

MFA Incorporated and Subsidiaries

Consolidated Financial Statements for the Year Ended August 31, 2002, and Independent Auditors' Report

PRESIDENT'S/CHAIRMAN'S LETTER

MFA is still a farmer-owned cooperative after 88 years of being in business. We are in the business of helping our member/owners grow crops, raise livestock and produce milk. That's what we do and what we are all about. We are obligated to fulfill our stated mission of providing economic benefits to our member/owners. We must constantly recognize the needs and wants of those member/owners and provide solutions that are economically beneficial for both the member/owner and the cooperative.

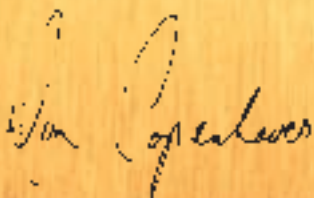
At MFA, we provide economically beneficial solutions. That's the impetus behind our successful Health Track Beef Alliance program, behind our swine marketing groups, behind our new and exciting feed formulas such as Trendsetter SLR, our high-yielding seed genetics, our efforts in precision farming technology and our internet-based offerings.

Still, the dynamics of the marketplace change rapidly. We change as well. Businesses failing to change get left behind. Continuing consolidation across all segments of agriculture affects our industry. We have fewer farms, fewer farmers, fewer suppliers, fewer seed genetic companies. That makes our choices and offerings more important than ever. It also focuses our efforts.

In other sectors of the economy, businesses have the luxury of passing along additional costs by raising the prices of what they sell. Unfortunately, in our industry, it does not work that way. Those of us in agriculture are price takers, not price makers. We must focus on efficiency and on cost of production. Despite these challenges, we concluded our fiscal year with a profit. Our \$4 million pre-tax profit is not as large as we would like, but we are pleased to end the year in the black, especially since the bankruptcy of Farmland Industries forced us to write down an investment of \$2.3 million in Farmland stock.

MFA is a conservative organization in all the best senses of the description. We grow the company conservatively to spread our costs over more units. But we do so without over-leveraging the company. Cooperatives finance themselves through profitability or through assuming debt. When we do assume debt, we have stringent criteria mandating the endeavors pay for themselves in a short period of time.

We begin a new fiscal year ready for new challenges. Our balance sheet performance measurements are strong, our market share continues to increase, our sales and revenues are up across the board and many of our increases are at the expense of our competitors. MFA Incorporated stands ready to improve its financial condition by growing the business intelligently and strategically in the coming season.



Don Copenhaver
President and CEO



Lester Evans
Chairman of the Board

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INDEPENDENT AUDITORS' REPORT

Board of Directors
MFA Incorporated
Columbia, Missouri

We have audited the accompanying consolidated balance sheets of MFA Incorporated and subsidiaries (the "Company") as of August 31, 2002 and 2001, and the related consolidated statements of operations, members' equity earned and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of August 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



November 15, 2002

MFA INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AUGUST 31, 2002 AND 2001

ASSETS	2002	2001
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,324,717	\$ 4,512,444
Accounts and notes receivable, net of allowance for doubtful accounts of \$735,000 and \$817,000, respectively	66,447,720	55,021,722
Inventories	80,352,517	84,080,308
Deferred income taxes	1,711,284	802,922
Prepaid expenses and other current assets	<u>3,707,216</u>	<u>3,637,962</u>
Total current assets	156,543,454	148,055,358
INVESTMENTS	55,839,752	57,581,426
NOTES RECEIVABLE, No allowance necessary	763,114	1,516,499
OTHER ASSETS	5,623,530	5,487,540
GOODWILL	2,029,586	2,029,586
RESTRICTED CASH		391,040
PLANT AND EQUIPMENT	<u>75,306,773</u>	<u>74,664,411</u>
TOTAL	<u>\$296,106,209</u>	<u>\$ 289,725,860</u>
LIABILITIES AND MEMBERS' EQUITY EARNED		
CURRENT LIABILITIES:		
Notes payable to bank	\$ 35,590,000	\$ 47,751,888
Accounts payable	46,573,163	38,983,917
Patronage and member equity payable	1,000,000	2,300,000
Accrued expenses	11,513,547	9,879,485
Current maturities of long-term obligations	<u>11,076,816</u>	<u>11,157,511</u>
Total current liabilities	105,753,526	110,072,801
LONG-TERM OBLIGATIONS	73,823,538	63,956,860
OTHER OBLIGATIONS	6,350,252	6,814,768
COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)		
MINORITY INTEREST	767,769	744,707
MEMBERS' EQUITY EARNED	<u>109,411,124</u>	<u>108,136,724</u>
TOTAL	<u>\$296,106,209</u>	<u>\$ 289,725,860</u>

