond Fund, Reserve and Contingency Fund and the CIAC Tax Fund during 2011, totaling \$3,444,256 at December 31, 2011 and slight increases in the Revenue Fund and Reserve Account of \$15,387.

The \$111,093 decrease in other assets is attributable to the continued amortization of deferred financing costs.

The net increase of \$4,651,029 in capital assets from 2011 to 2010 is a result of asset additions made during the final stages of construction of the Berkshire Wind Facility in early 2011, offset by depreciation of the Berkshire Wind Facility, which began upon commencement of operations in May 2011.

The \$2,945,239 increase in current liabilities largely is the result of the timing of the first principal payment on the Series 1 revenue bonds in the amount \$2,215,000 being classified with current liabilities in 2011 as opposed to noncurrent liabilities, as it was in the prior year. Additionally, there is an increase in accrued interest of \$1,514,780 due to the timing of the payment. These increases were offset by decreases of \$784,541 in accounts payable and other current liabilities due to the timing of payments.

Please refer to Independent Auditors' Report.

# Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis

Years ended December 31, 2011, 2010 and 2009

---

## STATEMENTS OF REVENUES AND EXPENSES

As discussed previously, the Cooperative commenced operations in May 2011. The increase in operating revenues of \$5,592,685 and the increases in depreciation and other operating expenses of \$1,726,229 reflect the Cooperative being operational for approximately seven months of 2011. In 2010, the Cooperative was in the development phase.

## STATEMENTS OF CASH FLOWS

As discussed in Note 1 to the accompanying financial statements, for purposes of the Statements of Cash Flows, cash and cash equivalents are made up of cash and money market accounts having original maturities of three months or less from date of acquisition. Cash and cash equivalents decreased by approximately \$7,922,605. The primary reason for this decrease was the additional capital costs that were paid during 2011 in the final months of construction of the Berkshire Wind Facilities.

## OPERATING STATISTICS

From the commercial operation date of May 28 through December 31, 2011, the Berkshire Wind Facility developed the following operating statistics:

- Total Generation: 24,304 MWH
- Availability Factor: 89%
- Capacity Factor: 30%



# Berkshire Wind Power Cooperative Corporation

Balance Sheets  
December 31, 2011 and 2010

	2011	2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 655,228	\$ 837,007
Accounts receivable	662,093	-
Prepaid expenses	71,643	21,153
Current portion of restricted special funds	2,696,786	478,088
Total current assets	<u>4,085,750</u>	<u>1,336,248</u>
Noncurrent assets:		
Restricted special funds, net of current portion	7,034,727	11,989,821
Deferred financing costs, net of accumulated amortization	918,207	1,029,300
Total noncurrent assets	<u>7,952,934</u>	<u>13,019,121</u>
Capital assets:		
Land	4,363,134	4,363,134
In service	54,668,440	-
Construction work in progress	-	49,053,401
Accumulated depreciation and amortization	(964,010)	-
Total capital assets	<u>58,067,564</u>	<u>53,416,535</u>
Total assets	<u>\$ 70,106,248</u>	<u>\$ 67,771,904</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	264,874	1,176,568
Accounts payable - MMWEC	177,022	297,902
Accounts payable - Participants	360,533	-
Other current liabilities	-	112,500
Current liabilities payable from restricted assets:		
Accrued interest	1,593,628	78,848
Current maturities of long-term debt	2,215,000	-
Total current liabilities	<u>4,611,057</u>	<u>1,665,818</u>
Noncurrent liabilities:		
Long-term debt, net of premiums and current maturities	63,741,117	66,229,412
Asset retirement obligations	977,218	930,152
Amounts payable (recoverable) in the future under terms of the power sales contract	731,856	(1,098,478)
Other noncurrent liabilities	45,000	45,000
Total noncurrent liabilities	<u>65,495,191</u>	<u>66,106,086</u>
Total liabilities	<u>\$ 70,106,248</u>	<u>\$ 67,771,904</u>

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

# Berkshire Wind Power Cooperative Corporation

Statements of Revenues and Expenses  
Years Ended December 31, 2011 and 2010

	2011	2010
Operating revenues:		
Revenues	\$ 5,592,685	\$ -
Operating expenses:		
Accounting and administrative expense	\$ 138,067	\$ 212,329
Insurance expense	88,036	41,975
Engineering	126,840	-
Legal	179,269	-
Maintenance	197,636	-
Electricity	30,398	-
Payment in lieu of taxes	101,550	-
Security	20,788	-
Audit expense	13,852	6,140
Travel, meals and meetings	6,763	5,524
Easement	46,699	-
Depreciation/amortization	964,010	-
Accretion	47,066	33,812
Other operating expenses	73,401	8,366
Total operating expenses	<u>2,034,375</u>	<u>308,146</u>
Operating income (loss)	<u>3,558,310</u>	<u>(308,146)</u>
Nonoperating revenues (expenses):		
Interest income	19,309	24,841
Interest expense on long-term debt	(1,867,339)	-
Amortization of deferred financing costs	(113,242)	(464,475)
Amortization of bond premiums and discounts, net	273,296	7,939
Contribution expense	(40,000)	-
Changes in amounts recoverable in the future under the terms of the power sales contract	(1,830,334)	739,841
Total nonoperating (expenses) revenues	<u>(3,558,310)</u>	<u>308,146</u>
Net revenues and expenses	<u>\$ -</u>	<u>\$ -</u>

