

# **Berkshire Wind Power Cooperative Corporation**

Financial Statements Including Independent  
Auditors' Report

As Of And For The Years Ended December 31, 2014 and 2013

# Berkshire Wind Power Cooperative Corporation

## FINANCIAL STATEMENTS

As Of And For The Years Ended December 31, 2014 and 2013

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## INDEPENDENT AUDITORS' REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Berkshire Wind Power Cooperative Corporation (the "Cooperative"), as of and for the years ended December 31, 2014 and 2013, 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.

To the Board of Directors  
Berkshire Wind Power Cooperative Corporation

**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, 2014 and 2013, 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.

**Other Matters**

*Required Supplementary Information*

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 27, 2015

# Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis

As of and for the years ended December 31, 2014, 2013 and 2012

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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, 2014 and 2013. 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 Statements of Net Position are designed to indicate the Cooperative's financial position as of December 31, 2014 and 2013.

The Statements of Revenues, Expenses, and Changes in Net Position 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, 2014 and 2013 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.

# Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis

As of and for the years ended December 31, 2014, 2013 and 2012

## FINANCIAL ANALYSIS

Analysis of the Cooperative's financial position includes a review of the Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position and the Statements of Cash Flows.

The following tables show the condensed Statements of Net Position, the Statements of Revenues, Expenses, and Changes in Net Position and the Statements of Cash Flows as of December 31, 2014, 2013 and 2012.

### Condensed Statements of Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current assets less current portion of restricted special funds	\$ 3,955,176	\$ 3,943,832	\$ 1,595,847
Restricted assets including current portion of restricted special funds	10,272,250	9,882,024	9,421,197
Capital assets	<u>53,891,466</u>	<u>55,566,739</u>	<u>57,242,012</u>
Total assets	<u>\$ 68,118,892</u>	<u>\$ 69,392,595</u>	<u>\$ 68,259,056</u>
Current liabilities	\$ 8,743,136	\$ 8,472,720	\$ 5,464,353
Noncurrent liabilities	<u>59,375,756</u>	<u>60,919,875</u>	<u>62,794,703</u>
Total liabilities	<u>\$ 68,118,892</u>	<u>\$ 69,392,595</u>	<u>\$ 68,259,056</u>
Net investment in capital assets	\$ 2,707,599	\$ 1,432,325	\$ 126,947
Restricted	358,489	358,388	358,404
Unrestricted	<u>(3,066,088)</u>	<u>(1,790,713)</u>	<u>(485,351)</u>
Total net position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

### Condensed Statements of Revenues, Expenses, and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 6,833,660	\$ 6,805,595	\$ 6,776,752
Depreciation expense	1,675,273	1,675,273	1,672,121
Other operating expenses	<u>1,606,620</u>	<u>1,542,366</u>	<u>1,503,971</u>
Total operating expenses	<u>3,281,893</u>	<u>3,217,639</u>	<u>3,176,092</u>
Operating income	<u>3,551,767</u>	<u>3,587,956</u>	<u>3,600,660</u>
Investment income	73,791	51,489	60,925
Interest and amortization expense	(2,795,955)	(2,847,380)	(2,894,242)
Gain (loss) on investment	221,152	(129,617)	(9,965)
Increase in amounts payable under terms of the power sales agreements	<u>(1,050,755)</u>	<u>(662,448)</u>	<u>(757,378)</u>
Total non-operating expenses	<u>(3,551,767)</u>	<u>(3,587,956)</u>	<u>(3,600,660)</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

As of and for the years ended December 31, 2014, 2013 and 2012

## FINANCIAL ANALYSIS...continued

### Condensed Statements of Cash Flows

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net cash provided by operating activities	\$ 5,718,178	\$ 6,727,673	\$ 6,121,084
Net cash used in investing activities	(879,448)	(574,661)	(2,410,727)
Net cash used in capital and related financing activities	<u>(5,402,406)</u>	<u>(5,462,971)</u>	<u>(6,341,113)</u>
Net change in cash and cash equivalents	(563,676)	690,041	(2,630,756)
Cash and cash equivalents – beginning of year	<u>3,441,596</u>	<u>2,751,555</u>	<u>5,382,311</u>
Cash and cash equivalents – end of year	<u>\$ 2,877,920</u>	<u>\$ 3,441,596</u>	<u>\$ 2,751,555</u>

## STATEMENTS OF NET POSITION

The Cooperative's financial statements consist of the financial activity related to the operation of the Berkshire Wind Facility.

