

2012

ANNUAL

REPORT

F O R W A R D T H I N K I N G



FORWARD THINKING

2012 ANNUAL REPORT



5.3MW

Power From Dairy
Digesters



39.4MW

Wind Generation



44MW

Landfill Gas Generation



10%

Goal set by our
board for
alternative fuel
sources by 2018

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our MISSION

Wabash Valley Power Association exists to supply and deliver reliable wholesale power at a stable and competitive price to its Member-Owners and respond to their collective needs.

Future success requires
standing out from the crowd &
fundamentally changing the game.

our VISION

We shall constantly refine our power supply plan to ensure that we can deliver a stable supply of electricity to our members at prices that are competitive with both the market and other power suppliers in the regions we serve.

In all of our activities, we shall strive to serve our members' needs in the most efficient and effective manner possible.

As we make decisions related to costs, sales, margins, growth and equity, we shall remain committed to being financially prudent and being sensitive to the impacts upon our members and all other stakeholders.

Because we cannot predict the future with a large degree of certainty, we shall remain flexible and open to new ideas and shall approach opportunities from

which our members will benefit.

For the good of our members' communities and the realities of regulation, we shall continue to pursue alternative energy opportunities that deliver cost-effective generation or offer other financial advantages in conjunction with and optimized by energy efficiency, demand-side management, demand response programs and traditional generation resources.

We shall continually expand our knowledge of industry practices to encourage healthier economic, governmental and social conditions for the member systems and the communities they serve.

While we may not be the forerunner, we will adapt to new and emerging technologies.

Seven Co-Op Principles

The seven cooperative principles, formerly known as the Rochdale Principles, were created by the Rochdale Society of Equitable Pioneers in Rochdale, United Kingdom, in 1844, and have formed the basis for the principles on which cooperatives around the world operate to this day.

1 VOLUNTARY AND OPEN MEMBERSHIP

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender,

social, racial, political, or religious discrimination.

members, who actively participate in setting policies and making decisions. The elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one member, one vote) and cooperatives at other levels are organized in a democratic manner.

2 MEMBERS' ECONOMIC PARTICIPATION

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition

of membership. Members allocate surpluses for any or all of the following purposes: developing the cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefitting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

3 DEMOCRATIC MEMBER CONTROL

Cooperatives are democratic organizations controlled by their members.

4 AUTONOMY AND INDEPENDENCE
Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5 EDUCATION, TRAINING, AND INFORMATION

Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their cooperatives. They inform the general public, particularly young people and opinion leaders, about the nature and benefits of cooperation.

6 COOPERATION AMONG COOPERATIVES

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.

7 CONCERN FOR COMMUNITY

While focusing on member needs, cooperatives work for the sustainable development of their communities through policies accepted by their members.

FORWARD-THINKING *Leadership*

A message from the Chairman and CEO

“We cannot afford to be locked into strategies or thinking that will allow us to fall behind.”

On first glance, 2012 appeared to have been a difficult year. There was extreme weather, ongoing regulatory change and a sluggish economy. But in spite of these challenges, we remain focused and steadfast in our vision. Bottom line: everything is changing, but nothing has changed. We will continue to generate power reliably and cost-effectively. We are adapting.

There will always be tougher environmental rules, capital expenditures and price volatility. We've faced those issues before, and will continue to do so. And we will continue to move forward. In 2012, we expanded our highly successful landfill gas-to-energy program and we acquired an additional 80 megawatts of ownership in the Vermillion facility.

We understand that we are tackling a changing power landscape, but we are doing it through planning and with a definitive purpose. In 2013, Wabash Valley will begin our most in-depth strategic planning process to date. We understand that this is a time of evolution for all utilities and we're prepared to address these challenges head-on.

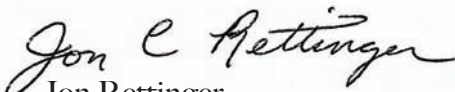


JON RETTINGER

As incandescent lamps give way to CFLs and LED lighting, and as manufacturing processes get more efficient, the demand for electricity will be tempered. But we're ahead of the curve. Our supply portfolio is diverse and flexible, and we're designing and creating programs to meet our members' ever-changing needs.

Yes, we face extraordinarily challenging times, which create exciting opportunities for our association and our members. We approach the future with eagerness and confidence.

Sincerely,



Jon Rettinger
CHAIRMAN OF THE BOARD



Rick Coons
PRESIDENT
CHIEF EXECUTIVE OFFICER

RICK COONS



FISCAL STRENGTH

Standard & Poor’s affirmed its A- credit rating, with a stable outlook. They noted that Wabash Valley had “sufficient power resources for the next several years to meet native load and firm contract sales obligations.” Additionally, they noted that “the association has a diverse customer profile, with residential end-use customers accounting for about 60% of annual revenues.”



MEMBER FOCUS

Evolving energy and communications technology, and most important – consumer expectations, are changing the electric industry from a commodity business to a consumer-centric focus.



ASSET MANAGEMENT

Developing a modern, low-cost fleet of generation assets requires fewer environmental upgrades and reduced maintenance costs.



DIVERSE SUPPLY

Reducing our dependence on coal includes a focus on alternative fuel sources that include 14 landfill gas-to-energy plants located throughout the northern half of Indiana.

Forward-thinking G&T Cooperative

In 1963, officials from five Indiana rural electric cooperatives signed an agreement to create a joint association that would oversee their generation and transmission needs. Their objective: ensure that their members would have access to reliable electricity at the best cost.

That continues to be our primary goal today. Current results and performance are important, but we're also keeping an eye to the future. Even without having the specifics in hand, we know that positioning ourselves for flexibility is the key to success.

We look forward because we believe in taking control of our own destiny. We know the challenges will continue to come, so we work to translate today's knowledge into future needs, modeling thousands of "what-if" scenarios.

By keeping our eyes on the future, we are prepared to respond. And perhaps more important of all, we maintain our focus on the delivery of low-cost, reliable electricity to our member cooperatives. Just as our founding principles promised.

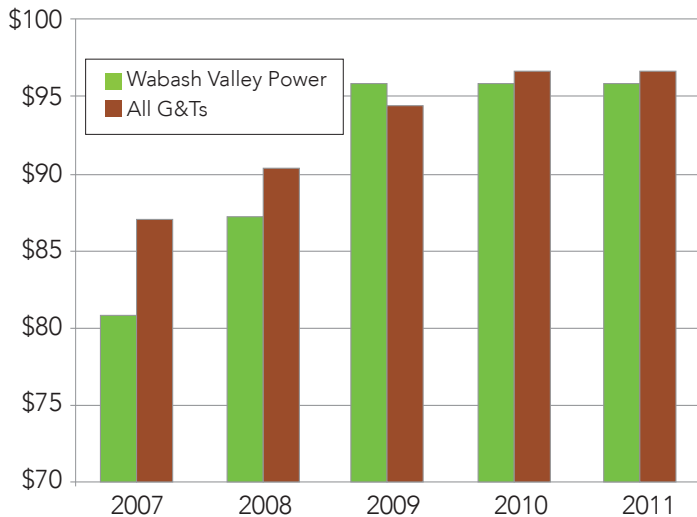
Fast Facts

Wabash Valley Member Cooperatives

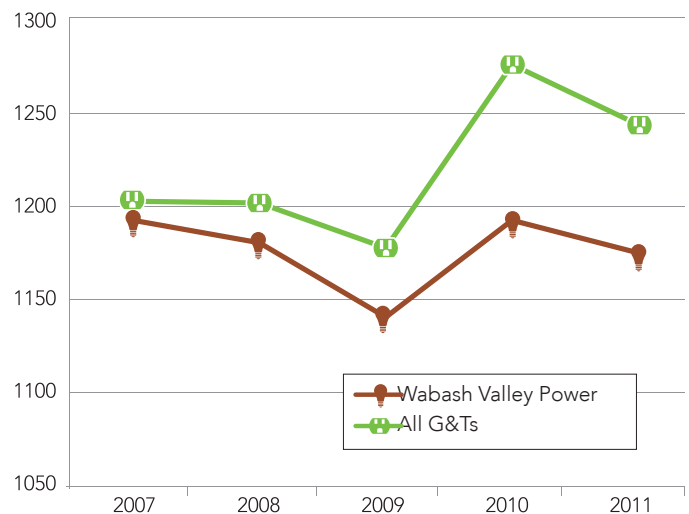
- 1 Boone REMC, Lebanon, IN
- 2 Carroll White REMC, Delphi, IN
- 3 Citizens Electric Corporation, Ste. Genevieve, MO
- 4 Corn Belt Energy, Bloomington, IL
- 5 EnerStar Electric Cooperative, Paris, IL
- 6 Fulton County REMC, Rochester, IN
- 7 Hendricks Power Cooperative, Danville, IN
- 8 Jasper County REMC, Rensselaer, IN
- 9 Jay County REMC, Portland, IN
- 10 Kankakee Valley REMC, Wanatah, IN
- 11 Kosciusko REMC, Warsaw, IN
- 12 LaGrange County REMC, LaGrange, IN
- 13 M.J.M. Electric Cooperative, Carlenville, IL
- 14 Marshall County REMC, Plymouth, IN
- 15 Miami-Cass REMC, Peru, IN
- 16 Newton County REMC, Kentland, IN
- 17 NineStar Connect, Greenfield, IN
- 18 Noble REMC, Albion, IN
- 19 Northeastern REMC, Columbia City, IN
- 20 Parke County REMC, Rockville, IN
- 21 Paulding-Putnam EC, Paulding, OH
- 22 Steuben County REMC, Angola, IN
- 23 Tipmont REMC, Linden, IN
- 24 United REMC, Markle, IN
- 25 Wabash County REMC, Wabash, IN
- 26 Warren County REMC, Williamsport, IN