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

# Berkshire Wind Power Cooperative Corporation

Statements of Cash Flows  
Years Ended December 31, 2011 and 2010

	2011	2010
<b>Cash flows from operating activities:</b>		
Received from sales to participants	\$ 5,291,125	\$ -
Paid to suppliers for goods and services	(802,851)	(198,274)
Net cash provided by (used in) operating activities	<u>4,488,274</u>	<u>(198,274)</u>
<b>Cash flows from investing activities:</b>		
Investments purchased	(5,004,430)	
Interest received	19,309	24,841
Net cash provided by investing activities	<u>(4,985,121)</u>	<u>24,841</u>
<b>Cash flows from noncapital financing activities:</b>		
Contribution expense	(40,000)	-
Net cash used in noncapital financing activities	<u>(40,000)</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>		
Capital expenditures	(6,506,970)	(14,399,270)
Debt issuance costs	(412,988)	(575,817)
Proceeds from issuance of long term debt	-	66,237,351
Repayments on long term debt	-	(52,500,000)
Interest payments on long-term debt	(465,800)	-
Net cash used in capital and related financing activities	<u>(7,385,758)</u>	<u>(1,237,736)</u>
Net change in cash and cash equivalents	(7,922,605)	(1,411,169)
Cash and cash equivalents, beginning of period	<u>13,304,916</u>	<u>14,716,085</u>
Cash and cash equivalents, end of period	<u>\$ 5,382,311</u>	<u>\$ 13,304,916</u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating income (loss)	\$ 3,558,310	\$ (308,146)
Noncash items included in operating income:		
Depreciation and accretion of asset retirement obligations	1,011,076	33,812
Changes in assets and liabilities:		
Increase in:		
Accounts receivable	(662,093)	-
Prepaid expenses	(50,490)	2,924
Increase in:		
Account payable	209,467	5,778
Accounts payable - MMWEC	61,471	67,358
Accounts payable - Participants	360,533	-
Net cash used in operating activities	<u>\$ 4,488,274</u>	<u>\$ (198,274)</u>
<b>Reconciliation of cash and cash equivalents to the balance sheets:</b>		
Cash and cash equivalents	\$ 655,228	\$ 837,007
Total restricted special funds	<u>9,731,513</u>	<u>12,467,909</u>
Total cash and investments	<u>10,386,741</u>	<u>13,304,916</u>
Less: Noncash equivalents	<u>(5,004,430)</u>	
Total cash and cash equivalents	<u>\$ 5,382,311</u>	<u>\$ 13,304,916</u>
<b>Supplemental disclosures of cash flow information:</b>		
Noncash investing, capital and financing transactions:		
Construction work in progress and land financed by liabilities	<u>\$ 88,890</u>	<u>\$ 1,022,067</u>
Construction work in progress related to asset retirement obligation	<u>\$ 397,454</u>	<u>\$ 397,454</u>
Deferred financing costs financed by accounts payable	<u>\$ 20,000</u>	<u>\$ 500,084</u>
Capitalized interest expense not yet paid	<u>\$ 1,593,628</u>	<u>\$ 78,848</u>

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

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2011 and 2010

---

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS

The financial statements of the Berkshire Wind Power Cooperative Corporation (Cooperative) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The significant accounting principles and policies utilized by the Cooperative are described below.

### Reporting Entity/Nature of Business

The Cooperative is organized under Chapter 164: Section 47C and Chapter 157 of the General Laws of the Commonwealth of Massachusetts and is constituted as a municipal lighting plant cooperative. The Cooperative was formed by the Massachusetts Municipal Wholesale Electric Company (MMWEC) and 14 Municipal Light Departments (Departments) for the purpose of financing, owning, constructing and operating wind generation facilities located on Brodie Mountain in the towns of Hancock and Lanesborough, Massachusetts (Berkshire Wind Facility). MMWEC and the Departments are the members of the Cooperative. At inception any Municipal Light Department may have become a member of the Cooperative by executing a Berkshire Wind Power Cooperative Agreement with MMWEC and agreeing to comply with such reasonable terms and conditions for membership as established by the Cooperative's By-laws.

The powers of the Cooperative are exercised by a Board of Directors who conducts the business and carries on the operations of the Cooperative. The Board of Directors is comprised of one director who represents and is appointed by MMWEC and four directors who are elected by the Departments.

The Cooperative has ten 1.5-megawatt wind turbines which together with necessary equipment and related facilities comprise the Berkshire Wind Facility. The Cooperative sells energy and capacity to MMWEC pursuant to the Berkshire Wind Power Sales Contract (Power Sales Contract) dated May 21, 2008. MMWEC entered into the Power Sales Contract with the Cooperative pursuant to which MMWEC has agreed to purchase 100% of the capacity and energy output and, to the extent uncommitted to any third party under existing agreements, associated environmental energy attributes of a wind power generating facility by the Berkshire Wind Facility. MMWEC, in turn will sell such capacity and energy to each of the Departments, in their pro rata share, pursuant to 14 identical take or pay Berkshire Wind Power Purchase Agreements (Power Purchase Agreements) dated May 21, 2008. This business will be a self-sustaining operation, capable of providing operational and financial value to MMWEC and the Members.

The Power Purchase Agreements authorize MMWEC to rely on the Departments to provide the necessary working capital funds in the event that financing cannot be obtained from an outside source.

### Fair Value Measurements

In September 2006, FASB issued guidance which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This guidance provides a consistent definition of fair value which focuses on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements  
Years ended December 31, 2011 and 2010

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

The following is a synopsis of the FASB fair value measurements.

Level 1 - Pricing inputs are quoted prices available in active markets for identical investments as of the reporting date. The Cooperative does not adjust the quoted price for these investments, even in situations where the Cooperative holds a large position and a sale could reasonably impact the quoted price.

Level 2 - Pricing inputs are quoted prices for similar investments, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to these investments.

