

**Berkshire Wind Power Cooperative Corporation**  
(A Development Stage Organization)

Financial Statements

For the period from Inception (April 17, 2008) to December 31, 2008

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**caturano**  
and company

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**Berkshire Wind Power Cooperative Corporation**  
(A Development Stage Organization)

FINANCIAL STATEMENTS

For the period from Inception (April 17, 2008) to December 31, 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Berkshire Wind Power Cooperative Corporation

We have audited the accompanying balance sheet of Berkshire Wind Power Cooperative Corporation (a development stage organization) as of December 31, 2008 and the related statements of revenues and expenses, and cash flows for the period from inception (April 17, 2008) through December 31, 2008. These financial statements are the responsibility of cooperative management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Berkshire Wind Power Cooperative Corporation as of December 31, 2008, and the changes in its financial position and its cash flows for the period from inception (April 17, 2008) through December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Berkshire Wind Power Cooperative Corporation has not presented The Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the financial statements.

*Caturano and Company, P.C.*

CATURANO AND COMPANY, P.C.

November 18, 2009  
Boston, Massachusetts

# Berkshire Wind Power Cooperative Corporation

(A Development Stage Organization)

Balance Sheet

December 31, 2008

## ASSETS

### Current assets:

Cash and cash equivalents	\$ 5,329
Prepaid expenses	8,721
Deferred financing costs, net of accumulated amortization	20,308
Total current assets	<u>34,358</u>

### Noncurrent assets:

Land	3,867,675
Construction work in progress	573,106
Amounts recoverable in the future	48,531
Total noncurrent assets	<u>4,489,312</u>

Total assets	<u>\$ 4,523,670</u>
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## LIABILITIES

### Current liabilities:

Line of credit	\$ 4,390,829
Accounts payable	83,511
Accounts payable - MMWEC	30,425
Accrued interest	18,905
Total current liabilities	<u>4,523,670</u>

Total liabilities	<u>\$ 4,523,670</u>
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# Berkshire Wind Power Cooperative Corporation

(A Development Stage Organization)

Statement of Revenues and Expenses

For the period from Inception (April 17, 2008) through December 31, 2008

	Period from Inception (April 17, 2008) through December 31, 2008
Operating expenses:	
Accounting expense	\$ 35,932
Insurance expense	7,379
Printing and postage expense	3,342
Travel, meals and meetings expense	1,336
Other operating expenses	542
Total operating expenses	<u>48,531</u>
 Operating loss	 <u>(48,531)</u>
Nonoperating revenues (expenses):	
Changes in amounts recoverable in the future	<u>48,531</u>
Total nonoperating revenues	<u>48,531</u>
 Net revenues and expenses	 <u>\$ -</u>

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

# Berkshire Wind Power Cooperative Corporation

(A Development Stage Organization)

Statement of Cash Flows

For the period from Inception (April 17, 2008) through December 31, 2008

	Period from Inception (April 17, 2008) through December 31, 2008
Cash flows from operating activities:	
Cash paid for services	\$ (28,984)
Net cash used in operating activities	<u>(28,984)</u>
Cash flows from capital and related financing activities:	
Line of credit proceeds	4,390,829
Capital expenditures	(4,331,541)
Debt issuance costs	(24,975)
Net cash provided by capital and related financing activities	<u>34,313</u>
Net change in cash and cash equivalents	5,329
Cash and cash equivalents, beginning of period	<u>-</u>
Cash and cash equivalents, end of period	<u>\$ 5,329</u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss	\$ (48,531)
Changes in assets and liabilities:	
Increase in:	
Prepaid expenses	(8,721)
Accounts payable - MMWEC	<u>28,268</u>
Net cash used in operating activities	<u>\$ (28,984)</u>
<b>Supplemental disclosures of cash flow information:</b>	
Noncash investing, capital and financing transactions:	
Construction work in progress financed by accounts payable	<u>\$ 85,668</u>
Capitalized interest expense not yet paid	<u>\$ 18,905</u>

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

# Berkshire Wind Power Cooperative Corporation

(A Development Stage Organization)

Notes to Financial Statements

For the Period from Inception (April 17, 2008) to December 31, 2008

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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. 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

The Cooperative is organized under Chapters 157 and 164: Section 47C of the State of Massachusetts Statutes and constitutes a municipal lighting plant cooperative. The Cooperative was formed by Massachusetts Municipal Wholesale Electric Company (MMWEC) and 14 Municipal Light Departments (Members) 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). Any Municipal Light Department may become a Member 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 By-laws.