AVERAGE RATE TO END-USE CONSUMERS (MILLS)



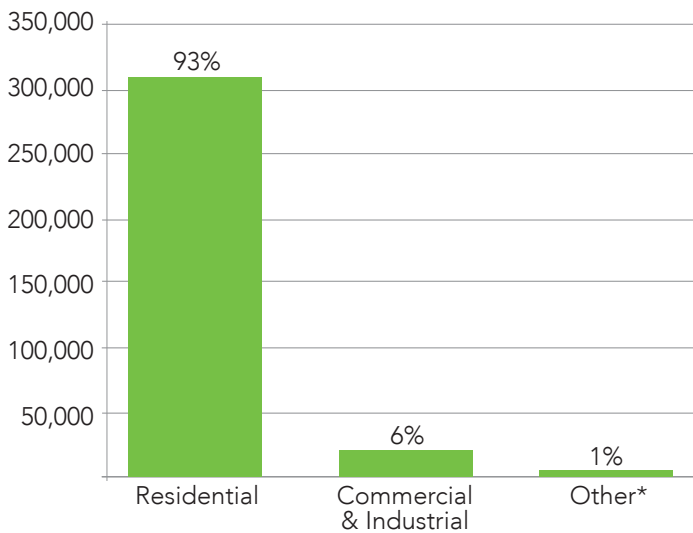
AVERAGE RESIDENTIAL KWH USAGE



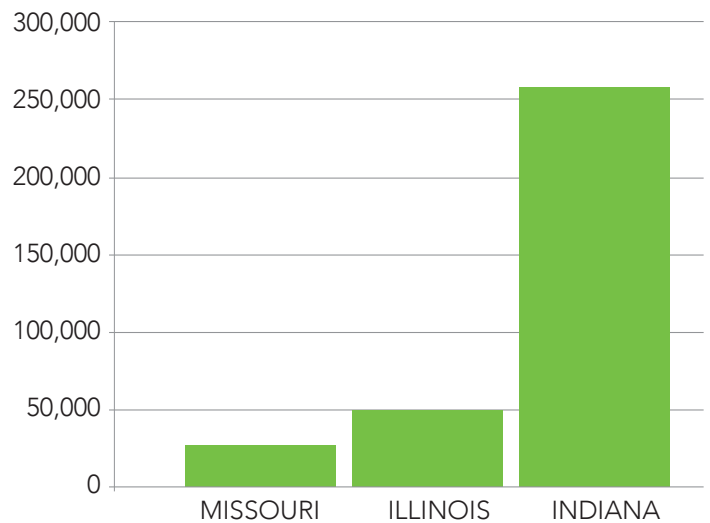


COAL SUPPLIES ROUGHLY 85% OF INDIANA'S ENERGY NEEDS.
COAL SUPPLIES 54% OF OUR ENERGY NEEDS.

WABASH VALLEY MEMBER SYSTEMS:
 CUSTOMERS BY CLASS

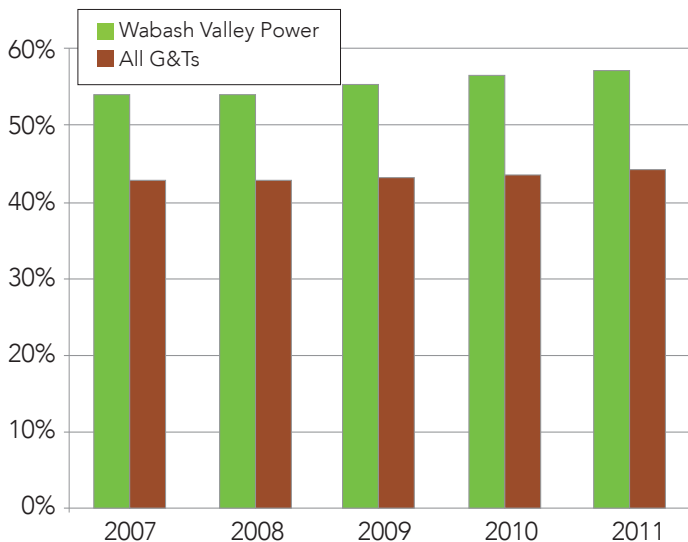


WABASH VALLEY MEMBER SYSTEMS:
 CUSTOMERS BY STATE

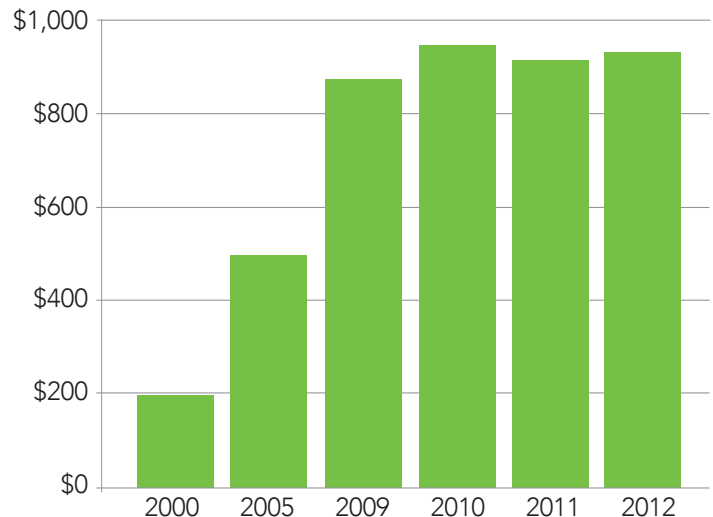


*Irrigation, Street Lighting, and Public Authority

MEMBER EQUITY AS A % OF MEMBER CAPITALIZATION



WABASH VALLEY: TOTAL ASSETS
 \$ IN MILLIONS





GENERATION *and* TRANSMISSION *assets*

Wabash Valley Power operates an extensive portfolio of generation assets that is augmented through purchased wholesale power agreements with other electric power utilities and trading partners. For 2012, approximately 24 percent of our power supply needs were served with generation assets that we owned. We operate within two regional transmission organizations – the Midwest Independent Transmission System Operator (MISO) and PJM Interconnection. At the end of 2012, Wabash Valley Power and its members operated approximately 414 miles of transmission line and 63 substations.

Our power supply portfolio includes several types of generation:

Facility	Location	Facility Capacity (MW)	WV Portion (MW)	Fuel Type	Plant Type
Gibson Unit 5	Owensville, IN	625	156	Coal	Baseload
Wabash River Unit 1	West Terre Haute, IN	262	262	Synthetic gas/natural gas	Baseload
Twin Bridges	Danville, IN	3.2	3.2	Landfill gas	Baseload
Twin Bridges II	Danville, IN	3.2	3.2	Landfill gas	Baseload
Twin Bridges III	Danville, IN	3.2	3.2	Landfill gas	Baseload
Twin Bridges IV	Danville, IN	3.2	3.2	Landfill gas	Baseload
Oak Ridge	Logansport, IN	3.2	3.2	Landfill gas	Baseload
Liberty	Monticello, IN	3.2	3.2	Landfill gas	Baseload
Liberty II	Monticello, IN	3.2	3.2	Landfill gas	Baseload
Jay County	Portland, IN	3.2	3.2	Landfill gas	Baseload
Wheeler	Hobart, IN	0.8	0.8	Landfill gas	Baseload
Deercroft I	Michigan City, IN	3.2	3.2	Landfill gas	Baseload
Deercroft II	Michigan City, IN	3.2	3.2	Landfill gas	Baseload
Prairie View I	Wyatt, IN	3.2	3.2	Landfill gas	Baseload
Prairie View II	Wyatt, IN	3.2	3.2	Landfill gas	Baseload
Earthmovers	Elkhart, IN	4.8	4.8	Landfill gas	Baseload
Holland Energy	Beecher City, IL	627	313.5	Natural gas	Intermediate
Vermillion Station	Cayuga, IN	640	240	Natural gas	Peaking
Lawrence Station	Mitchell, IN	258	86	Natural gas	Peaking
Total			1,101.5		



ALTERNATIVE ENERGY SPOTLIGHT

In addition to our more traditional power plants, Wabash Valley actively looks for alternative energy solutions on both the supply and demand sides of the meter.