Level 3 - Pricing inputs are unobservable for the investment, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability. Level 3 includes private investments that are supported by little or no market activity.

The following table presents the Cooperative's assets carried at fair value (as defined previously) as of December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Agency Bonds	\$ -	\$ 5,004,430	\$ -	\$ 5,004,430

There were no investments at December 31, 2010.

The fair value of Level 2 instruments is based on quoted *over-the-counter* (OTC) market prices at December 31, 2011 for similar issues.

The carrying value of the Cooperative's short-term financial instruments, which consist of cash, cash equivalents, temporary investments, accounts receivables, short-term debt, accounts payable and accrued expenses, approximates the instruments' estimated fair values based on the instruments' short-term nature.

The estimated fair value of the Cooperative's long-term financial instruments is as follows:

	<u>2011</u>		<u>2010</u>	
	<u>Carrying Value</u>	<u>Estimated Fair Value</u>	<u>Carrying Value</u>	<u>Estimated Fair Value</u>
Long-term debt, excluding current maturities	<u>\$ 62,490,000</u>	<u>\$ 68,857,000</u>	<u>\$ 62,490,000</u>	<u>\$ 64,035,000</u>
Long-term investments held in restricted special funds	<u>\$ 5,004,430</u>	<u>\$ 5,004,430</u>	<u>\$ -</u>	<u>\$ -</u>

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2011 and 2010

---

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

### Fair Value of Financial Instruments...continued

The fair value of long-term financial instruments is estimated based on quoted market prices for the same or similar issues.

### Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Additionally, the Cooperative follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 980, *Accounting for the Effects of Certain Types of Regulation*, as it relates to the deferral of revenues and expenses to future periods in which the revenues are expected to be earned or expenses are expected to be recovered through future billings. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Cooperative's financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. The Cooperative also has the option of following subsequent private-sector guidance subject to this same limitation. The Cooperative has elected to follow subsequent private-sector guidance.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, and disclosure of contingent liabilities at the date of the financial statements. Estimates are used for, but not limited to, provision necessary for contingent liabilities, accrued expenses and other similar charges. The Cooperative believes that the estimates utilized in preparing its financial statements are reasonable and prudent. Actual results could differ from these estimates.

### Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, cash and cash equivalents are made up of cash and money market accounts having original maturities of three months or less from date of acquisition. Unrestricted cash and cash equivalents are presented as cash and cash equivalents in the accompanying Balance Sheets. Restricted cash and cash equivalents are presented within the current and noncurrent portions of restricted special funds in the accompanying Balance Sheets.

### Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Based on the validity of contracts and collection history, an allowance for doubtful accounts is not considered necessary. Should these circumstances change, and allowance for doubtful accounts would be provided for those accounts receivable considered to be uncollectible at the end of the year, and the bad debts would be written off against the allowance when identified.

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2011 and 2010

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

### Restricted Special Funds

Mandatory segregations of cash are presented as restricted special funds. Such segregations are required by the bond agreement pursuant to which the Cooperative issued its Series 2009 Revenue Bonds, which was effective July 22, 2009 through December 21, 2010 and General Bond Resolution (GBR) pursuant to which the Cooperative issued its Series 1 Revenue Bonds, which was effective December 22, 2010 (see Note 4). The restricted special funds are held in accordance with the provisions of the Series 2009 bond agreement and GBR, as applicable. Certain working capital and other funds are not mandated by the GBR; however, they are held in accordance with the provisions of the investment policy under the GBR.

The composition of restricted special funds as of December 31 is as follows:

	<u>2011</u>	<u>2010</u>
Construction Fund to pay for costs of acquisition and construction	\$ 869,464	\$ 6,587,416
Reserve Account to provide for the benefit and security of the Series 1 Revenue Bonds	5,413,235	5,402,405
Revenue Fund to receive revenues and disburse them to other funds	4,557	-
Capitalized Interest Account to pay the interest accrued and payable	-	478,088
Bond Fund Interest, Principal and Retirement Accounts to pay principal and interest on bonds	2,696,786	-
Reserve and Contingency Fund to make up deficiencies in the Bond Funds and pay for repairs and extraordinary costs	389,676	-
CIAC Tax Fund to maintain funds to cover costs of possible CIAC Tax	<u>357,795</u>	<u>-</u>
Total restricted special funds	9,731,513	12,467,909
Less - current portion	<u>(2,696,786)</u>	<u>(478,088)</u>
Restricted special funds, net of current portion	<u>\$ 7,034,727</u>	<u>\$ 11,989,821</u>

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2011 and 2010

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

### Prepaid Expenses

Prepaid expenses represent insurance premiums and Payment In Lieu of Taxes paid in the current fiscal year benefiting future periods. For the year ending December 31, 2011 and 2010 the prepaid insurance premiums are \$56,143 and \$21,153, respectively. For the years ending December 31, 2011 and 2010 the prepaid Payment In Lieu of Taxes are \$15,500 and \$0, respectively.

### Land

Land represents amounts paid for the purchase of property and includes costs related to the purchase of easements for certain sites related to the Berkshire Wind Facility.

The following summarizes changes in land for 2011 and 2010:

<u>Year</u>	<u>Balance January 1</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31</u>
2011	\$ 4,363,134	\$ -	\$ -	\$ 4,363,134
2010	\$ 4,018,134	\$ 345,000	\$ -	\$ 4,363,134

### Capital Assets-In Service

Capital assets – in service are generally defined by the Cooperative as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Capital assets of the Cooperative are recorded at cost at the date of acquisition. The Cooperative capitalizes interest as an element of the cost of Construction Work in Progress. A corresponding capitalized interest amount is reflected as a reduction of interest expense. The amount of interest capitalized is based on the cost of debt, including amortization of debt issuance costs and premiums, net of investment gains and losses, and interest income derived from unexpended restricted special funds. The Cooperative capitalized interest costs of \$1,320,751 and \$1,814,421 for the years ended December 31, 2011 and 2010, respectively.

