

Berkshire Wind Power Cooperative Corporation

Financial Statements
and
Required Supplementary Information

Years Ended December 31, 2019 and 2018

Berkshire Wind Power Cooperative Corporation

FINANCIAL STATEMENTS Years Ended December 31, 2019 and 2018

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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, 2019 and 2018, 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, 2019 and 2018, 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.

As discussed in Note 1, the Cooperative adopted the provisions of GASB Statement No. 83, *Certain Asset Retirement Obligations* effective January 1, 2019. Our opinion is not modified with respect to this matter.

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 29, 2020

Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis (unaudited)

As of and for the years ended December 31, 2019 and 2018

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, 2019 and 2018. 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 16 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 began commercial operations in 2019. 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 Balance Sheets, Statements of Revenues, Expenses and Changes in Net Position and Statements of Cash Flows. The Balance Sheets report the 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, 2019 and 2018

FINANCIAL ANALYSIS

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

The following tables show the condensed Balance Sheets, the Statements of Revenues, Expenses, and Changes in Net Position and the Statements of Cash Flows as of December 31, 2019, 2018 and 2017.

	<u>Condensed Balance Sheets</u>		
	<u>2019</u>	Restated <u>2018</u>	<u>2017</u>
Current assets less current portion of restricted special funds	\$ 1,890,698	\$ 1,446,174	\$ 2,144,656
Restricted assets including current portion of restricted special funds	11,375,362	17,927,246	10,366,868
Capital assets	57,051,800	52,894,380	49,114,485
Deferred outflows of resources	<u>5,640,816</u>	<u>5,251,013</u>	<u>3,048,325</u>
 Total assets and deferred outflows of resources	 <u>\$ 75,958,676</u>	 <u>\$ 77,518,813</u>	 <u>\$ 64,674,334</u>
 Current liabilities less current maturities and accrued interests	 \$ 3,729,804	 \$ 5,629,184	 \$ 3,567,927
Long-term debt, net of premiums, including current maturities and accrued interest	58,260,028	62,772,569	53,473,765
Noncurrent liabilities	4,037,516	3,303,422	1,314,062
Deferred inflows of resources	<u>9,931,328</u>	<u>5,813,638</u>	<u>6,318,580</u>
 Total liabilities and deferred inflows of resources	 <u>\$ 75,958,676</u>	 <u>\$ 77,518,813</u>	 <u>\$ 64,674,334</u>

Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis (unaudited)
As of and for the years ended December 31, 2019 and 2018

FINANCIAL ANALYSIS...continued

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

	2019	Restated 2018	2017
	<u> </u>	<u> </u>	<u> </u>
Operating revenues	\$ 9,836,000	\$ 5,209,908	\$ 7,083,773
Depreciation and amortization expense	1,783,101	1,646,952	1,683,253
Other operating expenses	2,518,806	1,802,380	1,983,486
Total operating expenses	<u>4,301,907</u>	<u>3,449,332</u>	<u>3,666,739</u>
Operating income	<u>5,534,093</u>	<u>1,760,576</u>	<u>3,417,034</u>
Investment income	137,616	109,579	90,079
Interest and amortization expense	(1,582,111)	(1,983,665)	(2,291,744)
Gain (loss) on investment	28,092	59,627	30
Bond issuance expense	-	(279,678)	(532,829)
Decrease (increase) in amounts payable under terms of the power sales agreements	<u>(4,117,690)</u>	<u>333,561</u>	<u>(682,570)</u>
Total non-operating expenses	<u>(5,534,093)</u>	<u>(1,760,576)</u>	<u>(3,417,034)</u>
Net revenues and expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Condensed Statements of Cash Flows

	2019	Restated 2018	2017
	<u> </u>	<u> </u>	<u> </u>
Net cash provided by operating activities	\$ 5,544,962	\$ 3,786,541	\$ 5,928,543
Net cash provided by (used in) investing activities	2,281,751	3,153,348	4,196,427
Net cash provided by (used in) capital and related financing activities	<u>(11,791,921)</u>	<u>2,725,128</u>	<u>(6,874,553)</u>
Net change in cash and cash equivalents	(3,965,208)	9,665,017	3,250,417
Cash and cash equivalents – beginning of year	<u>15,662,485</u>	<u>5,997,468</u>	<u>2,747,051</u>
Cash and cash equivalents – end of year	<u>\$ 11,697,277</u>	<u>\$ 15,662,485</u>	<u>\$ 5,997,468</u>

Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis (unaudited)
As of and for the years ended December 31, 2019 and 2018

BALANCE SHEETS

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

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.

