

Berkshire Wind Power Cooperative Corporation

Financial Statements

As of and for the Years Ended December 31, 2012 and 2011

Berkshire Wind Power Cooperative Corporation

FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2012 and 2011

C O N T E N T S

	<u>Page</u>
Independent Auditor's Report.....	1-2
Management's Discussion and Analysis.....	3-6
Financial Statements:	
Balance Sheets	7
Statements of Revenues and Expenses.....	8
Statements of Cash Flows	9
Notes to Financial Statements	10-25

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Berkshire Wind Power Cooperative Corporation
Holden, MA 01520

Report on the Financial Statements

We have audited the accompanying financial statements of Berkshire Wind Power Cooperative Corporation (the "Cooperative"), and the related notes to the financial statements, which collectively comprise of the Cooperative's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Cooperative's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cooperative as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
Berkshire Wind Power Cooperative Corporation

Other Matter

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, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States 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 26, 2013

Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis

Years ended December 31, 2012, 2011 and 2010

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, 2012 and 2011. 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, 2012 and 2011.

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, 2012 and 2011 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, 2012, 2011 and 2010

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, 2012, 2011 and 2010.

Condensed Balance Sheets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current assets less current portion of restricted special funds	\$ 1,595,847	\$ 1,388,964	\$ 858,160
Restricted assets including current portion of restricted special funds	9,421,197	9,731,513	12,467,909
Other assets	813,804	918,207	1,029,300
Capital assets, net	<u>57,242,012</u>	<u>58,067,564</u>	<u>53,416,535</u>
 Total assets	 <u>\$ 69,072,860</u>	 <u>\$ 70,106,248</u>	 <u>\$ 67,771,904</u>
Current liabilities	\$ 5,464,353	\$ 4,611,057	\$ 1,665,818
Noncurrent liabilities	<u>63,608,507</u>	<u>65,495,191</u>	<u>66,106,086</u>
 Total liabilities	 <u>\$ 69,072,860</u>	 <u>\$ 70,106,248</u>	 <u>\$ 67,771,904</u>

Condensed Statements of Revenues and Expenses

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues	\$ <u>6,776,752</u>	\$ <u>5,592,685</u>	\$ -
Depreciation expense	1,672,121	964,010	-
Other operating expenses	<u>1,503,971</u>	<u>1,070,365</u>	<u>308,146</u>
Total operating expenses	<u>3,176,092</u>	<u>2,034,375</u>	<u>308,146</u>
 Operating income (loss)	 <u>3,600,660</u>	 <u>3,558,310</u>	 <u>(308,146)</u>
Investment income	60,925	19,309	24,841
Interest and amortization expense	(2,998,646)	(1,707,285)	(456,536)
Loss on investment	(9,965)	-	-
Contribution expense	-	(40,000)	-
Increase in amounts payable under terms of the power sales agreements	<u>(652,974)</u>	<u>(1,830,334)</u>	<u>739,841</u>
Total non-operating (expenses) revenues	<u>(3,600,660)</u>	<u>(3,558,310)</u>	<u>308,146</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, 2012, 2011 and 2010

FINANCIAL ANALYSIS...continued

Condensed Statements of Cash Flows

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net cash provided by (used in) operating activities	\$ 6,121,084	\$ 4,488,274	\$ (198,274)
Net cash provided by investing activities	(2,410,727)	(4,985,121)	24,841
Net cash used in noncapital financing activities	-	(40,000)	-
Net cash used in capital and related financing activities	<u>(6,341,113)</u>	<u>(7,385,758)</u>	<u>(1,237,736)</u>
Net change in cash and cash equivalents	(2,630,756)	(7,922,605)	(1,411,169)
Cash and cash equivalents – beginning of year	<u>5,382,311</u>	<u>13,304,916</u>	<u>14,716,085</u>
Cash and cash equivalents – end of year	<u>\$ 2,751,555</u>	<u>\$ 5,382,311</u>	<u>\$ 13,304,916</u>

The Cooperative's financial statements consist of the financial activity related to the operation of the Berkshire Wind Facility. The following analysis compares 2012 financial results to 2011 financial results.

