

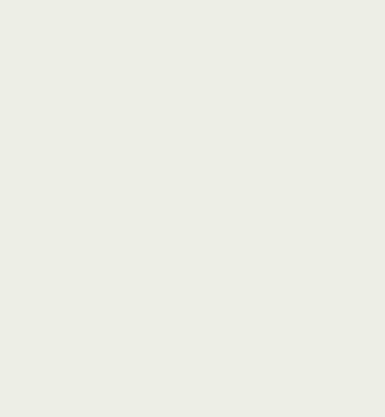


CONTINUING THE LEGACY...

2012
ANNUAL
REPORT



OFFICERS & DIRECTORS



DISTRICT ONE

Myron Voth
VICE CHAIRMAN

Cecil Wiebe

DISTRICT TWO

Duane Johnson

David Mills
SECRETARY

DISTRICT THREE

CJ Blew
CHAIRMAN

Jason Gaeddert



**DIRECTORS
AT LARGE**

Neal Beam

Keith Becker

Randy Ellwood

CEO/PRESIDENT

Dave Christiansen

CHAIRMAN'S REPORT

CJ BLEW



I've often heard, and find truth in, the phrases "this isn't your grandpa's coop" and "the coop never retires". When we talk about continuing the legacy of MKC, there are a multitude of reasons why I believe these two phrases make sense. I doubt there is any member of this association that doesn't have the same desire that I have – to see this coop and the cooperative system remain viable for generations to come. As we've seen throughout the years, we will have to change to create the relevancy that will ensure that viability for the future.

MKC continues to create ways to bring value to the farm. Our value proposition and what it takes to deliver it will always be a moving target. Thankfully, we can continue to position ourselves for that inevitable change as we have just completed another financially successful year. With local earnings in excess of \$15 million, we can continue an aggressive asset renewal strategy and return cash to our members.

The agriculture industry – particularly the grain and supply sectors – have seen an influx of interest worldwide from both traditional ag

companies and non-traditional companies. How does MKC and the cooperative system maintain relevancy with this rapid pace and change? Do you ever think about what the market place would look like without the coop and farmer ownership? The United Nations General Assembly passed a resolution declaring 2012 the International Year of Co-operatives. I think it provides an opportunity to reflect on where we've come from and where we need to go to continue the legacy.

One thing is for sure, there is no shortage of companies vying for your business today. And while this isn't grandpa's coop and he did retire years ago, I am both proud and thankful to be a part of MKC. I hope you are too.



PRESIDENT'S REPORT

DAVE CHRISTIANSEN

Legacy – *something transmitted by or received from an ancestor or predecessor or from the past.*

I personally liken building a legacy to building a structure of any kind. If you intend the structure to survive the test of time and to face the elements or challenges that all things do, then you need to begin with a solid foundation. Core values, vision, mission and objectives are all things that shape the structure along the way, but it all has to stand on the foundation that was laid. For your cooperative, that foundation started almost 50 years ago. One can always ask, does a legacy breed success or does success, over time, create a legacy?

The term “success” always provides excellent fodder for discussion at our planning sessions – especially as we try to define just what success really means for the cooperative. Financial success on an annual basis is always a topic of discussion for the board of directors and employees. We often ask ourselves if it is a better measurement to view success annually or over many years. If it's best, as we believe, to be viewed over time, then MKC has truly been blessed with success for 47 years.

If the measurement of success is programs that help our growers manage their risk, then this year would once again stack up as very successful. MKC's industry-leading risk management program with Swiss Re for double crop soybeans would certainly be the highlight of this past year's offerings. Another program would include our input finance program that continues to grow. Once again, MKC was the leading user of CFA's input financing program. The board approved an increase of up to \$40 million this year which is an indication of just how valuable this program has become to our growers. Our crop insurance business has grown to more than \$10 million in premiums as growers recognize the critical importance of crop insurance advisors who understand the nuances of grain marketing. Our plant tissue sampling program continues to grow as we embark on a venture that will allow growers to respond “in-season” to plant health needs in order to maximize yield potential. These programs are just a small sample of the many programs we consider integral to determining success for all of us.