WIND

Through contracts with wind farms in both Iowa and Illinois, Wabash Valley has obtained 39 MW of this free fuel source. These resources, combined with our landfill gas and digester programs, are the foundation of our Board's commitment to 10% alternative supply by 2018.



LOAD CONTROL

The launch of the PowerShift load control program marks an important technological transformation for the organization. The new program, which integrates Advanced Metering Infrastructure (AMI) with a centralized Meter Data Management System, enables Wabash Valley to achieve maximum peak demand savings with far fewer customer lifestyle interruptions.



MANURE DIGESTER

Just over 5 megawatts of power is generated from partnerships with dairy farms served by our distribution cooperatives in Northern Indiana. Our latest animal waste digester project at Jasper County REMC's Windy Ridge dairy farm will generate nearly 2 megawatts of electricity; Wabash Valley will take 100% of its output. Windy Ridge is the first local example of the trend using a single digester to serve more than one dairy farm.



ENERGY EFFICIENCY

Our PowerMoves energy efficiency program continues to enhance the quality of life of members by offering them tools to help save money on monthly electric bills. Whether it's online education or direct incentives for purchasing more energy efficient products, this alternative to base-load generation continues to grow.

“Energy Efficiency programs are an opportunity to engage with member-owners and earn their trust and loyalty.”

Findings of the NRECA 21st Century Cooperative Committee

FORWARD THINKING



Meeting today's challenges means having the agility to respond to the changes we cannot yet begin to envision. It is not a single event or a one-time process, but rather a forward-thinking culture that provides the resources we need to prosper amid a changing environment.

The near term presents us with unprecedented uncertainty within federal policy, which can lead to increased costs for the people at the end of the line. It's our responsibility to provide the tools to help them manage their energy costs.

We are advocates for the consumers served by our member cooperatives. Our programs empower them to make choices that will help keep their bills

low. Whether it be through education, energy audits or efficiency rebates, we live our cooperative principles by focusing on the member.

Longer term, we must ensure that our association continues to play a meaningful and pivotal role in the success of our membership.

CAPITAL STRATEGIES

The only certainty about the future is that it will require significant capital investments, and capital has been tight because of the nation's economic problems. Fortunately, our board had the foresight several years ago to establish sources for capital beyond the traditional co-op sources.

RISK

Uncertainty equals risk. Working with our Risk Oversight Committee, we study, prioritize and prepare for uncertainties. It would be simple to look the other way; instead we look forward. Our Risk Matrix gives us a structure to identify and prioritize risks, and then implement strategies to mitigate their effect on our association.

COMMUNITY DEVELOPMENT

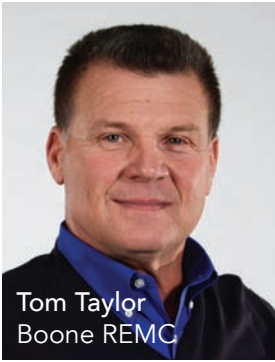
To remain strong and independent, we need healthy communities. Co-ops have long been involved in economic development - supporting local communities and regional development organizations as they promote the economic viability of their areas. In 2012, the Board formed a Committee to re-define

Wabash Valley's role in economic development. Study results will be completed in 2013 and will become a part of the organization's strategic planning process.

RELIABILITY

Standards for security and reliability continue to tighten as the nation's grid shows the limitations of its age. While the nation plans for a smarter grid, we are already implementing technologies that improve our ability to monitor and ensure reliability.





Tom Taylor
Boone REMC



Melvin Coonrod
Carroll White REMC



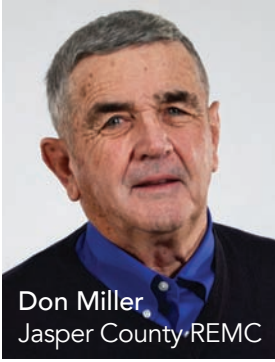
Skip Lottes
Citizens Electric



Danny Gard
EnerStar Power Corp.



Hal Truax
Hendricks Power



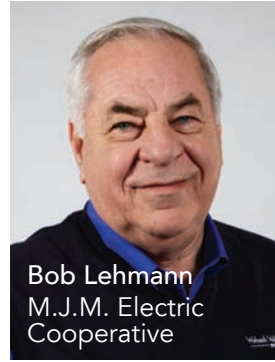
Don Miller
Jasper County REMC



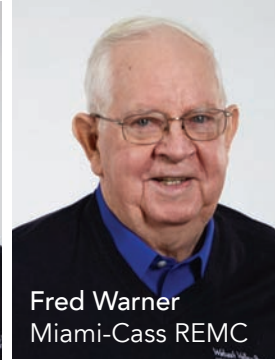
William Harold Smith
Jay County REMC



Fred Powell
Kosciusko REMC



Bob Lehmann
M.J.M. Electric
Cooperative



Fred Warner
Miami-Cass REMC

EXECUTIVE BOARD



Jon Rettinger
Marshall County
REMC



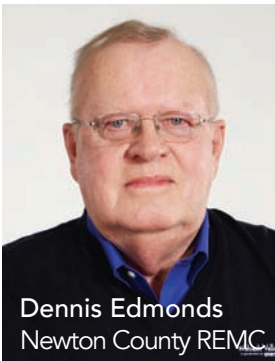
Mike Conner
Warren County REMC



Jeff Hampshire
LaGrange County
REMC



Mike Yankauskas
Kankakee Valley REMC



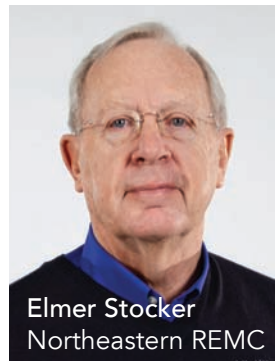
Dennis Edmonds
Newton County REMC



Ronnie Mohr
NineStar Connect



Wayne Zumbrun
Noble REMC



Elmer Stocker
Northeastern REMC



Phil Carrington
Parke County REMC

KEY COMMITTEES



RISK OVERSIGHT COMMITTEE

John Nill, Danny Gard, Jon Rettinger, Rob Angus, Mike Conner. NOT PICTURED: David Tudor and Steve Pruett (external members), Ronnie Mohr

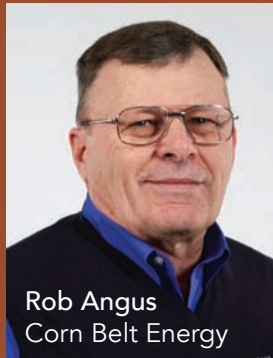


AUDIT COMMITTEE

Mike Yankauskas, Wayne Zumbrun, Wayne Gingerich, Bob Baker, Jim Smith (external member)



Dennis Burton
Fulton County REMC



Rob Angus
Corn Belt Energy

The Wabash Valley Power Board of Directors elects an Executive Board annually. These six officers act as an advisory committee to the CEO.



Gerald Heilmeyer
Paulding-Putnam E.C.



Wayne Gingerich
Steuben County REMC



Bob Baker
Tipmont REMC



Alan Schlagenhaut
United REMC



Jim Keffaber
Wabash County REMC



LEFT TO RIGHT: Keith Thompson, Kathy Joyce, Lee Wilmes, Rick Coons, Greg Wagoner, Jeff Conrad

CORPORATE INFORMATION

CHIEF EXECUTIVE OFFICER

Rick D. Coons
President & Chief Executive Officer

EXECUTIVE STAFF

Jeffrey A. Conrad
Chief Financial Officer

Katherine A. Joyce
Vice President, Administration

Lee R. Wilmes
Vice President, Power Supply

M. Keith Thompson
Vice President, Power Production

Gregory E. Wagoner
Vice President, Business
Development

2012 BOARD OFFICERS

Jon Rettinger
Chairman

Mike Conner
Vice Chairman

Jeff Hampshire
Second Vice Chairman

Mike Yankauskas
Secretary-Treasurer

Jeffrey A. Conrad
Assistant Secretary - Treasurer

HEADQUARTERS

722 North High School Road
Indianapolis, Indiana 46214

Post Office Box 24700
Indianapolis, Indiana 46224

Inquiries regarding this
annual report can be sent
to WVPA's Communications
Department at 722
North High School Road,
Indianapolis, IN 46214.

GENERAL COUNSEL

Randolph G. Holt
Parr Richey Obremskey
Frandsen & Patterson

FINANCIALS

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- 25 Notes to Consolidated Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis provides an overview of the consolidated results of operation and financial condition of Wabash Valley Power Association, Inc. (Wabash Valley Power or the Company) and its subsidiaries for the year ended December 31, 2012. It should be read in conjunction with the consolidated financial statements and accompanying notes.

