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December 10, 2002



THOMAS F. MCFARLAND

By fax to 202-565-9002.  
w/confirmation by UPS overnight  
mail (with 10 copies)

Vernon A. Williams, Secretary  
Surface Transportation Board  
Case Control Unit, Suite 713  
1925 K Street, N.W.  
Washington, DC 20423-0001

ENTERED  
Office of Proceedings

DEC 10 2002

Part of  
Public Record

Re: Docket No. AB-55 (Sub-No. 619X), CSX Transportation, Inc. -- Abandonment  
Exemption -- in Allegan County, MI

Dear Mr. Williams:

Please refer to the offer of financial assistance filed in behalf of Hamilton Farm Bureau (Offeror) on December 9, 2002 in the above proceeding.

Enclosed is a copy of the consolidated financial statements of Hamilton Farm Bureau Cooperative, Inc. and subsidiaries for the years 2000 and 2001. Those statements are submitted as proof of Offeror's financial responsibility.

The original and ten copies of the financial statements follow by overnight mail. A copy of the financial statements is being sent to counsel for CSX Transportation, Inc. by overnight mail.

Very truly yours,

*Tom McFarland*

Thomas F. McFarland  
Attorney for Offeror

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cc: Natalie Rosenberg ) w/copy of financial statements by fax to 904-359-1248,  
Counsel for CSXT ) w/confirmation by UPS overnight mail

Mr. Robert Fenton ) by fax to 616-751-5206  
Hamilton Farm Bureau ) (w/o statements)

Dec-10-2002 10:24am From-T MCFARLAND  
12/10/2002 10:37 FAX 6167515206

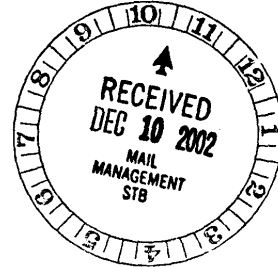
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HAMILTON FARM BUREAU

001

TOM McFarland  
FROM HARVEY ELGERMAN  
25 PAGES



HAMILTON FARM BUREAU COOPERATIVE, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

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HAMILTON FARM BUREAU

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MeWin D. Busscher, CPA  
James L. Zwiers, CPA, MBA  
William D. Borgman, CPA, MST  
Douglas W. Rotman, CPA

February 14, 2002

Board of Directors  
Hamilton Farm Bureau Cooperative, Inc.  
Hamilton, Michigan

#### INDEPENDENT AUDITORS' REPORT

We have audited the accompanying consolidated balance sheet of Hamilton Farm Bureau Cooperative, Inc. and Subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, stock, patrons' equity, and cash flows for the years then ended. These consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Hamilton Farm Bureau Cooperative, Inc. and Subsidiaries as of December 31, 2001 and 2000, 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.

*Ferris, Busscher & Zwiers*  
FERRIS, BUSSCHER & ZWIERS, P.C.  
Certified Public Accountants  
Holland, Michigan

675 East 16th Street  
Suite 100  
Holland Michigan 49423  
Phone: (616) 392-8534  
Fax: (616) 392-7289

**HAMILTON FARM BUREAU COOPERATIVE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**  
**DECEMBER 31, 2001 AND 2000**

**ASSETS**

|                                                                                                                  | <u>2001</u>         | <u>2000</u>         |
|------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>CURRENT ASSETS</b>                                                                                            |                     |                     |
| Cash and cash equivalents                                                                                        | \$ 566,143          | \$ 622,753          |
| Accounts receivable, trade (net of allowance for doubtful accounts of \$200,084 in 2001 and \$213,632 in 2000) - | 10,747,895          | 7,993,190           |
| Inventories                                                                                                      | 11,261,581          | 11,575,612          |
| Prepaid expenses and deposits                                                                                    | 1,170,871           | 1,540,765           |
| Deferred federal income tax                                                                                      | 38,300              | 120,500             |
| Current maturities of accounts and notes receivable, trade                                                       | <u>125,000</u>      | <u>210,570</u>      |
| <b>TOTAL CURRENT ASSETS</b>                                                                                      | <u>\$23,909,790</u> | <u>\$22,063,390</u> |
| <b>INVESTMENTS</b>                                                                                               | <u>\$ 2,412,557</u> | <u>\$ 2,400,905</u> |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>                                                                             |                     |                     |
| Cost                                                                                                             | \$26,394,144        | \$26,242,183        |
| Less accumulated depreciation                                                                                    | <u>13,810,769</u>   | <u>12,943,090</u>   |
| <b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>                                                                       | <u>\$12,583,375</u> | <u>\$13,299,093</u> |
| <b>OTHER ASSETS</b>                                                                                              |                     |                     |
| Loan fees, net                                                                                                   | \$ 84,825           | \$ 150,800          |
| Accounts and notes receivable, net of current maturities                                                         | <u>131,141</u>      | <u>264,217</u>      |
| <b>TOTAL OTHER ASSETS</b>                                                                                        | <u>\$ 215,966</u>   | <u>\$ 415,017</u>   |
| <b>TOTAL ASSETS</b>                                                                                              | <u>\$39,121,688</u> | <u>\$38,178,405</u> |

HAMILTON FARM BUREAU

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LIABILITIES AND EQUITY

|                                        | <u>2001</u>         | <u>2000</u>         |
|----------------------------------------|---------------------|---------------------|
| <b>CURRENT LIABILITIES</b>             |                     |                     |
| Checks written against future deposits | \$ 788,515          | \$ -                |
| Note payable                           | 7,410,536           | 8,400,000           |
| Accounts payable                       | 4,136,693           | 4,660,595           |
| Customer deposits                      | 1,940,778           | 870,007             |
| Grain liabilities                      | 1,158,766           | 871,546             |
| Employee obligations payable           | 480,551             | 361,498             |
| Other accrued expenses                 | 890,016             | 737,806             |
| Current maturities of long-term debt   | <u>1,022,000</u>    | <u>1,733,600</u>    |
| <b>TOTAL CURRENT LIABILITIES</b>       | <u>\$17,827,855</u> | <u>\$17,635,052</u> |
| <b>LONG-TERM DEBT</b>                  |                     |                     |
| Notes payable                          | \$13,265,765        | \$12,810,000        |
| Obligations under capital lease        | <u>45,090</u>       | <u>33,095</u>       |
|                                        | \$13,310,855        | \$12,843,095        |
| Less current maturities                | <u>1,022,000</u>    | <u>1,733,600</u>    |
| <b>TOTAL LONG-TERM DEBT</b>            | <u>\$12,288,855</u> | <u>\$11,109,495</u> |
| <b>DEFERRED FEDERAL INCOME TAX</b>     | \$ 81,500           | \$ 89,000           |
| <b>TOTAL LIABILITIES</b>               | <u>\$30,198,210</u> | <u>\$28,833,547</u> |
| <b>EQUITY</b>                          |                     |                     |
| Stock                                  | \$ 3,264,785        | \$ 4,049,155        |
| Patrons' equity                        | 7,178,868           | 6,697,108           |
| Notes receivable, stock                | <u>(1,272,632)</u>  | <u>(1,266,139)</u>  |
| Total patrons' equity                  | \$ 9,171,021        | \$ 9,480,124        |
| Retained earnings (deficit)            | <u>(247,543)</u>    | <u>(135,266)</u>    |
| <b>TOTAL EQUITY</b>                    | <u>\$ 8,923,478</u> | <u>\$ 9,344,858</u> |
| <b>TOTAL LIABILITIES AND EQUITY</b>    | <u>\$39,121,688</u> | <u>\$38,178,405</u> |