See notes to consolidated financial statements.

MFA INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED AUGUST 31, 2002 AND 2001

	2002	2001
REVENUES:		
Farm supply sales	\$485,731,824	\$443,850,764
Grain marketing sales	173,345,281	149,252,837
Other operating revenues	<u>33,370,282</u>	<u>27,658,713</u>
Total revenues	692,447,387	620,762,314
COST OF SALES	<u>574,674,162</u>	<u>509,516,583</u>
Operating margin	117,773,225	111,245,731
EXPENSES:		
Operating expenses	104,834,358	93,555,759
Investment and fixed asset impairment	2,684,073	
Interest expense	<u>6,472,206</u>	<u>8,747,686</u>
Total expenses	<u>113,990,637</u>	<u>102,303,445</u>
INCOME BEFORE INCOME TAXES	3,782,588	8,942,286
INCOME TAXES:		
Current	1,200,000	1,515,000
Deferred	<u>(388,000)</u>	<u>137,000</u>
	<u>812,000</u>	<u>1,652,000</u>
NET INCOME	<u>\$ 2,970,588</u>	<u>\$ 7,290,286</u>

See notes to consolidated financial statements.

MFA INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY EARNED YEARS ENDED AUGUST 31, 2002 AND 2001

	Members' Equity	Retained Earnings	Total
BALANCE, SEPTEMBER 1, 2000	\$ 69,554,689	\$ 32,200,991	\$ 101,755,680
Net income	2,909,949	4,380,337	7,290,286
Retirement and reallocation of equities	(1,167,329)	(50,400)	(1,217,729)
Transfer of net savings payable in cash to liabilities	(2,300,000)		(2,300,000)
Glasgow acquisition on pooling of interests	<u>1,571,463</u>	<u>1,037,024</u>	<u>2,608,487</u>
BALANCE, AUGUST 31, 2001	70,568,772	37,567,952	108,136,724
Net income	1,000,000	1,970,588	2,970,588
Retirement and reallocation of equities	(786,884)	90,696	(696,188)
Transfer of net savings payable in cash to liabilities	<u>(1,000,000)</u>		<u>(1,000,000)</u>
BALANCE, AUGUST 31, 2002	<u>\$ 69,781,888</u>	<u>\$ 39,629,236</u>	<u>\$ 109,411,124</u>

See notes to consolidated financial statements.

MFA INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED AUGUST 31, 2002 AND 2001

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,970,588	\$ 7,290,286
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Deferred income taxes	(388,000)	137,000
Depreciation and amortization	12,232,228	11,726,784
Write-down of investments and fixed assets	2,684,073	
Noncash portion of allocated patronage dividends	(871,934)	(607,405)
Noncash earnings of joint ventures	(1,097,072)	(1,148,421)
Provision (credit) for bad debts	826,366	(350,875)
Gain on sale of plant and equipment	(295,309)	(177,613)
Cumulative bond interest	708,793	614,655
Changes, exclusive of effect of business combinations, in:		
Receivables	(11,369,309)	(4,774,727)
Inventories	8,195,285	(1,625,513)
Prepaid expenses and other current assets	(69,254)	(770,996)
Accounts payable	1,031,490	4,729,049
Accrued expenses	834,062	(590,385)
Net cash provided by operating activities	<u>15,392,007</u>	<u>14,451,839</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of plant and equipment	(10,119,828)	(9,986,689)
Investments redeemed by other cooperatives	1,831,149	2,232,256
Payments received on notes related to sale of plant and equipment	764,147	178,440
Proceeds from sale of plant and equipment	831,464	568,954
Cash paid for business acquisitions	(1,964,173)	(7,600,000)
Other	(614,084)	138,864
Net cash used in investing activities	<u>(9,271,325)</u>	<u>(14,468,175)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net advances (payments) under notes payable to bank	(12,161,888)	10,457,478
Proceeds from long-term obligations	14,744,066	2,356,876
Principal payments on long-term obligations	(6,350,229)	(2,151,839)
Payment to members	(2,300,000)	(7,086,431)
Retirement of deceased members' equity	(714,751)	(1,217,729)
Restricted cash	391,040	784,070
Other	83,353	67,586
Net cash provided by (used in) financing activities	<u>\$ (6,308,409)</u>	<u>\$ 3,210,011</u>