The powers of the Cooperative are exercised by the Board of Directors who has the right to conduct business and carry on operations. The Board of Directors is comprised of one director who represents MMWEC and four Directors who represent the Members.

### Nature of Operations

The Cooperative is in the development stage. This stage is characterized by significant expenditures related to the preparation and the installation of 10 1.5-megawatt wind turbines at the Berkshire Wind Facility. Upon completion of the Berkshire Wind Facility, the Cooperative will provide wind energy to MMWEC pursuant to the Berkshire Wind Power Purchase Agreement (Power Purchase Agreement) dated May 21, 2008 between MMWEC and the Cooperative. Under this agreement, MMWEC entered into a 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 to be owned, constructed and operated by the Cooperative at the Berkshire Wind Facility. This business will be a self-sustaining operation, capable of providing operational and financial value to MMWEC and the Members.

The Power Purchase Agreement authorized MMWEC to rely on the Members of the Cooperative to provide the necessary working capital funds in the event that financing cannot be obtained from an outside source.



# Berkshire Wind Power Cooperative Corporation

(A Development Stage Organization)

Notes to Financial Statements

For the Period from Inception (April 17, 2008) to December 31, 2008

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

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

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Additionally, the Cooperative follows *Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation* as it relates to the deferral of revenues and expenses to future periods in which the revenues are expected to be earned or expenses are expected to be recovered through the ratemaking process.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Cooperative's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Cooperative also has the option of following subsequent private-sector guidance subject to this same limitation. The Cooperative has elected to follow subsequent private-sector guidance.

### Use of Estimates

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Cash and Cash Equivalents

Cash and cash equivalents have original maturities for three months or less from the date of acquisition.

### Prepaid Expenses

Prepaid expenses represent insurance premiums paid in the current fiscal year benefiting future periods.

### Deferred Financing Costs

Deferred financing costs include costs directly attributable to the issuance of debt securities. These costs are deferred and capitalized as part of deferred financing costs and are amortized over the remaining life of the related debt.

# Berkshire Wind Power Cooperative Corporation

(A Development Stage Organization)

Notes to Financial Statements

For the Period from Inception (April 17, 2008) to December 31, 2008

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

### Construction Work in Progress

Construction work in progress consists of the costs related to direct materials, direct labor, direct purchased services and indirect costs used in constructing the wind turbines at the Berkshire Wind Facility. These costs will be capitalized into fixed assets and depreciated upon completion of the project. Construction work in progress is stated at cost. Any internal costs that are capitalized are limited to those costs that can be directly identified with the design, engineering, or construction of a specific project and do not include any costs related to production, general corporate overhead or similar activities.

The Cooperative capitalizes interest costs as a component of the cost of construction work in progress. During the period from inception (April 17, 2008) through December 31, 2008 the Cooperative capitalized interest costs of \$117,084.

### Amounts Recoverable/Payable in the Future

The difference between revenues received and expenses paid are charged to the amounts recoverable/payable in the future account. Such amounts will be recovered or settled through future billings.

### 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 utility's principal ongoing operations. The principal operating revenues of the Cooperative will be derived from the Power Purchase Agreement. Operating expenses for the Cooperative include the cost of sales, services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

## 2. CASH AND CASH EQUIVALENTS

	<u>Carrying Value</u>	<u>Bank Value</u>	<u>Associated Risks</u>
December 31, 2008 – checking account	\$ 5,329	\$ 7,829	Custodial Credit Risk

Deposits in each local and area bank are insured by the Federal Deposit Insurance Corporation and at times may exceed such insured limits.

The difference between the carrying value and the bank value is due to outstanding checks and/or deposits in transit.

### Custodial Credit Risk

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. As of December 31, 2008, \$0 of the Cooperative's bank balance was uninsured and uncollateralized and subject to custodial credit risk. No formal investment policy has been adopted by the Cooperative to address this risk.

# Berkshire Wind Power Cooperative Corporation

(A Development Stage Organization)

Notes to Financial Statements

For the Period from Inception (April 17, 2008) to December 31, 2008

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### 3. RELATED PARTIES

On behalf of the Cooperative, MMWEC records and accounts for bills received and paid. MMWEC will also be accounting for charges rendered and payments received from the Members pursuant to the Power Purchase Agreement. Additionally, the Cooperative has entered into an agency 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 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.