OVERVIEW

The consolidated financial statements contain all activities of the Company and its wholly-owned subsidiary, Wabash Valley Energy Marketing, Inc. (Energy Marketing). Results also include the activities of sgSolutions LLC (sgSolutions), which is being consolidated due to the Company's ownership and control of its operations.

Wabash Valley Power is under the jurisdiction of the Federal Energy Regulatory Commission (FERC) and follows the Uniform System of Accounts as prescribed by FERC. All required adjustments have been made to make the financial statements consistent with accounting principles generally accepted in the United States (GAAP).

The Company has implemented all Financial Accounting Standards Board (FASB) pronouncements, as applicable.

ANNUAL HIGHLIGHTS

Beginning January 1, 2012, Wabash Valley began serving the Midwest Energy Cooperative (Midwest) load as a non-member as compared to being a member load in 2011. This change in member status contributed to an increase in non-member revenue and a decrease in member revenue in Wabash Valley's Consolidated Statements of Operations.

Effective January 1, 2012 two of Wabash Valley Power's members, Carroll County REMC and White County REMC, merged to form Carroll White REMC. This change had no impact on the Company's financial results.

In January, the Company purchased an additional 80 MW of the Vermillion Generating Station bringing to

tal ownership in the facility to 37.5%.

In June 2012, Standard & Poor's reaffirmed Wabash Valley's credit rating of A- with a Stable Outlook.

RESULTS OF OPERATIONS

Sales are summarized in the following table:

(\$ in thousands)	Years Ended December 31		
	2012	2011	% Change
Operating Revenues			
Member	\$619,314	\$651,689	(5.0%)
Non-member	76,954	63,898	20.4%
Other	5,195	5,901	(12.0%)
Total	\$701,463	\$721,488	(2.8%)
Energy Sales (MWh)			
Member	9,048	9,621	(6.0%)
Non-member	1,868	1,801	3.7%
Total	10,916	11,422	(4.4%)

Member revenue and energy sales in 2012 reflect a decrease due to the change in Midwest's membership status. The decrease in member revenue is partially offset by a rate increase to members related to a cost-based purchase agreement.

Non-member revenue and energy sales increased year over year primarily due to the change in Midwest's membership status. However, the increase was mitigated by lower power prices resulting in less MWh sales to non-members and lower revenues on those sales.

Other revenue decreased in 2012 as compared to 2011 due to less sulfur available to be sold from the sgSolutions plant. Sulfur is a by-product of the gasification process and the plant had more planned outages in 2012 as compared to 2011.

Operating expenses decreased \$18.4 million, or 2.8%, for 2012 as compared to 2011. The primary driver is lower purchased power costs due to the

expiration of a purchased power agreement in December 2011 and less output from a unit contingent purchased power agreement primarily due to planned outages. Partially offsetting the decrease is higher depreciation and amortization expense related to capital additions, mainly the purchase of an additional 80 MW interest in the Vermillion Station as discussed above.

Other expenses – net decreased 3.2% in 2012 mainly due to lower interest expense from scheduled debt payments resulting in less average debt outstanding in 2012.

CAPITAL RESOURCES

Summary balance sheet information is presented below:

(\$ in thousands)	Years Ended December 31		
	2012	2011	% Change
Assets			
Net Plant	\$688,495	\$686,160	0.3%
Current	218,243	200,597	8.8%
Non-Current	33,013	32,995	0.1%
Total	\$939,751	\$919,752	2.2%
Liabilities			
Capitalization	\$805,758	\$757,755	6.3%
Current	104,266	123,500	(15.6%)
Non-Current	29,727	38,497	(22.8%)
Total	\$939,751	\$919,752	2.2%

Net Plant was relatively flat year over year, reflecting plant additions of \$22.7 million in 2012 primarily due to the Vermillion purchase of \$13.6 million and \$5.7 million for the Twin Bridges IV landfill project, offset by the current year's depreciation reserve of \$22.6 million.

Current assets increased 8.8% or \$17.6 million. The main driver is related to a net increase in cash and cash equivalents of \$20.4 million mainly due to a long-term financing of capital expenditures. Also, fuel stock and materials and supplies increased by

\$4.3 million due to less fuel burned at the sgSolutions plant during planned outages. Offsetting the increase was an \$11.6 million decrease in restricted assets for funds held by the trustee, which were returned to the Company in early 2012.

Wabash Valley Power's capitalization increased \$48 million. Patronage capital equity increased \$17.5 million, reflecting the current year's net margins and in December 2012, Wabash Valley Power issued \$58.2 million in long-term debt. The proceeds were used to replenish the general working capital that had been used to fund the \$13.6 million Vermillion purchase and other capital expenditures. These increases were partially offset by the repayment of \$26.4 million of long-term debt.

Current liabilities decreased \$19.2 million, or 15.6%. The main drivers were a \$9.0 million decrease in accounts payable reflecting lower purchased power costs as well as decreased outage costs incurred at the end of 2011. The mark to market value of derivative contracts decreased \$4.6 million and overcollected power costs to be refunded to members was \$5.3 million lower in 2012.

Non-current liabilities decreased \$8.8 million primarily related to the amortization of a member buy-in payment.

LIQUIDITY

In addition to \$88.9 million of cash and cash equivalents on hand at December 31, 2012, Wabash Valley has \$100 million in unsecured credit facilities with three separate lenders. There were no amounts outstanding as of December 31, 2012 under the terms of any of the agreements.

Under the terms of various debt agreements, Wabash Valley Power is required to meet certain covenants. At December 31, 2012, the Company was in compliance with all of these covenants. Additionally, Wabash Valley Power's Times Interest Earned Ratio was 1.47 and the Debt Service Coverage Ratio was 1.39. Wabash Valley Power's Equity-to-Capitalization Ratio was 21%.

Five-Year Statistical Summary

	2012	2011	2010	2009	2008
Operating Revenues (in thousands)	\$701,463	\$721,488	\$750,137	\$674,394	\$694,217
Billed Revenue from Members (mills per kWh) (1)	\$67.97	\$67.40	\$66.74	\$65.78	\$59.67
Member Sales (MWh) (1)	9,044,006	9,617,019	9,529,250	8,755,672	9,210,417
Member Peak Demand (MW)	1,813	1,916	1,839	1,675	1,608
Total Owned Capacity (MW)	1,101.5	1,018.3	1,018.3	1,010.3	693.6
MWh Sales by Source					
Owned Generation	24%	23%	18%	19%	18%
Purchased Power Agreements	76%	77%	82%	81%	82%
Capital Expenditures (in thousands)	\$40,609	\$32,169	\$40,257	\$205,266	\$52,366
Total Assets (in thousands)	\$939,751	\$919,752	\$953,351	\$880,496	\$717,068
Long-term Debt (in thousands) (2)	\$637,955	\$607,452	\$633,867	\$618,736	\$440,649
Weighted Average Interest Rate	5.60%	5.88%	5.88%	6.15%	5.77%
Credit Rating (Standard & Poor's)	A-	A-	A-	A-	BBB+
Debt Service Coverage (DSC)	1.39	1.38	1.35	1.52	1.62
Times Interest Earned Ratio (TIER)	1.47	1.47	1.36	1.46	1.65
Capitalization Ratios					
Debt (2)	79%	80%	83%	84%	81%
Equity	21%	20%	17%	16%	19%

(1) Excluding sales to JAron

(2) Excluding amounts due within one year

Independent Auditors' Report

To the Board of Directors of
Wabash Valley Power Association, Inc.
Indianapolis, Indiana:

We have audited the accompanying consolidated financial statements of Wabash Valley Power Association, Inc. and subsidiaries (the "Company"), which comprise of the consolidated balance sheets as of December 31, 2011 and 2010, and the related consolidated statements of operations and patronage capital and cash flows for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

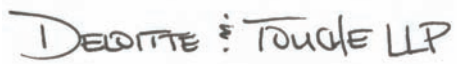
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated 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 Company'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wabash Valley Power Association, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Indianapolis, Indiana
March 18, 2013

CONSOLIDATED BALANCE

AS OF DECEMBER 31, 2012 AND 2011

ASSETS (in thousands)	2012	2011
Plant		
Plant in service	\$972,655	\$949,936
Less accumulated depreciation	299,403	276,801
	673,252	673,135
Construction work in progress	15,243	13,025
	688,495	686,160
Current Assets		
Cash and cash equivalents	88,932	68,493
Short-term investments	18,236	10,000
Restricted assets	22	11,588
Accounts receivable		
Members	50,393	51,706
Other	7,643	5,662
Fuel stock and material inventory - at average cost	45,835	41,527
Regulatory assets	2,093	4,724
Other current assets	5,089	6,897
	218,243	200,597
Non-Current Assets		
Other regulatory assets		
Contract termination costs	6,550	6,941
Other	1,117	1,082
Investments	17,149	16,579
Other deferred charges	7,280	7,476
Other non-current assets	917	917
	33,013	32,995
Total Assets	\$939,751	\$919,752