The measure of success could certainly encompass community involvement. Being locally owned by the people we serve is important to MKC and causes us to



have a deep commitment to community engagement. From employees who are actively involved in their communities to the hundreds of thousands of dollars donated over the last few years towards programs that support leadership development, agriculture education, community safety and hunger awareness, MKC is recognized as a leader in community stewardship. Recognition from groups such as Kansas educators and awards (like being selected as one of five finalists for the Governor's Award of Excellence) are very nice, but the true reward is knowing that we've made a positive impact in our communities.

Another measurement of success might be the number of new members joining MKC. Over the past five years MKC has had more than 100 new members join each year. Perhaps averaging over 20% return on your equity over the past five years is success in some people's mind. Success might also be the number of MKC and TMA employees and directors serving our industry in leadership positions throughout the state and nation.

Determining one good success measurement is never an easy task, and we are convinced one measurement won't work. The same holds true when you're building a legacy. Because your cooperative doesn't have a retirement date, its legacy is ongoing. When you stop and consider, building MKC's legacy is very similar to most of your farms. The plan is that someone will someday have a fond appreciation for the effort you've put into building a legacy they are proud to carry on. This is the same plan for MKC, your coop.

Thank you for your efforts in building a successful company (however you want to measure it). Let's continue to build our legacy!

BOARD CANDIDATE

MYRON VOTH DISTRICT ONE



Myron Voth and his wife, Phyllis Regier, own a diversified family-sized dairy farm known as Upland Farms near Walton. They also grow feed and wheat. Myron was first elected to the MKC board of directors in 2003 and is seeking his fourth term representing District 1. Prior to serving for MKC, he served nine years on the board of directors for Farmers Grain Cooperative. Myron also serves as a director of Land O' Lakes, a global agricultural cooperative providing feed, seed and agronomy products to local cooperatives

Myron is seeking re-election to the board of directors to help direct the cooperative towards a sustainable and progressive farmer-owned future. He believes the presence of a strong coop in the market place is essential to the economic future of our producers. He feels too many local cooperatives are failing to invest in their coop for future generations. Myron believes MKC is facing the need for improved and modernized facilities for grain, agronomy and energy. He believes we need to continue to adopt modern sound business practices to generate the needed capital for these projects.

He also believes that we need to continue to provide service to a growing base of patrons and that the more we work together, the stronger we will be in the market.

Myron feels that a board member should provide the necessary legal fiduciary responsibility and functions for the cooperative. This includes making sure that each board member is aware of the changing legal and accounting rules. He believes board members should be active in reviewing and setting policy for management and they should hire and retain the best management available. Board members should review and approve the annual and long-term plans of management and be actively involved in challenging and analyzing all plans and capital expenditures. He believes the last major role of a board member is to listen and discuss the ideas and concerns of member patrons.

Myron believes MKC's future can be no greater than the vision of its board and management. Therefore, it is important to put in place the people who are willing to look into the future and respond.

BOARD CANDIDATE
DISTRICT TWO DAVID MILLS



David Mills operates a diversified grain farm which is primarily dry land and a cow/calf operation near Abilene. His primary MKC location is Abilene. David was appointed as an associate member to MKC's board of directors in February, 2008 and was first elected to the board in 2009 and has served as secretary since that time. David is seeking re-election to a position that represents District 2. He currently serves on the board of directors of the Dickinson County Bank and the Community Foundation of Dickinson County.

David believes there are a number of key issues facing MKC today. He feels consolidation is one issue that continues to create change in the agriculture industry, not only at the farm level, but also with our suppliers and the buyers of our products. He believes MKC has to be positioned to manage the supply chain to ensure our producers have the products they need, when they need them. He also believes MKC must continue managing the risk involved when

input costs fluctuate, as well as continue to help producers manage their risk.

David believes the board needs to continue to be pro-active as they discuss current operations. He also believes the board should strategically plan for the needs of our members five, ten and twenty years into the future.

David feels that each board member brings a unique set of experiences to the board. He feels that his accounting and business background, along with his farming experience, brings an important skill set to blend with the experience of the other board members. He believes a board member's role should be to represent the interests of the shareholders while providing input on strategic planning for the future.