(Continued)

MFA INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED AUGUST 31, 2002 AND 2001

	2002	2001
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (187,727)	\$ 3,193,675
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,512,444</u>	<u>1,318,769</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,324,717</u>	<u>\$ 4,512,444</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION -		
Cash paid during the year for:		
Interest expense	<u>\$ 7,048,925</u>	<u>\$ 9,585,261</u>
Income taxes	<u>\$ 1,948,312</u>	<u>\$ 1,650,147</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS:		
Notes receivable accepted for sale of plant and equipment	<u>\$ 15,000</u>	<u>\$ 484,015</u>
Transfer of patronage equities payable in cash to liabilities	<u>\$ 1,000,000</u>	<u>\$ 2,300,000</u>

See notes to consolidated financial statements.

(Concluded)

MFA INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED AUGUST 31, 2002 AND 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - MFA Incorporated and subsidiaries (the "Company") is a regional agricultural cooperative headquartered in Columbia, Missouri. The Company is a supplier of agricultural products and services including feed, seed, fertilizer, crop protection chemicals and farm supplies. The Company also provides a marketing function for grain, livestock and seed. The Company's customers are primarily farmers, locally-owned cooperatives and other agricultural supply businesses in the central United States.

Financial Statement Presentation - The consolidated financial statements include the accounts of MFA Incorporated, its wholly owned subsidiary, MFA Enterprises, Inc., (divisions include Morris Farms, Phillips Feed and Ag Choice) and an 88% owned finance subsidiary, Agmo Corporation. All significant intercompany transactions and balances have been eliminated in consolidation.

Consolidated Statements of Cash Flows - For cash flow purposes, the Company considers all highly liquid debt instruments with an original maturity of three months or less as cash equivalents.

Receivables - Substantially all of the Company's accounts and notes receivable are obligations of customers in the agricultural industry. The Company generally does not require collateral or other security on accounts receivable but may require collateral to support notes receivable. The credit risk is primarily controlled through credit approvals, limits and monitoring procedures.

Inventories - Grain inventories of \$9,634,000 and \$9,681,000 in 2002 and 2001 are stated at market including appropriate adjustments for unrealized gains and losses on open contracts and hedges. All other inventories are stated at the lower of cost (substantially first-in, first-out method) or market.

Investments - Investments in cooperatives, except for the investment in West Central AGRIServices, LLC, are stated at cost plus allocated equities as the Company holds less than 20% of the equity of the cooperatives. All other investments, none of which are majority owned or controlled, are accounted for using the equity method.

Restricted Cash - Unused proceeds of debt incurred for the purpose of financing a portion of the costs of construction of certain fixed assets are presented in the accompanying financial statements as long-term assets. These funds have been invested in highly liquid securities having maturities of three months or less, and are carried at cost which approximates market. At August 31, 2002, no such amounts existed.

Plant and Equipment - Plant and equipment, including items held under capital leases, are carried at cost. Depreciation and amortization are calculated on the straight-line method over estimated useful lives of 20 to 50 years for buildings, 5 to 10 years for machinery and equipment and furniture and fixtures and 3 to 5 years for transportation equipment.

Patronage Refunds Received - Patronage refunds received from other cooperatives and affiliates are reflected as a reduction of cost of sales. Patronage refunds received from CoBank, ACB are deducted from interest expense.