Provisions for depreciation are computed using the straight-line method based on estimated useful life of 33 1/3 years for the Cooperative.

### Construction Work in Progress

Construction Work In Progress is stated at cost. Any internal costs that are capitalized are limited to those costs that can be directly identified with the design, engineering or construction of a specific Project and do not include any costs related to production, general corporate overhead or similar activities.

### Deferred Financing Costs

The Cooperative has capitalized the financing costs directly associated with financing and issuing its various debt facilities (see Note 6). Deferred financing costs are being amortized using the effective interest rate method over the terms of the underlying bond agreements.



# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2011 and 2010

---

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

### Deferred Financing Costs...continued

Amortization expense is expected to be as follows for the years ending December 31:

2012	\$	104,404
2013		89,412
2014		80,322
2015		73,657
2016		68,179
2017-2021		279,230
2022-2026		175,246
2027-2030		<u>47,757</u>
Totals	\$	<u>918,207</u>

### Asset Retirement Costs and Obligations

The Cooperative has incurred certain asset retirement obligations ("AROs") associated with requirements under the Cooperative's easement agreements to remove all equipment and restore land to its original condition. The Cooperative must remove all equipment, including but not limited to turbines, transmission lines and communications equipment and to restore the are to its original condition. As such the Cooperative records the fair value of its legal liability for an asset retirement obligation in the period in which it commences the construction of the turbines and capitalized the cost of the liability by increasing the construction work in progress. The Cooperative commenced construction on one of the sites leased under the easement agreements during the year ended December 31, 2009 and on the other site during the year ended December 31, 2010. The Cooperative recorded accretion expense of \$47,066 and \$33,812 for the years ended December 31, 2011 and 2010, respectively, which is included in the operating expenses in the Statements of Revenue and Expenses. At December 31, 2011 and 2010, the AROs totaled \$977,218 and \$930,152, respectively.

AROs are recorded at the fair value calculated using the present value of amounts expected to be paid and capitalized as part of the cost of the related tangible long-lived assets. In the absence of quoted market prices, the Cooperative estimated the present value of AROs using techniques involving discounted cash flow analysis. Using such measurement techniques is dependent upon many subjective factors, including the selection of discount and cost escalation rates, probability regarding the timing, nature and costs of such activities. Inputs and assumptions are based on the best information available at the time the estimates are made. However, estimates of future cash flows are highly uncertain by nature and may vary significantly from actual results.

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2011 and 2010

---

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS...continued

### Amounts Recoverable/Payable in the Future

Billings to the Departments are structured to recover costs in accordance with the Power Purchase Agreements and Power Sales Contract, which, among other things, provide for billing debt service, operating expenses and reserve requirements. Expenses are reflected in the Statements of Revenues and Expenses in accordance with GAAP. The timing difference between amounts billed and expensed is charged, or credited, to amounts recoverable/payable under terms of the Power Sales Contract. Such amounts will be recovered through future billings or an expense will be recognized to offset credit balances. The principal differences include depreciation, amortization, accretion, costs of financing, billing for certain interest, reserves and other costs. These amounts have been offset in amounts recoverable in the future in the Balance Sheets.

### Accounts Payable – Participants

The Cooperative maintains operating reserves and advances from its Participants in accordance with the Power Sales Agreements. Accounts payable – Participants for 2011 and 2010, which are considered current liabilities, were \$360,533 and \$0, respectively.

### Long-Term Obligations

Long-term debt and other obligations are reported as Cooperative liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

### Revenues and Expenses

The Cooperative distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Cooperative's principal ongoing operations. The principal operating revenues of the Cooperative will be derived from the billings under the Power Sales Contract and Power Purchase Agreements. Operating expenses for the Cooperative include the cost of revenues, services, insurance and accounting and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### Effects of New Accounting Standards on Current Period Financial Statements

The Governmental Accounting Standards Board (GASB) has approved GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, Statement No. 61, The Financial Reporting Entity: Omnibus, Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and Statement No. 64 Derivative Instruments: Applications of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53. Application of these standards in a future period may restate portions of these financial statements. The Cooperative believes the impact of the application of these standards, if any, will be not be material to the current period financial statements.

### Reclassifications

Certain amounts on the Balance Sheet for the year ended December 31, 2010 have been reclassified to be consistent with the classifications used for the year ended December 31, 2011.

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2011 and 2010

## 2. CASH AND CASH EQUIVALENTS AND RESTRICTED SPECIAL FUNDS

	2011		2010		Associated Risks
	Carrying Value	Bank Value	Carrying Value	Bank Value	
Cash and Cash Equivalents:					
Checking Account	\$ 536,142	\$ 537,665	\$ 232,007	\$ 5,391,843	Custodial Credit Risk
Money Market Funds	4,846,169	4,846,168	13,072,909	13,072,909	Custodial Credit Risk, Credit Risk
<b>Total Cash and Cash Equivalents</b>	<b>5,382,311</b>	<b>5,383,833</b>	<b>13,304,916</b>	<b>18,464,752</b>	
Other Investments:					
U.S. Agency Bonds	5,004,430	5,004,430	-	-	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
<b>Total Other Investments</b>	<b>5,004,430</b>	<b>5,004,430</b>	<b>-</b>	<b>-</b>	
<b>Totals</b>	<b>\$ 10,386,741</b>	<b>\$ 10,388,263</b>	<b>\$ 13,304,916</b>	<b>\$ 18,464,752</b>	

Investments are stated at fair value as described earlier in fair value measurements policy in Note 1. Fair values are based on quoted market prices of identical or similar securities. No investments are reported at amortized cost. The difference between the carrying value and the bank value is due to outstanding checks and/or deposits in transit.