### Comparison of 2013 Financial Results to 2012 Financial Results

Current assets, excluding the current portion of restricted special funds, increased by \$2,347,985. Cash and cash equivalents increased by \$725,747 primarily due to additional cash advanced in 2013 to pay future operational expenses. Prepaid expenses increased \$10,130 related to the timing of payments in lieu of taxes. Accounts receivable increased by \$20,305 due to the timing of payments from the Departments. Renewable energy credits available for sale of \$1,527,424 represents the estimated fair market value of the 2013 quarter three and quarter four credits that have not yet been sold in the market.

Current and noncurrent restricted funds increased \$460,827 from 2013 to 2012 primarily driven by a higher balance in the Reserve and Contingency fund due to debt service requirements under the General Bond Resolution.

The net decrease of \$1,675,273 in capital assets is due to normal depreciation of assets.

The \$2,938,367 increase in current liabilities, excluding current maturities of long-term debt, is attributable 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 \$2,994,792, offset by decreases in accounts payable and other current liabilities of \$22,226 due to timing of payments and a decrease of \$34,199 in accrued interest due to lower debt balances in 2013 than in 2012.

Long-term debt, including current maturities, decreased by \$2,519,226 primarily due to the extinguishment of long-term debt.

Other noncurrent liabilities, excluding long-term debt, increased \$714,398 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.

Please refer to Independent Auditors' Report.

# Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis

As of and for the years ended December 31, 2014, 2013 and 2012

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## **STATEMENTS OF NET POSITION...continued**

### Comparison of 2014 Financial Results to 2013 Financial Results

Current assets, excluding the current portion of restricted special funds, increased by \$11,344. Cash and cash equivalents increased by \$220,489 primarily due to additional cash advanced in 2014 to pay future operational expenses. Prepaid expenses decreased \$75,135 related to the timing of payments in lieu of taxes. Accounts receivable decreased by \$88,826 due to the timing of payments from the Departments and a decrease in the monthly amount billed to the Departments. Renewable energy credits available for sale decreased by \$45,184 due to a decrease in generation.

Current and noncurrent restricted funds increased \$390,226 from 2013 to 2014 primarily driven by a higher balance in the Reserve and Contingency fund due to debt service requirements under the General Bond Resolution.

The net decrease of \$1,675,273 in capital assets is due to normal depreciation of assets.

The \$180,416 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 \$86,473. In addition accounts payable increased by \$140,943 due to timing of payments offset by a decrease of \$47,000 in accrued interest due to lower debt balances in 2014 than in 2013.

Long-term debt, including current maturities, decreased by \$2,559,451 primarily due to the extinguishment of long-term debt.

Other noncurrent liabilities, excluding long-term debt, increased \$1,105,332 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, EXPENSES, AND CHANGES IN NET POSITION**

### Comparison of 2013 Financial Results to 2012 Financial Results

Operating revenues increased by \$28,843 due to increased revenues from the sale of renewable energy credits driven by higher generation in 2013 than in 2012.

Total operating expenses increased by \$41,547, due to increases in easement and maintenance expenses, partially offset by a decrease in other operating expense mainly attributable to lower consulting costs.

### Comparison of 2014 Financial Results to 2013 Financial Results

Operating revenues increased by \$28,065 due to operating revenues resulting from billings to the Departments for operating expenses, which were higher in 2014 than in the prior year.

Total operating expenses increased by \$64,254, due to increases in legal and maintenance expenses offset by a decrease in easement expense. The increase of \$101,688 in legal expense was primarily driven by payment in lieu of taxes disputes.

Please refer to Independent Auditors' Report.



# Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis

As of and for the years ended December 31, 2014, 2013 and 2012

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## 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 increased by \$690,041 from 2012 to 2013. This is due to sales of investments during 2013 and increased operating cash due to timing of payments for operational activities in 2013. Cash and cash equivalents decreased by \$563,676 from 2013 to 2014. This is due to decreased renewable energy credits (REC) revenue and the timing of cash received for the RECs.

## OPERATING STATISTICS

From the commercial operation date of May 28, 2011 through December 31, 2014, the Berkshire Wind Facility developed the following operating statistics:

- Total Generation: 174,016 MWH
- Availability Factor: 93.6%
- Capacity Factor: 36.8%

# Berkshire Wind Power Cooperative Corporation

Statements of Net Position  
As of December 31, 2014 and 2013

	2014	2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,742,711	\$ 1,522,222
Accounts receivable	588,641	677,467
Inventories	64,379	64,379
Prepaid expenses	77,205	152,340
Renewable energy credits available for sale	1,482,240	1,527,424
Current portion of restricted special funds	2,699,293	2,700,264
Total current assets	<u>6,654,469</u>	<u>6,644,096</u>
Noncurrent assets:		
Restricted special funds, net of current portion	<u>7,572,957</u>	<u>7,181,760</u>
Capital assets:		
Land	4,363,134	4,363,134
In service	55,515,009	55,515,009
Accumulated depreciation and amortization	(5,986,677)	(4,311,404)
Total capital assets	<u>53,891,466</u>	<u>55,566,739</u>
Total assets	<u>\$ 68,118,892</u>	<u>\$ 69,392,595</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 290,662	\$ 225,136
Accounts payable - MMWEC	143,317	67,900
Advances from Participants	4,389,954	4,303,481
Current liabilities payable from restricted assets:		
Accrued interest	1,479,203	1,526,203
Current maturities of long-term debt	2,440,000	2,350,000
Total current liabilities	<u>8,743,136</u>	<u>8,472,720</u>
Noncurrent liabilities:		
Long-term debt, net of premiums and current maturities	55,958,335	58,607,786
Asset retirement obligations	1,133,192	1,078,615
Amounts payable in the future under terms of the power sales contract	2,284,229	1,233,474
Total noncurrent liabilities	<u>59,375,756</u>	<u>60,919,875</u>
Total liabilities	<u>\$ 68,118,892</u>	<u>\$ 69,392,595</u>
<b>NET POSITION</b>		
Net investment in capital assets	\$ 2,707,599	\$ 1,432,325
Restricted	358,489	358,388
Unrestricted	(3,066,088)	(1,790,713)
Total net position	<u>\$ -</u>	<u>\$ -</u>