Income Taxes - As a cooperative, the Company is subject to income taxes on all income attributable to member business that is not paid or allocated to patrons and income arising from nonmember transactions. Income taxes are computed in accordance with the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 109, “*Accounting for Income Taxes*”. This approach requires the recognition of deferred tax assets and liabilities for the future tax consequences of temporary differences between the financial statement basis and the tax basis of assets and liabilities. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount expected to be realized.

Impairment of Long-Lived Assets - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or group of assets may not be recoverable. The impairment review includes a comparison of future cash flows expected to be generated by the asset or group of assets with their associated carrying value. If the carrying value of the asset or group of assets exceeds expected cash flows (undiscounted and without interest charges), an impairment loss is recognized to the extent fair value exceeds carrying amounts.

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

New Accounting Standards - The Financial Accounting Standards Board (“FASB”) recently issued Statement of Financial Accounting Standard (“SFAS”) No. 143, “*Accounting for Asset Retirement Obligations*”, SFAS No. 144 “*Accounting for the Impairment or Disposal of Long-Lived Assets*”, SFAS No. 145 “*Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections*”, and SFAS No. 146 “*Accounting for Costs Associated with Exit or Disposal Activities*.”

SFAS No. 143 requires the recognition of a liability if a company has a legal or contractual financial obligation in connection with the retirement of a tangible long-lived asset. The Company expects to implement SFAS No. 143 beginning in fiscal 2003, and is currently assessing its effect on the Company’s financial position, results of operations or cash flows.

SFAS No. 144 modifies the financial accounting and reporting for long-lived assets to be disposed of by sale and it broadens the presentation of discontinued operations to include more disposal transactions. The Company expects to implement SFAS No. 144 beginning in fiscal 2003, and is currently assessing its effect on the Company’s financial position, results of operations or cash flows.

SFAS No. 145 eliminates the requirement that material gains and losses resulting from the early extinguishment of debt be classified as an extraordinary item in the results of operations. Instead, companies must evaluate whether the transaction meets both the criteria of being unusual in nature and infrequent in occurrence. Other aspects of SFAS No. 145 relating to accounting for intangible assets of motor carrier and accounting for certain lease modifications do not currently apply to the Company. The Company will implement SFAS No. 145 beginning in fiscal 2003, and believes the implementation will not have a material effect on its financial position, results of operations and cash flows.

SFAS No. 146 modifies the financial accounting and reporting for costs associated with exit or disposal activities. This statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Additionally, the statement requires the liability to be recognized and measured initially at fair value. Under previous rules, liabilities for exit costs were

recognized at the date of the entity's commitment to an exit plan. The Company will adopt and implement SFAS No. 146 for any exit or disposal activities that are initiated after August 31, 2002.

2. INVESTMENTS

	2002	2001
Cooperative investments:		
CoBank, ACB	\$ 8,165,387	\$ 8,010,824
CF Industries, Inc.	36,037,318	36,037,318
Ag Processing	2,904,128	2,689,465
West Central AGRIServices, LLC	623,721	647,131
Other	2,439,932	4,352,735
Non-cooperative investments:		
Hyman Farm Service, LLC	2,580,801	2,587,831
AgriServices of Brunswick, LLC	1,319,908	1,040,343
Cache River Valley Seed, LLC	1,639,807	1,876,457
Central Missouri AgriServices, LLC	<u>128,750</u>	<u>339,322</u>
	<u>\$55,839,752</u>	<u>\$57,581,426</u>

In fiscal 2002, the Company determined that a cooperative investment was impaired and recorded an impairment loss for \$2,284,073.

Summarized financial information from the financial statements of the equity investees, which include West Central AGRI Services, LLC and all non-cooperative investments, is as follows:

	2002	2001
Assets	\$ 46,847,284	\$ 41,024,899
Liabilities	33,533,261	27,943,819
Net income	3,008,520	2,950,424
Revenues	167,708,219	146,782,601

Receivables from investees of \$4,650,700 and \$2,495,776 at August 31, 2002 and 2001, respectively, are included in accounts and notes receivable.