BALANCE SHEETS

Current assets, excluding the current portion of restricted special funds, increased by \$206,883. Cash and cash equivalents increased by \$141,247 primarily due to additional cash collected in 2012 to pay operational expenses than in the prior year. Prepaid expenses increased \$70,567 related to the timing of payments in lieu of taxes. Accounts receivable decreased by \$4,931 due to the timing of payments from the Departments.

Current and noncurrent restricted funds decreased approximately \$310,316 from 2012 to 2011 driven by a decrease in the Construction Fund for construction expenditures paid, partially offset by an increase in the Reserve and Contingency fund due to debt service requirements.

The \$104,403 decrease in other assets is attributable to the continued amortization of deferred financing costs.

The net decrease of \$825,552 in capital assets is due to normal depreciation of assets of \$1,672,121 offset by asset additions of \$846,569 in 2012.

The \$788,296 increase in current liabilities, excluding current maturities of long-term debt, is attributable to more funds collected for future planned maintenance and operational purchases, thus increasing the amount of advances the Members and Project Participants had at MMWEC by \$948,156, offset by decreases in accounts payable and accounts payable - MMWEC of \$171,634 as payments to vendors for operational expenses were not made until after year-end during 2012, whereas in the prior year, such payments were made prior to year-end.

Other current liabilities increased by \$45,000 due to the timing of a settlement payment due in 2013. There is a corresponding decrease in other noncurrent liabilities for the same amount. Accrued interest decreased by \$33,226 to the lower long-term debt balance.

Please refer to Independent Auditors' Report.

Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis

Years ended December 31, 2012, 2011 and 2010

BALANCE SHEETS...continued

Long-term debt, including current maturities, decreased by \$2,479,105 primarily due to the extinguishment of long-term debt.

Other noncurrent liabilities, excluding long-term debt, increased \$657,421 due to accretion of asset retirement obligations, and increases in amounts payable under the terms of the power sales contract, which include temporary offsets of unbilled expenses, such as depreciation and unrealized gains/losses, and bond payment activity.

STATEMENTS OF REVENUES AND EXPENSES

Operating revenues increased by \$1,184,067 due to increased revenues from the sale of renewable energy credits driven by increased generation since the Berkshire Wind Facility was operating for a full year in 2012, as opposed to a partial year in 2011.

Total operating expenses increased by \$1,141,717, reflecting a full year of operational, maintenance and depreciation expenses in 2012, whereas the prior year reflects these expenses since the commercial operation date of May 28, 2011.

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 accounts having original maturities of three months or less from date of acquisition. Cash and cash equivalents decreased by \$2,630,756. The primary reason for this decrease was the purchase of investments.

OPERATING STATISTICS

From the commercial operation date of May 28, 2011 through December 31, 2012, the Berkshire Wind Facility developed the following operating statistics:

- Total Generation: 71,109 MWH
- Availability Factor: 92%
- Capacity Factor: 34%

CONTACT INFORMATION

This financial report is designed to provide a general overview of the Cooperative's finances. Questions or requests for additional information should be addressed to Berkshire Wind Cooperative Corporation, c/o MMWEC, Attn: Director of Accounting & Financial Reporting, PO Box 426, Ludlow, Massachusetts 01056.

Please refer to Independent Auditors' Report.