### Custodial Credit Risk

#### Deposits

Custodial credit risk is the risk that in the event of a financial institution failure, the Cooperative's deposits may not be returned to the Cooperative. Beginning December 31, 2010 and through December 31, 2012, noninterest bearing transaction accounts are fully insured by the FDIC, regardless of the balance of the account. Interest bearing accounts are insured up to \$250,00 per depositor by the Federal Deposit Insurance Corporation ("FDIC"). As of December 31, 2011, \$4,596,168, of the Cooperative's interest bearing bank balance was uninsured and uncollateralized and subject to custodial credit risk. There was no uninsured balance as of December 31, 2010.

#### Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, MMWEC will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

All investment securities are held in book entry form, not physically held, in the Cooperative's name.

Custodial credit risk is not addressed by the investment policy followed by the Cooperative.

#### Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements  
Years ended December 31, 2011 and 2010

## 2. CASH AND CASH EQUIVALENTS AND RESTRICTED SPECIAL FUNDS...continued

### Credit Risk...continued

As of December 31, 2011, the Cooperative's investments were rated as follows:

Investment Type	Standard & Poor's	Fitch Ratings	Moody's Investors Service
Federal Nation Mortgage	AA+	AAA	Aaa
Federal Home Loan Mortgage	AA+	AAA	Aaa

There were no investments at December 31, 2010.

The investment policy followed by the Cooperative addresses credit risk by defining allowable investments and a maximum allocation to each asset class.

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Cooperative's investment in a single issuer.

At December 31 the Cooperative investment portfolio was concentrated as follows:

Issuer	Investment Type	Percentage of Portfolio	
		2011	2010
Federal National Mortgage	U.S. Agency Securities	59.99%	-%
Federal Home Loan Mortgage	U.S. Agency Securities	40.01%	-%

The investment policy followed by the Cooperative minimizes concentration of credit risk in a single issuer by diversification of investment types using maximum limits for single issuers.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

At December 31, 2011, the Cooperative's investments were as follows:

Investment Type	Fair Value	Maturity In Years		
		Less than 1	1 – 5	Over 5
U.S. Agency Securities	\$5,004,430	-	\$5,004,430	

There were no investments at December 31, 2010.

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements  
Years ended December 31, 2011 and 2010

## 2. CASH AND CASH EQUIVALENTS AND RESTRICTED SPECIAL FUNDS...continued

### Interest Rate Risk...continued

The investment policy followed by the Cooperative specifies that the Cooperative shall seek to maximize the return on investments consistent with requirements for safety, minimization of risk and liquidity. Monies will not be invested for terms in excess of the projected use of funds nor exceed an average life of ten years.

There were no unrealized gains on investments for the years ending December 31, 2011 and 2010.

During the years ended December 31, 2011 and 2010, investment income was \$19,309 and \$24,841, respectively.

## 3. RELATED PARTIES

The Cooperative entered into the Berkshire Wind Power Service Contract (Service Contract) with MMWEC on May 21, 2008, under which MMWEC is to serve as the Cooperative's agent in all matters with respect to financing, permitting, constructing, purchasing, owning and operating the Berkshire Wind Facility and to serve as the Cooperative's representative in the New England Power Pool (NEPOOL) and in matters relating to ISO New England, Inc. (ISO-NE) in connection with the Berkshire Wind Facility and other property or interests therein. Pursuant to the Service Contract on the books of the Cooperative, MMWEC records and accounts for bills received and paid related to the Cooperative. MMWEC accounts for charges rendered and payments received from the Departments pursuant to the Power Purchase Agreements.

During the years ended December 31, 2011 and 2010, the Cooperative incurred charges of \$872,795 and \$559,617, respectively, for services provided by or capitalized costs paid by MMWEC on behalf of the Cooperative. As of December 31, 2011 and 2010, the Cooperative had balances due to MMWEC of \$177,022 and \$297,902, respectively. There were no amounts due to the Cooperative from MMWEC at December 31, 2011 and 2010.

## 4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2011 is as follows:

	Balance 1/1/11	Additions/ Reclassi- fications	Deletions/ Reclassi- fications	Balance 12/31/11
Capital assets not being depreciated:				
Land	\$ 4,363,134	\$ -	\$ -	\$ 4,363,134
Capital assets being depreciated:				
In service	-	54,668,440	-	54,668,440
Less: Accumulated depreciation	-	964,010	-	964,010
Net In service	<u>\$ 4,363,134</u>	<u>\$ 53,704,430</u>	<u>\$ -</u>	<u>\$ 58,067,564</u>

During the year ended December 31, 2011, \$54.7 million of construction work in progress was transferred to in service.

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements  
Years ended December 31, 2011 and 2010

## 4. CHANGES IN CAPITAL ASSETS...continued

A summary of changes in capital assets for 2010 is as follows:

	Balance 1/1/10	Additions/ Reclassi- fications	Deletions/ Reclassi- fications	Balance 12/31/10
Capital assets not being depreciated:				
Land	\$ 4,018,134	\$ 345,000	\$ -	\$ 4,363,134
Capital assets being depreciated:				
In service	-	-	-	-
Less: Accumulated depreciation	-	-	-	-
Net In service	<u>\$ 4,018,134</u>	<u>\$ 345,000</u>	<u>\$ -</u>	<u>\$ 4,363,134</u>

During the year 2010, there was \$14,407,319 in additions in the construction work in progress, resulting in an ending balance of \$49,053,401 at December 31, 2010.