3. OTHER ASSETS

	2002	2001
Deferred compensation	\$4,842,743	\$4,861,199
Other	<u>780,787</u>	<u>626,341</u>
	<u>\$5,623,530</u>	<u>\$5,487,540</u>

4. GOODWILL

SFAS No. 142 modified the financial accounting and reporting for acquired goodwill including the requirement that goodwill no longer be amortized. The Company adopted SFAS No. 142 beginning September 1, 2001. The Company did not acquire additional goodwill through its business acquisitions. The Company did not amortize goodwill in the current year consistent with SFAS No. 142.

The following table discloses net earnings for the years ended August 31, 2002 and 2001 adding back the amortization expense related to goodwill that is no longer amortized.

	<u>For the year Ended August 31</u>	
	<u>2002</u>	<u>2001</u>
Reported net earnings (loss)	\$ 2,970,588	\$ 7,290,286
Add back: Goodwill amortization	-	196,454
Adjusted net earnings (loss)	<u>\$ 2,970,588</u>	<u>\$ 7,486,740</u>

5. PLANT AND EQUIPMENT

	<u>2002</u>	<u>2001</u>
Land and buildings	\$ 84,056,688	\$ 82,559,997
Machinery and equipment	107,832,624	104,736,749
Transportation equipment	27,715,966	25,493,734
Furniture and fixtures	10,058,461	9,408,623
Construction in process	<u>1,500,363</u>	<u>1,374,731</u>
	231,164,102	223,573,834
Less accumulated depreciation and amortization	<u>155,857,329</u>	<u>148,909,423</u>
	<u>\$ 75,306,773</u>	<u>\$ 74,664,411</u>

6. NOTES PAYABLE TO BANK AND LONG-TERM OBLIGATIONS

As of August 31, 2002, the Company had open lines of short-term credit with three banks totaling \$102,000,000, of which \$35,590,000 was outstanding at an average rate of 3.73%. At August 31, 2001, \$47,751,888 was outstanding at an average rate of 6.07%. Advances made under these commitments are primarily for financing seasonal inventories, accounts and notes receivable. The credit commitments are secured by inventories, accounts and notes receivable.

Long-term obligations consist of the following:

	2002	2001
CoBank, ACB term notes variable rate (4.47% as of August 31, 2002), due through 2006, secured by the Company's investment in CoBank, ACB	\$ 8,450,000	\$10,350,000
Unsecured bonds, rates from 2.5% to 9.5%, due through 2022	37,828,546	34,818,031
Revolving term loan, variable rate (4.23% as of August 31, 2002), due in 2005	30,000,000	20,000,000
Industrial Revenue Bonds, variable rate (1.6% as of August 31, 2002), due through 2009	6,255,000	6,755,000
Other	<u>2,366,808</u>	<u>3,191,340</u>
	84,900,354	75,114,371
Less current maturities	<u>11,076,816</u>	<u>11,157,511</u>
	<u>\$73,823,538</u>	<u>\$63,956,860</u>

The Company's credit commitments require the Company to meet certain net worth and working capital requirements. The Company is also subject to additional covenants which limit debt and certain capital expenditures. As of August 31, 2002, the Company was in compliance with these requirements.

The maturity of long-term obligations by fiscal year is as follows:

2003	\$11,076,816
2004	5,614,390
2005	33,701,959
2006	7,141,777
2007	8,011,832
Thereafter	<u>19,353,580</u>
	<u>\$84,900,354</u>

OTHER OBLIGATIONS

	2002	2001
Deferred compensation	\$4,842,743	\$ 4,861,199
Other	<u>1,507,509</u>	<u>1,953,569</u>
	<u>\$6,350,252</u>	<u>\$ 6,814,768</u>

8. INCOME TAXES

The difference between the provision for income taxes and the expected results by applying the Federal statutory rate to the pretax income results primarily from the available tax deduction status of cooperative member income.