Berkshire Wind Power Cooperative Corporation

Balance Sheets
December 31, 2012 and 2011

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 796,475	\$ 655,228
Accounts receivable	657,162	662,093
Prepaid expenses	142,210	71,643
Current portion of restricted special funds	2,700,846	2,696,786
Total current assets	<u>4,296,693</u>	<u>4,085,750</u>
Noncurrent assets:		
Restricted special funds, net of current portion	6,720,351	7,034,727
Deferred financing costs, net of accumulated amortization	813,804	918,207
Total noncurrent assets	<u>7,534,155</u>	<u>7,952,934</u>
Capital assets:		
Land	4,363,134	4,363,134
In service	55,515,009	54,668,440
Accumulated depreciation and amortization	(2,636,131)	(964,010)
Total capital assets	<u>57,242,012</u>	<u>58,067,564</u>
Total assets	<u>\$ 69,072,860</u>	<u>\$ 70,106,248</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 71,724	\$ 264,874
Accounts payable - MMWEC	198,538	177,022
Advances from Participants	1,308,689	360,533
Other current liabilities	45,000	-
Current liabilities payable from restricted assets:		
Accrued interest	1,560,402	1,593,628
Current maturities of long-term debt	2,280,000	2,215,000
Total current liabilities	<u>5,464,353</u>	<u>4,611,057</u>
Noncurrent liabilities:		
Long-term debt, net of premiums and current maturities	61,197,012	63,741,117
Asset retirement obligations	1,026,665	977,218
Amounts payable in the future under terms of the power sales contract	1,384,830	731,856
Other noncurrent liabilities	-	45,000
Total noncurrent liabilities	<u>63,608,507</u>	<u>65,495,191</u>
Total liabilities	<u>\$ 69,072,860</u>	<u>\$ 70,106,248</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Revenues	<u>\$ 6,776,752</u>	<u>\$ 5,592,685</u>
Operating expenses:		
Accounting and administrative expense	104,438	138,067
Insurance expense	133,114	88,036
Engineering	121,689	126,840
Legal	98,036	179,269
Maintenance	356,084	197,636
Electricity	36,792	30,398
Payment in lieu of taxes	187,650	101,550
Security	57,154	20,788
Audit expense	10,000	13,852
Travel, meals and meetings	9,015	6,763
Easement	139,881	46,699
Depreciation/amortization	1,672,121	964,010
Accretion	49,447	47,066
Other operating expenses	200,671	73,401
Total operating expenses	<u>3,176,092</u>	<u>2,034,375</u>
Operating income (loss)	<u>3,600,660</u>	<u>3,558,310</u>
Nonoperating revenues (expenses):		
Interest income	60,925	19,309
Interest expense on long-term debt	(3,158,347)	(1,867,339)
Amortization of deferred financing costs	(104,404)	(113,242)
Amortization of bond premiums and discounts, net	264,105	273,296
Loss on investment	(9,965)	-
Contribution expense	-	(40,000)
Changes in amounts recoverable in the future under the terms of the power sales contract	(652,974)	(1,830,334)
Total nonoperating (expenses) revenues	<u>(3,600,660)</u>	<u>(3,558,310)</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, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Received from sales to participants	\$ 7,729,839	\$ 5,291,125
Paid to suppliers for goods and services	(1,608,755)	(802,851)
Net cash provided by (used in) operating activities	<u>6,121,084</u>	<u>4,488,274</u>
Cash flows from investing activities:		
Net maturities and purchases of investments	(2,461,687)	(5,004,430)
Loss on investments	(9,965)	-
Interest received	60,925	19,309
Net cash provided by investing activities	<u>(2,410,727)</u>	<u>(4,985,121)</u>
Cash flows from noncapital financing activities:		
Contribution expense	-	(40,000)
Net cash used in noncapital financing activities	<u>-</u>	<u>(40,000)</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(914,539)	(6,506,970)
Deferred financing costs paid	(20,000)	(412,988)
Repayments on long term debt	(2,215,000)	-
Interest payments on long-term debt	(3,191,574)	(465,800)
Net cash used in capital and related financing activities	<u>(6,341,113)</u>	<u>(7,385,758)</u>
Net change in cash and cash equivalents	(2,630,756)	(7,922,605)
Cash and cash equivalents, beginning of period	<u>5,382,311</u>	<u>13,304,916</u>
Cash and cash equivalents, end of period	<u>\$ 2,751,555</u>	<u>\$ 5,382,311</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating income (loss)	\$ 3,600,660	\$ 3,558,310
Noncash items included in operating income:		
Depreciation and accretion of asset retirement obligations	1,721,568	1,011,076
Changes in assets and liabilities:		
Increase in:		
Accounts receivable	4,931	(662,093)
Prepaid expenses	(70,567)	(50,490)
Increase in:		
Account payable	(143,675)	209,467
Accounts payable - MMWEC	60,011	61,471
Advances from Participants	948,156	360,533
Net cash used in operating activities	<u>\$ 6,121,084</u>	<u>\$ 4,488,274</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents	\$ 796,475	\$ 655,228
Total restricted special funds	9,421,197	9,731,513
Total cash and investments	10,217,672	10,386,741
Less: Noncash equivalents	(7,466,117)	(5,004,430)
Total cash and cash equivalents	<u>\$ 2,751,555</u>	<u>\$ 5,382,311</u>
Supplemental disclosures of cash flow information:		
Noncash investing, capital and financing transactions:		
Capital assets and land financed by liabilities	\$ 17,167	\$ 88,890
Deferred financing costs financed by accounts payable	\$ -	\$ 20,000
Capitalized interest expense not yet paid	\$ -	\$ 1,593,628