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

# Berkshire Wind Power Cooperative Corporation

Statements of Revenues, Expenses and Changes in Net Position  
Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Revenues	<u>\$ 6,833,660</u>	<u>\$ 6,805,595</u>
Operating expenses:		
Maintenance	476,440	446,557
Easement	228,321	298,759
Payment in lieu of taxes	191,139	191,443
Accounting and administrative expense	122,377	152,841
Insurance expense	139,368	126,859
Engineering	106,878	84,656
Legal	180,402	78,714
Other operating expenses	161,695	162,537
Depreciation/amortization	1,675,273	1,675,273
Total operating expenses	<u>3,281,893</u>	<u>3,217,639</u>
Operating income	<u>3,551,767</u>	<u>3,587,956</u>
Nonoperating revenues (expenses):		
Interest income	73,791	51,489
Interest expense on long-term debt	(3,005,405)	(3,086,606)
Amortization of bond premiums and discounts, net	209,450	239,226
Gain (loss) on investments	221,152	(129,617)
Increase in amounts payable in the future under the terms of the power sales contract	<u>(1,050,755)</u>	<u>(662,448)</u>
Total nonoperating expenses	<u>(3,551,767)</u>	<u>(3,587,956)</u>
Net revenues and expenses	<u>\$ -</u>	<u>\$ -</u>
Change in net position	-	-
Net position, beginning of year	<u>-</u>	<u>-</u>
Net position, end of year	<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, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Received from sales to participants and RECs	\$ 7,054,143	\$ 8,252,657
Paid to suppliers for goods and services	(1,335,965)	(1,524,984)
Net cash provided by operating activities	<u>5,718,178</u>	<u>6,727,673</u>
Cash flows from capital and related financing activities:		
Capital expenditures	-	(62,166)
Principal payments on long-term debt	(2,350,000)	(2,280,000)
Interest payments on long-term debt	(3,052,406)	(3,120,805)
Net cash used in capital and related financing activities	<u>(5,402,406)</u>	<u>(5,462,971)</u>
Cash flows from investing activities:		
Net maturities and purchases of investments	(1,174,391)	(496,533)
Gain (loss) on investments	221,152	(129,617)
Interest received	73,791	51,489
Net cash used in investing activities	<u>(879,448)</u>	<u>(574,661)</u>
Net change in cash and cash equivalents	(563,676)	690,041
Cash and cash equivalents, beginning of period	<u>3,441,596</u>	<u>2,751,555</u>
Cash and cash equivalents, end of period	<u>\$ 2,877,920</u>	<u>\$ 3,441,596</u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating income	\$ 3,551,767	\$ 3,587,956
Noncash items included in operating income:		
Depreciation and accretion of asset retirement obligations	1,729,850	1,727,222
Changes in assets and liabilities:		
Increase (decrease) in:		
Accounts receivable	88,826	(20,305)
Inventories	-	(64,379)
Prepaid expenses	75,135	(10,130)
Renewable energy credits available for sale	45,184	(1,527,424)
Increase (decrease) in:		
Account payable	65,526	153,412
Accounts payable - MMWEC	75,417	(113,471)
Advances from Participants	86,473	2,994,792
Net cash used in operating activities	<u>\$ 5,718,178</u>	<u>\$ 6,727,673</u>
<b>Reconciliation of cash and cash equivalents to the balance sheets:</b>		
Cash and cash equivalents	\$ 1,742,711	\$ 1,522,222
Total restricted special funds	10,272,250	9,882,024
Total cash and investments	<u>12,014,961</u>	<u>11,404,246</u>
Less: Noncash equivalents	(9,137,041)	(7,962,650)
Total cash and cash equivalents	<u>\$ 2,877,920</u>	<u>\$ 3,441,596</u>

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

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2014 and 2013

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## 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 Statements of Net Position. Restricted cash and cash equivalents are presented within the current and noncurrent portion of restricted funds in the accompanying Statements of Net Position.

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2014 and 2013

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## 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.

### Comparative Data

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the Statements of Net Position and Statements of Revenues, Expenses, and Change in Net Position.

### 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.

### Inventories

Spare parts inventories are valued at the lower of cost or market and recorded and accounted for by the average cost method. At December 31, 2014 and 2013, total spare parts inventory amounted to \$64,379 and \$64,379, respectively.

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2014 and 2013

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

### Renewable Energy Credits Available for Sale

During the course of business, the Cooperative generates renewable energy credits (RECs) at a rate of one REC for each megawatt hour (MWH) of energy generated. These RECs are available for sale in accordance with New England Power Pool (NEPOOL) markets and are stated at fair market value. The NEPOOL REC markets are held 3 or more months in arrears of the period the RECs were generated (i.e. the market for Q3 RECs is open in January). Revenue from the sale of RECs is credited to the Departments through billing.

### Restricted Special Funds

Mandatory segregations of cash are presented as restricted special funds. Such segregations are required by the General Bond Resolution (GBR) pursuant to which the Cooperative issued its Series 1 Revenue Bonds (see Note 6). The restricted special funds are held in accordance with the provisions of the 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>2014</u>	<u>2013</u>
Reserve Account to provide for the benefit and security of the Series 1 Revenue Bonds	\$ 5,452,285	\$ 5,368,360
Revenue Fund to receive revenues and disburse them to other funds	310	315
Bond Fund Interest, Principal and Retirement Accounts to pay principal and interest on bonds	2,699,294	2,700,264
Reserve and Contingency Fund to make up deficiencies in the Bond Funds and pay for repairs and extraordinary costs	1,760,064	1,455,012
CIAC Tax Fund to maintain funds to cover costs of possible CIAC Tax	<u>358,171</u>	<u>358,073</u>
Total restricted special funds	10,270,124	9,882,024
Less - current portion	<u>(2,699,294)</u>	<u>(2,700,264)</u>
Restricted special funds, net of current portion	<u>\$ 7,570,830</u>	<u>\$ 7,181,760</u>