HAMILTON FARM BUREAU COOPERATIVE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF STOCK  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

|                                                                                                                        | Balance<br>January 1 | Amount<br>Issued |
|------------------------------------------------------------------------------------------------------------------------|----------------------|------------------|
| <u>Year Ended December 31, 2000</u>                                                                                    |                      |                  |
| Class A common stock, (voting) par value \$500 per share                                                               |                      |                  |
| Authorized 1,500 shares; 1,106 shares issued and outstanding                                                           | \$ 553,000           | \$ 500           |
| Class B common stock, (non-voting) par value \$500 per share                                                           |                      |                  |
| Authorized 4,000 shares; 4,193 shares issued and outstanding                                                           | 2,067,000            | 35,500           |
| Preferred stock (non-voting)                                                                                           |                      |                  |
| Series A                                                                                                               |                      |                  |
| Authorized 50,000 shares; 10,467 shares issued and outstanding                                                         | 104,674              | -                |
| Series E                                                                                                               |                      |                  |
| Authorized 150,000 shares; 8,456 shares issued and outstanding                                                         | 557,099              | 2,735            |
| Class AA preferred stock (Hamilton Leasing, Inc.), (non-voting)<br>par value \$100 per share (3% cumulative dividends) |                      |                  |
| Authorized 8,000 shares; 7,596 shares issued and outstanding                                                           | <u>759,600</u>       | -                |
|                                                                                                                        | <u>\$4,041,373</u>   | <u>\$ 38,735</u> |
| <u>Year Ended December 31, 2001</u>                                                                                    |                      |                  |
| Class A common stock, (voting) par value \$500 per share                                                               |                      |                  |
| Authorized 1,500 shares; 1,098 shares issued and outstanding                                                           | \$ 553,000           | \$ 2,000         |
| Class B common stock, (non-voting) par value \$500 per share                                                           |                      |                  |
| Authorized 4,000 shares; 4,196 shares issued and outstanding                                                           | 2,096,500            | 9,000            |
| Preferred stock (non-voting)                                                                                           |                      |                  |
| Series A                                                                                                               |                      |                  |
| Authorized 50,000 shares; 11,104 shares issued and outstanding                                                         | 104,671              | -                |
| Series E                                                                                                               |                      |                  |
| Authorized 150,000 shares; 8,148 shares issued and outstanding                                                         | 535,384              | -                |
| Class AA preferred stock (Hamilton Leasing, Inc.), (non-voting)<br>par value \$100 per share (3% cumulative dividends) |                      |                  |
| Authorized 8,000 shares; 7,596 shares issued and outstanding                                                           | <u>759,600</u>       | -                |
|                                                                                                                        | <u>\$4,049,155</u>   | <u>\$ 11,000</u> |

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HAMILTON FARM BUREAU

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| Amount          | Amount                             | Balance            |
|-----------------|------------------------------------|--------------------|
| <u>Redeemed</u> | <u>Transferred/<br/>Eliminated</u> | <u>December 31</u> |

|          |      |            |
|----------|------|------------|
| \$ (500) | \$ - | \$ 553,000 |
|----------|------|------------|

|         |       |           |
|---------|-------|-----------|
| (7,500) | 1,500 | 2,096,500 |
|---------|-------|-----------|

|     |   |         |
|-----|---|---------|
| (3) | - | 104,671 |
|-----|---|---------|

|          |   |         |
|----------|---|---------|
| (24,450) | - | 535,384 |
|----------|---|---------|

|   |   |         |
|---|---|---------|
| - | - | 759,600 |
|---|---|---------|

|                    |                 |                     |
|--------------------|-----------------|---------------------|
| <u>\$ (32,453)</u> | <u>\$ 1,500</u> | <u>\$ 4,049,155</u> |
|--------------------|-----------------|---------------------|

|            |      |            |
|------------|------|------------|
| \$ (6,000) | \$ - | \$ 549,000 |
|------------|------|------------|

|         |   |           |
|---------|---|-----------|
| (7,500) | - | 2,098,000 |
|---------|---|-----------|

|         |       |         |
|---------|-------|---------|
| (1,031) | 6,803 | 110,443 |
|---------|-------|---------|

|          |   |         |
|----------|---|---------|
| (28,042) | - | 507,342 |
|----------|---|---------|

|   |           |   |
|---|-----------|---|
| - | (759,600) | - |
|---|-----------|---|

|                    |                     |                     |
|--------------------|---------------------|---------------------|
| <u>\$ (42,573)</u> | <u>\$ (752,797)</u> | <u>\$ 3,264,785</u> |
|--------------------|---------------------|---------------------|