The components of net deferred income tax assets and liabilities as of August 31, 2002 and 2001 are as follows:

	2002		2001	
	Current	Long-term	Current	Long-term
Deferred income tax assets:				
Accruals not yet deductible for tax purposes	\$ 711,451		\$ 300,724	
Uniform capitalization of inventory	571,897		400,613	
Reserve for doubtful accounts	101,522		79,698	
Net operating loss	73,316	\$ 44,328	22,816	\$ 153,899
Other	<u>311,776</u>	<u>625,912</u>	<u>34,125</u>	<u>430,788</u>
	<u>1,769,962</u>	<u>670,240</u>	<u>837,976</u>	<u>584,687</u>
Deferred income tax liabilities:				
Nonqualified notices of allocation		9,781		6,987
Depreciation		1,032,962		429,841
Property taxes	<u>58,678</u>	<u> </u>	<u>35,054</u>	<u> </u>
	<u>58,678</u>	<u>1,042,743</u>	<u>35,054</u>	<u>436,828</u>
Net deferred income tax assets (liabilities)	<u>\$ 1,711,284</u>	<u>\$(372,503)</u>	<u>\$ 802,922</u>	<u>\$ 147,859</u>

9. PENSION PLAN

The Company and several locally-owned cooperatives participate in the MFA Incorporated Retirement Plan (the "Plan"), a multi-employer defined benefit pension plan, covering most of their employees with over two years of employment. In July of 1999, the Plan was determined to be fully funded according to Internal Revenue Service regulations. Accordingly, contributions to the Plan were suspended. For the Plan year beginning on January 1, 2002, contributions to the plan were reinstated at a rate of 5% per eligible payroll dollar. \$1,400,000 was contributed to the Plan during 2002. Net assets available for Plan benefits totaled \$56,290,000 and \$56,873,000 as of December 31, 2001 and 2000, respectively.

The Company also has an employee 401(k) Plan to which it contributes a maximum of \$400 per year to eligible participants. Contributions expense to the 401(k) Plan was approximately \$300,000 and \$274,000 during 2002 and 2001, respectively.

10. COMMITMENTS AND CONTINGENT LIABILITIES

The Company's obligations under noncancellable operating leases with remaining terms in excess of one year as of August 31, 2002 are not significant. Rental expense related to operating leases was \$3,440,000 and \$2,563,000 for the years ended August 31, 2002 and 2001, respectively.

The Company is a defendant in several lawsuits arising from the normal course of business. Management is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on the Company's financial statements.

The Company has guaranteed construction loans on swine production facilities owned by independent producers and guaranteed operating loans to AgriServices of Brunswick, LLC, a 50%-owned limited liability company, Central Missouri AGRIServices, LLC, a 40%-owned limited liability company, and West Central AGRIServices, LLC, a 50%-owned limited liability company. The amount guaranteed totals approximately \$20,109,000. The Company monitors its guarantees and reserves for losses on guarantees if necessary.

11. RELATED PARTIES

During the current fiscal year, the Company leased certain real estate property and equipment under operating leases to Central Missouri AGRIServices, LLC ("Central"), a 40%-owned limited liability company, and West Central AGRIServices, LLC ("West Central"), a 50%-owned limited liability company. Lease income amounted to approximately \$486,000 and \$807,000 from Central and West Central, respectively, for the year ended August 31, 2002, and \$701,000 and \$850,000, respectively, for the year ended August 31, 2001.

12. ACQUISITIONS

LeGrand Fertilizer - On January 30, 2002, the Company purchased the assets of LeGrand Fertilizer in LeGrand, Missouri. LeGrand Fertilizer is a single location entity that sells fertilizer, seed and crop protection chemicals.

Mid-Missouri Cooperative - On February 1, 2002, the Company purchased selected assets of Mid-Missouri Cooperative Association ("Mid-Mo"). Mid-Mo is a full service farm supply and grain marketing cooperative, with six locations in west central Missouri.

Centralia Feed Mill - On March 22, 2002, the Company purchased a feed mill at Centralia, Missouri. The Company purchased the mill to make bulk swine feed for Company-owned and member alliance livestock.

Davis Ag - On August 30, 2002, the Company purchased the assets of Davis Ag in Olpe, Kansas. Davis Ag is a dry fertilizer retail facility that had been leased by the Company since January 30, 2002.