See Notes to Consolidated Financial Statements

SHEETS

CAPITALIZATION & LIABILITIES (in thousands)	2012	2011
Capitalization		
Patronage capital equity	\$150,803	\$133,303
Noncontrolling interest	17,000	17,000
Long-term debt	637,955	607,452
	805,758	757,755
Current Liabilities		
Current maturities of long-term debt	27,663	26,415
Accounts payable		
Purchased power	38,711	43,591
Other	13,723	17,823
Accrued interest	6,551	6,378
Accrued taxes other than income	5,273	5,455
Overcollected power costs	2,415	7,675
Other current liabilities	9,930	16,163
	104,266	123,500
Non-Current Liabilities		
Other deferred credits	29,727	38,497
Total Capitalization and Liabilities	\$939,751	\$919,752

See Notes to Consolidated Financial Statements

Consolidated Statements of Operations and Patronage Capital

for the Years Ended December 31, 2012 and 2011

(in thousands)	2012	2011
Operating Revenues		
Electric revenue - members	\$619,314	\$651,689
Other revenue	82,149	69,799
	701,463	721,488
Operating Expenses		
Operation		
Fuel	61,363	64,352
Other	50,223	47,634
Purchased power	461,801	484,756
Maintenance	26,777	26,778
Administrative and general	14,845	12,501
Other taxes	538	671
Depreciation and amortization	33,878	31,106
	649,425	667,798
Electric Operating Margin	52,038	53,690
Other Expenses/(Income)		
Interest expense - net of amounts capitalized	37,796	38,771
Interest income	(2,956)	(3,314)
Miscellaneous income and deductions – net	(302)	231
	34,538	35,688
Net Margin	\$17,500	\$18,002
Patronage Capital - Beginning of Year	133,303	115,301
Patronage Capital - End of Period	\$150,803	\$133,303

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

for the Years Ended December 31, 2012 and 2011

(in thousands)	2012	2011
Cash Flows from Operating Activities		
Net margin	\$17,500	\$18,002
Adjustments to reconcile net margin to net cash provided by operating activities:		
Depreciation and amortization	33,878	31,106
Changes in certain assets and liabilities:		
Accounts receivable	(668)	6,886
Fuel stock and material inventory	(4,308)	(13,837)
Overcollected/Unrecovered power costs	(5,260)	(3,403)
Accounts payable	(3,638)	(6,974)
Member buy-out payment	7,526	-
Other assets	4,199	3,592
Other liabilities	(15,166)	(10,875)
Net Cash Provided by Operating Activities	34,063	24,497
Cash Flows used in Investing Activities		
Capital expenditures	(40,609)	(32,169)
Proceeds from sale of property, plant and equipment	4,035	-
Restricted assets	5	122
Proceeds from investments	10,000	10,000
Purchase of investments	(18,806)	(10,882)
Net Cash Used in Investing Activities	(45,375)	(32,929)
Cash Flows used in Financing Activities		
Issuance of long-term debt	58,187	-
Payment on long-term debt	(26,436)	(24,869)
Net Cash Provided by (Used in) Financing Activities	31,751	(24,869)
Net Increase (Decrease) in Cash and Cash Equivalents	20,439	(33,301)
Cash and Cash Equivalents - Beginning of Year	68,493	101,794
Cash and Cash Equivalents - End of Period	\$88,932	\$68,493

See Notes to Consolidated Financial Statements

Notes to CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Wabash Valley Power Association, Inc. (Wabash Valley Power or the Company) is an electric generation and transmission cooperative that provides wholesale power to its members which consist primarily of rural electric membership corporations (REMCs). In 2012, Wabash Valley Power sold power to twenty-six of its members located in northern Indiana and parts of Illinois, Ohio and Missouri. Sales to the Ohio member are limited to the customers located in Indiana. Wabash Valley Power is a non-profit corporation headquartered in Indianapolis, Indiana and is under the jurisdiction of the Federal Energy Regulatory Commission (FERC) for rate-related matters and the Indiana Utility Regulatory Commission (IURC) for financing and acquisition activities.

Except as discussed in Note 6, each member REMC has signed two All Requirements Contracts (ARC) which obligate them to purchase all power and energy needed to serve their customers from Wabash Valley Power. The term of the first contract expires in April 2028 and the second contract term is from April 2028 through December 2050.

Wabash Valley Power's membership also includes two non-cooperative organizations, JAron & Company (JAron) and Wabash Valley Energy Marketing, Inc. (Energy Marketing), a wholly owned subsidiary of Wabash Valley Power. JAron currently has contracted purchases from Wabash Valley Power through December 2013.

Wabash Valley Power has a 50% interest in sgSolutions LLC (sgSolutions) whose assets consist of a coal gasification plant located in West Terre Haute, Indiana.

The remaining 50% is owned by TIAA SynGas LLC (TIAA). TIAA receives a monthly management fee from sgSolutions (See Note 7) and Wabash Valley Power retains all net income or loss generated by sgSolutions. TIAA's interest in sgSolutions at December 31, 2012 and 2011 was \$17.0 million and is reflected as noncontrolling interest on the balance sheet.

BASIS OF CONSOLIDATION

Due to Wabash Valley Power's ownership and control over the operations of sgSolutions and Energy Marketing, sgSolutions and Energy Marketing have been included in the consolidated financial statements of Wabash Valley Power and all significant inter-company transactions have been eliminated.

USE OF ESTIMATES

The preparation of consolidated financial statements, in conformity with accounting principles generally accepted in the United States (GAAP), requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and disclosures of contingent assets and liabilities. The estimates and assumptions used in the financial statements are based on management's evaluation of the relevant facts and circumstances as of the date of the consolidated financial statements. Actual results may differ from those estimates.

BASIS OF ACCOUNTING

Wabash Valley Power is governed by FERC under the Federal Power Act and maintains its accounting records in accordance with the Uniform System of Accounts as prescribed by FERC. All required adjustments to FERC accounting have been made to make the financial statements consistent with GAAP. The rates charged by Wabash Valley Power for power supplied to its members are based on the revenue required by Wabash Valley Power to cover the cost of supplying such power plus a margin. As a rate-regulated entity, Wabash Valley Power's financial statements reflect actions of regulators that result in the recognition of revenues and expenses in different time periods than enterprises that are not rate regulated in accordance with ASC 980, "Regulated Operations" (ASC 980).

OPERATING REVENUES, FUEL AND POWER SUPPLY COSTS

Wabash Valley Power records member revenues each period for energy delivered during the period. Member billed revenues reflect estimated power supply costs based on the current year's board-approved operating budget. Member bills are adjusted in the subsequent year to reflect the difference between actual and estimated costs of power supply.

A member of Wabash Valley Power was paying an adder above member rates associated with joining the association and elected to invoke the prepayment option in 2008. The prepaid amount is being amortized over the remaining term of the buy-in agreement which expires in 2016. The outstanding balance at December 31, 2012 and 2011 was \$25.3 million and \$34.0 million, respectively, of which \$4.0 million is reflected in other current liabilities and the remaining balance is shown in other deferred credits.

CONCENTRATION OF RISK

Approximately 12% of Wabash Valley Power's total revenues for 2012 and 2011 were derived from sales to Citizens Electric Corporation (Citizens). Accounts receivable balances for Citizens account for 11% of total accounts receivables as of December 31, 2012 and 2011.

REGULATORY ASSETS AND LIABILITIES

Under the provisions of ASC 980, Wabash Valley Power has authority from FERC to defer certain costs and revenues for recovery through rates in future periods.

Wabash Valley Power estimates the cost of power supply applicable to members and includes the estimate in the current billing rates. Per Wabash Valley Power's Formula Rate Tariff, member bills are adjusted in the subsequent year to collect the difference between actual and estimated costs. Any difference between actual and estimated costs is shown as regulatory assets – unrecovered power costs or regulatory liabilities - overcollected power costs on the balance sheet. At December 31, 2012 and 2011 the overcollected balance was \$2.4 million and \$7.7 million, respectively.

Wabash Valley Power terminated a power supply contract with Duke Energy Vermillion LLC (Duke Energy) in 2004 when Wabash Valley Power acquired an ownership interest in the Vermillion generating facility from Duke Energy (See Note 2). In March 2004, Wabash Valley Power received IURC approval to defer the contract termination costs and amortize them over the remaining life of the plant (through September 2030). The amounts deferred at December 31, 2012 and 2011 are \$6.9 million and \$7.3 million, respectively. For 2012, \$6.5 million is included in other regulatory assets – contract termination costs on the balance sheet, and the remaining \$.4 million is included in regulatory assets.

Wabash Valley Power has made contributions to transmission providers to upgrade or install facilities for the sole benefit of Wabash Valley Power's member systems. The facilities are not owned by Wabash Valley Power and the amounts are billed to the respective Wabash Valley Power customers over a negotiated term, with all amounts being recovered by April 2048. Amounts paid at December 31, 2012 and 2011 were \$3.5 million and \$3.6 million, respectively, of which \$.3 million is in other current assets on the balance sheet and the remaining amount is reflected in other deferred charges.

