

Berkshire Wind Power Cooperative Corporation

Financial Statements
and
Required Supplementary Information

Years Ended December 31, 2018 and 2017

Berkshire Wind Power Cooperative Corporation

FINANCIAL STATEMENTS Years Ended December 31, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Berkshire Wind Power Cooperative Corporation (the "Cooperative"), as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise 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, 2018 and 2017, 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 Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 30, 2019

Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis (unaudited)

As of and for the years ended December 31, 2018 and 2017

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, 2018 and 2017. 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 (Participants) 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 Participants are the members of the Cooperative. Two Municipal Light Departments joined the Cooperative in 2018. 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 have been commercially operating since 2011, and two 2.3-megawatt wind turbines which are under construction as of December 31, 2018. These turbines, 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 Participants, in their pro rata share, pursuant to 16 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 Cooperative's financial statements include Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows. The Statements of Net Position report year-end assets, liabilities and deferred out flows and deferred inflows based on the original cost adjusted for any depreciation, amortization or unrealized gains/losses as appropriate. The Statements of Revenues, Expenses and Changes in Net Position present the Cooperative's operating revenues and expenses incurred as a result of the Cooperative's business activity. The Statements of Cash Flows report the cash provided and used for operating activities, as well as investing activities and capital and related financing activities.

Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis (unaudited)
As of and for the years ended December 31, 2018 and 2017

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, 2018, 2017 and 2016.

Condensed Statements of Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current assets less current portion of restricted special funds	\$ 1,446,174	\$ 2,144,656	\$ 3,350,847
Restricted assets including current portion of restricted special funds	17,927,246	10,366,868	11,270,127
Capital assets	53,492,039	49,114,485	50,797,738
Deferred outflows of resources	<u>2,799,074</u>	<u>3,048,325</u>	<u>-</u>
 Total assets and deferred outflows of resources	 <u>\$ 75,664,533</u>	 <u>\$ 64,674,334</u>	 <u>\$ 65,418,712</u>
 Current liabilities less current maturities and accrued interests	 \$ 5,629,184	 \$ 3,567,927	 \$ 4,056,509
Long-term debt, net of premiums, including current maturities and accrued interest	62,772,569	53,473,765	54,475,420
Noncurrent liabilities	1,380,553	1,314,062	1,250,773
Deferred inflows of resources	<u>5,882,227</u>	<u>6,318,580</u>	<u>5,636,010</u>
 Total liabilities and deferred inflows of resources	 <u>\$ 75,664,533</u>	 <u>\$ 64,674,334</u>	 <u>\$ 65,418,712</u>
 Net investment in capital assets	 \$ 4,101,047	 \$ 2,007,529	 \$ 3,788,129
Restricted	10,136,785	2,458,451	2,451,667
Unrestricted	<u>(14,237,832)</u>	<u>(4,465,980)</u>	<u>(6,239,796)</u>
 Total net position	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>

Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis (unaudited)
As of and for the years ended December 31, 2018 and 2017

FINANCIAL ANALYSIS...continued

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 5,209,908	\$ 7,083,773	\$ 6,890,036
Depreciation and amortization expense	1,683,253	1,683,253	1,683,274
Other operating expenses	1,868,871	1,983,486	1,685,333
Total operating expenses	<u>3,552,124</u>	<u>3,666,739</u>	<u>3,368,607</u>
Operating income	<u>1,657,784</u>	<u>3,417,034</u>	<u>3,521,429</u>
Investment income	109,579	90,079	77,806
Interest and amortization expense	(1,983,665)	(2,291,744)	(2,663,165)
Gain (loss) on investment	59,627	30	(27,071)
Bond issuance expense	(279,678)	(532,829)	-
Decrease (increase) in amounts payable under terms of the power sales agreements	436,353	(682,570)	(908,999)
Total non-operating expenses	<u>(1,657,784)</u>	<u>(3,417,034)</u>	<u>(3,521,429)</u>
Net revenues and expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Condensed Statements of Cash Flows

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net cash provided by operating activities	\$ 4,420,501	\$ 5,928,543	\$ 6,136,728
Net cash provided by (used in) investing activities	3,153,348	4,196,427	(1,232,113)
Net cash provided by (used in) capital and related financing activities	<u>2,091,168</u>	<u>(6,874,553)</u>	<u>(5,401,405)</u>
Net change in cash and cash equivalents	9,665,017	3,250,417	(496,790)
Cash and cash equivalents – beginning of year	<u>5,997,468</u>	<u>2,747,051</u>	<u>3,243,841</u>
Cash and cash equivalents – end of year	<u>\$ 15,662,485</u>	<u>\$ 5,997,468</u>	<u>\$ 2,747,051</u>

Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis (unaudited)
As of and for the years ended December 31, 2018 and 2017

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 2017 Financial Results to 2016 Financial Results

Current assets, excluding the current portion of restricted special funds, decreased \$1,206,191. Cash and cash equivalents increased \$47,358 primarily due to cash collected for operational expenses. Prepaid expenses decreased \$85,078 related to the timing of payments made for the turbine maintenance agreement and payment in lieu of taxes. Accounts receivable decreased \$360,518, due to the timing of receipts from Participants. Renewable energy credits (RECs) available for sale decreased \$809,589 due to lower generation and market prices of the RECs in 2017, when compared to the prior year.

Current and noncurrent restricted funds decreased \$903,259 from 2016 to 2017 primarily due to the advance refunding of the bonds in December 2017, which resulted in lower bond-related funds.

The net decrease of \$1,683,253 in capital assets is due to ongoing depreciation of assets.

Deferred outflows of resources increased \$3,048,325 due to the loss on the advance refunding of debt in 2017.

The \$488,582 decrease in current liabilities, excluding current maturities of long-term debt and accrued interest, is attributable to lower REC revenues held at year-end in 2017 to be returned to Participants, resulting in a decrease of \$884,827 in advances from Participants, offset by increases in accounts payable and accrued expenses of \$282,628 due to timing of payments for operational expenses.

Long-term debt, including current maturities and accrued interest, decreased \$1,001,655 primarily due to a decrease in accrued interest after the December 2017 advance refunding.

Other noncurrent liabilities, excluding long-term debt, increased \$63,289 due to accretion of asset retirement obligations.

Deferred inflows of resources increased \$682,570 due to changes 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.

Comparison of 2018 Financial Results to 2017 Financial Results

Current assets, excluding the current portion of restricted special funds, decreased \$698,482. Cash and cash equivalents decreased \$879,503 due to an increase in capital costs. Prepaid expenses increased \$1,423 related to the timing of payments made for the turbine maintenance agreement. Accounts receivable increased \$51,938, due to the timing of receipts from Participants. Renewable energy credits (RECs) available for sale increased \$125,397 due to increased market prices for the RECs in 2018, when compared to the prior year.

Current and noncurrent restricted funds increased \$7,560,378 from 2017 to 2018 primarily due to higher bond-related fund balances and construction funds held from Phase 2 Series 1 bonds.

Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis (unaudited)
As of and for the years ended December 31, 2018 and 2017

STATEMENTS OF NET POSITION...continued

Comparison of 2018 Financial Results to 2017 Financial Results...continued

The net increase of \$4,377,554 in capital assets is due to capital work in progress related to the construction of two 2.3-megawatt wind turbines (Phase 2).

Deferred outflows of resources decreased \$249,251 due to the amortization on loss on refunding of series 2 debt.

The \$2,061,257 increase in current liabilities, excluding current maturities of long-term debt and accrued interest, is attributable to an increase of REC revenues held at year-end in 2018 to be returned to Participants, resulting in an increase of \$506,208 in advances from Participants, and an increase in accounts payable and accrued expenses of \$1,555,049 due to timing of payments for operational and capital costs.

Long-term debt, including current maturities and accrued interest, increased \$9,422,575 due to the issues of Phase 2 Series 1 bonds in late 2018 for the construction of Phase 2.

Other noncurrent liabilities, excluding long-term debt, increased \$66,491 due to ongoing accretion of asset retirement obligations.

Deferred inflows of resources decreased \$436,353 due to changes 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 2017 Financial Results to 2016 Financial Results

Operating revenues increased \$193,737 due to increased billable operating expenses, stemming from increased maintenance events and higher legal costs associated with contract negotiations.

Total operating expenses increased by \$298,132, primarily due to higher engineering and legal expenses, related to increased maintenance activity and negotiation of Cooperative contracts.

Interest income, which is a result of varying fund balances and interest rates, increased \$12,273 due to improved investment performance in 2017 as compared to the prior year.

Interest expense decreased \$276,125 due to lower interest cost incurred in 2017 than in 2016 as a result of reduced long-term debt balances due to scheduled principal payments and advance refunding of debt in December 2017.

Amortization expense increased \$95,296 due to continued amortization of premiums and the write-off of premiums related to the advance refunding of the Series 1 Revenue Bonds.

The increase in gain on investments of \$27,101 is due to fluctuations in market performance and account balances and reflects the improved investment performance in 2017, as compared to the prior year.