**HAMILTON FARM BUREAU COOPERATIVE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF PATRONS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2001 AND 2000**

|                                                         | <u>Net</u><br><u>Income (Loss)</u> | <u>Unallocated</u><br><u>Surplus</u> |
|---------------------------------------------------------|------------------------------------|--------------------------------------|
| <b>BALANCE - JANUARY 1, 2000</b>                        | <b>\$ 783,523</b>                  | <b>\$ 1,682,039</b>                  |
| Transfer remaining 1999 net income for distribution     | (783,523)                          | 783,523                              |
| 2000 net loss                                           | (263,619)                          | -                                    |
| Rebate, 1999 (net of amount previously recorded)        | -                                  | (337,661)                            |
| Dividends declared (Hamilton Leasing, Inc.)             | -                                  | (22,788)                             |
| Payment of Certificates of Equity                       | -                                  | -                                    |
| Transfer of Common stock to Certificates of Equity      | -                                  | -                                    |
| Transfer prior surplus from Unallocated Surplus         | -                                  | (105,916)                            |
| <b>BALANCE - DECEMBER 31, 2000</b>                      | <b>\$ (263,619)</b>                | <b>\$ 1,999,197</b>                  |
| Transfer remaining 2000 net loss for distribution       | 263,619                            | (263,619)                            |
| 2001 net income                                         | 342,597                            | -                                    |
| Dividends declared (Hamilton Leasing, Inc.)             | -                                  | (22,788)                             |
| Payment and transfers of Certificates of Equity         | -                                  | 7,198                                |
| Transfer of Preferred stock from Certificates of Equity | -                                  | -                                    |
| Transfer prior surplus to Unallocated Surplus           | -                                  | 137,812                              |
| Transfer Retained earnings to Unallocated Surplus       | -                                  | (24,451)                             |
| Transfer of Additional Paid-In Capital                  | -                                  | -                                    |
| <b>BALANCE - DECEMBER 31, 2001</b>                      | <b>\$ 342,597</b>                  | <b>\$ 1,833,349</b>                  |

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HAMILTON FARM BUREAU

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| Certificates<br>of<br><u>Equity</u> | Additional<br>Paid-In<br><u>Capital</u> | Total<br>Patrons'<br><u>Equity</u> | Retained<br>Earnings<br><u>(Deficit)</u> | Total<br>(Memorandum<br><u>Only</u> ) |
|-------------------------------------|-----------------------------------------|------------------------------------|------------------------------------------|---------------------------------------|
| \$4,672,590                         | \$ -                                    | \$7,138,152                        | \$(135,266)                              | \$ 7,002,886                          |
| -                                   | -                                       | (263,619)                          | -                                        | (263,619)                             |
| 287,251                             | -                                       | (50,410)                           | -                                        | (50,410)                              |
| -                                   | -                                       | (22,788)                           | -                                        | (22,788)                              |
| (142)                               | -                                       | (142)                              | -                                        | (142)                                 |
| 1,831                               | -                                       | 1,831                              | -                                        | 1,831                                 |
| -                                   | -                                       | (105,916)                          | -                                        | (105,916)                             |
| \$4,961,530                         | \$ -                                    | \$6,697,108                        | \$(135,266)                              | \$ 6,561,842                          |
| -                                   | -                                       | 342,597                            | -                                        | 342,597                               |
| -                                   | -                                       | (22,788)                           | -                                        | (22,788)                              |
| (482,174)                           | -                                       | (474,976)                          | -                                        | (474,976)                             |
| (5,956)                             | -                                       | (5,956)                            | -                                        | (5,956)                               |
| (78)                                | -                                       | 137,734                            | -                                        | 137,734                               |
| -                                   | -                                       | (24,451)                           | 24,451                                   | -                                     |
| -                                   | 529,600                                 | 529,600                            | (136,728)                                | 392,872                               |
| <u>\$4,473,322</u>                  | <u>\$ 529,600</u>                       | <u>\$7,178,868</u>                 | <u>\$(247,543)</u>                       | <u>\$ 6,931,325</u>                   |

HAMILTON FARM BUREAU COOPERATIVE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF INCOME  
YEARS ENDED DECEMBER 31, 2001 AND 2000

|                                               | <u>2001</u>        |                         |               | <u>2000</u>         |
|-----------------------------------------------|--------------------|-------------------------|---------------|---------------------|
|                                               | <u>Amount</u>      | <u>Percent of Sales</u> |               | <u>Amount</u>       |
| NET SALES                                     | \$ 125,930,671     | 100.00                  | 100.00        | \$ 102,270,413      |
| COST OF SALES                                 | 102,783,791        | 81.62                   | 81.00         | 82,840,496          |
| SERVICE AND OTHER INCOME (DIVISIONS)          | <u>3,569,045</u>   | <u>2.83</u>             | <u>2.22</u>   | <u>2,266,270</u>    |
| GROSS PROFIT                                  | \$ 26,715,925      | 21.21                   | 21.21         | \$ 21,696,187       |
| OPERATING AND ADMINISTRATIVE EXPENSES         | <u>24,316,099</u>  | <u>19.31</u>            | <u>19.83</u>  | <u>20,284,363</u>   |
| INCOME FROM OPERATIONS                        | \$ 2,399,826       | 1.90                    | 1.38          | \$ 1,411,824        |
| OTHER INCOME (EXPENSE), NET                   | 3,531              | 0.00                    | 0.11          | 113,669             |
| INTEREST EXPENSE                              | <u>(1,961,995)</u> | <u>(1.56)</u>           | <u>(1.99)</u> | <u>(2,031,945)</u>  |
| INCOME (LOSS) BEFORE PROVISION FOR INCOME TAX | \$ 441,362         | 0.34                    | (0.50)        | \$ (506,452)        |
| FEDERAL INCOME TAX                            | <u>98,765</u>      | <u>0.08</u>             | <u>(0.24)</u> | <u>(242,833)</u>    |
| NET INCOME (LOSS)                             | <u>\$ 342,597</u>  | <u>0.26</u>             | <u>(0.26)</u> | <u>\$ (263,619)</u> |

HAMILTON FARM BUREAU

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HAMILTON FARM BUREAU COOPERATIVE, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2001 AND 2000