The net increase of \$3,779,895 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 \$2,202,688 due to the amortization on loss on refunding of series 2 debt and amortization of asset retirement obligations.

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 \$9,298,804 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 \$1,989,360 due to ongoing accretion of asset retirement obligations. Asset retirement Obligations was restated for 2018 with the adoption of GASB 83. 2017 is shown as originally reported.

Deferred inflows of resources decreased \$504,942 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 2019 Financial Results to 2018 Financial Results

Current assets, excluding the current portion of restricted special funds, increased \$444,524. Cash and cash equivalents increased \$470,633 due to timing of payments. Prepaid expenses decreased \$39,542 related to the timing of payments made for the turbine maintenance agreement. Accounts receivable increased \$15,577, due to the timing of receipts from Participants. Accounts receivable from MMWEC increased \$87,458 due to related party transactions. Renewable energy credits (RECs) available for sale decreased \$95,759 due to a decrease in generation during 2019, when compared to the prior year.

Current and noncurrent restricted funds decreased \$6,551,884 from 2018 to 2019 primarily due to lower 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, 2019 and 2018

STATEMENTS OF NET POSITION...continued

Comparison of 2019 Financial Results to 2018 Financial Results...continued

The net increase of \$4,157,420 in capital assets is due to an increase in assets placed in service offset by a decrease in capital work in progress related to the construction of two 2.3-megawatt wind turbines (Phase 2) and continued depreciation and amortization of assets.

Deferred outflows of resources increased \$389,803 due to deferred asset retirement obligations offset by amortization on the loss on refunding of series 2 debt.

The \$1,899,380 decrease in current liabilities, excluding current maturities of long-term debt and accrued interest, is attributable to a decrease in accounts payable and accrued expenses of \$1,088,198 due to timing of payments for operational and capital costs and a decrease in advanced from Participants of \$811,182 due to lower REC revenues held at year-end than in the prior year.

Long-term debt, including current maturities and accrued interest, decreased \$4,512,541 due to principle and interest payments on debt.

Other noncurrent liabilities, excluding long-term debt, increased \$734,094 due to additional asset retirement obligations.

Deferred inflows of resources decreased \$4,117,690 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 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 \$217,407, 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.

Berkshire Wind Power Cooperative Corporation

Management's Discussion and Analysis (unaudited)
As of and for the years ended December 31, 2019 and 2018

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION...continued

Comparison of 2019 Financial Results to 2018 Financial Results

Operating revenues increased \$4,626,092 due to increased billings related to principle and interest for long term debt.

Total operating expenses increased by \$852,575, primarily due to REC expense due to changes in the market and increased maintenance expenses.

Interest income, which is a result of varying fund balances and interest rates, increased \$28,037 due to investment performance.

Interest expense increased \$124,756 due to payments related to the issuance of the Phase 2 Series 1 bonds in late 2018.

Amortization expense increased \$526,310 due to increased amortization of premiums in 2019 related to the Series 2 Revenue Bonds.

The decrease in gain on investments of \$31,535 is due to fluctuations in market performance and account balances and reflects the improved investment performance in 2019, 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 \$9,656,017 from 2017 to 2018 due to sales and maturities of investments during 2017. Cash and cash equivalents decreased \$3,965,208 from 2018 to 2019 due to capital expenditures and principle and interest payments on long term debt, offset by operating and investing activities.

OPERATING STATISTICS

For calendar year 2019, the Berkshire Wind Facility developed the following operating statistics:

	<u>Phase 1</u>	<u>Phase 2</u>
• Total Generation (MWh)	38,216	4,321
• Availability Factor	77.48%	95.39%
• Capacity Factor	28.81%	62.16%

Phase 2 began commercial operation in December, 2019.