The increase in amounts payable in the future under the terms of the power sales contract is discussed in Notes 1 and 5 of the accompanying financial statements.

Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis (unaudited)
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STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION...continued

Comparison of 2018 Financial Results to 2017 Financial Results

Operating revenues decreased \$1,873,865 due to lower billed operating expenses and refund of debt service for common facilities to participants in 2018.

Total operating expenses decreased by \$114,615, primarily due to lower legal expenses related to operating issues in 2018 than in the prior year.

Interest income, which is a result of varying fund balances and interest rates, increased \$19,500 due to investment performance and higher fund balances due to construction funds from the Phase 2 Series 1 bond issuance in 2018.

Interest expense increased \$113,802 due to higher debt balances in 2018 than in the prior year due to the issuance of the Phase 2 Series 1 bonds in late 2018.

Amortization expense increased \$194,277 due to increased amortization of premiums in 2018 related to the Series 2 Revenue Bonds.

The increase in gain on investments of \$59,597 is due to fluctuations in market performance and account balances and reflects the improved investment performance in 2018, as compared to the prior year.

The increase in amounts payable in the future under the terms of the power sales contract is discussed in Notes 1 and 5 of the accompanying financial statements.

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 \$3,250,417 from 2016 to 2017 due to sales and maturities of investments during 2017. Cash and cash equivalents increased \$9,665,017 from 2017 to 2018 due to proceeds from long term debt related to project construction as well as sale and maturities of investments during 2018.

OPERATING STATISTICS

For calendar year 2018, the Berkshire Wind Facility developed the following operating statistics:

- Total Generation: 45,323 MWh
- Availability Factor: 90.8%
- Capacity Factor: 34.5%

For calendar year 2017, the Berkshire Wind Facility developed the following operating statistics:

- Total Generation: 49,552 MWh
- Availability Factor: 92.0%
- Capacity Factor: 37.7%

For calendar year 2016, the Berkshire Wind Facility developed the following operating statistics:

- Total Generation: 47,492 MWh
- Availability Factor: 89.4%
- Capacity Factor: 36%