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2014 and 2013

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## 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, 2014 and 2013 the prepaid insurance premiums are \$77,205 and \$74,040, respectively. For the years ending December 31, 2014 and 2013 the prepaid Payment In Lieu of Taxes are \$0 and \$78,300, 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.

### 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 premiums, net of investment gains and losses, and interest income derived from unexpended restricted special funds. The Cooperative did not capitalize interest costs for the years ended December 31, 2014 and 2013.

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

### Accounts Payable and Accrued Expenses

At December 31, 2014, accounts payable and accrued liabilities total \$1,913,182 which include \$290,662 million related to standard operating supplier and vendor accounts payable; \$143,317 for accounts payable to MMWEC and \$1,479,203 for accrued interest on long term debt.

At December 31, 2013, accounts payable and accrued liabilities total \$1,819,239 which include \$225,136 million related to standard operating supplier and vendor accounts payable; \$67,900 for accounts payable to MMWEC and \$1,526,203 for accrued interest on long term debt.



# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2014 and 2013

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

### 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 capital assets.

	<u>2014</u>	<u>2013</u>
	(In Thousands)	
Asset retirement obligations, beginning of year	\$ 1,078,615	\$ 1,026,666
Accretion expense	<u>54,577</u>	<u>51,949</u>
Asset retirement obligations, end of year	<u>\$ 1,133,192</u>	<u>\$ 1,078,615</u>

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.

### Amounts 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 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 payable in the future in the Statement of Net Position.

### Advances from Participants

The Cooperative maintains operating reserves and advances from its Participants in accordance with the Power Sales Agreements. Advances from Participants for 2014 and 2013, which are considered current liabilities, were \$4,389,953 and \$4,303,481, respectively.

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2014 and 2013

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

### Long-Term Obligations

Long-term debt and other obligations are reported as Cooperative liabilities. Bond premiums and discounts 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.

### Net Position Classification

Net position is required to be classified into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets - consists of capital assets, net of accumulated depreciation and costs recoverable or payable from future billings, reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets.

Restricted - consists of restricted assets, reduced by liabilities related to those assets, with constraints placed on their use either by a) external groups such as creditors (such as through debt covenants), contributors, or laws or regulations of other governments or b) law through constitutional provisions or enabling legislation.

Unrestricted - consists of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the net investment in capital assets or restricted component of net position.

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2014 and 2013

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

	2014		2013		Associated Risks
	Carrying Value	Bank Value	Carrying Value	Bank Value	
Cash and Cash Equivalents:					
Checking Account \$	1,742,711	\$ 1,743,603	\$ 1,522,219	\$ 1,545,888	Custodial Credit Risk
Money Market Funds	1,135,209	1,135,209	375,714	375,714	Custodial Credit Risk
<b>Total Cash and Cash Equivalents</b>	<b>\$ 2,877,920</b>	<b>\$ 2,878,812</b>	<b>\$ 1,897,933</b>	<b>\$ 1,921,602</b>	
Other Investments:					
U.S. Agency Bonds \$	7,559,658	\$ 7,558,032	\$ 7,410,103	\$ 7,525,206	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
Municipal Bonds	499,570	499,570	752,573	755,205	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
U.S. Treasury Notes	1,077,813	1,077,813	1,343,637	1,357,219	Credit Risk, Interest Rate Risk, Concentration of Credit Risk
<b>Total Other Investments</b>	<b>9,137,041</b>	<b>9,135,415</b>	<b>9,506,313</b>	<b>9,637,630</b>	
<b>Totals</b>	<b>\$ 12,014,961</b>	<b>\$ 12,014,227</b>	<b>\$ 11,404,246</b>	<b>\$ 11,559,232</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. Interest bearing accounts are insured up to \$250,000 per depositor by the Federal Deposit Insurance Corporation ("FDIC"). As of December 31, 2014 and 2013, \$2,377,920 and \$1,647,933, respectively, of the Cooperative's interest bearing bank balance was uninsured and uncollateralized and subject to custodial credit risk.