Wabash Valley Power has FERC approval to defer all unrealized gains and losses on derivative and hedging contracts until such time as the derivative is settled. At December 31, 2012 Wabash Valley Power has deferred \$2.8 million of unrealized losses, of which \$1.7 million is reflected in regulatory assets and \$1.1 million is

reflected in other regulatory assets – other. Unrealized gains deferred at December 31, 2012 totaled \$.6 million and are reflected in other current liabilities. See Note 1 - Derivative Instruments for the recovery period of derivative contracts.

Midwest Energy Cooperative (Midwest) terminated membership in Wabash Valley Power effective December 31, 2011 and a portion of Midwest's load is now being served as a non-member sale via another provider. The escrow funds from Midwest were deposited with the Trustee on December 31, 2011 and were returned to Wabash Valley Power in early 2012. The funds received were deferred and will be refunded through the FERC formulary rate from January 2012 through December 2017. Amounts deferred at December 31, 2012 and 2011 were \$6.3 million and \$7.5 million, respectively, of which \$1.3 million is reflected in other current liabilities on the balance sheet and the remaining amount is reflected in other deferred charges.

DEPRECIATION

Wabash Valley Power depreciates its plant on the straight-line basis over the estimated service life of the depreciable plant. Depreciation is calculated by applying depreciation rates to the detail plant account balances.

The resulting average depreciation rates by plant function at December 31 were as follows:

	2012	2011
Steam Production	2.40%	2.53%
Other production	3.38%	3.57%
Manufactured gas	5.18%	5.18%
Transmission	2.16%	2.18%
Distribution	3.76%	3.27%
General	7.77%	7.54%

PENSION PLAN

Qualified employees of Wabash Valley Power are members of a pension plan sponsored by the National Rural Electric Cooperative Association (NRECA). The NRECA Retirement Security Plan (RS Plan) is a defined benefit pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. It is a multiemployer plan under the accounting standards. The plan sponsor's Employer Identification Number is 53-0116145 and the Plan Number is 333.

A unique characteristic of a multiemployer plan compared to a single employer plan is that all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers. This means that assets contributed by one employer may be used to provide benefits to employees of other participating employers.

Contributions to the RS Plan by Wabash Valley Power in 2012 and 2011 represented less than 5 percent of the total contributions made to the plan by all participating employers. Wabash Valley Power's contributions to the plan for 2012 and 2011 were \$1.1 million. There have been no significant changes that affect the comparability of 2012 and 2011 contributions.

In the RS Plan, a "zone status" determination is not required, and therefore not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the Retirement Security Plan was between 65 percent and 80 percent funded at January 1, 2012 and January 1, 2011 based on the PPA funding target and PPA actuarial value of assets on those dates.

Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

NEW ACCOUNTING STANDARDS

Accounting Standards Update (ASU) 2011-09 "Disclosures about an Employer's Participation in a Multiemployer Plan" which amends ASC 715-80 "Compensation – Retirement Benefits: Multiemployer Plans" became effective for Wabash Valley Power with 2012 reporting. All enhanced disclosures under the new guidance have been included in Note 1 – Pension Plan.

FEDERAL INCOME TAXES

Wabash Valley Power is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(12) as long as member gross margins are at least 85% of total gross margins. Member gross margins as a percent of total gross margins for 2012 and 2011 were greater than 85%. As a result, no provision for federal income taxes was made during either year.

Wabash Valley Power has adopted guidance governing uncertain income tax positions which sets forth recognition thresholds and measurement attributes for financial statement recognition. The guidance did not result in the recording of any uncertain tax position liabilities as of December 31, 2012 and 2011. Tax years 2009 through 2012 remain open and could be subject to audit by the IRS.

CASH AND CASH EQUIVALENTS

Wabash Valley Power considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

RESTRICTED ASSETS

Amounts restricted at December 31, 2011 include escrow

funds associated with Midwest's exit from the organization at the end of 2011, the cost of sole-use assets purchased by Midwest upon termination of its membership and the cost of sole-use assets sold to two other members in late 2011. The funds were released to Wabash Valley Power in February 2012.

FUEL STOCK AND MATERIAL INVENTORY

Fuel stock and materials and supplies are valued at average cost.

ASSET IMPAIRMENT

Wabash Valley Power's long-lived assets are reviewed for impairment when events or circumstances change that could impact the recoverability of the asset's carrying amount. There were no impairments recorded during 2012 or 2011.

INVESTMENTS

Wabash Valley Power's investments consist primarily of loan capital term certificates (LCTCs) and subscription capital term certificates (SCTCs) which are required in order to borrow from the National Rural Utilities Cooperative Finance Corporation (CFC) (See Note 4). These certificates represent less than a 20 percent ownership in CFC and management does not have significant influence over CFC. In 2009, Wabash Valley Power invested \$5 million in CFC's membership certificates. All investments with CFC are carried at cost, subject to an annual impairment test.

Wabash Valley Power also has authority to make short-term investments. As of December 31, 2012, Wabash Valley Power had invested \$10.0 million in CFC medium-term notes and \$8.2 million in CFC commercial paper. As held-to-maturity investments that will mature in less than one year, they are reflected at cost, which approximates fair value, in short-term investments on the balance sheet. There were no gains or losses recorded during the year.

REGIONAL TRANSMISSION ORGANIZATIONS (RTOs)

Wabash Valley Power is a transmission-owning member of the Midwest ISO (MISO) and a transmission participant in MISO and PJM Interconnection, LLC (PJM). Wabash Valley Power and the other owners of the joint transmission system (JTS) (See Note 2) have assigned operational control of the JTS to MISO. While Wabash Valley Power remains an owner of its respective share of the JTS, MISO schedules, manages and oversees operational control of the JTS.

ASSET RETIREMENT OBLIGATIONS

The Company records its ownership share of legal obligations associated with the retirement of waste landfills and ash ponds at the Gibson Unit No. 5 production facility. The obligations are recorded at fair value when incurred and capitalized as a cost of the related asset.





The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. When the asset is retired, the entity settles the obligation for its recorded amount or incurs a gain or loss.

The following table represents the details of Wabash Valley Power's asset retirement obligations. The non-current portion of the obligations is included on the balance sheet in other deferred credits.

(in thousands)	2012	2011
Beginning Balance	\$1,470	\$1,292
Liabilities Incurred	-	-
Liabilities Settled	-	-
Accretion	166	178
Cash Flow Revisions	(350)	-
Ending Balance	\$1,286	\$1,470

In accordance with regulatory treatment, Wabash Valley Power collects removal costs in rates for certain assets that do not have associated legal asset retirement obligations. Wabash Valley Power estimates that a regulatory liability related to removal costs has been recorded in accumulated depreciation on the balance sheet for 2012 of \$33.5 million and \$30.8 million for 2011.

DERIVATIVE INSTRUMENTS

Wabash Valley Power is exposed to various market risks in the normal course of business. Management has established risk management policies to mitigate the potentially adverse effects that these risks may have on member rates. The policies include the use of derivative instruments that generally qualify for the normal purchase and normal sales exclusion under ASC 815 "Accounting for Derivative Instruments and Hedging Activities" (ASC 815), as amended.

Wabash Valley Power enters into power contracts with the primary intent of securing wholesale power requirements for members at the minimum cost, while enhancing the value of Wabash Valley Power's assets and managing the risk associated with volatility in power prices. These contracts generally meet the definition of a derivative as defined in ASC 815. Many of these contracts qualify for the normal purchase and normal sales exclusion and are not recorded in the financial statements at fair value. Contracts not meeting the normal purchase and normal sales exclusion are reflected at fair value on the balance sheet. Wabash Valley Power values its contracts using market prices from brokers. Notional values of these contracts for 2012 and 2011 were 1.2 million megawatt

hours (MWh) and 2.3 million MWh, respectively.

Wabash Valley Power holds gas futures contracts for the primary purpose of mitigating volatility in gas prices related to the operation of its gas-fired plants and as a means to reduce the effect on member rates due to changes in future gas prices. These contracts qualify as derivatives and are recorded at fair value on the balance sheet. Notional values under these contracts were 1,840,000 MMBtu (million British thermal units) in 2012 and 360,000 MMBtu in 2011.

Wabash Valley Power has entered into two interest rate swap agreements with a total notional value of \$77.6 million to mitigate the risk associated with changes in floating interest rates on the issuance of variable-rate long-term debt. The swap agreements convert floating rates into fixed rates so the Company can more accurately predict future interest costs and protect itself against increases in floating rates. These contracts qualify as derivatives and are reflected at fair value on the balance sheet.