## 5. AMOUNTS RECOVERABLE (PAYABLE) IN THE FUTURE

Differences in amounts billed to Participants and revenues and expenses recognized are included in amounts recoverable (payable) in the future under the terms of the power sales contract. These differences are made up of debt service collections, including amounts collected for the Reserve & Contingency fund, and unbilled operating and non-operating expenses and revenues. A summary of the items included in amounts recoverable (payable) in the future under the terms of the power sales contract for the years ended December 31, 2011 and 2010 is as follows:

	2011	2010
Beginning balance - January 1	\$1,098,478	\$358,637
Unbilled operating and nonoperating expenses and revenues:		
Operating expenses incurred not capitalized during construction period	-	274,334
Depreciation/amortization	964,010	-
Accretion	47,066	33,812
Amortization of deferred financing costs	113,242	464,475
Amortization of bond premiums and discounts, net	(273,296)	(7,939)
Contribution expense	40,000	-
Renewable Energy Credit revenues	101,326	-
Interest income	-	(24,841)
Other timing differences, related to billing	2,046	-
Debt service collections:		
Billed principal on long-term debt	(1,461,900)	-
Billed interest on long-term debt, net of interest expense incurred	(893,621)	-
Billed reserve & contingency fund contributions	(469,207)	-
Ending Balance - December 31	<u>\$ (731,856)</u>	<u>\$ 1,098,478</u>

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements  
Years ended December 31, 2011 and 2010

## 6. LONG-TERM OBLIGATIONS SUMMARY

Long-term obligation activity for the year ended December 31, 2011 is as follows:

	Balance 1/1/11	Additions	Reductions	Balance 12/31/11	Due Within One Year
Long-term debt (net of premiums)	\$ 66,229,412	\$ -	\$ (273,295)	\$65,956,117	\$2,215,000
Asset retirement obligation	930,152	47,066	-	977,218	-
Amounts payable (recoverable) in the future under terms of the power sales contract	(1,098,478)	5,611,994	(3,781,660)	731,856	-
Other noncurrent liabilities	45,000	-	-	45,000	-
<b>Totals</b>	<b>\$66,106,086</b>	<b>\$5,659,060</b>	<b>\$(4,054,955)</b>	<b>\$67,710,191</b>	<b>\$2,215,000</b>

Long-term obligation activity for the year ended December 31, 2010 is as follows:

	Balance 1/1/10	Additions	Reductions	Balance 12/31/10	Due Within One Year
Long-term debt (net of premiums)	\$ 52,500,000	\$66,229,412	\$(52,500,000)	\$66,229,412	\$ -
Asset retirement obligation	498,886	431,266	-	930,152	-
Amounts payable (recoverable) in the future under terms of the power sales contract	(358,637)	24,841	(764,682)	(1,098,478)	-
Other noncurrent liabilities	-	45,000	-	45,000	-
<b>Totals</b>	<b>\$52,640,249</b>	<b>\$66,730,519</b>	<b>\$(53,264,682)</b>	<b>\$66,106,086</b>	<b>\$ -</b>

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2011 and 2010

---

## 7. DEBT

### Series 2009 Revenue Bonds

During July 2009, the Cooperative issued Series 2009 Bonds in the amount of \$52,500,000. The Series 2009 Bonds were payable from and secured by the revenues derived from the Berkshire Wind Facility, as well as from a security interest in the Berkshire Wind Facility. A portion of these proceeds, totaling \$8,086,895, was used to pay off the outstanding balance, including interest on the Line of Credit. Interest for the Series 2009 Bonds was payable in semi-annual installments beginning January 22, 2010 and on July 22 and January 22 of each year thereafter. For the period from the issue date of July 22, 2009 through January 22, 2011 (Index Rate Conversion Date), the interest rate on the Series 2009 Bonds was fixed at a rate equal to the sum of the margin rate of 2.25% plus a LIBOR swap rate of 1.135%, per annum. From the Index Rate Conversion Date to January 22, 2016 (Maturity Date), the interest rate on the Series 2009 Bonds was to equal the sum of the margin rate of 8% per annum plus an index rate per annum equal to the LIBOR rate as of the interest payment date. The total rate of interest could not exceed the maximum interest rate provided by law. In the event of default, the interest rate increased to 10% per annum plus the LIBOR rate as of the interest payment date.

The Series 2009 Bonds were subject to mandatory redemption by the Cooperative in semi-annual principal installments, beginning with the Index Rate Conversion Date and occurring on January 22 and July 22 of each year thereafter, with the final installment in an amount equal to the entire then outstanding principal amount of the Series 2009 Bonds due and payable on the Maturity Date.

The Cooperative incurred \$496,887 of financing costs in connection with the issuance of the Series 2009 Bonds, which were capitalized at issuance and would be amortized using the effective interest rate method over the term of the agreement. The Series 2009 Bonds were redeemed, in whole, prior to maturity at the option of the Cooperative on December 22, 2010 at a redemption price of \$53,240,469 which was equal to 100% of the principal amount of \$52,500,000 plus accrued interest through the redemption date of \$740,469. Upon redemption of the Series 2009 Bonds, the remaining amount of unamortized financing costs were fully amortized and all liens and securities were released.

Amortization expense related to these financing costs was \$463,174 for the year ended December 31, 2010.

