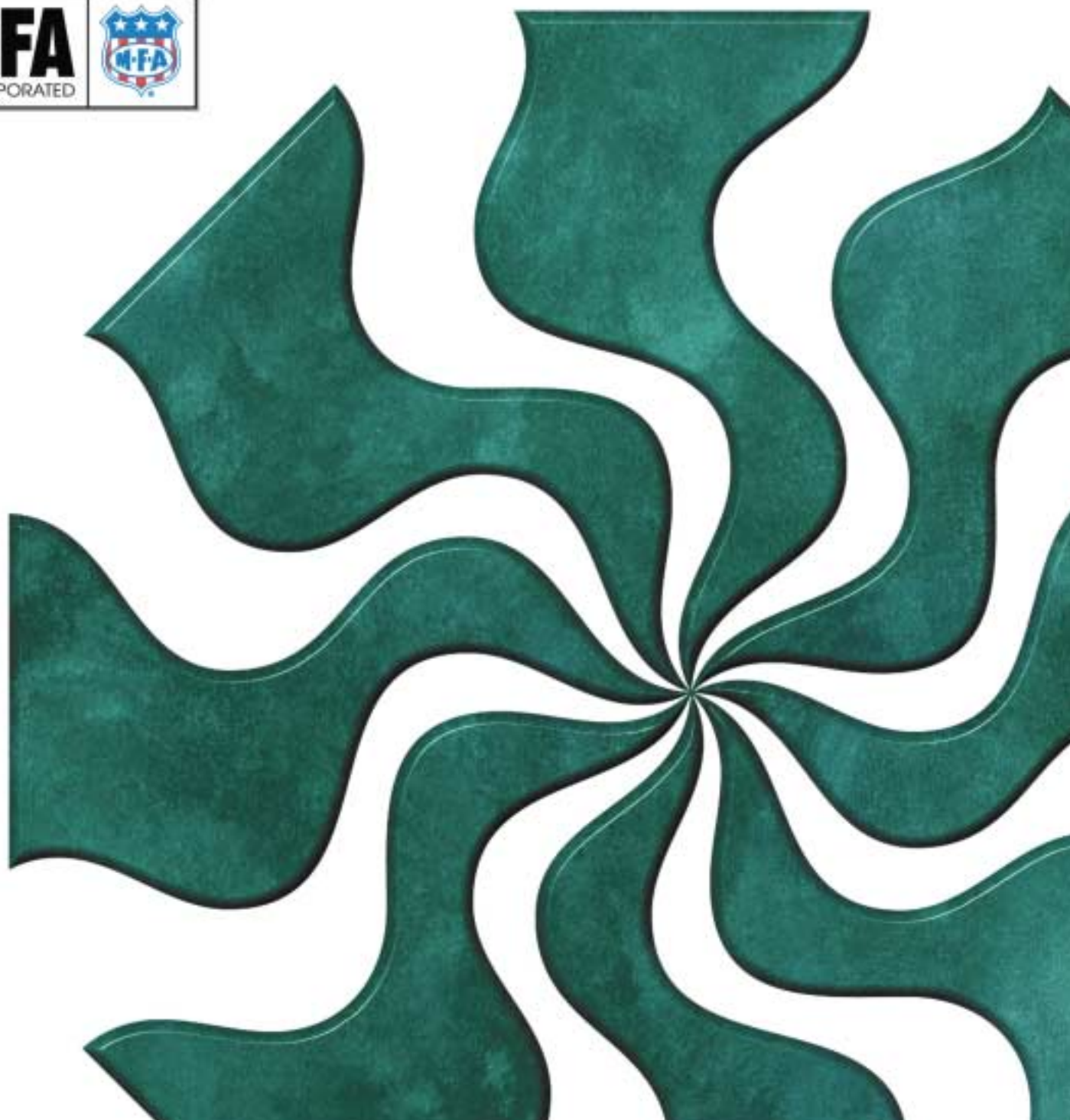


# MFA Incorporated and Subsidiaries

**Consolidated Financial Statements for the Year Ended  
August 31, 2000, and Independent Auditors' Report**



# MFA INCORPORATED ANNUAL REPORT FOR AUGUST 31, 2000

## PRESIDENT'S/CHAIRMAN'S LETTER

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The year ended August 31, 2000, financial results were very rewarding considering the somewhat unfavorable agricultural economic environment that has existed during the last several months. The majority of the net savings that were generated this past year was a result of earnings on our own operations, without any significant income from our interregional investments that we have been so dependent on for the last several years. In fact, this year will go down as a record year as it relates to profit on our own operations.