During the period from inception (April 17, 2008) through December 31, 2008, the Cooperative incurred charges of \$323,980 for services provided by or paid by MMWEC on behalf of the Cooperative. As of December 31, 2008, the Cooperative had balances due to MMWEC of \$30,425.

### 4. LINE OF CREDIT

During May 2008, the Cooperative obtained a commercial Line of Credit (Line of Credit) with Peoples Bank in the amount of \$8,000,000, evidenced by a Commercial Note (Note) in said amount, for bridge financing to support the purchase of easements, permits and other assets related to the development of the Berkshire Wind Facility and to be used as a down payment on new equipment and to pay for other costs incidental to the development of the wind farm. The initial interest rate is 5% per annum and shall be adjusted monthly on the first day of each month to a rate equal to one-half of a percentage point below the New York Prime Rate.

The Note is substantially collateralized by all assets of the Berkshire Wind Facility, Power Sales Contract between the Cooperative and MMWEC dated May 21, 2008 and the Power Purchase Agreements between MMWEC and the Light Departments, all dated as of May 21, 2008. The Line of Credit expired on May 21, 2009 and was extended to August 31, 2009. As of December 31, 2008, the Cooperative had drawn down \$4,390,829 from the line of credit. During July 2009, the outstanding balance on the Line of Credit was paid off through the use of the proceeds of subsequent financing as described in Note 6.

### 5. LITIGATION

The Cooperative is involved in litigation with Silverleaf Resorts, Inc. (Silverleaf). In 2007, Silverleaf filed a complaint in Massachusetts Land Court (Land Court) against Berkshire Wind Power LLC (Berkshire) alleging that Berkshire had constructed improvements to the wind facility access road after the special permit allowing the improvements had lapsed. The complaint was subsequently amended to add a claim that Berkshire's construction of the improvements to the access road did not conform to the special permit. Upon purchase of the assets, the Cooperative was substituted for Berkshire as the defendant. The Land Court issued a preliminary injunction barring the Cooperative from using the access road for any purpose related to the construction of the wind facility. The Cooperative has appealed the injunction order to a single justice of the Massachusetts Appeals Court. Additionally, Silverleaf has brought an action in Massachusetts Superior Court alleging that an eminent domain taking of land necessary for the wind facility was invalid. The land was taken by eminent domain by MMWEC, which is a member of the Cooperative and which has the statutory power of eminent domain. After the taking, MMWEC entered into a license agreement with the Cooperative, pursuant to which MMWEC granted the Cooperative a license to use the property for purposes of accessing, constructing, operating, and maintaining the wind facility. MMWEC has filed an answer to Silverleaf's complaint, and also filed a counterclaim alleging that Silverleaf's complaint constituted an abuse of process. The Cooperative is not a party to this case. While the ultimate outcome of these matters is not presently determinable, it is the opinion of management that the resolution of outstanding claims will not have a material adverse effect on the financial position or results of operations of the Cooperative.

# Berkshire Wind Power Cooperative Corporation

(A Development Stage Organization)

Notes to Financial Statements

For the Period from Inception (April 17, 2008) to December 31, 2008

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## 5. LITIGATION...continued

Silverleaf recently has challenged some of the activities undertaken by the Cooperative at the wind facility site, and has indicated it may bring an action against the Cooperative alleging violations of the Massachusetts Environmental Protection Act. Based on its analysis of the allegations, the Cooperative does not believe the allegations have any merit. However, the Cooperative cannot predict whether Silverleaf will bring such an action, or if it does, the effect it would have on the wind facility.

## 6. SUBSEQUENT EVENT

During June 2009, the Cooperative issued and sold Berkshire Wind Project Revenue Bonds, Series 2009 (Bonds) in the amount of \$52,500,000. The 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 commercial Line of Credit (see Note 4). Additionally during June, the Cooperative entered into a contract with General Electric for the purchase of power generation equipment and related services for approximately \$23,000,000. As required by the agreement, the Cooperative obtained a Letter of Credit with United Bank in the amount of \$21,000,000 (Letter of Credit). A portion of the proceeds from the Bonds were designated to pay down the amounts owed to General Electric to the current balance of approximately \$2,400,000 which equals the available balance on the related letter of credit.