|                                                                                                                                        | <u>2001</u>           | <u>2000</u>           |
|----------------------------------------------------------------------------------------------------------------------------------------|-----------------------|-----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                                                            |                       |                       |
| Net income (loss)                                                                                                                      | \$ 342,597            | \$ (263,619)          |
| Noncash items included in net income                                                                                                   |                       |                       |
| Depreciation                                                                                                                           | 2,035,923             | 1,829,548             |
| Equity in income of investee                                                                                                           | (688)                 | (121)                 |
| Increase in investments                                                                                                                | (174,399)             | (2,195)               |
| Loss (gain) on disposal of assets                                                                                                      | 3,019                 | (61,899)              |
| Gain on disposal of investment                                                                                                         | (10,496)              | -                     |
| Deferred federal income tax                                                                                                            | 74,700                | (63,500)              |
| Change in operating assets and liabilities                                                                                             |                       |                       |
| Increase in accounts receivable                                                                                                        | (2,754,705)           | (2,452,024)           |
| Decrease (increase) in inventories                                                                                                     | 314,031               | (2,529,188)           |
| Decrease (increase) in prepaid and other assets                                                                                        | 654,515               | (433,964)             |
| Increase in accounts payable and accrued liabilities                                                                                   | <u>1,893,867</u>      | <u>1,202,589</u>      |
| <b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>                                                                                | <u>\$ 2,378,364</u>   | <u>\$ (2,774,373)</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                                                            |                       |                       |
| Proceeds from investments                                                                                                              | \$ -                  | \$ 19,054             |
| Purchase of investments                                                                                                                | (56,058)              | (22,528)              |
| Proceeds from sale of equipment                                                                                                        | 138,803               | 82,473                |
| Purchase of property, buildings and equipment                                                                                          |                       |                       |
| Land and land improvements                                                                                                             | (84,414)              | (385,214)             |
| Buildings                                                                                                                              | (107,961)             | (415,621)             |
| Equipment                                                                                                                              | <u>(1,269,663)</u>    | <u>(2,310,465)</u>    |
| <b>NET CASH USED BY INVESTING ACTIVITIES</b>                                                                                           | <u>\$ (1,379,293)</u> | <u>\$ (3,032,301)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                                                                            |                       |                       |
| Borrowings                                                                                                                             |                       |                       |
| Long-term                                                                                                                              | \$ 4,233,971          | \$ 4,926,667          |
| Short-term, net                                                                                                                        | -                     | 2,250,000             |
| Debt reduction                                                                                                                         |                       |                       |
| Long-term                                                                                                                              | (3,766,211)           | (1,384,649)           |
| Short-term, net                                                                                                                        | (989,464)             | -                     |
| Payments for patrons' refunds, redemption of stock and redemption of certificates of equity, net of proceeds from sale of common stock | (533,977)             | (159,991)             |
| Cash acquired through sale of preferred stock                                                                                          | <u>-</u>              | <u>2,735</u>          |
| <b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>                                                                                | <u>\$ (1,055,681)</u> | <u>\$ 5,634,762</u>   |

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**HAMILTON FARM BUREAU COOPERATIVE, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)**  
**YEARS ENDED DECEMBER 31, 2001 AND 2000**

|                                           | <u>2001</u>       | <u>2000</u>       |
|-------------------------------------------|-------------------|-------------------|
| NET DECREASE IN CASH AND CASH EQUIVALENTS | \$ (56,610)       | \$ (171,912)      |
| CASH AND CASH EQUIVALENTS - JANUARY 1     | <u>622,753</u>    | <u>794,665</u>    |
| CASH AND CASH EQUIVALENTS - DECEMBER 31   | <u>\$ 566,143</u> | <u>\$ 622,753</u> |

**SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES**

Countrymark exchange

Investment in subsidiary acquired

Investment exchanged

Cash paid in transaction

|                    |             |
|--------------------|-------------|
| \$ 230,000         | \$ -        |
| <u>173,942</u>     | <u>-</u>    |
| <u>\$ (56,058)</u> | <u>\$ -</u> |

**OTHER CASH FLOW INFORMATION**

Cash paid during the year for:

Interest

Income taxes

|              |               |
|--------------|---------------|
| \$ 2,076,273 | \$ 1,992,137  |
| -            | <u>10,000</u> |

HAMILTON FARM BUREAU

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**HAMILTON FARM BUREAU COOPERATIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**NATURE OF BUSINESS**

The information in the consolidated financial statements includes the accounts of the Company and its wholly owned subsidiaries; Hamilton Leasing, Inc. and Agricultural Innovations, LLC, all of which are Michigan entities. All significant intercompany balances and transactions have been eliminated in consolidation.

Hamilton Farm Bureau Cooperative, Inc. conducts the following activities from its Hamilton, Michigan location:

- Feed - Feed manufacturing and sales, as well as grain drying and storage
- Agronomy - Storage, sales and custom application
- Energy - Sales
- Eggs - Processing and sales
- Hardware - Sales
- Lumber - Sales
- Chevrolet - Sales and service
- Livestock - Production and sales

In addition, the Company operates out of facilities in the following locations:

- Allegan, Michigan - Feed, hardware, gas station and agronomy sales
- Plainwell, Michigan - Lumber and hardware sales
- Kalkaska, Michigan - Distribution of eggs and related products; feed, farm and garden supplies, lumber, and liquid propane sales
- Zeeland, Michigan - Feed, and other farm supplies
- Traverse City, Michigan - Feed and agronomy sales
- Holland, Michigan - Feed manufacturing and sales
- Martin, Michigan - Agronomy (purchased April, 2000)

Hamilton Leasing, Inc. - This Company was inactive at year-end.

Agricultural Innovations, LLC was created October 30, 2001. The Company's activities will include livestock production and marketing. As of December 31, 2001 this Company had not been funded.

The Company extends credit to many of its customers, most of whom are located within the West Michigan area. A large portion of the Company's receivables are from customers involved in farming or construction activities.

**INVENTORIES**

Grain inventories are valued at market price quoted to producers and vehicle inventories are carried at specific cost. All other inventories are stated at the lower of cost or market.

**HAMILTON FARM BUREAU COOPERATIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (CONTINUED)**

**PROPERTY, PLANT AND EQUIPMENT**

Property, plant, and equipment are carried at cost and the provision for depreciation is computed generally on the straight-line method for financial reporting purposes and accelerated methods for tax purposes.

Equipment cost includes the costs of the initial setting of propane tanks at new propane customers. These costs include the supplies and labor involved in the delivery and set up of these tanks. These costs are being depreciated over the estimated useful life of the propane tanks.

**CASH**

The Company occasionally maintains deposits in excess of federally insured limits. Statement of Financial Accounting Standards No. 105 identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining all deposits in high quality financial institutions.

Included in cash and equivalents are the following:

|                                                                                                        | <u>2001</u>      | <u>2000</u>      |
|--------------------------------------------------------------------------------------------------------|------------------|------------------|
| Margin deposits - represent deposits made for futures contracts and are recorded at fair market value. | <u>\$ 70,414</u> | <u>\$166,639</u> |
| Restricted cash - represents amounts in escrow which facilitates the repayment of debt.                | <u>\$492,243</u> | <u>\$456,114</u> |

For purposes of the statement of cash flows, cash includes all highly liquid investment instruments with original maturities of three months or less.

**AMORTIZATION**

Debt issue costs are being amortized over the life of the loan using the straight-line method.

**ADVERTISING COSTS**

The Company expenses all advertising costs as incurred. Advertising expense for 2001 and 2000 was \$505,694 and \$508,732, respectively.

**USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles 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.

**HAMILTON FARM BUREAU COOPERATIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**NOTE 1 - NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**ALLOWANCE FOR DOUBTFUL ACCOUNTS**

The Company has provided for an allowance for doubtful accounts for the years ended December 31, 2001 and 2000, based on management's estimate of the collectibility of accounts and notes receivable.

**NOTE 2 - GRAIN**

The Company enters into price later agreements with farmers for future purchases of grain. These price later agreements include price later contracts and basis contracts. Delivery of grain and signing of the contract are simultaneous. The price later agreements have been recorded as purchases for financial statement presentation. The price later purchase contracts have been recorded at market price quoted to producers at fiscal year end. The liability for these price later agreements is included in grain liabilities on the balance sheet. The grain represented by these contracts is included in net Company owned and includes the following:

| <u>Commodity</u> | <u>Bushels</u> |             |
|------------------|----------------|-------------|
|                  | <u>2001</u>    | <u>2000</u> |
| Corn             | 309,795        | 146,047     |
| Wheat            | 12,440         | 22,139      |
| Oats             | -              | 236         |
| Soybeans         | 75,809         | 60,264      |

Grain inventories on the Balance Sheet, as of December 31, 2001 are as follows:

|                                    | <u>Bushels</u>    |                  |                 |                   |
|------------------------------------|-------------------|------------------|-----------------|-------------------|
|                                    | <u>Corn</u>       | <u>Wheat</u>     | <u>Oats</u>     | <u>Soybeans</u>   |
| Quantity on hand                   | 537,689           | 36,654           | 2,390           | 208,244           |
| Grain at outside storage locations | -                 | -                | -               | -                 |
| Total quantity:                    | <u>537,689</u>    | <u>36,654</u>    | <u>2,390</u>    | <u>208,244</u>    |
| Less storage obligations:          |                   |                  |                 |                   |
| Open storage                       | 14,685            | -                | -               | -                 |
| Warehouse receipts                 | -                 | -                | -               | 16,364            |
| Grain bank                         | <u>244,154</u>    | -                | -               | -                 |
| Total storage obligations          | <u>258,839</u>    | -                | -               | <u>16,364</u>     |
| Net company owned                  | <u>278,850</u>    | <u>36,654</u>    | <u>2,390</u>    | <u>191,880</u>    |
| Value at market quoted price       | <u>\$ 541,334</u> | <u>\$ 97,149</u> | <u>\$ 3,466</u> | <u>\$ 777,114</u> |

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HAMILTON FARM BUREAU COOPERATIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

NOTE 2 - GRAIN (CONTINUED)

Grain inventories on the Balance Sheet, as of December 31, 2000 are as follows:

|                                    | <u>Bushels</u>    |                  |                 |                   |
|------------------------------------|-------------------|------------------|-----------------|-------------------|
|                                    | <u>Corn</u>       | <u>Wheat</u>     | <u>Oats</u>     | <u>Soybeans</u>   |
| Quantity on hand                   | 341,519           | 24,259           | 16,418          | 127,297           |
| Grain at outside storage locations | -                 | -                | -               | -                 |
| Total quantity                     | <u>341,519</u>    | <u>24,259</u>    | <u>16,418</u>   | <u>127,297</u>    |
| Less storage obligations:          |                   |                  |                 |                   |
| Open storage                       | 8,129             | -                | -               | 10,314            |
| Warehouse receipts                 | -                 | -                | -               | -                 |
| Grain bank                         | <u>173,419</u>    | <u>1,240</u>     | -               | -                 |
| Total storage obligations          | <u>181,548</u>    | <u>1,240</u>     | -               | <u>10,314</u>     |
| Net company owned                  | <u>159,971</u>    | <u>23,019</u>    | <u>16,418</u>   | <u>116,983</u>    |
| Value at market quoted price       | <u>\$ 327,779</u> | <u>\$ 53,404</u> | <u>\$16,418</u> | <u>\$ 561,518</u> |

Storage obligations arise from grain, which is held in storage for others. The Company is liable for any deficiency of grade or shortage of quantity, which arises in connection with the grain held in storage.

The Company uses a combination of futures, options and forward contracts to hedge against the risk of price level changes in Company-owned grain inventory and other related contracts. These derivatives are effective economic hedges of the specific risks, although they are not designated and accounted for as hedging instruments. The Company maintains a net-hedged position in the grain market within open position limits authorized by its board of directors.

The Company's net position in the grain market at December 31, 2001 was as follows:

|                                   | <u>Bushels</u> |               |              |                 |
|-----------------------------------|----------------|---------------|--------------|-----------------|
|                                   | <u>Corn</u>    | <u>Wheat</u>  | <u>Oats</u>  | <u>Soybeans</u> |
| Company owned grain               | 278,850        | 36,654        | 2,390        | 191,880         |
| Add: Open purchase contracts -    |                |               |              |                 |
| Cash                              | 527,896        | 79,097        | -            | -               |
| Futures                           | 15,000         | 10,000        | -            | -               |
| Less: Price later/basis contracts | 309,795        | 12,440        | -            | 75,809          |
| Open sales contracts -            |                |               |              |                 |
| Cash                              | 264,682        | -             | -            | 15,739          |
| Futures                           | <u>220,000</u> | <u>25,000</u> | -            | <u>95,000</u>   |
| Net position long                 | <u>27,269</u>  | <u>88,311</u> | <u>2,390</u> | <u>5,332</u>    |

**HAMILTON FARM BUREAU COOPERATIVE, INC. AND SUBSIDIARIES**  
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**NOTE 2 - GRAIN (CONTINUED)**

The Company's net position in the grain market at December 31, 2000 was as follows:

|                                   | <u>Busbels</u> |              |               |                 |
|-----------------------------------|----------------|--------------|---------------|-----------------|
|                                   | <u>Corn</u>    | <u>Wheat</u> | <u>Oats</u>   | <u>Soybeans</u> |
| Company owned grain               | 159,971        | 23,019       | 16,418        | 116,983         |
| Add: Open purchase contracts -    |                |              |               |                 |
| Cash                              | 539,584        | 12,009       | 1,903         | 3,657           |
| Futures                           | 85,000         | -            | -             | -               |
| Less: Price later/basis contracts | 146,047        | 22,139       | 236           | 60,264          |
| Open sales contracts -            |                |              |               |                 |
| Cash                              | 105,400        | 7,109        | -             | 3,291           |
| Futures                           | <u>375,000</u> | <u>-</u>     | <u>-</u>      | <u>65,000</u>   |
| Net position long (short)         | <u>158,108</u> | <u>5,780</u> | <u>18,085</u> | <u>(7,915)</u>  |