The following reflects the amounts that are recorded in assets and liabilities at December 31, 2012 and 2011 for the Company's derivative instruments:

(in thousands)	2012	2011
Power Contracts		
Other current assets	\$584	\$2,603
Gas Futures		
Other deferred charges	10	-
Total Derivative Assets	\$594	\$2,603
Power Contracts		
Other current liabilities	\$787	\$3,209
Interest Rate Swap		
Other current liabilities	602	542
Other deferred credits	1,032	914
Gas Futures		
Other current liabilities	312	583
Other deferred credits	86	168
Total Derivative Liabilities	\$2,819	\$5,416

The changes in the fair value of derivative contracts result in unrealized gains and losses, which are reflected in regulatory assets or liabilities, as appropriate, on the balance sheet (See Note 1 – Regulatory Assets and Liabilities). As the contracts are settled, the derivative assets and liabilities and corresponding regulatory assets and liabilities are relieved and amounts are recognized in fuel expense, purchased power, or

interest expense, as appropriate.

Net realized losses recognized in earnings at December 31, 2012 and 2011 were as follows:

(in thousands)	2012	2011
Power Contracts (purchased power)	\$1,995	\$947
Gas Futures (purchased power)	\$986	\$2,109
Interest Rate Swaps (interest expense)	\$951	\$864

The realized portion of derivative gains and losses are reflected in net cash from operating activities on the cash flow statement.

All power and gas futures contracts reflected at fair value on the balance sheet at December 31, 2012 mature on or before January 31, 2015. The interest rate swaps mature in January 2032 and July 2032.

As of December 31, 2012 Wabash Valley Power was not required to post cash collateral under the terms of these agreements.

2. PLANT

Wabash Valley Power states its plant at cost which includes labor, materials, overheads and interest on borrowed funds used during construction on major projects. Plant in service at December 31 consists of the following:

(in thousands)	2012	2011
Production	\$685,929	\$670,244
Manufactured gas production	72,328	69,706
Transmission	141,796	139,146
Distribution	50,481	47,946
General	22,121	22,894
Plant in Service	\$972,655	\$949,936

Maintenance and repairs of plant and replacement of items determined to be less than units of property are charged to expense. Replacements and renewals of items considered to be units of property are charged to the plant accounts. At the time plant is disposed, the original cost plus cost of removal less salvage value of such plant is charged to accumulated depreciation.

Wabash Valley Power has an agreement with Duke Energy Indiana, Inc. (Duke Indiana) and Indiana Municipal Power Agency (IMPA) that provides for Wabash Valley Power's undivided 25% ownership interest in Duke Indiana's Gibson Unit No. 5 production facility.

Wabash Valley Power has an agreement with Duke Energy Indiana that provides for Wabash Valley Power's undivided 37.5% ownership interest in the Vermillion generating facility.

Wabash Valley Power has an agreement with Hoosier Energy REC (Hoosier) that provides for Wabash Valley Power's one third ownership interest in the Lawrence generating facility.

Wabash Valley Power and Hoosier jointly own the Holland generating facility. The agreement provides each owner with an undivided 50% ownership in the facility.

Wabash Valley Power jointly owns certain transmission property and local facilities with Duke Indiana and IMPA. These facilities are part of the JTS which is maintained by Duke Indiana.

A substantial portion of Wabash Valley Power's utility plant and related operation and maintenance expenses is included under the terms of the above agreements.

Wabash Valley Power has a 50% interest in the assets of sgSolutions (See Note 1). Due to its ownership and control of sgSolutions, Wabash Valley Power consolidates sgSolutions resulting in approximately \$31.8 million being included on the balance sheet in net plant at December 31, 2012.

Wabash Valley Power had \$.3 million and \$1.8 million of capital expenditures recorded in accounts payable – other on the balance sheet at December 31, 2012 and 2011, respectively.

3. CREDIT FACILITIES

Wabash Valley Power had a \$20 million unsecured credit facility with PNC Bank, National Association that expired in January 2013 against which there were no borrowings at December 31, 2012.

Wabash Valley Power has a \$60 million unsecured credit facility with CFC, against which there were no borrowings at December 31, 2012. The credit facility expires in March 2014.

Wabash Valley Power has a \$20 million unsecured credit facility with Fifth Third Bank that expires in May 2014 against which there were no borrowings at December 31, 2012.

These facilities are used to finance the general operating needs of the Company and provide interim financing of capital projects. The facilities can also be used to provide letters of credit to power supply counterparties to support purchase and sale obligations of the Company.

The interest rate on the CFC facility is variable and is set by the lender. The remaining facilities are indexed to the London Interbank Offered Rate (LIBOR) and will vary based on the length of the draw and credit rating of the Company at the time of the draw.

There were no letters of credit outstanding at December 31, 2012 or 2011.

4. LONG-TERM DEBT

Wabash Valley Power's long-term debt, as of December 31, consists of the following:

(\$ in thousands)	2012	2011
First Mortgage Notes (due in quarterly installments)		
Series 1999-A 6.80% due October 2012	\$ -	\$822
Series 1999-B 7.45%-9.10% due April 2019	4,829	5,369
Series 2000-A 5.30% thru Jan. 2019, due April 2030	1,550	1,602
Series 2000-A 5.30% thru Jan. 2019, due Oct. 2030	1,569	1,620
Series 2000-A 5.30% thru Jan. 2019, due April 2021	3,375	3,682
Series 2001-A 3.65% thru Nov. 2014, due July 2027	8,581	9,013
Series 2001-A 8.25% due July 2027	1,380	1,426
Series 2001-A 6.95% due July 2027	326	339
Series 2001-A 2.90% thru Dec. 2014, due July 2027	752	789
Series 2001-A 3.55% thru Jan. 2018, due July 2027	1,406	1,473
Series 2003-B 7.15% thru May 2020, due Oct. 2023	5,342	5,652
Series 2003-B 6.65% due October 2023	755	800
Series 2004-A 5.08% due April 2024	96,651	102,697
Series 2004-B 4.59% due April 2019	15,535	17,543
Series 2004-C 6.00% due April 2024	10,037	10,712
Series 2004-D 5.56% due December 2024	24,810	26,835
Series 2005-A 5.25% due July 2025	15,000	15,807
Series 2006-A 6.44% – 6.87% due April 2028	21,930	22,783
Series 2007-A 6.14% due January 2028	117,700	122,239
Series 2007-B 6.24% due January 2028 (a)	20,000	20,000
Series 2009-A 3.77%-7.71% due January 2039 (b)	92,500	92,500
Series 2009-B 7.22% due January 2039	93,049	94,208
Series 2009-C 0%-1.5% due December 2021 (c)	9,069	10,077
Series 2012-A 1.59%-1.66% due July 2032	37,600	-
Series 2012-B 4.58% due July 2032	20,587	-
Tax Exempt Bonds (due in quarterly installments)		
Series 2010-A 1.33% thru March 2013, due Jan. 2031	38,075	39,175
Promissory Notes (due in quarterly installments)		
6.70%-7.65% due October 2015	8,933	11,491
6.55% due October 2016	1,219	1,478
Unsecured Note (due in quarterly installments)		
Series 2005 (3.95% thru Sept. 2014, due July 2025)	1,886	1,997
Series 2005 (5.95% thru Sept. 2016, due July 2025)	4,610	4,846
Series 2005 (6.15% thru Sept. 2024, due July 2025)	6,562	6,892
Total long-term debt	\$665,618	\$633,867
Current maturities	27,663	26,415
Total long-term debt – net of current maturities	\$637,955	\$607,452

The estimated principal payments on long-term debt are as follows:

(in thousands)	
2013	\$27,663
2014	29,036
2015	30,097
2016	30,420
2017	31,068
Thereafter	517,334
Total long-term debt	\$665,618

- (a) Due in quarterly installments beginning April 2019
- (b) Due in quarterly installments beginning April 2020
- (c) Due in annual installments

Wabash Valley Power is required to be a member of CFC in order to borrow from CFC. As a condition of membership in CFC, Wabash Valley Power is required to purchase a total of \$2.3 million of SCTCs from CFC. The SCTCs accrue interest at a rate of 3% annually. Wabash Valley Power satisfied this \$2.3 million obligation through fifteen equal annual payments of approximately \$.2 million each. As of December 31, 2011, all fifteen payments have been made and are reflected as investments on the balance sheet.

The First Mortgage Notes are collateralized by the generation, transmission, distribution and general plant assets (excluding transportation equipment) of Wabash Valley Power.

The Promissory Notes are secured by the assets of sgSolutions.

Pursuant to the covenants of the Indenture of Trust, Wabash Valley Power must design rates that shall, on an annual basis, yield a times interest earned ratio (TIER) of 1.0 and a debt service coverage (DSC) ratio of 1.10. Wabash Valley Power's TIER and DSC for the year ended December 31, 2012 were 1.47 and 1.39, respectively.

Under the terms of the Indenture of Trust, Wabash Valley Power may declare and make distributions of patronage capital provided Wabash Valley Power's aggregate margins and equities as of the end of the most recent fiscal quarter are not less than 20% of Wabash Valley Power's total capital (long-term debt and equity) as of such date. No distributions were made during 2012 or 2011.