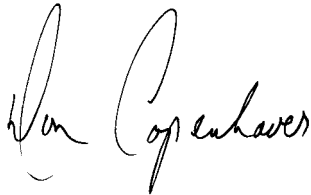
These results would not have been possible without our members' support and commitment to the MFA system. We sincerely appreciate your continued confidence and support that brought about these results.

We also owe a great deal of gratitude to all the employees throughout the system for their continued dedication and outstanding efforts. Our employees have the responsibility of assisting our members with their buying decisions and providing the services that our members require. Without those efforts, certainly, these results would not have been possible.

We enjoyed excellent fertilizer and seed movement this past year; we benefited from a healthy cattle and swine market; and we enjoyed good income from our joint venture and subsidiary operations. In addition, we were able to capture the full effects of the reduction in corporate overhead that was implemented during the prior year. Obviously, had it not been for increased interest rates and much higher fuel costs during this past year, our earnings would have been much greater than what actually occurred.

Our balance sheet remains strong, and we are in the position to take advantage of future growth opportunities.

As we look to the future, our vision is to position this cooperative in a manner that continually focuses on meeting the needs of our member/owners. We also realize, as our industry consolidates, we must find ways to serve our members more efficiently and more effectively.



Don Copenhaver  
President and CEO



Keith Schnarre  
Chairman of the Board

# MFA INCORPORATED ANNUAL REPORT FOR AUGUST 31, 2000

## INDEPENDENT AUDITORS' REPORT

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Board of Directors  
MFA Incorporated  
Columbia, Missouri

We have audited the accompanying consolidated balance sheet of MFA Incorporated and subsidiaries (the "Company") as of August 31, 2000, 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 audit 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, 2000, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP  
Kansas City, Missouri

November 3, 2000

# MFA INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET AUGUST 31, 2000

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### ASSETS

#### CURRENT ASSETS:

Cash and cash equivalents	\$ 1,318,769
Accounts and notes receivable, net of allowance for doubtful accounts of \$654,000	47,261,179
Inventories	76,738,697
Deferred income tax	1,065,192
Prepaid expenses and other current assets	<u>2,787,897</u>

Total current assets 129,171,734

INVESTMENTS 58,435,168

NOTES RECEIVABLE, No allowance necessary 1,425,289

OTHER ASSETS 7,082,894

RESTRICTED CASH 1,175,110

PLANT AND EQUIPMENT 69,439,433

TOTAL \$ 266,729,628

### LIABILITIES AND MEMBERS' EQUITY EARNED

#### CURRENT LIABILITIES:

Notes payable to bank	\$ 35,600,635
Accounts payable	31,768,860
Member equity payable	6,500,000
Accrued expenses	9,982,746
Current maturities of long-term obligations	<u>7,499,252</u>

Total current liabilities 91,351,493

LONG-TERM OBLIGATIONS 65,576,392

OTHER OBLIGATIONS 7,331,047

COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)

MINORITY INTEREST 715,016

MEMBERS' EQUITY EARNED 101,755,680

TOTAL \$ 266,729,628

See notes to consolidated financial statements

# MFA INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF OPERATIONS YEAR ENDED AUGUST 31, 2000

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REVENUES:	
Farm supply sales	\$ 402,566,778
Grain marketing sales	129,990,224
Other operating revenues	<u>28,269,283</u>
Total revenues	560,826,285
COST OF SALES	<u>454,599,154</u>
Operating margin	106,227,131
EXPENSES:	
Operating expenses	87,517,419
Interest expense	<u>8,598,663</u>
Total expenses	<u>96,116,082</u>
INCOME BEFORE INCOME TAXES	10,111,049
INCOME TAXES:	
Current	726,000
Deferred	<u>1,068,000</u>
	<u>1,794,000</u>
NET INCOME	<u><u>\$ 8,317,049</u></u>

See notes to consolidated financial statements.