#### 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.

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2014 and 2013

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

### Custodial Credit Risk...continued

#### 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, 2014, the Cooperative's investments were rated as follows:

<u>Investment Type</u>	<u>Standard &amp; Poor's</u>	<u>Fitch Ratings</u>	<u>Moody's Investors Service</u>
Federal National Mortgage	AA+	AAA	Aaa
U.S. Treasury	AA+	AAA	Aaa
Federal Farm Credit Bank	AA+	AAA	Aaa
Federal Home Loan Bank	AA+	AAA	Aaa
Federal Home Loan Mortgage	AA+	AAA	Aaa
Municipal Bonds	AA	Not rated	Aa2

As of December 31, 2013, the Cooperative's investments were rated as follows:

<u>Investment Type</u>	<u>Standard &amp; Poor's</u>	<u>Fitch Ratings</u>	<u>Moody's Investors Service</u>
Federal National Mortgage	AA+	AAA	Aaa
U.S. Treasury	AA+	AAA	Aaa
Federal Farm Credit Bank	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	Not rated	Not rated	Not rated

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:

<u>Issuer</u>	<u>Investment Type</u>	<u>Percentage of Portfolio</u>	
		<u>2014</u>	<u>2013</u>
Federal National Mortgage	U.S. Agency Securities	42.60%	55.74%
Federal Home Loan Bank	U.S. Agency Securities	24.22%	15.39%
Federal Home Loan Mortgage	U.S. Agency Securities	15.92%	3.99%
U.S. Treasury	U.S. Treasury	11.80%	14.08%
Municipal Bonds	U.S. Agency Securities	5.47%	7.84%

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.

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2014 and 2013

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

### 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, 2014, 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	\$7,559,658	\$1,452,310	\$4,879,533	\$ 1,227,815
U.S. Treasury	1,077,813	490,000	587,813	-
Municipal Bonds	499,570	-	499,570	-
Total	<u>\$9,137,041</u>	<u>\$1,942,310</u>	<u>\$5,966,916</u>	<u>\$1,227,815</u>

At December 31, 2013, 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	\$7,410,103	\$1,953,125	\$4,149,886	\$1,307,092
U.S. Treasury	1,343,637	765,000	578,637	-
Municipal Bonds	752,573	752,573	-	-
Total	<u>\$9,506,313</u>	<u>\$3,470,698</u>	<u>\$4,728,523</u>	<u>\$1,307,092</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, 2014 and 2013.

During the years ended December 31, 2014 and 2013, investment income was \$73,791 and \$51,489, 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 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. MMWEC also executes the sale of renewable energy credits for the Cooperative and provides the resulting revenues to the Cooperative.

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2014 and 2013

### 3. RELATED PARTIES (cont.)

During the years ended December 31, 2014 and 2013, the Cooperative incurred charges of \$245,158 and \$251,163, respectively, for services provided by or capitalized costs paid by MMWEC on behalf of the Cooperative. As of December 31, 2014 and 2013, the Cooperative had balances due to MMWEC of \$143,317 and \$67,900, respectively. There were no amounts due to the Cooperative from MMWEC at December 31, 2014 and 2013.

### 4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2014 is as follows:

	Balance 1/1/13	Additions/ Reclassi- fications	Deletions/ Reclassi- fications	Balance 12/31/13
Capital assets not being depreciated:				
Land	\$ 4,363,134	\$ -	\$ -	\$ 4,363,134
Capital assets being depreciated:				
In service	55,515,009	-	-	55,515,009
Less: Accumulated depreciation	<u>4,311,404</u>	<u>1,675,273</u>	-	<u>5,986,677</u>
Net In service	<u>\$ 55,566,739</u>	<u>\$(1,675,273)</u>	<u>\$ -</u>	<u>\$ 53,891,466</u>