During 2012 and 2011, cash paid for interest (net of amounts capitalized of \$0 for both years) was \$37.5 million and \$38.7 million, respectively.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and temporary cash investments, trustee deposits, SCTCs, receivables, certain other liabilities and long-term debt are considered to be financial instruments. The carrying value of cash, temporary cash investments, trustee deposits, receivables and certain other liabilities approximate the fair value because of the short maturity of the instruments. The fair value of the CFC SCTCs and other investments are not estimable since these instruments are required to be held by Wabash Valley Power as a condition of membership and can only be returned to the investee.

Wabash Valley Power's estimated fair value of long-term debt, including current maturities, at December 31, 2012 and 2011, was \$774.6 million and \$728.8 million, respectively. The fair value of long-term debt is determined by calculating the net present value of each individual note using the estimated rate at which the Company could borrow those funds at December 31, 2012 for similar terms.

Long-term debt valuations are considered Level 2 inputs.

Wabash Valley Power's gas futures derivatives were valued using Level 1 inputs which consist of quoted market prices from active exchange markets.

The Company's power contract derivatives were calculated using broker quotes or appropriate pricing models with primarily externally verifiable model inputs. These valuations are considered Level 2 inputs.

The interest rate swaps derivatives were valued by using yield curves derived from current interest rates and spreads to project and discount swap cash flows to present value. These valuations are considered Level 2 inputs.

6. MEMBERS' EQUITY AND PATRONAGE CAPITAL

Net margins are allocated to Wabash Valley Power's members as patronage capital pursuant to the provisions of its by-laws. Wabash Valley Power's Indenture of Trust (See Note 4) permits the refund of patronage capital provided Wabash Valley Power's aggregate margins and equities as of the end of the most recent fiscal quarter are not less than 20% of its total capital.

Wabash Valley Power's Buyout Policy and Procedure (Buyout Policy) describes the process and obligations for withdrawing from membership. Pursuant to the Buyout Policy, a terminating member continues to be an all-requirements purchaser and member for ten years upon execution of a Supplemental Agreement. During the ten-year period, the terminating member is required to deposit specified amounts into an escrow account, which together with accrued interest thereon, is paid to an Escrow Agent. Upon written notice, the terminating member can elect to cancel the Supplemental Agreement prior to the end of the seventh year, receive all escrow funds and continue its membership in Wabash Valley Power.

Two of Wabash Valley Power's members, Paulding-Putnam Electric Cooperative, Inc. (Paulding) and Northeastern REMC (Northeastern), elected to invoke the provisions of the Buyout Policy. Paulding's membership will terminate on December 31, 2014 and Northeastern's on June 30, 2015.

The exit of these members will not result in any obligations by Wabash Valley Power or have a material adverse impact on its operations or cash flows.

7. RELATED PARTY TRANSACTIONS

Wabash Valley Power is a member of Alliance for Cooperative Energy Services (ACES) Power Marketing

LLC which provides wholesale marketing services and efficiencies of combining the marketing of member power resources. The investment in ACES is accounted for using the cost method of accounting. At December 31, 2012 and 2011, Wabash Valley Power's investment in ACES was approximately \$.5 million.

sgSolutions pays the minority owner a monthly management fee based on certain operational performance metrics of the plant. The amounts paid in 2012 and 2011 were \$2.6 million and are included in operation – other on the statements of operations and patronage capital.

Wabash Valley Power had purchases from JAron totaling \$42.7 million in 2012 and \$42.8 million in 2011. These purchases are reflected in purchased power on the statements of operation and patronage capital.

8. COMMITMENTS AND CONTINGENT LIABILITIES

LONG-TERM SUPPLY AGREEMENTS

Wabash Valley Power has several long-term power supply agreements which obligate Wabash Valley Power to purchase power at amounts specified in the agreements without regard to whether it takes delivery of such power. All of these power supply agreements expire on or before December 31, 2021, and the total amount of these future purchase obligations is approximately \$516.3 million as of December 31, 2012.

The amounts by year are as follows:

(in thousands)	
2013	\$74,153
2014	\$107,869
2015	\$108,789
2016	\$80,749
2017	\$83,012
Thereafter	\$61,716

Wabash Valley Power also has long-term power supply agreements which are supplier cost-based. The costs are part of a formulary rate and vary from year to year. Volumes under these agreements are approximately 270 megawatts (MW) per year and all agreements expire on or before December 31, 2032.

Amounts paid under long-term agreements were \$321.6 million in 2012 and \$347.6 million in 2011.

ENVIRONMENTAL MATTERS

On December 16, 2011, the Environmental Protection Agency (EPA) issued the Mercury and Air Toxics Standards (the MATS) which will become effective during 2015 with a one year extension available to

companies doing pollution control upgrades. Wabash Valley Power may need to make certain retrofits to Gibson Unit 5 to comply with the standards and is working with the co-owners of the facility to determine the total cost and timing of these future capital improvements. No material capital expenditures are anticipated at Wabash Valley Power's other production facilities due to the MATS.

The EPA issued Cross State Air Pollution Rules (CSAPR) in July 2011 which limits sulfur dioxide (SO₂) and nitrogen oxide (NO_x) emissions at generating facilities. The rule, which was to become effective January 1, 2012, was stayed by the D.C. Court of Appeals on December 30, 2011. The Court noted that the EPA is expected to continue the Clean Air Interstate Rule (CAIR) program pending the Court's resolution. At this time, the Company cannot predict the exact timing of a new CSAPR rule by the EPA, nor can it estimate the impact it will have on the cost of operations for Gibson Unit 5, Wabash River Unit 1 or the costs charged by suppliers under the Company's various power supply agreements.

GUARANTEES

Wabash Valley Power's board of directors authorized Wabash Valley Power to guarantee the repayment of sgSolutions' long-term debt, up to \$28 million. All outstanding long-term debt of sgSolutions is included in the consolidated financial statements.

Wabash Valley Power's board of directors authorized Wabash Valley Power to guarantee up to \$10 million of sgSolutions' operating and capital needs. Wabash Valley Power has entered into a guarantee for \$3 million as of December 31, 2012.

Wabash Valley Power's board of directors authorized two guarantees related to Holland. They are as follows:

- › Guarantee up to \$10 million of activities related to operation, fuel purchasing, financial and construction activities. A guarantee for \$6 million has been entered into as of December 31, 2012.
- › Guarantee up to \$.1 million of MISO activities. A guarantee to MISO for \$.1 million is outstanding as of December 31, 2012.

As of December 31, 2012 and 2011, no liabilities were recorded for these guarantees.

9. LEGAL MATTERS

In the normal course of business, Wabash Valley Power may be involved in various legal matters. Other than those specifically disclosed below, Wabash Valley Power does not expect the resolution of these matters to have a material adverse effect on the financial statements.

MEMBER LITIGATION

In December 2010, a member of Wabash Valley Power notified the Company of an alleged breach of contract related to the Company's transition to FERC jurisdiction in 2004. The notice claimed the all-requirements contract (ARC) called for state jurisdiction over rate-related matters thereby making rates approved by FERC since 2004 invalid. Wabash Valley Power received a Declaratory Judgment from FERC in November 2011 affirming its jurisdiction over the rates of Wabash Valley Power. In January 2012, the Member filed suit seeking relief of purchased power obligations under the ARC beginning March 1, 2012. In March 2012, the Court issued a temporary injunction requiring the Member to continue obligations under the terms of the ARC. The Member appealed the ruling to the 7th Circuit Court in April 2012 (See Note 10).

10. SUBSEQUENT EVENTS

The financial statements include a review of subsequent events, as that term is defined in ASC 855, through March 18, 2013, the date the financial statements were available to be issued.

SYNDICATED CREDIT FACILITY

On March 7, 2013 the Company entered into a \$100 million syndicated revolving credit facility that expires in March 2018. The facility can be used to finance the general operating needs of the Company, provide interim financing of capital projects and provide letters of credit to power supply counterparties to support purchase and sale obligations. The facility bears interest at various options. The \$80 million in existing facilities (See Note 3) were cancelled as of March 6, 2013.

MEMBER LITIGATION

In February 2013, the Court of Appeals for the 7th Circuit issued an opinion and order remanding the Member lawsuit back to state court. The Court concluded the breach of contract claim arose under state law and does not necessarily violate the FERC filed rate so the federal court lacked jurisdiction. The order did not conclude on the merits of the case, but rather solely on the court that has jurisdiction over the case. The order requires the Member to continue buying all of its power from Wabash Valley Power under the terms of the ARC unless FERC rules otherwise. If the Member would prevail in state court, a proceeding at FERC must be filed before they can terminate performance under the federally filed rate schedule. The Company believes the final outcome will be an order confirming FERC's jurisdiction over Wabash Valley Power's rates and upholding the Member's purchase obligations under the ARC.

Wabash Valley Power
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