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

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2012 and 2011

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.

Cash and Cash Equivalents

For the purposes of the Statements of Cash Flows, cash, and cash equivalents are made up of 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 portion of restricted funds in the accompanying Balance Sheet.

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2012 and 2011

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

Cash and Cash Equivalents...continued

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statements as increases or decreases in investment income. Market values may have changed significantly after year end.

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.

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.

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, an 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, 2012 and 2011

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 6). 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>2012</u>	<u>2011</u>
Construction Fund to pay for costs of acquisition and construction	\$ -	\$ 869,464
Reserve Account to provide for the benefit and security of the Series 1 Revenue Bonds	5,431,097	5,413,235
Revenue Fund to receive revenues and disburse them to other funds	465	4,557
Bond Fund Interest, Principal and Retirement Accounts to pay principal and interest on bonds	2,700,846	2,696,786
Reserve and Contingency Fund to make up deficiencies in the Bond Funds and pay for repairs and extraordinary costs	930,850	389,676
CIAC Tax Fund to maintain funds to cover costs of possible CIAC Tax	<u>357,939</u>	<u>357,795</u>
Total restricted special funds	9,421,197	9,731,513
Less - current portion	<u>(2,700,846)</u>	<u>(2,696,786)</u>
Restricted special funds, net of current portion	<u>\$ 6,720,351</u>	<u>\$ 7,034,727</u>

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2012 and 2011

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, 2012 and 2011 the prepaid insurance premiums are \$64,210 and \$56,143, respectively. For the years ending December 31, 2012 and 2011 the prepaid Payment In Lieu of Taxes are \$78,000 and \$15,500, 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 2012 and 2011:

<u>Year</u>	<u>Balance January 1</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31</u>
2012	\$ 4,363,134	\$ -	\$ -	\$ 4,363,134
2011	\$ 4,363,134	\$ -	\$ -	\$ 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 \$0 and \$1,320,751 for the years ended December 31, 2012 and 2011, respectively.

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

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, 2012 and 2011

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:

2013	\$	89,412
2014		80,322
2015		73,657
2016		68,179
2017		63,408
2018-2022		259,476
2023-2027		152,534
2028-2030		<u>26,816</u>
Totals	\$	<u>813,804</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 area 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 \$49,447 and \$47,066 for the years ended December 31, 2012 and 2011, respectively, which is included in the operating expenses in the Statements of Revenue and Expenses. At December 31, 2012 and 2011, the AROs totaled \$1,026,665 and \$977,218, 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, 2012 and 2011

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 consistent with rules established under GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

Advances from Participants

The Cooperative maintains operating reserves and advances from its Participants in accordance with the Power Sales Agreements. Advances from Participants for 2012 and 2011, which are considered current liabilities, were \$1,308,689 and \$360,533, 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. 65, Items Previously Reported as Assets and Liabilities; Statement No. 66, Technical Corrections - 2012 an amendment of GASB Statements No. 10 and No. 62. Application of these standards may restate portions of these financial statements.