Berkshire Wind Power Cooperative Corporation

Statements of Net Position
As of December 31, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 201,305	\$ 1,080,808
Accounts receivable	526,461	474,523
Inventories	68,278	66,015
Prepaid expenses	169,092	167,669
Renewable energy credits available for sale	481,038	355,641
Current portion of restricted special funds	2,609,054	1,731,955
Total current assets	<u>4,055,228</u>	<u>3,876,611</u>
Noncurrent assets:		
Restricted special funds	15,318,192	8,634,913
Total Noncurrent assets:	<u>15,318,192</u>	<u>8,634,913</u>
Capital assets:		
Land	5,431,449	4,363,134
In service	55,839,316	55,781,077
Capital work in progress	4,934,253	-
Accumulated depreciation and amortization	(12,712,979)	(11,029,726)
Total capital assets	<u>53,492,039</u>	<u>49,114,485</u>
DEFERRED OUTFLOWS OF RESOURCES		
Loss on refunding of debt net of amortization	2,799,074	3,048,325
Total assets and deferred outflows of resources	<u>\$ 75,664,533</u>	<u>\$ 64,674,334</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 1,803,029	\$ 198,858
Accounts payable - MMWEC	265,310	243,254
Advances from Participants	3,506,948	3,000,740
Accrued expenses	53,897	125,075
Current liabilities payable from restricted assets:		
Accrued interest	1,182,090	190,347
Current maturities of long-term debt	3,549,606	3,425,835
Total current liabilities	<u>10,360,880</u>	<u>7,184,109</u>
Noncurrent liabilities:		
Long-term debt, net of premiums and current maturities	58,040,873	49,857,583
Asset retirement obligations	1,380,553	1,314,062
Total noncurrent liabilities	<u>59,421,426</u>	<u>51,171,645</u>
DEFERRED INFLOWS OF RESOURCES		
Amounts payable in the future under terms of the power sales contract	5,882,227	6,318,580
Total liabilities and deferred inflows of resources	<u>\$ 75,664,533</u>	<u>\$ 64,674,334</u>
NET POSITION		
Net investment in capital assets	\$ 4,101,047	\$ 2,007,529
Restricted	10,136,785	2,458,451
Unrestricted	(14,237,832)	(4,465,980)
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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Revenues	<u>\$ 5,209,908</u>	<u>\$ 7,083,773</u>
Operating expenses:		
Maintenance	644,459	646,508
Easement	151,299	142,627
Payment in lieu of taxes	174,992	180,634
Accounting and administrative	158,193	129,274
Insurance	184,874	190,150
Engineering	200,180	224,523
Legal	78,959	266,810
Other operating	275,915	202,960
Depreciation and amortization	1,683,253	1,683,253
Total operating expenses	<u>3,552,124</u>	<u>3,666,739</u>
Operating income	<u>1,657,784</u>	<u>3,417,034</u>
Nonoperating revenues (expenses):		
Interest income	109,579	90,079
Interest expense on long-term debt	(2,382,353)	(2,496,155)
Amortization of bond premiums and discounts, net	647,939	204,411
Amortization of Loss on Refunding	(249,251)	-
Unrealized gain (loss) on investments	59,627	30
Bond issuance expense	(279,678)	(532,829)
Decrease (increase) in amounts payable in the future under the terms of the power sales contract	436,353	(682,570)
Total nonoperating expenses	<u>(1,657,784)</u>	<u>(3,417,034)</u>
Net revenues and expenses	<u>\$ -</u>	<u>\$ -</u>
Change in net position	-	-
Net position, beginning of year	-	-
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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Received from sales to participants and RECs	\$ 6,293,026	\$ 7,369,053
Paid to suppliers for goods and services	(1,118,280)	(1,440,510)
Refund of debt service to participants	(754,245)	-
Net cash provided by operating activities	<u>4,420,501</u>	<u>5,928,543</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(5,193,544)	-
Debt issuance expense	(279,678)	(532,829)
Proceeds from long-term debt	11,780,000	40,210,000
Premium on issuance of long-term debt	-	7,221,487
Principal payments on long-term debt	(2,825,000)	(51,065,056)
Interest payments on long-term debt	(1,390,610)	(2,708,155)
Net cash provided by (used in) capital and related financing activities	<u>2,091,168</u>	<u>(6,874,553)</u>
Cash flows from investing activities:		
Purchases of investments	(4,107,000)	(2,436,000)
Proceeds from sales and maturities of investments	7,091,142	6,542,318
Gain (loss) on investments	59,627	30
Interest received	109,579	90,079
Net cash provided by investing activities	<u>3,153,348</u>	<u>4,196,427</u>
Net change in cash and cash equivalents	9,665,017	3,250,417
Cash and cash equivalents, beginning of period	<u>5,997,468</u>	<u>2,747,051</u>
Cash and cash equivalents, end of period	<u>\$ 15,662,485</u>	<u>\$ 5,997,468</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating income	\$ 1,657,784	\$ 3,417,034
Noncash items included in operating income:		
Depreciation and accretion of asset retirement obligations	1,749,744	1,746,542
Changes in assets and liabilities:		
Increase (decrease) in:		
Accounts receivable	(51,938)	360,518
Inventories	(2,263)	(1,636)
Prepaid expenses	(1,423)	85,078
Renewable energy credits available for sale	(125,397)	809,589
Increase (decrease) in:		
Account payable	810,573	77,939
Accounts payable - MMWEC	(51,609)	204,689
Advances from Participants	506,208	(884,827)
Accrued expenses	(71,178)	113,617
Net cash used in operating activities	<u>\$ 4,420,501</u>	<u>\$ 5,928,543</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents	\$ 201,305	\$ 1,080,808
Total restricted special funds	<u>17,927,246</u>	<u>10,366,868</u>
Total cash and investments	<u>18,128,551</u>	<u>11,447,676</u>
Less: Noncash equivalents	<u>(2,466,066)</u>	<u>(5,450,208)</u>
Total cash and cash equivalents	<u>\$ 15,662,485</u>	<u>\$ 5,997,468</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, 2018 and 2017

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 (Participants) 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 Participants are the members of the Cooperative. Two Municipal Light Departments joined the Cooperative in 2018.

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 Participants.

The Cooperative has ten 1.5-megawatt wind turbines which have been commercially operating since 2011, and two 2.3-megawatt wind turbines which are under construction as of December 31, 2018. These turbines, 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 Participants, in their pro rata share, pursuant to 16 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 Participants to provide the necessary working capital funds in the event that financing cannot be obtained from an outside source.

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.

Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis (unaudited)
As of and for the years ended December 31, 2018 and 2017

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

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 Statement of Revenues, Expenses, and Changes in Net Positions.

Cash and Investments

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 methods and inputs as outlined in Note 7. 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.

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.

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, 2018 and 2017, total spare parts inventory amounted to \$68,278 and \$66,015, respectively.

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 the contract sales price for the years ended December 31, 2018 and 2017. 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 Participants through billing.