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%

Berkshire Wind Power Cooperative Corporation

Balance Sheet
As of December 31, 2019 and 2018

	2019	Restated 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 671,938	\$ 201,305
Accounts receivable	542,038	526,461
Accounts receivable - MMWEC	87,458	-
Inventories	74,435	68,278
Prepaid expenses	129,550	169,092
Renewable energy credits available for sale	385,279	481,038
Current portion of restricted special funds	<u>1,114,750</u>	<u>2,609,054</u>
Total current assets	<u>3,005,448</u>	<u>4,055,228</u>
Noncurrent assets:		
Restricted special funds	<u>10,260,612</u>	<u>15,318,192</u>
Total Noncurrent assets:	<u>10,260,612</u>	<u>15,318,192</u>
Capital assets:		
Land	5,451,046	5,431,449
In service	65,705,388	54,951,250
Capital work in progress	-	4,934,253
Accumulated depreciation and amortization	<u>(14,104,634)</u>	<u>(12,422,572)</u>
Total capital assets	<u>57,051,800</u>	<u>52,894,380</u>
DEFERRED OUTFLOWS OF RESOURCES		
Loss on refunding of debt net of amortization	2,555,822	2,799,074
Deferred asset retirement obligations net of amortization	<u>3,084,994</u>	<u>2,451,939</u>
Total deferred outflows of resources	<u>5,640,816</u>	<u>5,251,013</u>
Total assets and deferred outflows of resources	<u>\$ 75,958,676</u>	<u>\$ 77,518,813</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 69,394	\$ 1,803,029
Accounts payable - MMWEC	-	265,310
Advances from Participants	2,695,766	3,506,948
Accrued expenses	964,644	53,897
Current liabilities payable from restricted assets:		
Accrued interest	1,212,971	1,182,090
Current maturities of long-term debt	<u>4,347,104</u>	<u>3,549,606</u>
Total current liabilities	<u>9,289,879</u>	<u>10,360,880</u>
Noncurrent liabilities:		
Long-term debt, net of premiums and current maturities	52,699,953	58,040,873
Asset retirement obligations	<u>4,037,516</u>	<u>3,303,422</u>
Total noncurrent liabilities	<u>56,737,469</u>	<u>61,344,295</u>
DEFERRED INFLOWS OF RESOURCES		
Amounts payable in the future under terms of the power sales contract	<u>9,931,328</u>	<u>5,813,638</u>
Total liabilities and deferred inflows of resources	<u>\$ 75,958,676</u>	<u>\$ 77,518,813</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, 2019 and 2018

	<u>2019</u>	<u>Restated 2018</u>
Operating revenues:		
Revenues	<u>\$ 9,836,000</u>	<u>\$ 5,209,908</u>
Operating expenses:		
Maintenance	863,172	644,459
Easement	115,649	151,299
Payment in lieu of taxes	208,844	174,992
Renewable energy credits expense	242,330	-
Accounting and administrative	170,475	158,193
Insurance	267,184	184,874
Engineering	260,894	200,180
Legal	116,200	78,959
Other operating	274,058	209,424
Depreciation and amortization	<u>1,783,101</u>	<u>1,646,952</u>
Total operating expenses	<u>4,301,907</u>	<u>3,449,332</u>
Operating income	<u>5,534,093</u>	<u>1,760,576</u>
Nonoperating revenues (expenses):		
Interest income	137,616	109,579
Interest expense on long-term debt	(2,507,109)	(2,382,353)
Amortization of bond premiums and discounts, net	1,168,250	647,939
Amortization of Loss on Refunding	(243,252)	(249,251)
Unrealized gain (loss) on investments	28,092	59,627
Bond issuance expense	-	(279,678)
Decrease (increase) in amounts payable in the future under the terms of the power sales contract	<u>(4,117,690)</u>	<u>333,561</u>
Total nonoperating expenses	<u>(5,534,093)</u>	<u>(1,760,576)</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, 2019 and 2018