A summary of changes in capital assets for 2013 is as follows:

	Balance 1/1/13	Additions/ Reclassi- fications	Deletions/ Reclassi- fications	Balance 12/31/13
Capital assets not being depreciated:				
Land	\$ 4,363,134	\$ -	\$ -	\$ 4,363,134
Capital assets being depreciated:				
In service	55,515,009	-	-	55,515,009
Less: Accumulated depreciation	<u>2,636,131</u>	<u>1,675,273</u>	-	<u>4,311,404</u>
Net In service	<u>\$ 57,242,012</u>	<u>\$(1,675,273)</u>	<u>\$ -</u>	<u>\$ 55,566,739</u>

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2014 and 2013

## 5. AMOUNTS PAYABLE IN THE FUTURE

Differences in amounts billed to Participants and revenues and expenses recognized are included in amounts 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 payable in the future under the terms of the power sales contract for the years ended December 31, 2014 and 2013 is as follows:

	2014	2013
Beginning balance - January 1	\$1,233,474	\$571,026
Unbilled operating and nonoperating expenses and revenues:		
Depreciation	(1,675,273)	(1,675,273)
Accretion	(54,578)	(51,949)
Amortization of bond premiums and discounts, net	209,450	239,226
Realized and unrealized gains (losses) on investments	221,152	(129,617)
Other timing differences, related to billing	4	61
Debt service collections:		
Billed principal on long-term debt	2,350,000	2,280,000
Ending Balance - December 31	<u>\$2,284,229</u>	<u>\$1,233,474</u>

## 6. 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.

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2014 and 2013

## 6. DEBT...continued

### Series 1 Revenue Bonds...continued

The following is a summary of total debt service requirements for the bonds outstanding at December 31, 2014:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	2,825,000	2,573,655	5,398,655
2019	2,965,000	2,432,405	5,397,405
2020-2024	17,180,000	9,818,823	26,998,823
2025-2029	22,065,000	4,929,513	26,994,513
2030	<u>5,130,000</u>	<u>269,325</u>	<u>5,399,325</u>
Total	<u>\$ 57,860,000</u>	<u>\$ 28,526,686</u>	<u>\$ 86,386,686</u>

The following summarizes changes in the bonds payable for 2014 and 2013:

<u>Year</u>	<u>Balance January 1</u>	<u>Additions</u>	<u>Payments</u>	<u>Amortization of Premium</u>	<u>Balance December 31</u>
2014	<u>\$ 60,957,786</u>	<u>\$ -</u>	<u>\$ (2,350,000)</u>	<u>\$ (209,451)</u>	<u>\$ 58,398,335</u>
2013	<u>\$ 63,477,012</u>	<u>\$ -</u>	<u>\$ (2,280,000)</u>	<u>\$ (239,226)</u>	<u>\$ 60,957,786</u>

## 7. 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.



# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2014 and 2013

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## 7. COMMITMENTS AND CONTINGENCIES...continued

### 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.

### Asset Retirement Obligations

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

## 8. 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 Statement of Net Position as of December 31, 2014 and 2013. MMWEC entered into an agreement with the abutter for a "natural screen" area as well, resulting in a settlement of \$45,000 which was paid during 2013.

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.

# Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2014 and 2013

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## 9. 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.

## 10. 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 \$646,544 (18%) and \$452,296 (13%) of the Cooperatives revenues in 2014. At December 31, 2014, two municipal customers had significant accounts receivable balances of \$104,053 (18%) and \$72,791 (13%). The Cooperative had two municipal customers who were considered significant customers, which accounted for \$397,468 (18%) and \$278,052 (13%) of the Cooperatives revenues in 2013. At December 31, 2013, two municipal customers had significant accounts receivable balances of \$124,613 (19%) and \$87,174 (13%).

## 11. SUBSEQUENT EVENTS

At April 27, 2015, the date which the financial statements were available to be issued, one turbine that comprises a portion of the Berkshire Wind Facility was not operating due to a gearbox failure that occurred on March 16, 2015. The Cooperative has evaluated subsequent events through 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.