David wants MKC to continue to grow and prosper while meeting the challenges of the future.

BOARD CANDIDATE
NEAL BEAM *AT LARGE*



Neal Beam operates a diversified dry land and irrigated grain operation in the McPherson area. His primary MKC locations are Groveland and McPherson.

Neal is seeking re-election to an At Large position because he sees the value that a strong cooperative can provide to farmers by helping to reduce costs of production, maintaining a reliable source of services and effectively marketing farm products. Neal is interested in giving of his time and talents to educate himself and be future oriented, making every effort to recognize trends and to make decisions which are in the best interest of the members while ensuring the legal foundations and capital requirements are met.

When asked about key issues facing MKC and other cooperatives today, Neal commented that as cooperatives become more complex organizations (both in size and scope of business activity), board members must be sensitive to operating the cooperative for the members' benefit while continuing to meet their needs. He believes being responsive to those needs is a continuous challenge given the increasing

diversity among cooperative members and the broader geographic area represented by the company. Neal also believes that in an intensely competitive environment, cooperatives must work harder than ever to earn their patrons' business and that MKC's structure offers an advantage as they are able to stay in touch with their producers and monitor industry developments. He feels it is challenging to strike a balance between the desires and direction of members and the economic interests of the company.

Neal believes as a group, the primary responsibilities of the board of directors are to employ the manager, engage with management in strategic planning, establish operating policies and direct the cooperative toward its overall objectives. He believes the role of the director is to think independently and objectively while being a team player, realizing the decisions made are a composite of the background, knowledge, experience and judgment of the entire board. He believes directors must maintain a progressive attitude in responding to new ideas and concepts that contribute to meeting members' needs and to the growth and success of the coop.

COMMUNITY STEWARDSHIP



Donating over \$300,000 (5-year history)

MKC takes great pride in being good stewards of our communities. Over the past five years, MKC has played an active role in keeping our rural communities strong by donating more than \$300,000 to communities throughout central Kansas. Developing leaders within our communities, alleviating hunger, and enhancing ag education and community safety are just some of the programs we are proud to support.

- Area 4-H Leadership Development Programs
- Mennonite Relief
- Future Farmers of America
- Community Events and Festivals
- Ag in the Classroom
- Farm Safety Camps
- Young Business Professionals Programs
- City and County Emergency Services
- Women in Agriculture
- Area Schools After Prom Program



CONSOLIDATED BALANCE SHEETS

CURRENT ASSETS	2012	2011
Cash and cash equivalents	\$ 4,037,661	\$ 1,142,688
Marketable securities, available for sale	1,238,509	1,224,757
Accounts and notes receivable - trade		
Patrons and customers	8,407,942	4,748,525
Allowance for doubtful accounts	(100,000)	(150,000)
Grain shipments	1,884,480	20,479,876
Grain storage receivable	1,761,905	1,529,753
Commodity margin deposits	6,289,778	10,167,193
Other	6,010,367	6,457,040
Deferred income taxes	210,771	214,233
Prepaid inventories	14,388,342	16,366,725
Inventories on hand	110,539,810	195,089,848
TOTAL CURRENT ASSETS	154,669,565	257,270,638
OTHER ASSETS		
Notes receivable, net of current portion	-	94,817
Equity in other cooperatives	16,650,472	14,202,954
Limited liability companies	5,769,635	4,307,414
Other	1,581,558	769,097
TOTAL OTHER ASSETS	24,001,665	19,374,282
PROPERTY, PLANT, AND EQUIPMENT		
Cost	67,078,644	60,863,848
Accumulated depreciation	(36,338,788)	(35,556,992)
NET PROPERTY, PLANT, AND EQUIPMENT	30,739,856	25,306,856
TOTAL ASSETS	\$ 209,411,086	\$ 301,951,776

Financial Statement Presentation

The statements presented within do not contain all the necessary disclosures to be considered in conformity with accounting principles generally accepted in the United States of America. A report containing the required disclosures is on file at the general office.