**NOTE 3 - ACCOUNTS AND NOTES RECEIVABLE**

|                                                                                                                                                                                                                         | <u>2001</u>      | <u>2000</u>      |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Accounts and notes receivable, represent outstanding receivables that the Company has with various customers. Some of the notes are secured, some are not. The notes have various required payments and interest rates. | \$256,141        | \$474,787        |
| Less current maturities                                                                                                                                                                                                 | <u>125,000</u>   | <u>210,570</u>   |
| <b>LONG-TERM PORTION</b>                                                                                                                                                                                                | <u>\$131,141</u> | <u>\$264,217</u> |

**NOTE 4 - INVESTMENTS**

The following investments represent nonmarketable equity securities which are carried at cost plus allocated equities (which does not exceed estimated net realizable value):

|                                                           | <u>2001</u> | <u>2000</u> |
|-----------------------------------------------------------|-------------|-------------|
| Co Bank                                                   | \$1,045,577 | \$1,026,560 |
| AG Processing, Inc.                                       | 998,828     | 949,643     |
| Countrymark Cooperative, Inc.                             | 100         | 174,103     |
| TruServ Corporation                                       | 53,059      | 61,037      |
| Land O Lakes                                              | 86,970      | 17,564      |
| Farmers Commodities Corporation                           | 27,883      | 24,712      |
| Farmland Industries, Inc.                                 | 72,560      | 72,560      |
| Countrymark Commodities, Inc. / Lakes Trading Group, Inc. | 584         | 584         |

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HAMILTON FARM BUREAU COOPERATIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

NOTE 4 - INVESTMENTS (CONTINUED)

|                                      |                     |                     |
|--------------------------------------|---------------------|---------------------|
| Southern States Cooperative          | 754                 | 754                 |
| Agri Insurance Exchange              | 55,449              | 47,734              |
| Frontier Cooperative                 | 143                 | 143                 |
| Voluntary Purchasing Groups, Inc.    | 473                 | 473                 |
| Cenex Harvest States                 | 48,870              | 4,945               |
| Growmark, Inc.                       | <u>525</u>          | <u>-</u>            |
| Subtotal                             | \$ 2,391,775        | \$ 2,380,812        |
| Good News Products, Inc. (see below) | <u>20,782</u>       | <u>20,093</u>       |
| TOTAL INVESTMENTS                    | <u>\$ 2,412,557</u> | <u>\$ 2,400,905</u> |

Hamilton Farm Bureau Cooperative, Inc. owns 25% of the outstanding stock of Good News Products, Inc. This investment has been recorded under the equity method.

NOTE 5 - NOTES RECEIVABLE, STOCK

Notes receivable, stock represent the unpaid portion of the par value of stock issued. Stockholders who do not pay in full for their stock upon becoming a stockholder, sign a 10 year non-interest bearing note which states that all Certificates of Equity will be applied first toward payment of the stockholder's note.

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

|                               | <u>2001</u>         | <u>2000</u>         |
|-------------------------------|---------------------|---------------------|
| Land                          | \$ 1,220,756        | \$ 1,026,795        |
| Land improvements             | 555,043             | 555,043             |
| Buildings                     | 7,530,084           | 7,495,294           |
| Equipment                     | 16,963,797          | 16,885,271          |
| Equipment under capital lease | <u>124,464</u>      | <u>279,780</u>      |
|                               | <u>\$26,394,144</u> | <u>\$26,242,183</u> |

NOTE 7 - NOTE PAYABLE

Note payable represents a line of credit with Huntington National Bank of \$14,000,000 for 2001 and 2000. This note is secured by the assets of the Company and requires interest payments of 2.15% over Libor. At December 31, 2001, interest was at 4.312%.

| <u>2001</u>  | <u>2000</u>  |
|--------------|--------------|
| \$ 7,410,536 | \$ 8,400,000 |

**HAMILTON FARM BUREAU COOPERATIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 8 - LONG-TERM DEBT**

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <u>2001</u>          | <u>2000</u>          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| Note payable to Co Bank was secured by substantially all assets of the Company. This note was comprised of different loan amounts, each of which requires a certain interest rate. These interest rates are fixed, the rates range from 7.71% to 8.86% as of December 31, 2001 and 2000. This note was paid in full during 2001.                                                                                                                                | \$ -                 | \$ 3,000,000         |
| Hamilton Farm Bureau has issued taxable notes enhanced by a direct pay letter of credit from Huntington National Bank. The notes require monthly payments of \$70,000 in 2001 and \$56,358 in 2000 to be placed in an escrow account with the payments being applied May 1. The bonds were sold in a floating rate mode, which is repriced weekly. The bonds' variable interest rate maximum is not to exceed 12%. At December 31, 2001, interest was at 2.09%. | 12,105,000           | 9,810,000            |
| Note payable to Huntington National Bank is secured by the assets of the Company. This note is to be used for equipment purchases up to \$1,000,000. This note requires interest payments at 2.15% over Libor. At December 31, 2001, interest was at 4.075%. This note matures December 28, 2006.                                                                                                                                                               | 1,000,000            | -                    |
| Notes payable GMAC are secured by vehicles owned by the Company. The notes require monthly payments of \$4,290 including interest at various rates. These notes mature in 2005.                                                                                                                                                                                                                                                                                 | <u>160,765</u>       | <u>-</u>             |
| <b>TOTAL NOTES PAYABLE</b>                                                                                                                                                                                                                                                                                                                                                                                                                                      | <b>\$ 13,265,765</b> | <b>\$ 12,810,000</b> |
| Obligation under capital lease                                                                                                                                                                                                                                                                                                                                                                                                                                  | <u>45,090</u>        | <u>33,095</u>        |
| <b>TOTAL LONG-TERM DEBT</b>                                                                                                                                                                                                                                                                                                                                                                                                                                     | <b>\$ 13,310,855</b> | <b>\$ 12,843,095</b> |

Huntington National Bank has various loan covenant requirements that Hamilton Farm Bureau Cooperative, Inc. must meet. The Company is in violation of one requirement; however, the bank has waived that requirement as of the year ended December 31, 2001.