	2019	Restated 2018
Cash flows from operating activities:		
Received from sales to participants and RECs	\$ 9,105,000	\$ 6,293,026
Paid to suppliers for goods and services	(3,560,038)	(1,752,240)
Refund of debt service to participants	-	(754,245)
Net cash provided by operating activities	<u>5,544,962</u>	<u>3,786,541</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(5,940,521)	(4,559,584)
Debt issuance expense	-	(279,678)
Proceeds from long-term debt	-	11,780,000
Principal payments on long-term debt	(3,375,172)	(2,825,000)
Interest payments on long-term debt	(2,476,228)	(1,390,610)
Net cash provided by (used in) capital and related financing activities	<u>(11,791,921)</u>	<u>2,725,128</u>
Cash flows from investing activities:		
Purchases of investments	(29,406,959)	(4,107,000)
Proceeds from sales and maturities of investments	31,523,002	7,091,142
Gain (loss) on investments	28,092	59,627
Interest received	137,616	109,579
Net cash provided by investing activities	<u>2,281,751</u>	<u>3,153,348</u>
Net change in cash and cash equivalents	(3,965,208)	9,665,017
Cash and cash equivalents, beginning of period	<u>15,662,485</u>	<u>5,997,468</u>
Cash and cash equivalents, end of period	<u>\$ 11,697,277</u>	<u>\$ 15,662,485</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating income	\$ 5,534,093	\$ 1,760,576
Noncash items included in operating income:		
Depreciation and accretion of asset retirement obligations	2,517,195	3,636,312
Changes in assets and liabilities:		
Increase (decrease) in:		
Accounts receivable	(15,577)	(51,938)
Accounts receivable - MMWEC	(87,458)	-
Inventories	(6,157)	(2,263)
Prepaid expenses	39,542	(1,423)
Renewable energy credits available for sale	95,759	(125,397)
Increase (decrease) in:		
Account payable	(1,733,635)	810,573
Accounts payable - MMWEC	(265,310)	(51,609)
Advances from Participants	(811,182)	506,208
Accrued expenses	910,747	(71,178)
Changes in deferred outflows	(633,055)	(2,451,939)
Amounts payable in future under terms in power sales contract	-	(171,381)
Net cash used in operating activities	<u>\$ 5,544,962</u>	<u>\$ 3,786,541</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents	\$ 671,938	\$ 201,305
Total restricted special funds	<u>11,375,362</u>	<u>17,927,246</u>
Total cash and investments	<u>12,047,300</u>	<u>18,128,551</u>
Less: Noncash equivalents	<u>(350,023)</u>	<u>(2,466,066)</u>
Total cash and cash equivalents	<u>\$ 11,697,277</u>	<u>\$ 15,662,485</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, 2019 and 2018

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 16 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 began commercial operations in 2019. 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, 2019 and 2018

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 Balance Sheets 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 Balance Sheets. Restricted cash and cash equivalents are presented within the current and noncurrent portion of restricted funds in the accompanying Balance Sheets.

Accounts Receivable

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

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, 2019 and 2018, total spare parts inventory amounted to \$74,435 and \$68,278, 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, 2019 and 2018. 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, 2019 and 2018

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>2019</u>	<u>2018</u>
Reserve Account to provide for the benefit and security of the Series 1 and Series 2 Revenue Bonds	\$ 5,251,303	\$ 5,180,389
Revenue Fund to receive revenues and disburse them to other funds	641,418	315,059
Bond Fund Interest, Principal and Retirement Accounts to pay principal and interest on bonds	2,482,994	2,561,919
Reserve and Contingency Fund to make up deficiencies in the Bond Funds and pay for repairs and extraordinary costs	1,852,660	1,843,840
Main Fund to fund debt issuance costs	47,164	47,134
Construction Fund to acquire and construct two 2.3-megawatt wind turbines	137,318	7,018,081
CIAC Tax Fund to maintain funds to cover costs of possible CIAC Tax	<u>962,505</u>	<u>960,824</u>
Total restricted special funds	11,375,362	17,927,246
Less - current portion	<u>(1,114,750)</u>	<u>(2,609,054)</u>
Restricted special funds, net of current portion	<u>\$ 10,260,612</u>	<u>\$ 15,318,192</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, 2019 and 2018

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 and asset retirement obligations.

Accounts Payable and Accrued Expenses

At December 31, 2019, accounts payable and accrued liabilities total \$2,247,009 which include \$1,034,038 related to standard operating supplier and vendor accounts and \$1,212,971 for accrued interest on long term debt.

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.

Asset Retirement Costs and Obligations

The Cooperative has implemented GASB Statement No. 83 "Certain Asset Retirement Obligations" (GASB 83) and has applied the statement as of December 31, 2018. The Cooperative identified certain asset retirement obligations (AROs), which are associated with termination clauses within the Cooperative easement agreements for the land on which the turbines are built. The easement agreements require that the Cooperative remove all equipment, including but not limited to the Wind Facility, Transmission Lines, all communications equipment, unused equipment and trash, and reclaim the Area of Easement as follows: remove all traces of construction, cover foundations with gravel or soil, plant trees on a one hundred foot grid pattern in disturbed areas, and seed and mulch all disturbed areas. Of the twelve turbines that comprise the Berkshire Wind Facility, eleven are on property that fall under the easement agreements.