The acquisitions of LeGrand Fertilizer, Mid-Missouri Cooperative Association, Centralia Feed Mill and Davis Ag were accounted for by the purchase method of accounting, and, accordingly, the purchase price has been allocated to the assets acquired and the liabilities assumed based on the estimated fair values at the date of acquisition and their operations have been consolidated with the Company subsequent to the dates of purchase. The estimated fair values of the net assets acquired as part of these combinations is summarized as follows:

Current assets	\$ 5,136,000
Plant and equipment	3,375,000
Other long term assets	611,000
Liabilities assumed	<u>(7,158,000)</u>
	<u>\$ 1,964,000</u>

Ag Choice and Audrain - On February 1, 2001, the Company purchased the assets of seven retail locations from Agro Distribution (later named Ag Choice by the Company) (“Ag Choice”). Ag Choice is made up of seven fertilizer, seed and crop protection chemical retail locations located in southeast Kansas. The Company subsequently combined the operations of Ag Choice with those of wholly-owned Morris Farms and Phillips Feed to form MFA Enterprises, Inc.

On January 30, 2001, the Company purchased the assets of Audrain County Coop (“Audrain”). Audrain is comprised of two fertilizer, seed and crop protection chemical cooperative retail locations located in central Missouri.

The acquisitions of Ag Choice and Audrain were accounted for by the purchase method of accounting, and, accordingly, the purchase price has been allocated to the assets acquired and the liabilities assumed based on the estimated fair values at the date of acquisition and their operations have been consolidated with the Company subsequent to the dates of purchase. The estimated fair values of the net assets acquired as part of these business combinations is summarized as follows:

Current assets	\$ 5,200,000
Plant and equipment	4,100,000
Liabilities assumed	<u>(1,700,000)</u>
	<u>\$ 7,600,000</u>

Glasgow - On July 31, 2001, Glasgow Cooperative Association (“Glasgow”) was merged with the Company. In order to consummate the transaction, the Company formed a subsidiary which combined with Glasgow. The subsidiary was then merged into the Company.

This business combination was accounted for as a pooling of interests under APB Opinion No. 16. Based on management's conclusion as to the materiality of the transaction, Glasgow's results from operations prior to the pooling date were excluded from the Company's fiscal 2001 financial results, and Glasgow's assets, liabilities, stockholder's equity, and results from operations were excluded from the Company's fiscal 2000 financial statements. The net assets acquired as part of this business combination is summarized as follows:

Current assets	\$ 2,699,669
Plant and equipment and other non-current assets	3,589,399
Liabilities assumed	<u>(3,680,581)</u>
	<u>\$ 2,608,487</u>

13. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Accounting for Derivatives and Hedging Activities - The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS Nos. 137 and 138, on September 1, 2000. In doing so, the Company did not incur any transition adjustments to earnings.

All derivatives are recognized on the balance sheet at their fair value. At the end of each accounting period, the Company records its outstanding derivative instruments at fair value with the resulting change in value being recorded as other income within the statement of operations.

The Company formally documents its derivative activities, as well as its risk-management objectives and strategy for undertaking various hedge transactions. The Company formally assesses, both at the derivatives' inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are to be accounted for as hedge transactions, and whether they qualify for the normal purchases and normal sales exemption under SFAS No. 138.

The Company uses futures contracts to hedge against the effect of price fluctuations on forecasted purchases and sales of grain and livestock transactions. Such contracts are not designated as hedging instruments under SFAS No. 133, and are thus reported at fair value and all market adjustments are recorded as cost of sales within the statement of operations.

The Company also enters into forward contracts on certain fertilizer product with contract terms normally lasting less than six months to protect against the effect of price fluctuations. These derivatives are exempt from accounting treatment under SFAS No. 133 as they qualify as normal purchase and normal sale derivatives. MFA has formal documentation regarding its strategy in its use of such instruments. Because these derivatives are exempt from accounting treatment under SFAS No. 133, they are classified as off-balance sheet hedges.

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments", requires disclosures about the fair value of all financial instruments, whether recognized or not recognized on the balance sheet. All financial instruments are carried at amounts that approximate estimated fair value, due to the short maturity, terms and/or fluctuations in market conditions of those instruments, except for investments in cooperatives, for which it is not practicable to provide fair value information.

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