**HAMILTON FARM BUREAU COOPERATIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 8 - LONG-TERM DEBT (CONTINUED)**

Maturities of long-term debt are as follows:

|      | <u>2001</u> | <u>2000</u>  |
|------|-------------|--------------|
| 2001 | \$ -        | \$ 1,733,600 |
| 2002 | 1,022,000   | 1,745,500    |
| 2003 | 1,258,090   | 780,000      |
| 2004 | 1,292,000   | 1,825,000    |
| 2005 | 1,308,765   | 870,000      |
| 2006 | 900,000     | -            |

**NOTE 9 - CAPITAL LEASES**

Details of the Company's capital leases are as follows:

| <u>Item</u>        | <u>Length</u> | <u>Annual Lease Payment</u>   | <u>Interest Rate</u> | <u>Option</u>                                            |
|--------------------|---------------|-------------------------------|----------------------|----------------------------------------------------------|
| Agronomy Equipment | 60 Months     | \$12,205                      | Variable             | Renewal or residual balance<br>Purchased for \$1 in 2000 |
| Agronomy Equipment | 60 Months     | \$28,402                      | Variable             | Renewal or residual balance<br>Purchased for \$1 in 2000 |
| Propane Tank       | 36 Months     | Based on<br>propane delivered |                      | Purchase for \$1                                         |
| Propane Tank       | 36 Months     | Based on<br>propane delivered |                      | Purchase for \$1                                         |

The following is an analysis of the leased property under capital lease by classification:

|                                  | <u>2001</u>      | <u>2000</u>      |
|----------------------------------|------------------|------------------|
| Equipment                        | \$ 124,464       | \$ 76,064        |
| Less accumulated<br>Depreciation | <u>45,937</u>    | <u>22,703</u>    |
|                                  | <u>\$ 78,527</u> | <u>\$ 53,361</u> |

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HAMILTON FARM BUREAU COOPERATIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000

NOTE 9 - CAPITAL LEASES (CONTINUED)

The following is a schedule by years of future minimum lease payments under capital lease:

|                                                | <u>2001</u>      | <u>2000</u>      |
|------------------------------------------------|------------------|------------------|
| 2001                                           | \$ -             | \$ 27,600        |
| 2002                                           | 35,000           | 5,495            |
| 2003                                           | <u>10,090</u>    | <u>-</u>         |
| Total minimum lease payments                   | \$ 45,090        | \$ 33,095        |
| Less amount representing<br>Interest           | <u>-</u>         | <u>-</u>         |
| Present value of net minimum<br>lease payments | <u>\$ 45,090</u> | <u>\$ 33,095</u> |

NOTE 10 - OPERATING LEASES

Certain vehicles and equipment are being leased under operating leases as follows:

| <u>Equipment</u>           | <u>Expiration Date</u> | <u>Monthly Payments</u> |             |
|----------------------------|------------------------|-------------------------|-------------|
|                            |                        | <u>2001</u>             | <u>2000</u> |
| Semi-tractors and trailers | Various                | \$ 28,162               | \$ 24,299   |
| Delivery vehicles          | Various                | 1,594                   | 7,151       |
| Vehicles                   | Various                | 6,329                   | 1,403       |
| Agronomy equipment         | Various                | 14,898                  | 9,211       |
| Forklifts                  | Various                | 1,951                   | 1,511       |
| Office equipment           | Various                | 23,099                  | 24,448      |
| Sign                       | October, 2006          | 128                     | 128         |
| Propane tanks              | Various                | 6,855                   | 4,035       |
| Land                       | Various                | 150                     | 650         |

In addition, a mileage charge is being paid on the semi-tractors and certain delivery equipment. Rental and lease expenses for 2001 and 2000 were \$1,240,302 and \$924,794, respectively.

The following is a schedule of required future minimum lease payments that have remaining non-cancelable lease terms in excess of one year as of December 31, 2001 and 2000.

|           | <u>2001</u>   | <u>2000</u> |
|-----------|---------------|-------------|
| 2001      | \$ -          | \$ 810,307  |
| 2002      | 977,039       | 683,929     |
| 2003      | 778,577       | 581,555     |
| 2004      | 430,356       | 532,081     |
| 2005      | 257,712       | 181,192     |
| 2006      | 108,574       | -           |
| 2007-2011 | <u>13,179</u> | <u>-</u>    |

**HAMILTON FARM BUREAU COOPERATIVE, INC. AND SUBSIDIARIES**  
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**NOTE 10 - OPERATING LEASES (CONTINUED)**

The Company is also a lessor of certain real and personal property located in Zeeland, Michigan. The monthly lease requires payments of \$1,650. The Company is responsible for payment of real property taxes and must maintain real property insurance during the lease term. The lessee is responsible for personal property taxes and general liability insurance throughout its occupation and use of the leased property.

The Company is the lessor of two residential homes in Hamilton, Michigan. Each lease requires monthly payments of \$750. The Company is required to pay all utilities, insurance, maintenance and property taxes.

**NOTE 11 - INCOME TAX**

The Company, as a nonexempt Cooperative, is taxed on nonpatronage proceeds and any patronage proceeds not paid or allocated to patrons.

The deferred federal income tax results from the timing differences between reporting for financial purposes and tax purposes. These timing differences result from using accelerated depreciation for tax purposes and straight-line depreciation for book purposes, and from deducting certain amounts for financial reporting which are not yet deductible for tax purposes.

The provision for federal income taxes for the years ended December 31, 2001 and 2000 is comprised of the following:

|                                                    | <u>2001</u>             | <u>2000</u>               |
|----------------------------------------------------|-------------------------|---------------------------|
| Federal income tax, current,<br>net of credits     | \$ 161,750              | \$(189,333)               |
| Tax benefits of net operating loss<br>carryforward | (137,685)               | -                         |
| Prepaid federal taxes                              | -                       | 10,000                    |
| Federal income tax, deferred                       | <u>74,700</u>           | <u>(63,500)</u>           |
| <b>TOTAL</b>                                       | <u><b>\$ 98,765</b></u> | <u><b>\$(242,833)</b></u> |

For the year ended December 31, 2001, income tax expense contains a charge in lieu of federal income taxes that would have been required to be paid had the Company not been able to utilize an operating loss carryforward. The tax benefit for the year ended December 31, 2001, was \$137,685. The net operating loss carryforward was \$377,420 which was utilized in the current year.

**NOTE 12 - PREFERRED STOCK**

Hamilton Farm Bureau Cooperative, Inc. Series E preferred stockholders are entitled to receive dividends as declared by the Board of Directors. Dividends shall not exceed 8% per annum, shall be payable for the year which they are declared and shall not be cumulative. In the event of dissolution or liquidation of the Company, there shall be paid to holders of Series E preferred stock the issue price for such stock, plus declared but unpaid dividends before any payments to holders of common stock.