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2019 and 2018

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

Asset Retirement Costs and Obligations...continued

The Cooperative utilized the costs associated with the erection of the turbines and sitework from the recent turbine installation to develop the assumption for the ARO liabilities since this would best approximate the costs at current dollar value to remove the turbines and restore the site.

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

	2019	2018
Asset retirement obligations, beginning of year	\$ 3,303,422	\$ 1,341,062
Change due to additional obligations	734,094	-
Change due to adoption of GASB 83	-	1,962,360
Asset retirement obligations, end of year	<u>\$ 4,037,516</u>	<u>\$ 3,303,422</u>

The recognition of the AROs at current value also results in a corresponding deferred outflow of resources. The deferred outflow of resources is being amortized over the remaining useful life of the wind turbines used by the Cooperative. A reconciliation of the beginning and ending aggregate deferred outflow of resources related to AROs for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Deferred outflows of resources - AROs, beginning of year	\$ 2,451,939	\$ -
Change due to adoption of GASB 83	-	3,303,422
Change due to additional obligations	734,094	-
Amortization	<u>(101,039)</u>	<u>(851,483)</u>
Deferred outflows of resources - AROs, end of year	<u>\$ 3,084,994</u>	<u>\$ 2,451,939</u>

Amortization expense is included in depreciation expenses in the Statements of Revenues, Expenses and Changes in Net Position.

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.

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2019 and 2018

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.

Comparative Data

Certain prior year data has been reclassified to conform to the current year's presentation with no impact on Net Position.

Implementations of New Accounting Principles

In 2019, the Cooperative implemented GASB 83, which addresses accounting and reporting for certain asset retirement obligations. Previously the accounting and financial reporting for AROs was in compliance with Financial Accounting Standards Board (FASB) ASC 410, "Asset Retirement and Environmental Obligations". Due to the implementation of GASB 83, certain prior year data has been revised to conform to the current year's presentation with no impact on net position.

The following show the impact to the Balance Sheets and Statements of Revenue, Expenses and Changes in Net Position:

	As Previously Reported 2018	Implementation of GASB 83	As Adjusted 2018
Balance Sheets Items Affected			
Capital asset	\$ 55,839,316	\$ (888,066)	\$ 54,951,250
Accumulated depreciation	(12,712,979)	290,407	(12,422,572)
Asset retirement obligations	(1,380,553)	(1,922,869)	(3,303,422)
Amounts payable in the future under terms of power sales contract	(5,882,227)	68,589	(5,813,638)
Deferred outflow on asset retirement obligation	-	2,451,939	2,451,939
Statement of Revenues, Expenses and Changes in Net Position Items Affected			
Other operating	275,915	(66,491)	209,424
Depreciation and amortization	1,683,253	(36,301)	1,646,952
Decrease in amounts payable in the future under the terms of the power sales contract	(436,353)	102,792	(333,561)

In March 2018, the GASB issued statement No. 88 - Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. This Statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. This standard was implemented in 2019 with no impact to the Balance Sheets and Statements of Revenue, Expenses and Changes in Net Position.

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2019 and 2018

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. 87, Leases, Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, Statement No. 91, Debt Conduit Obligations, and Statement No. 92, Omnibus 2020. 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, 2019 and 2018 were comprised of the following:

	2019		2018		
	Carrying Value	Bank Value	Carrying Value	Bank Value	
Cash and Cash Equivalents:					
Checking Account	\$ 906,793	\$ 907,896	\$ 249,113	\$ 257,462	Custodial Credit Risk
Money Market Funds	10,290,484	10,290,485	7,174,829	7,174,828	Custodial Credit Risk
Total Cash and Cash Equivalents	<u>11,197,277</u>	<u>11,198,381</u>	<u>7,423,942</u>	<u>7,432,290</u>	
Other Investments:					
U.S. Agency Bonds	\$ 350,023	\$ 350,023	\$ 3,734,336	\$ 3,734,336	Credit Risk, Concentration of Credit Risk, Interest Rate Risk
U.S. Treasury Bills	500,000	500,000	6,970,273	6,970,273	Credit Risk, Interest Rate Risk
Total Other Investments	<u>850,023</u>	<u>850,023</u>	<u>10,704,609</u>	<u>10,704,609</u>	
Totals	<u>\$ 12,047,300</u>	<u>\$ 12,048,404</u>	<u>\$ 18,128,551</u>	<u>\$ 18,136,899</u>	

The difference between the bank and investment value and carrying 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, 2019 and 2018, \$10,698,381 and \$7,157,290, respectively, of the Cooperative's interest bearing bank balance was uninsured and uncollateralized and subject to custodial credit risk.