### Series 1 Revenue Bonds

On December 22, 2010, the Cooperative issued and sold Berkshire Wind Project Revenue Bonds, Berkshire Series 1 (Series 1 Bonds) in the face amount of \$64,705,000 pursuant to the GBR as adopted by the Cooperative. The Series 1 Bonds were issued at a net premium of \$1,532,351 which will be amortized over the life of the bonds using the effective interest method. The Series 1 Bonds are payable from and secured by the revenues derived from the Berkshire Wind Facility. A portion of the bond proceeds were used to pay off the Series 2009 Bonds as noted above. Interest is payable in semi-annual installments beginning July 1, 2011 and on January 1 and July 1 for each year thereafter. The Series 1 Bonds bear interest at a fixed rate ranging from 3.0% to 5.25% for the various issues.



# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2011 and 2010

## 7. DEBT...continued

### Series 1 Revenue Bonds...continued

The Series 1 Bonds are subject to mandatory redemption by the Cooperative in annual principal installments commencing on July 1, 2012 and occurring on July 1 of each year thereafter with the final installment in an amount equal to the entire then outstanding principal amount of the Series 1 Bonds due and payable on the final maturity date of July 1, 2030. The Series 1 Bonds maturing on or after July 1, 2020 are subject to redemption at the option of the Cooperative, in whole or in part, on any date on or after January 1, 2020, at a redemption price of 100 percent of the principal amount plus interest accrued to the date fixed for the redemption.

As of December 31, 2011 and 2010, respectively the Cooperative incurred \$1,034,750 and \$1,030,601 of financing costs in connection with the issuance of the Series 1 Bonds, which have been capitalized and are amortized using the effective interest rate method over the term of the bond. Amortization expense related to these financing costs was \$113,242 and \$1,301 for the years ended December 31, 2011 and 2010.

The following is a summary of total debt service requirements for the bonds outstanding at December 31, 2011:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,215,000	\$ 3,187,255	\$ 5,402,255
2013	2,280,000	3,120,805	5,400,805
2014	2,350,000	3,052,405	5,402,405
2015	2,440,000	2,958,405	5,398,405
2016	2,565,000	2,836,405	5,401,405
2017-2021	14,865,000	12,126,775	26,991,775
2022-2026	18,955,000	8,042,838	26,997,838
2027-2030	<u>19,035,000</u>	<u>2,562,262</u>	<u>21,597,262</u>
Total	<u>\$ 64,705,000</u>	<u>\$ 37,887,150</u>	<u>\$ 102,592,150</u>

The following summarizes changes in the face value of bonds payable for 2011 and 2010:

<u>Year</u>	<u>Balance January 1</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31</u>
2011	<u>\$ 64,705,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,705,000</u>
2010	<u>\$ 52,500,000</u>	<u>\$ 64,705,000</u>	<u>\$ (52,500,000)</u>	<u>\$ 64,705,000</u>

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2011 and 2010

---

## 8. COMMITMENTS AND CONTINGENCIES

### Lease

On July 31, 2009, the Cooperative entered into a month-to-month lease agreement for a 6-acre site to store construction materials related to the Berkshire Wind Facility. The lease agreement required monthly lease payments of \$500 per acre per month. Annual lease payments were \$36,000 for the year ended December 31, 2010 and were capitalized as a component of construction work in progress. The lease was terminated on December 2, 2010.

### Easements

The Cooperative has easement agreements with two landowners for turbine sites related to the Berkshire Wind Facility. Under the easement agreements, upon commencement of commercial operations, the Cooperative has agreed to pay each landowner a completion of construction payment equal to \$1,000 per megawatt of wind turbine(s) installed on their property and reimburse or pay a fee in lieu of each landowner's personal residence electrical costs. The Cooperative will also pay each of the two landowners the greater of \$3,500 per wind turbine installed on their property or 3.5% of the gross annual revenue generated by the wind turbine(s) installed on their property upon commencement of commercial operations and annually thereafter over the term of operations.

### Open Contracts

The Cooperative entered into a contract with General Electric in fiscal year 2009 for \$23,000,000 for the purchase of power generation equipment and related services, such as project support and mechanical reviews. In January 2012 the contract was amended increasing the total contract to \$23,331,000. As of December 31, 2009 and 2010, approximately \$21,000,000 of the contract had been expended. The remaining amount of approximately \$2,000,000 is due upon the commissioning of each turbine. The turbines were commissioned during 2011 prior to the commencement of operations. As of December 31, 2011, approximately \$1,748,000 of the remaining contract was paid. The final payment of \$582,713 is due upon the final project acceptance, which was not completed as of December 31, 2011.

The Cooperative is party to an Interconnection Services Agreement (ISA), effective February 26, 2010, with the Western Massachusetts Electric Company (WMECO). Among the items to be charged to the Cooperative under the ISA is a charge for an income tax that WMECO may be obligated to pay associated with contributions in aid of construction (CIAC tax). The Cooperative and WMECO are unable to determine if the CIAC tax will be charged, but it is the belief of the Cooperative's management that the likelihood of WMECO being charged for CIAC tax is remote. Consequently, in April 2011, the Cooperative and WMECO entered into a Tax Reimbursement Agreement, under the terms of which, the Cooperative has agreed to maintain a fund in the Cooperative's Construction Fund held by the Bond Fund trustee pursuant to the GBR. The purpose of this fund is to accumulate sufficient funds over a 24 month period commencing in April 2011 to pay for the CIAC tax, if assessed by the Internal Revenue Service against WMECO.

### Asset Retirement Obligations

The Cooperative has identified certain asset retirement obligations associated with the termination of the easement agreements, which are not significant.