February 29, 2012 and February 28, 2011

CURRENT LIABILITIES	2012	2011
Accounts payable and accrued expenses	\$ 35,321,247	\$ 48,818,872
Customer forward contracts	8,722,368	11,386,925
Revolving bank notes	75,161,074	165,440,217
Patron demand certificates	955,328	1,054,641
Current maturities of long-term debt	4,495,514	4,187,552
Patronage dividends payable	2,379,444	2,296,816
Income taxes payable	884,712	891,802
TOTAL CURRENT LIABILITIES	127,919,687	234,076,825
LONG-TERM LIABILITIES , excluding current maturities		
Non-revolving bank notes	12,527,580	11,140,764
Patron certificates of indebtedness	3,161,265	2,821,716
Capital lease obligations	1,264,577	1,298,654
Deferred income taxes	1,380,021	559,774
Other	888,684	547,808
TOTAL LONG-TERM LIABILITIES	19,222,127	16,368,716
MEMBERS' EQUITY		
Common stock	4,237,500	4,100,950
Participating stock	936,450	934,750
Revolving fund and other ledger credits	20,365,635	17,633,856
Retained earnings	31,278,096	23,873,453
Non-controlling interests	5,523,259	4,899,505
Accumulated other comprehensive income	(71,668)	63,721
TOTAL MEMBERS' EQUITY	62,269,272	51,506,235
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 209,411,086	\$ 301,951,776

CONSOLIDATED STATEMENTS OF OPERATIONS

SALES	2012	2011
Grain	\$ 297,102,925	\$ 217,494,275
Farm supply	122,687,056	97,327,123
TOTAL SALES	419,789,981	314,821,398
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COST OF SALES		
Grain	271,138,490	198,088,642
Farm supply	110,543,890	85,622,722
TOTAL COST OF SALES	381,682,380	283,711,364
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GROSS MARGINS ON SALES	38,107,601	31,110,034
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OTHER OPERATING INCOME		
Grain storage and handling services	4,893,644	7,246,634
Limited liability companies	1,113,935	667,797
Agronomy services	4,833,498	4,472,114
Interest income	291,550	349,693
Gain on disposal of property, plant and equipment	560,560	11,114
Miscellaneous	810,919	288,295
TOTAL OTHER OPERATING INCOME	12,504,106	13,035,647
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GROSS INCOME FROM LOCAL OPERATIONS	50,611,707	44,145,681

For Years Ended February 29, 2012 and February 28, 2011

OPERATING EXPENSES	2012	2011
Personnel costs	15,888,281	14,828,483
Fixed expenses	8,065,770	7,480,295
Other operating expenses	11,609,957	10,042,456
TOTAL OPERATING EXPENSES	35,564,008	32,351,234
EARNINGS FROM LOCAL OPERATIONS	15,047,699	11,794,447
OTHER EARNINGS		
Patronage dividends	4,749,075	2,352,319
Investment income	1,519,595	541,498
TOTAL OTHER EARNINGS	6,268,670	2,893,817
NET EARNINGS BEFORE INCOME TAXES	21,316,369	14,688,264
PROVISION FOR INCOME TAXES		
Current income taxes	(877,644)	(882,772)
Deferred income taxes	(915,913)	(218,963)
TOTAL PROVISION FOR INCOME TAXES	(1,793,557)	(1,101,735)
NET EARNINGS BEFORE NON-CONTROLLING INTERESTS	19,522,812	13,586,529
NON-CONTROLLING INTERESTS	(\$ 6,179,958)	(\$ 4,715,124)
NET EARNINGS	\$ 13,342,854	\$ 8,871,405
DISTRIBUTION OF NET EARNINGS		
Patronage dividends	\$ 5,948,610	\$ 5,742,040
Retained earnings	7,394,244	3,129,365
TOTAL DISTRIBUTION OF NET EARNINGS	\$ 13,342,854	\$ 8,871,405