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2019 and 2018

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

Custodial Credit Risk...continued

Investments

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

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

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

Credit Risk

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

As of December 31, 2019, the Cooperative's investments were rated as follows:

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

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+
U.S. Treasury	AA+
Federal Home Loan Bank	AA+
Federal Home Loan Mortgage	AA+

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>2019</u>	<u>2018</u>
Federal National Mortgage	U.S. Agency Securities	0%	10.98%
Federal Home Loan Bank	U.S. Agency Securities	0%	1.85%
Federal Home Loan Mortgage	U.S. Agency Securities	41.18%	22.05%
U.S. Treasury	U.S. Treasury	58.82%	65.12%

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, 2019 and 2018

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, 2019, 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	\$ 500,000	\$ 500,000	\$ -	\$ -
U.S. Agency	350,023	-	350,023	-
Total	<u>\$ 850,023</u>	<u>\$ 500,000</u>	<u>\$ 350,023</u>	<u>\$ -</u>

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>

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, 2019 and 2018, the Cooperative recognized interest income of \$137,616 and \$109,579, 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 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, 2019 and 2018, the Cooperative incurred charges of \$744,640 and \$571,669, respectively, for services provided by MMWEC on behalf of the Cooperative. As of December 31, 2019 and 2018, the Cooperative had balances due from MMWEC of \$87,458 and due to MMWEC of \$265,310, respectively.

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2019 and 2018

4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for 2019 is as follows:

	Balance 1/1/2019	Additions/ Reclassi-fications	Deletions/ Reclassi-fications	Balance 12/31/2019
Capital assets not being depreciated:				
Land	\$ 5,431,449	\$ 19,597	\$ -	\$ 5,451,046
Capital assets being depreciated:				
In service	54,951,250	10,754,138	-	65,705,388
Less: Accumulated depreciation	12,422,572	1,682,062	-	14,104,634
Net In service	<u>\$ 47,960,127</u>	<u>\$ 9,091,673</u>	<u>\$ -</u>	<u>\$ 57,051,800</u>

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

	Balance 1/1/2018	Additions/ Reclassi-fications	Deletions/ Reclassi-fications	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	888,066	54,951,250
Less: Accumulated depreciation	11,029,726	1,683,253	290,407	12,422,572
Net In service	<u>\$ 49,114,485</u>	<u>\$ (556,699)</u>	<u>\$ 597,659</u>	<u>\$ 47,960,127</u>

A summary of changes in capital work in progress for 2019 and 2018 is as follows:

Year	Balance at January 1,	Additions	Transfers to In Service	Balance at December 31,
2019	<u>\$ 4,934,253</u>	<u>\$ -</u>	<u>\$ 4,934,253</u>	<u>\$ -</u>
2018	<u>\$ -</u>	<u>\$ 4,934,253</u>	<u>\$ -</u>	<u>\$ 4,934,253</u>

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2019 and 2018

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, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Beginning balance - January 1	\$ 5,813,638	\$ 6,318,580
Unbilled operating and non-operating expenses and revenues:		
Depreciation	(1,783,101)	(1,646,952)
Amortization of bond premiums and discounts, net	1,168,250	647,939
Amortization on loss of refunding	(243,252)	(249,251)
Realized and unrealized gains (losses) on investments	28,092	59,627
Bond issuance costs	-	(279,678)
Interest expense paid by bond proceeds	(72,249)	(102,714)
Refund of debt service to participants	-	(1,657,531)
Adoption of GASB 83	-	(171,382)
Debt service collections:		
Billed principal on long-term debt	<u>5,019,950</u>	<u>2,895,000</u>
Ending Balance - December 31	<u>\$ 9,931,328</u>	<u>\$ 5,813,638</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, 2019 and 2018

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

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 to the Series 1 Bonds after July 1, 2019. The Cooperative had outstanding debt obligations related to the Series 1 bonds totaling \$44,375,000 at December 31, 2019 and 2018, which were defeased through the advance refunding and excluded from long-term debt.

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.