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2018 and 2017

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 General Bond Resolution (GBR) pursuant to which the Cooperative issued its Series 1 Revenue Bonds (see Note 6). In addition to the GBR funds, a separate fund was required by Western Massachusetts Electric Company to maintain funds to cover a possible CIAC tax. The restricted special funds are held in accordance with the provisions of the GBR, as applicable. When both restricted and unrestricted resources are available for sure, it is the Cooperatives policy to use restricted funds first, then unrestricted funds as they are needed.

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

	<u>2018</u>	<u>2017</u>
Reserve Account to provide for the benefit and security of the Series 1 and Series 2 Revenue Bonds	\$ 5,180,389	\$ 5,103,782
Revenue Fund to receive revenues and disburse them to other funds	315,059	-
Bond Fund Interest, Principal and Retirement Accounts to pay principal and interest on bonds	2,561,919	1,558,596
Reserve and Contingency Fund to make up deficiencies in the Bond Funds and pay for repairs and extraordinary costs	1,843,840	2,572,388
Main Fund to fund debt issuance costs	47,134	173,359
Construction Fund to acquire and construct two 2.3-megawatt wind turbines	7,018,081	-
CIAC Tax Fund to maintain funds to cover costs of possible CIAC Tax	<u>960,824</u>	<u>958,743</u>
Total restricted special funds	17,927,246	10,366,868
Less - current portion	<u>(2,609,054)</u>	<u>(1,731,955)</u>
Restricted special funds, net of current portion	<u>\$ 15,318,192</u>	<u>\$ 8,634,913</u>

Prepaid Expenses

Prepaid expenses represent insurance premiums, maintenance agreement, and payment in lieu of taxes paid in the current fiscal year benefiting future periods.

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2018 and 2017

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

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.

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

Capital Work in progress

Capital 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. Depreciation of these costs will commence once placed in service.

Deferred Outflows of Resources

Deferred outflows of resources are the loss on refunding of debt.

Accounts Payable and Accrued Expenses

At December 31, 2018, accounts payable and accrued liabilities total \$3,304,326 which include \$1,856,926 related to standard operating supplier and vendor accounts payable; \$265,310 for accounts payable to MMWEC and \$1,182,090 for accrued interest on long term debt.

At December 31, 2017, accounts payable and accrued liabilities total \$1,709,265 which include \$323,933 related to standard operating supplier and vendor accounts payable; \$243,254 for accounts payable to MMWEC and \$1,142,078 for accrued interest on long term debt.

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.

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2018 and 2017

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

Asset Retirement Costs and Obligations...continued

A reconciliation of the beginning and ending carrying amount of the ARO for the years ended December 31 is as follows:

	<u>2018</u>	<u>2017</u>
Asset retirement obligations, beginning of year	\$ 1,341,062	\$ 1,250,773
Accretion expense	66,492	63,289
Asset retirement obligations, end of year	<u>\$ 1,407,554</u>	<u>\$ 1,314,062</u>

Accretion expense is included in other operating expenses in the Statements of Revenues, Expenses and Changes in Net Position. AROs are recorded at 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, identification of planned retirement activities and related cost estimates, and assertions of 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.

Advances from Participants

The Cooperative maintains operating reserves and advances from its Participants in accordance with the Power Sales Agreements, which are considered current liabilities.

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.

Deferred Inflows of Resources

Deferred inflows of resources are comprised of amounts payable in the future and the working capital reserve.

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2018 and 2017

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

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.

Comparative Data

Certain prior year amounts have been reclassified in the calculation of loss on refunding of debt and accrued interest with no impact on net position. The following table shows the impacts to the Statements of Net Position. The reclassification had no effect on the Statements of Revenues, Expenses, and Changes in Net Position.

	<u>As Previously Reported 2017</u>	<u>Reclassification of Statement of Net Position</u>	<u>As Adjusted 2017</u>
Statement of Net Position Items Affected			
Loss on refunding of debt net of amortization	\$ 4,000,056	\$ (951,731)	\$ 3,048,325
Accrued interest	(1,142,078)	951,731	(190,347)

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2018 and 2017

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

Effect of Future Accounting Standards on Current Period Financial Statements

GASB has approved Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 87, *Leases*, Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* and Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. When they become effective, application of these standards may restate portions of these financial statements.