## MFA INCORPORATED AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF MEMBERS' EQUITY EARNED YEAR ENDED AUGUST 31, 2000

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	<b>Members' Equity</b>	<b>Retained Earnings</b>	<b>Total</b>
BALANCE, SEPTEMBER 1, 1999 (UNAUDITED)	\$ 72,002,524	\$ 26,774,875	\$ 98,777,399
Net income	2,890,954	5,426,095	8,317,049
Retirement of equities	(599,789)	21	(599,768)
Transfer of 1974 equities payable in cash to liabilities	<u>(4,739,000)</u>	<u>                    </u>	<u>(4,739,000)</u>
BALANCE, AUGUST 31, 2000	<u>\$ 69,554,689</u>	<u>\$ 32,200,991</u>	<u>\$101,755,680</u>

See notes to consolidated financial statements.

# MFA INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED AUGUST 31, 2000

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### CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 8,317,049
Adjustments to reconcile net income to net cash flows provided by operating activities:	
Deferred Income Taxes	1,068,000
Depreciation and amortization	11,125,784
Noncash portion of patronage dividends received	(588,132)
Noncash earnings of joint ventures	(1,521,714)
Provision for bad debts	53,640
Gain on sale of plant and equipment	(1,120,283)
Cumulative bond interest	619,414
Changes in:	
Receivables	2,720,652
Inventories	7,445,450
Prepaid expenses and other current assets	147,260
Accounts payable	(3,535,808)
Accrued expenses	2,665,199
	<hr/>
Net cash provided by operating activities	27,396,511

### CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of plant and equipment	(12,488,862)
Investments redeemed by other cooperatives	654,321
Payments received on notes related to sale of plant and equipment	613,008
Proceeds from sale of plant and equipment	2,853,031
Purchase of investments	(1,000,000)
Other	(452,010)
	<hr/>
Net cash used in investing activities	(9,820,512)

### CASH FLOWS FROM FINANCING ACTIVITIES:

Net payments under notes payable to bank	(17,762,950)
Proceeds from long-term obligations	21,526,768
Principal payments on long-term obligations	(24,945,374)
Retirement of equities	(599,768)
Restricted cash	2,025,150
Other	40,678
	<hr/>
Net cash used in financing activities	(19,715,496)

(Continued)

# MFA INCORPORATED AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS YEAR ENDED AUGUST 31, 2000

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NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (2,139,497)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,458,266</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,318,769</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash paid during the year for:	
Interest expense	<u>\$ 9,019,354</u>
Income taxes	<u>\$ 241,179</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS:	
Notes receivable accepted for sale of plant and equipment	<u>\$ 698,900</u>
Transfer of 1974 equities payable in cash to liabilities	<u>\$ 4,739,000</u>

See notes to consolidated financial statements.

(Concluded)

# MFA INCORPORATED AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2000

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### 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 and consolidated subsidiary, Morris Farm Center, Inc., and an 88% owned finance subsidiary, Agmo Corporation. All significant intercompany transactions and balances have been eliminated in consolidation.

**Change in Fiscal Year** - In February 1999, the Membership of the Company approved a change in fiscal year-end from June 30 to August 31. Changes in members' equity earned for the two month period ended August 31, 1999, are as follows (unaudited): Net loss, \$7,377,813 (\$3,628,988 in members' equity and \$3,748,825 in retained earnings); retirement of equities of \$97,931, all from members' equity; transfer of unallocated losses from prior years in the amount of \$2,239,367 from members' equity to retained earnings.

**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 \$4,915,000 in 2000 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 is 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.

**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.

## MFA INCORPORATED AND SUBSIDIARIES

**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 Standard** - SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", was issued by the Financial Accounting Standards Board in June 1998. This Statement establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 133, as amended by SFAS No. 137 and 138, is effective for the Company's fiscal 2001 financial statements. Although the Company has not yet completed its assessment of the Statement, the Company does not believe that SFAS No. 133, as amended, will have a material impact on its financial position, results of operations or cash flows.