Phase 2 Series 1 Revenue Bonds – Direct Borrowing

On October 5, 2018, the Cooperative issued and sold Berkshire Wind Project Revenue Bonds, Berkshire Phase 2 Series 1 (Phase 2 Bonds) from direct borrowings 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, 2019 and 2018

6. DEBT...continued

The following is a summary of debt service requirements for the bonds outstanding at December 31, 2019:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	2,830,000	2,010,500	4,840,500
2021	2,970,000	1,869,000	4,839,000
2022	3,120,000	1,720,500	4,840,500
2023	3,275,000	1,564,500	4,839,500
2024	3,445,000	1,400,750	4,845,750
2025-2029	19,960,000	4,243,750	24,203,750
2030	4,610,000	230,500	4,840,500
Total	<u>\$ 40,210,000</u>	<u>\$ 13,039,500</u>	<u>\$ 53,249,500</u>

The following summarizes changes in the long-term debt, net of premiums, for 2019 and 2018:

Year	<u>Balance January 1</u>	<u>Additions</u>	<u>Payments</u>	<u>Amortization of Premium</u>	<u>Balance December 31</u>
2019	<u>\$ 49,810,479</u>	<u>\$ -</u>	<u>\$ (2,965,000)</u>	<u>\$ (1,168,250)</u>	<u>\$ 45,677,229</u>
2018	<u>\$ 53,283,418</u>	<u>\$ -</u>	<u>\$ (2,825,000)</u>	<u>\$ (647,939)</u>	<u>\$ 49,810,479</u>

The following is a summary of debt service requirements for the direct borrowings outstanding at December 31, 2019:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	425,144	414,999	840,143
2021	440,662	399,481	840,143
2022	456,746	383,397	840,143
2023	473,417	366,726	840,143
2024	490,697	349,446	840,143
2025-2029	2,735,582	1,465,134	4,200,716
2030-2033	6,347,580	790,223	7,137,803
Total	<u>\$ 11,369,828</u>	<u>\$ 4,169,406</u>	<u>\$ 15,539,234</u>

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2019 and 2018

6. DEBT...continued

The following summarizes changes in the long-term debt from direct borrowings, net of premiums, for 2019 and 2018:

Year	Balance January 1	Additions	Payments	Amortization of Premium	Balance December 31
2019	\$ 11,780,000	\$ -	\$ (410,172)	\$ -	\$ 11,369,828
2018	\$ -	\$ 11,780,000	\$ -	\$ -	\$ 11,780,000

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.

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
- RECs available for sale are valued at using Level 2 measurements because the valuations use contract prices and estimated market curves when the RECs remain unsold

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

As of and for the years ended December 31, 2019 and 2018

7. FAIR VALUE MEASUREMENT...continued

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, 2019 and 2018:

	2019			
	Level 1	Level 2	Level 3	Total
Investments and Cash Equivalents				
U.S. Treasury Bills	\$ 500,000	\$ -	\$ -	\$ 500,000
U.S. Agency Bonds	-	350,023	-	350,023
RECs Available for Sale		385,279		385,279
Investments and Cash Equivalents	<u>\$ 500,000</u>	<u>\$ 735,302</u>	<u>\$ -</u>	<u>\$ 1,235,302</u>
		2018		
Investments and Cash Equivalents				
U.S. Treasury Notes	\$ 6,970,273	\$ -	\$ -	\$ 6,970,273
U.S. Agency Bonds	-	3,734,336	-	3,734,336
RECS Available for Sale		481,038		481,038
Investments and Cash Equivalents	<u>\$ 6,970,273</u>	<u>\$ 4,215,374</u>	<u>\$ -</u>	<u>\$ 11,185,647</u>

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, 2019 and 2018.

Berkshire Wind Power Cooperative Corporation

Notes to Financial Statements

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8. COMMITMENTS AND CONTINGENCIES...continued

Renewable Energy Production Incentive Payments

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

9. LITIGATION

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

10. RISK MANAGEMENT

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

11. CONCENTRATION OF CREDIT RISK/SIGNIFICANT CUSTOMERS

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

The Cooperative has one municipal customer who is considered a significant customer, which accounted for \$2,908,983 (32%) of the Cooperatives revenues in 2019. At December 31, 2019, three municipal customers had significant accounts receivable balances of \$86,661 (16%), \$60,625 (11%), and \$57,112 (11%). The Cooperative had two municipal customers who were 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%).

12. SUBSEQUENT EVENTS

The Cooperative has evaluated subsequent events through April 29, 2020, 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, 2019.