2. CASH AND CASH EQUIVALENTS AND RESTRICTED SPECIAL FUNDS

The Cooperative's cash and investments at December 31, 2018 and 2017 were comprised of the following:

	2018		2017		
	Carrying Value	Bank Value	Carrying Value	Bank Value	
Cash and Cash Equivalents:					
Checking Account	\$ 249,113	\$ 257,462	\$ 1,080,808	\$ 1,173,942	Custodial Credit Risk
Money Market Funds	7,174,829	7,174,828	4,916,660	4,916,660	Custodial Credit Risk
Total Cash and Cash Equivalents	7,423,942	7,432,290	5,997,468	6,090,602	
Other Investments:					
U.S. Agency Bonds	3,734,336	3,734,336	4,207,319	4,207,319	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
U.S. Treasury Bills	6,970,273	6,970,273	-	-	Credit Risk, Interest Rate Risk
Municipal Bonds	-	-	644,440	644,440	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
U.S. Treasury Notes	-	-	598,449	598,450	Credit Risk, Interest Rate Risk, Concentration of Credit Risk
Total Other Investments	10,704,609	10,704,609	5,450,208	5,450,209	
Totals	\$ 18,128,551	\$ 18,136,899	\$ 11,447,676	\$ 11,540,811	

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

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2018 and 2017

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

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, 2018 and 2017, \$7,157,290 and \$5,590,602, 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.

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, 2018, the Cooperative's investments were rated as follows:

<u>Investment Type</u>	<u>Credit Rating</u>
Federal National Mortgage	AA+
Federal Home Loan Bank	AA+
Federal Home Loan Mortgage	AA+
U.S. Treasury	AA+

As of December 31, 2017, the Cooperative's investments were rated as follows:

<u>Investment Type</u>	<u>Credit Rating</u>
Federal National Mortgage	AA+
U.S. Treasury	AA+
Federal Home Loan Bank	AA+
Federal Home Loan Mortgage	AA+
Municipal Bonds	AA to AA+

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

As of and for the years ended December 31, 2018 and 2017

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>2018</u>	<u>2017</u>
Federal National Mortgage	U.S. Agency Securities	10.98%	23.84%
Federal Home Loan Bank	U.S. Agency Securities	1.85%	3.64%
Federal Home Loan Mortgage	U.S. Agency Securities	22.05%	49.71%
U.S. Treasury	U.S. Treasury	65.12%	10.98%
Municipal Bonds	U.S Agency Securities	0%	11.82%

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, 2018, 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. Treasury Securities	\$ 3,734,336	\$ 1,268,270	\$ 2,010,586	\$ 455,480
U.S. Agency	6,970,273	6,970,273	-	-
Total	<u>\$ 10,704,609</u>	<u>\$ 8,238,543</u>	<u>\$ 2,010,586</u>	<u>\$ 455,480</u>

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2018 and 2017

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

Interest Rate Risk...continued

At December 31, 2017, 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. Treasury Securities	\$ 598,449	\$ 598,449	\$ -	\$ -
U.S. Agency	4,207,319	467,453	3,283,260	456,606
Municipal Bonds	644,440	644,440	-	-
Total	<u>\$ 5,450,208</u>	<u>\$ 1,710,342</u>	<u>\$ 3,283,260</u>	<u>\$ 456,606</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.

During the years ended December 31, 2018 and 2017, interest income consisted of interest income and realized gains as follows:

	<u>2018</u>	<u>2017</u>
Interest income	\$ 109,579	\$ 90,023
Realized gains	-	56
	<u>\$ 109,579</u>	<u>\$ 90,079</u>

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 Participants 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. During the years ended December 31, 2018 and 2017, the Cooperative incurred charges of \$571,669 and \$465,831, respectively, for services provided by MMWEC on behalf of the Cooperative. As of December 31, 2018 and 2017, the Cooperative had balances due to MMWEC of \$265,310 and \$243,254, respectively.

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2018 and 2017

4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2018 is as follows:

	Balance 1/1/2018	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 12/31/2018
Capital assets not being depreciated:				
Land	\$ 4,363,134	\$ 1,068,315	\$ -	\$ 5,431,449
Capital assets being depreciated:				
In service	55,781,077	58,239	-	55,839,316
Less: Accumulated depreciation	<u>11,029,726</u>	<u>1,683,253</u>	<u>-</u>	<u>12,712,979</u>
Net In service	<u>\$ 49,114,485</u>	<u>\$ (556,699)</u>	<u>\$ -</u>	<u>\$ 48,557,786</u>

A summary of changes in capital assets for 2017 is as follows:

	Balance 1/1/2017	Additions/ Reclassifications	Deletions/ Reclassifications	Balance 12/31/2017
Capital assets not being depreciated:				
Land	\$ 4,363,134	\$ -	\$ -	\$ 4,363,134
Capital assets being depreciated:				
In service	55,781,077	-	-	55,781,077
Less: Accumulated depreciation	<u>9,346,473</u>	<u>1,683,253</u>	<u>-</u>	<u>11,029,726</u>
Net In service	<u>\$ 50,797,738</u>	<u>\$ (1,683,253)</u>	<u>\$ -</u>	<u>\$ 49,114,485</u>