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2012 and 2011

2. CASH AND CASH EQUIVALENTS AND RESTRICTED SPECIAL FUNDS

	2012		2011		Associated Risks
	Carrying Value	Bank Value	Carrying Value	Bank Value	
Deposits:					
Checking Account	\$ 697,346	\$ 554,186	\$ 536,142	\$ 537,665	Custodial Credit Risk
Money Market Funds	499,213	499,213	4,846,169	4,846,168	Custodial Credit Risk
Total Deposits	<u>\$ 1,196,559</u>	<u>\$ 1,053,399</u>	<u>\$ 5,382,311</u>	<u>\$ 5,383,833</u>	
Investments:					
U.S. Agency Bonds	\$ 7,275,311	\$ 7,273,355	\$ 5,004,430	\$ 5,004,430	Credit Risk, Interest Rate Risk, Custodial Credit Rate Risk
Municipal Bonds	751,178	751,260	-	-	Interest Rate Risk, Credit Risk, Custodial Credit Rate Risk, Concentration of Credit Risk, Interest Rate Risk
U.S. Treasury Notes	994,624	996,641	-	-	Interest Rate Risk, Custodial Credit Rate Risk
Total Investments	<u>9,021,113</u>	<u>9,021,256</u>	<u>5,004,430</u>	<u>5,004,430</u>	
Totals	<u>\$ 10,217,672</u>	<u>\$ 10,074,655</u>	<u>\$ 10,386,741</u>	<u>\$ 10,388,263</u>	

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, 2012 and 2011, \$249,213 and \$4,596,168, respectively, of the Cooperative's interest bearing bank balance was uninsured and uncollateralized and subject to custodial credit risk.

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2012 and 2011

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

Custodial Credit Risk...continued

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.

As of December 31, 2012, the Cooperative's investments were rated as follows:

<u>Investment Type</u>	<u>Standard & Poor's</u>	<u>Fitch Ratings</u>	<u>Moody's Investors Service</u>
Federal Nation Mortgage	AA+	AAA	Aaa
U.S. Treasury	AA+	AAA	Aaa
Federal Agriculture Mortgage	AA+	AAA	Aaa
Federal Home Loan Bank	AA+	AAA	Aaa
Federal Home Loan Mortgage	AA+	AAA	Aaa
Municipal Bonds	AA	Not rated	Not rated
Money Market Funds	Aaa	AA-	AA

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

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

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

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements
Years ended December 31, 2012 and 2011

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

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:

<u>Issuer</u>	<u>Investment Type</u>	<u>Percentage of Portfolio</u>	
		<u>2012</u>	<u>2011</u>
Federal National Mortgage	U.S. Agency Securities	70.73%	59.99%
Federal Home Loan Bank	U.S. Agency Securities	23.09	-%
Federal Home Loan Mortgage	U.S. Agency Securities	2.61%	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, 2012, the Cooperative's investments were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity In Years</u>		
		<u>Less than 1</u>	<u>1 – 5</u>	<u>Over 5</u>
U.S. Agency Bonds	\$7,273,355	\$2,694,316	\$3,082,164	\$1,496,875
U.S. Treasury	996,641	-	996,641	-
Municipal Bonds	751,260	751,260	-	-
Total	<u>\$9,021,256</u>	<u>\$3,445,576</u>	<u>\$4,078,805</u>	<u>\$1,496,875</u>

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

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

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, 2012 and 2011.

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2012 and 2011

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

Interest Rate Risk...continued

During the years ended December 31, 2012 and 2011, investment income was \$60,925 and \$19,309, 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, 2012 and 2011, the Cooperative incurred charges of \$315,436 and \$872,795, respectively, for services provided by or capitalized costs paid by MMWEC on behalf of the Cooperative. As of December 31, 2012 and 2011, the Cooperative had balances due to MMWEC of \$198,538 and \$177,022, respectively. There were no amounts due to the Cooperative from MMWEC at December 31, 2012 and 2011.

4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2012 is as follows:

	Balance 1/1/12	Additions/ Reclassi- fications	Deletions/ Reclassi- fications	Balance 12/31/12
Capital assets not being depreciated:				
Land	\$ 4,363,134	\$ -	\$ -	\$ 4,363,134
Capital assets being depreciated:				
In service	54,668,440	846,569	-	55,515,009
Less: Accumulated depreciation	964,010	1,672,121	-	2,636,131
Net In Service	<u>\$58,067,564</u>	<u>\$ (825,552)</u>	<u>\$ -</u>	<u>\$ 57,242,012</u>

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

	Balance 1/1/11	Additions/ Reclassi- fications	Deletions/ Reclassi- fications	Balance 12/31/12
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>