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2011 and 2010

---

## 8. COMMITMENTS AND CONTINGENCIES...continued

### Renewable Energy Production Incentive Payments

Pursuant to the Power Sales Contract, the Cooperative is obligated to pay MMWEC any Renewable Energy Production Incentive (REPI) or substantially similar program payments received. Under the terms of the Wind Energy Project Assets Purchase Agreement dated January 22, 2008 (Purchase Agreement) between MMWEC and the original developer of the Berkshire Wind Facility (Original Developer), MMWEC is obligated to pay the Original Developer any REPI or substantially similar program payments received from the Cooperative, until the cumulative amount of such payments equals \$1,000,000.

## 9. LITIGATION

In 2006, an abutter to the Berkshire Wind Facility brought an action in Massachusetts federal district court against the Original Developer, alleging among other things, that construction of the Berkshire Wind Facility would constitute a nuisance and be detrimental to the time-share development the abutter proposed to construct on its property. In 2008, the court dismissed the nuisance claim, without prejudice, on the ground that no nuisance could occur until the Berkshire Wind Facility was actually built.

In 2007, that same abutter joined with another abutter and brought an action in the Massachusetts Land Court against the Original Developer challenging the special permit granted by the town of Lanesborough in 2004, which allowed use and improvement of a pre-existing "jeep trail" for purposes of accessing the wind turbines (access road). The Cooperative was substituted as a defendant in place of the Original Developer. In 2009, the abutters added the claim that the access road construction completed by the Original Developer did not comply with the special permit.

In October 2009, the Land Court found that the activities undertaken by the Original Developer during the twelve-month period following the issuance of the special permit in 2004 were insufficient to prevent lapse of the special permit, and issued a preliminary injunction precluding the Cooperative from using the access road for any purpose in connection with construction of the Berkshire Wind Facility. In April 2010, the Land Court issued a permanent injunction on the same basis. As a result, construction activities were stopped from October 2009 to October 2010. In May, 2010, the Cooperative filed a notice of appeal with the Massachusetts Appeals Court seeking reversal of the Land Court's judgment in the case. Since that time, the Cooperative entered into settlement agreements with the plaintiffs. The settlement agreements required amendments to the easements and some one-time payments to the landowners to resolve the case. Such settlements totaling \$200,000 have been capitalized and are included as a component of land in the accompanying Balance Sheet as of December 31, 2011 and 2010. As of December 31, 2011 and 2010, \$0 and \$112,500, respectively, of these amounts is outstanding and included in other current liabilities in the accompanying Balance Sheet.

In 2009, one of the same abutters brought an action against MMWEC in the Massachusetts Superior Court challenging MMWEC's taking of the land that the Cooperative is using for the Berkshire Wind Facility pursuant to the license agreement with MMWEC.

In August 2010, the Cooperative entered into settlements with both abutters whereby the actions brought in the Land Court were resolved. As part of the settlement, the Berkshire Wind Facility will be limited to a total of ten wind turbines, which will be erected on locations designated in an agreed-upon new site plan that was recorded on October 14, 2010 with the Northern Berkshire County Registry of Deeds.

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2011 and 2010

---

## 9. LITIGATION...continued

In addition, the Cooperative purchased the property of one of the abutters and assigned to the other abutter limited rights of access to certain portions of the Berkshire Wind Facility site to ensure that the turbine number and locations comply with the new site plan. Also, a small portion of the Berkshire Wind Facility site is to remain as a "natural screen" area i.e. in its current condition, with no trees or other foliage to be cut.

Also in August, 2010, MMWEC entered into a settlement of the Superior Court action. The settlement of this action resulted in a payment of \$100,000 for the land, which has been capitalized and is included as a component of land in the accompanying Balance Sheet as of December 31, 2011 and 2010. MMWEC entered into an agreement with the abutter for a "natural screen" area as well, resulting in a settlement of \$45,000 due June 1, 2013, which has been capitalized and is included as a component of land and included in other noncurrent liabilities in the accompanying Balance Sheet as of December 31, 2011 and 2010.

The abutters dismissed the litigation pending in both the Land Court and the Superior Court and agreed not to re-institute the federal district court action or file a new cause of action based upon the claims asserted in the federal district court action, including nuisance. The abutters further agreed to take no action to oppose development of the Berkshire Wind Facility based upon the new site plan.

On September 2, 2010, the Cooperative filed an application with the Town of Lanesborough for a new special permit allowing use and maintenance of the access road as constructed. On September 7, 2010, the Land Court issued an order clarifying that the injunction prevented use of the access road only under the 2004 special permit and does not prevent use of the access road under the new special permit. On September 20, 2010, the Cooperative's application for a new special permit was granted without opposition. The new special permit became effective on October 13, 2010.

The Cooperative is involved in various additional legal actions. Management believes that the ultimate resolution of litigation in which the Cooperative is currently involved will not have a material, adverse effect on the financial position of the Cooperative.

## 10. RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors, and omissions. These risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial liability in any of the past three years. There were no significant reductions in coverage compared to the prior year.

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2011 and 2010

---

## 11. CONCENTRATION OF CREDIT RISK/SIGNIFICANT CUSTOMERS

Credit risk represents the risk of loss that would occur if customers do not meet their financial obligations to the Cooperative. Concentration of credit risk occurs when significant customers possess similar characteristics that would cause their ability to meet contractual obligations to be affected by the same event.

The Cooperative has two municipal customers who are considered significant customers, which accounted for \$979,867 (18%) and \$685,476 (13%) of the Cooperatives revenues in 2011. At December 31, 2011, three municipal customers had significant accounts receivable balances of \$114,111 (17%), \$79,827 (12%), and \$68,843 (10%). There were no significant customers for the year ended December 31, 2010.

## 12. SUBSEQUENT EVENTS

The Cooperative has evaluated subsequent events through April 27, 2012, the date which the financial statements were available to be issued and did not note any subsequent events requiring recording and disclosure in the financial statements, except as disclosed above.