A summary of changes in capital work in progress for 2018 and 2017 is as follows:

Year	Balance at January 1,	Additions	Transfers to In Service	Balance at December 31,
2018	<u>\$ -</u>	<u>\$ 4,934,253</u>	<u>\$ -</u>	<u>\$ 4,934,253</u>
2017	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2018 and 2017

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 and 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, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance - January 1	\$ 6,318,580	\$ 5,636,010
Unbilled operating and non-operating expenses and revenues:		
Depreciation	(1,683,253)	(1,683,253)
Accretion	(66,492)	(63,289)
Amortization of bond premiums and discounts, net	647,939	204,411
Amortization on loss of refunding	(249,251)	-
Realized and unrealized gains (losses) on investments	59,627	30
Bond issuance costs	(279,678)	(532,829)
Interest expense paid by bond proceeds	(102,714)	-
Refund of debt service to participants	(1,657,531)	-
Debt service collections:		
Billed principal on long-term debt	2,895,000	2,757,500
Ending Balance - December 31	<u>\$ 5,882,227</u>	<u>\$ 6,318,580</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.

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2018 and 2017

6. DEBT...continued

Series 1 Revenue Bonds...continued

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

Series 2 Revenue Bonds and Advance Refunding

On December 14, 2017, the Cooperative issued and sold Berkshire Wind Project Revenue Bonds, Berkshire Refunding Series 2 (Series 2 Bonds) in the face amount of \$40,210,000 pursuant to the GBR as adopted by the Cooperative. The Series 2 Bonds were issued at a net premium of \$7,221,487 which will be amortized over the life of the bonds using the effective interest method. The Series 2 Bonds are payable from and secured by the revenues derived from the Berkshire Wind Facility. The Series 2 bonds were issued for the purpose of advance refunding a portion of the Cooperative's outstanding Series 1 and to pay costs of issuance for the Series 2 bonds. The net proceeds were used to purchase U.S. Government securities, which were deposited in an irrevocable trust with an escrow agent to provide for all debt service payments related the Series 1 Bonds after July 1, 2019. As a result, the Series 1 bonds payable after July 1, 2019 are considered defeased and the liability for these bonds has been removed from the accompanying Statement of Net Position as of December 31, 2017.

Interest on the Series 2 bonds is payable in semi-annual installments beginning July 1, 2018 and on January 1 and July 1 for each year thereafter. The Series 2 Bonds bear interest at a fixed rate of 5.0%. The Series 2 Bonds are subject to mandatory redemption by the Cooperative in annual principal installments commencing on July 1, 2020 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 Series 2 Bonds due and payable on the final maturity date of July 1, 2030.

The cash flow requirements on the Series 1 bonds prior to the advance refunding was \$63,009,239 from 2018 through 2030. The cash flow requirements on the new bonds are \$56,315,513 from 2018 through 2030. The advance refunding resulted in an economic gain of \$6,693,726.

Phase 2 Series 1 Revenue Bonds

On October 5, 2018, the Cooperative issued and sold Berkshire Wind Project Revenue Bonds, Berkshire Phase 2 Series 1 (Phase 2 Bonds) in the face amount of \$11,780,000 pursuant to the GBR as adopted by the Cooperative. The Phase 2 Bonds are payable from and secured by the revenues derived from the Berkshire Wind Facility. The Phase 2 bonds were issued for the purpose of expanding the Berkshire Wind Facility through the construction of two 2.3 megawatt wind turbines.

Interest on the Phase 2 bonds is payable in semi-annual installments beginning January 1, 2019 and on January 1 and July 1 for each year thereafter. The Phase 2 Bonds bear interest at a fixed rate of 3.65%. The Phase 2 Bonds are subject to mandatory redemption by the Cooperative in annual principal installments commencing on July 1, 2019 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 Phase 2 Bonds due and payable on the final maturity date of July 1, 2033.

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2018 and 2017

6. DEBT...continued

The Cooperative had outstanding debt obligations totaling \$45,920,000 and \$47,444,000 on December 31, 2018 and 2017, respectively, which were defeased and excluded from long-term debt.