Hamilton Farm Bureau Cooperative, Inc. Series A preferred stockholders are entitled to receive dividends as declared by the Board of Directors. Dividends shall be payable for the year which they are declared and shall not be cumulative. In the event of dissolution or liquidation of the Company, there shall be paid to holders of Series A preferred stock the issue price for such stock, plus declared but unpaid dividends before any payments to holders of common stock.

HAMILTON FARM BUREAU COOPERATIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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NOTE 12 - PREFERRED STOCK (CONTINUED)

Hamilton Leasing, Inc. preferred stockholders are entitled to receive preferential and cumulative annual dividends at a rate of 3% per share as of December 31, 2001 and 2000. The stockholders are also entitled to a preference, in liquidation, in the amount of \$100 per share plus accrued and unpaid dividends. Preferred shares are not entitled to vote except in certain circumstances.

NOTE 13 - DEFINED BENEFIT PENSION TRUST

The Company has a defined benefit pension plan (hereinafter referred to as the Plan) covering all eligible employees. Eligible employees are those who are at least 21 years old, have a minimum of 1,000 hours of service per year, and a minimum of 12 months of service. Pension costs for the plan are funded in amounts, which equal or exceed regulatory requirements. For eligible participants, benefits are based on the employee's total compensation excluding bonuses.

Assumptions and net periodic pension cost are as follows:

|                                | 2001  | 2000  |
|--------------------------------|-------|-------|
| Discount rate                  | 7.25% | 7.25% |
| Compensation increase          | 4.00% | 4.00% |
| Expected return on plan assets | 7.25% | 7.25% |

|                              |            |            |
|------------------------------|------------|------------|
| Service cost                 | \$ 199,563 | \$ 182,980 |
| Interest cost                | 222,037    | 206,599    |
| Actual return on plan assets | (339,074)  | (85,664)   |
| Other components, net        | 118,799    | (127,546)  |

|                           |            |            |
|---------------------------|------------|------------|
| Net periodic pension cost | \$ 201,325 | \$ 176,369 |
|---------------------------|------------|------------|

The following sets forth the funded status of the plan:

|                                            |              |              |
|--------------------------------------------|--------------|--------------|
| Vested benefits                            | \$ 2,818,702 | \$ 2,589,689 |
| Nonvested benefits                         | 99,846       | 73,912       |
| Accumulated benefit obligation             | \$ 2,918,548 | \$ 2,663,601 |
| Effect of projected compensation increases | 468,057      | 479,534      |

|                                                                            |              |              |
|----------------------------------------------------------------------------|--------------|--------------|
| Projected benefit obligation                                               | \$ 3,386,605 | \$ 3,143,135 |
| Plan assets at fair value (primarily corporate equity and debt securities) | 3,098,889    | 2,740,644    |

|                                                       |              |              |
|-------------------------------------------------------|--------------|--------------|
| Projected benefit obligation in excess of plan assets | \$ (287,716) | \$ (402,491) |
| Unrecognized transition amount                        | (54,742)     | (71,588)     |
| Unrecognized prior service cost                       | (876)        | (964)        |
| Unrecognized net loss                                 | 140,112      | 286,251      |

|                        |              |              |
|------------------------|--------------|--------------|
| Net pension obligation | \$ (203,222) | \$ (188,792) |
|------------------------|--------------|--------------|

**HAMILTON FARM BUREAU COOPERATIVE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**NOTE 14 - PROFIT-SHARING PLAN AND EMPLOYEE STOCK BONUS PLAN**

The Company has a 401(k) profit-sharing plan covering all employees who are 19 years of age and have completed one year of service. Contributions are made annually at the discretion of management. The total profit-sharing plan contribution was \$227,173 and \$204,068 for 2001 and 2000, respectively.

The Company has an Employee Stock Bonus Plan that covers all employees who are 19 years of age and have completed one year of service. Contributions are made annually at the discretion of management. Contributions are based on each participant's eligible compensation (as determined for federal income tax purposes). The plan holds Hamilton Farm Bureau Series E preferred stock. As contributions are made to the plan, additional shares of stock are acquired. Terms of the plan require the Company to repurchase shares from participants who are no longer eligible to participate in the plan, and this repurchase is to be at fair market value. All shares held by the plan have been allocated to plan participants. Total shares held by the plan were 4,326 and 4,633 as of December 31, 2001 and 2000. The total Employee Stock Bonus Plan contribution was \$-0- for 2001 and 2000.

**NOTE 15 - CONTINGENCIES**

Hamilton Farm Bureau Cooperative, Inc. acts as a self-insurer for employees' health insurance and for workers' compensation insurance whereby it assumes limited liabilities with the excess liabilities assumed by underwriters. Accrued liabilities include the estimated amount of claims that had occurred but had not yet been paid as of the balance sheet date.

The Company has guaranteed a note payable for the housing costs of their pig operation for 36 months. The amount of debt guaranteed is \$-0- and \$37,500 for 2001 and 2000, respectively. The seller assigned its right to receive payment of the first \$12,500 of monthly housing costs and the Company makes the monthly payment of \$12,500 directly to the seller's mortgage lender. The note is secured by buildings and management has indicated that it is doubtful that a liability will be incurred, therefore, nothing has been recorded on these financial statements.

The Company has entered into a financing agreement with Cooperative Finance Association, Inc. to help their agronomy customers receive financing. The terms are that the loans may not exceed two million dollars with a maximum guarantee by Hamilton Farm Bureau Cooperative, Inc. not to exceed \$800,000. Management has indicated that it is doubtful that a liability will be incurred, therefore, nothing has been recorded on the financial statements.

**NOTE 16 - ENVIRONMENTAL MATTERS**

In the ordinary course of business, the Company is subject to the risk that the handling of petroleum and agronomy products may cause environmental contamination, which may require remediation under federal and state environmental laws and regulations. It is the Company's policy to recognize environmental liabilities when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated. Management currently is not aware of the existence of any significant environmental contamination requiring remediation; accordingly, no such liability has been recorded in the accompanying financial statements.

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**HAMILTON FARM BUREAU COOPERATIVE, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000**

**NOTE 17 - ACQUISITION**

In April, 2000, the Company acquired the Martin location of Terra Industries, Inc. in a business combination accounted for as a purchase. Martin is primarily engaged in the storage, sale and custom application of agronomy products. The results of operations of Martin are included in the accompanying financial statements since the date of acquisition. The total cost of the acquisition was \$1,013,822.

**NOTE 18 - SUBSEQUENT EVENTS**

In January 2002 the Allegan location was closed.

**NOTE 19 - RECLASSIFICATIONS**

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.