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2012 and 2011

4. CHANGES IN CAPITAL ASSETS...continued

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

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, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Beginning balance - January 1	\$ (731,856)	\$1,098,478
Unbilled operating and nonoperating expenses and revenues:		
Depreciation/amortization	1,672,121	964,010
Accretion	49,447	47,066
Amortization of deferred financing costs	104,404	113,242
Amortization of bond premiums and discounts, net	(264,105)	(273,296)
Contribution expense	-	40,000
Renewable Energy Credit revenues	-	101,326
Interest income	-	-
Other timing differences, related to billing	159	2,046
Debt service collections:		
Billed principal on long-term debt	(2,215,000)	(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>\$ (1,384,830)</u>	<u>\$ (731,856)</u>

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements
Years ended December 31, 2012 and 2011

6. LONG-TERM OBLIGATIONS SUMMARY

Long-term obligation activity for the year ended December 31, 2012 is as follows:

	Balance 1/1/12	Additions	Reductions	Balance 12/31/12	Due Within One Year
Long-term debt (net of premiums)	\$ 65,956,117	\$ -	\$ (2,479,105)	\$63,477,012	\$2,280,000
Asset retirement obligation	977,218	49,447	-	1,026,665	-
Amounts payable (recoverable) in the future under terms of the power sales contract	731,856	2,479,105	(1,826,131)	1,384,830	-
Other noncurrent liabilities	45,000	-	(45,000)	-	45,000
Totals	\$67,710,191	\$2,528,552	\$(4,350,236)	\$65,888,507	\$2,325,000

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)	\$ 66,229,413	\$ -	\$ (273,296)	\$ 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	-
Totals	\$66,106,087	\$5,659,060	\$(4,054,956)	\$67,710,191	\$2,215,000

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements
Years ended December 31, 2012 and 2011

7. DEBT

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 which 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. 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.

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, 2012 and 2011, respectively the Cooperative incurred \$0 and \$1,034,750 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 \$104,404 and \$113,242 for the years ended December 31, 2012 and 2011.

Series 1 Revenue Bonds...continued

The following is a summary of total debt service requirements for the bonds outstanding at December 31, 2012:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,690,000	2,708,155	5,398,155
2018-2022	15,590,000	11,403,145	26,993,145
2023-2027	19,940,000	7,057,650	26,997,650
2028-2030	<u>14,635,000</u>	<u>1,562,925</u>	<u>16,197,925</u>
Total	62,490,000	34,699,895	97,189,895
Unamortized Premium	<u>987,012</u>	<u>-</u>	<u>987,012</u>
Total	<u>\$ 63,477,012</u>	<u>\$ 34,699,895</u>	<u>\$ 98,176,907</u>

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements
Years ended December 31, 2012 and 2011

7. DEBT...continued

The following summarizes changes in the face value of bonds payable for 2012 and 2011:

<u>Year</u>	<u>Balance January 1</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31</u>
2012	\$ 64,705,000	\$ -	\$ 2,215,000	\$ 62,490,000
2011	\$ 64,705,000	\$ -	\$ -	\$ 64,705,000

8. COMMITMENTS AND CONTINGENCIES

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 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.

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.

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2012 and 2011

8. COMMITMENTS AND CONTINGENCIES

Asset Retirement Obligations

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

9. LITIGATION

In 2009, an abutter to the Berkshire Wind Facility 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, 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, 2012 and 2011. 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 current liabilities in the accompanying Balance Sheet as of December 31, 2012.

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.

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.

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.

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

Years ended December 31, 2012 and 2011

11. CONCENTRATION OF CREDIT RISK/SIGNIFICANT CUSTOMERS...continued

The Cooperative has two municipal customers who are considered significant customers, which accounted for \$747,406 (18%) and \$522,855 (13%) of the Cooperatives revenues in 2012. At December 31, 2012, three municipal customers had significant accounts receivable balances of \$114,111 (17%), \$79,827 (12%), and \$68,843 (10%). The Cooperative had two municipal customers who were 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%).

12. SUBSEQUENT EVENTS

The Cooperative has evaluated subsequent events through April 26, 2013, 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.