The following is a summary of total debt service requirements for the bonds outstanding at December 31, 2018:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 3,375,173	\$ 2,402,325	\$ 5,777,498
2020	3,255,144	2,354,749	5,609,893
2021	3,410,662	2,194,231	5,604,893
2022	3,576,746	2,025,897	5,602,643
2023	3,748,417	1,849,351	5,597,768
2024-2028	21,654,249	6,280,592	27,934,841
2029-2033	15,934,609	1,498,835	17,433,444
Total	<u>\$ 54,955,000</u>	<u>\$ 18,605,980</u>	<u>\$ 73,560,980</u>

The following summarizes changes in the long-term debt, net of premiums, for 2018 and 2017:

Year	Balance January 1	Additions	Payments	Amortization of Premium	Balance December 31
2018	<u>\$ 53,283,418</u>	<u>\$ 11,780,000</u>	<u>\$ (2,825,000)</u>	<u>\$ (647,939)</u>	<u>\$ 61,590,479</u>
2017	<u>\$ 53,121,342</u>	<u>\$ 47,431,486</u>	<u>\$ (47,064,999)</u>	<u>\$ (204,411)</u>	<u>\$ 53,283,418</u>

7. FAIR VALUE MEASUREMENT

The Cooperative records assets and liabilities in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which determines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement.

Fair value is defined in Statement No. 72 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2018 and 2017

7. FAIR VALUE MEASUREMENT...continued

As a basis for considering market participant assumptions in fair value measurements, Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- **Level 1** inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. U.S. Government Treasury securities are examples of Level 1 inputs.
- **Level 2** inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Government agency and mortgage-backed securities are examples of Level 2 inputs.
- **Level 3** inputs are unobservable inputs that reflect the Cooperative's own assumptions about factors that market participants would use in pricing the asset or liability (including assumptions about risk).

Valuation methods of the primary fair value measurements disclosed below are as follows:

- The majority of investments in equity securities are valued using Level 1 measurements. Investments in equity securities are typically valued at the closing price in the principal active market. For equity securities, these markets include published exchanges such as the National Association of Securities Dealers Automated Quotations and the New York Stock Exchange.
- Most investments in debt securities are valued using Level 2 measurements because the valuations use interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and consider the counterparty credit rating.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Cooperative's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels.

The following table presents fair value balances and their levels within the fair value hierarchy as of December 31, 2018 and 2017:

	2018			
	Level 1	Level 2	Level 3	Total
Investments and Cash Equivalents				
U.S. Treasury Bills	\$ 6,970,273	\$ -	\$ -	\$ 6,970,273
U.S. Agency Bonds	-	3,734,336	-	3,734,336
Investments and Cash Equivalents	<u>\$ 6,970,273</u>	<u>\$ 3,734,336</u>	<u>\$ -</u>	<u>\$ 10,704,609</u>
	2017			
	Level 1	Level 2	Level 3	Total
Investments and Cash Equivalents				
U.S. Treasury Notes	\$ 598,449	\$ -	\$ -	\$ 598,449
U.S. Agency Bonds	-	4,207,319	-	4,207,319
Municipal Bonds	-	644,440	-	644,440
Investments and Cash Equivalents	<u>\$ 598,449</u>	<u>\$ 4,851,759</u>	<u>\$ -</u>	<u>\$ 5,450,208</u>

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2018 and 2017

7. FAIR VALUE MEASUREMENT...continued

	2018			
	Level 1	Level 2	Level 3	Total
Renewable energy credits available for sale	\$ -	\$ 481,038	\$ -	\$ 481,038
	2017			
	Level 1	Level 2	Level 3	Total
Renewable energy credits available for sale	\$ -	\$ 355,641	\$ -	\$ 355,641

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 CIAC. 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. This fund contains sufficient funds to pay for the CIAC tax, if assessed by the Internal Revenue Service against WMECO, at December 31, 2018 and 2017.

Renewable Energy Production Incentive Payments

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

9. LITIGATION

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, 2018 and 2017

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.

The Cooperative has two municipal customers who are considered significant customers, which accounted for \$751,066 (18%) and \$508,937 (12%) of the Cooperatives revenues in 2018. At December 31, 2018, three municipal customers had significant accounts receivable balances of \$90,730 (17%), \$63,471 (12%), and \$52,855 (10%). The Cooperative had two municipal customers who were considered significant customers, which accounted for \$1,082,441 (18%) and \$757,232 (13%) of the Cooperatives revenues in 2017. At December 31, 2017, three municipal customers had significant accounts receivable balances of \$167,061 (35%), \$59,475 (13%), and \$58,958 (12%).

12. SUBSEQUENT EVENTS

The Cooperative has evaluated subsequent events through April 30, 2019, 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 for the year ended December 31, 2018.