### 2. INVESTMENTS

#### Cooperative investments:

CoBank, ACB	\$ 7,610,514
CF Industries, Inc.	36,037,318
Ag Processing	2,625,334
West Central AGRIServices, LLC	912,764
Other	4,582,476

#### Non-cooperative investments:

Hyman Farm Service, LLC	2,899,872
Doane Pet Care JV	1,093,328
Cache River Valley Seed, LLC	1,772,495
Other	901,067

\$ 58,435,168

Summarized financial information from the financial statements of the non-cooperative investees is as follows:

Assets	\$ 32,410,210
Liabilities	19,409,569
Net Income	2,773,455
Revenues	123,021,099

### 3. OTHER ASSETS

Deferred compensation	\$ 4,753,636
Intangible assets (less accumulated amortization of \$602,954 in 2000)	1,602,605
Other	726,653
	<u>\$ 7,082,894</u>

# MFA INCORPORATED AND SUBSIDIARIES

## 4. PLANT AND EQUIPMENT

Land and buildings	\$ 78,507,345
Machinery and equipment	97,765,903
Transportation equipment	23,082,261
Furniture and fixtures	8,691,762
Construction in process	<u>2,212,770</u>
	210,260,041
Less accumulated depreciation and amortization	<u>140,820,608</u>
	<u>\$ 69,439,433</u>

## 5. NOTES PAYABLE TO BANK AND LONG-TERM OBLIGATIONS

As of August 31, 2000, the Company had open lines of short-term credit with two banks totaling \$95,000,000, of which \$35,600,635 was outstanding at an average rate of 8.9%. 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:

CoBank, ACB term notes variable rate (6.8% as of August 31, 2000), due through 2006	\$ 10,350,000
Unsecured bonds, rates from 3.5% to 9.5%, due through 2020	33,526,207
Revolving term loan, variable rate (8.4% as of August 31, 2000), due in 2003	20,000,000
Industrial Revenue Bonds, rate of 4.5% due through 2009	6,755,000
Other	<u>2,444,437</u>
	73,075,644
Less current maturities	<u>7,499,252</u>
	<u>\$ 65,576,392</u>

The Company's credit commitments with CoBank, ACB 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, 2000, the Company was in compliance with these requirements.

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

2001	\$ 7,499,252
2002	7,838,146
2003	25,816,641
2004	5,297,370
2005	2,821,048
Thereafter	<u>23,803,187</u>
	<u>\$ 73,075,644</u>

## MFA INCORPORATED AND SUBSIDIARIES

### 6. OTHER OBLIGATIONS

Deferred compensation	\$ 4,753,636
Other	<u>2,577,411</u>
	<u>\$ 7,331,047</u>

### 7. 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, 2000 are as follows:

	<b>Current</b>	<b>Long-term</b>
Deferred income tax assets:		
Accruals not yet deductible for tax purposes	\$ 357,058	
Uniform capitalization of inventory	536,394	
Reserve for doubtful accounts	63,907	
Net operating loss	111,331	\$ 32,689
Other	<u>33,150</u>	<u>404,432</u>
	<u>1,101,840</u>	<u>437,121</u>
Deferred income tax liabilities:		
Nonqualified notices of allocation		6,987
Depreciation		467,545
Property tax	<u>36,648</u>	
	<u>36,648</u>	<u>474,532</u>
Net deferred income tax assets (liabilities)	<u>\$ 1,065,192</u>	<u>\$ (37,411)</u>

## **MFA INCORPORATED AND SUBSIDIARIES**

### **8. 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. Net assets available for Plan benefits totaled \$56,784,000 as of December 31, 1999.

### **9. COMMITMENTS AND CONTINGENT LIABILITIES**

The Company's obligations under noncancellable operating leases with remaining terms in excess of one year as of August 31, 2000 are not significant. Rental expense related to operating leases was \$2,018,000 for the year ended August 31, 2000.

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 and Central Missouri AGRIService, LLC, a 40% owned limited liability company. The amount guaranteed totals approximately \$19,130,000. The Company monitors its guarantees and reserves for losses on guarantees if necessary.

### **10. RELATED PARTIES**

During the current fiscal year, the Company leased certain real estate property and equipment under operating leases to Central Missouri AGRIService, 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 \$746,000 and \$528,000 from Central and West Central, respectively, for the year ended August 31, 2000.

### **11. 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.