PATRONAGE DISTRIBUTION AND EQUITY REDEMPTIONS

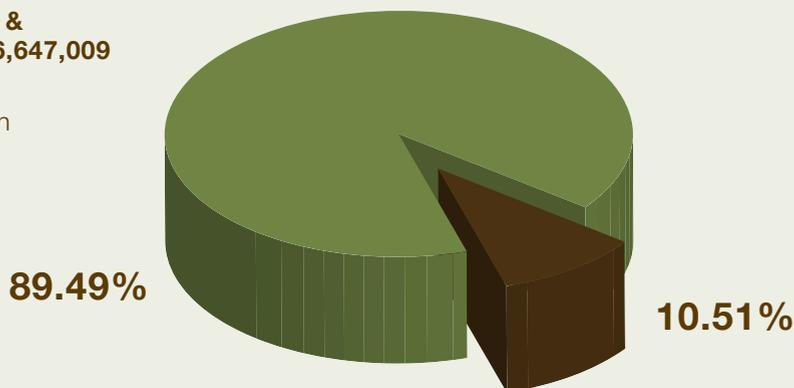
2012 PATRONAGE ALLOCATION	RATE	AMOUNT
Grain	25.23¢ / bushel	\$ 2,970,571
Agronomy - Seed - Crop Protection	4.80% or \$23.37 / ton on fertilizer	2,534,851
Petroleum - Lubricants	1.69% or 5.95¢ / gallon on fuel	354,178
Feed - Merchandise	1.03%	89,010
TOTAL PATRONAGE ALLOCATION		5,948,610

EQUITY REDEMPTIONS **698,399**

TOTAL DISTRIBUTIONS **\$ 6,647,009**

PATRONAGE DISTRIBUTION & EQUITY REDEMPTIONS – \$ 6,647,009

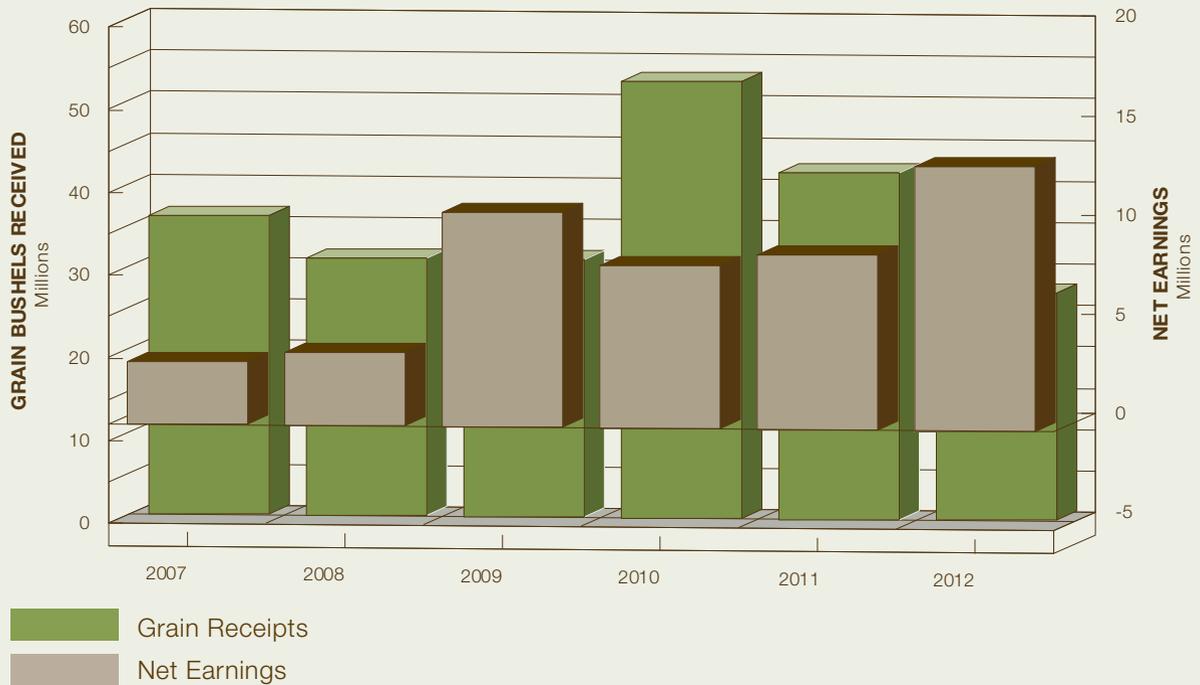
Patronage Distribution
 Equity Redemptions



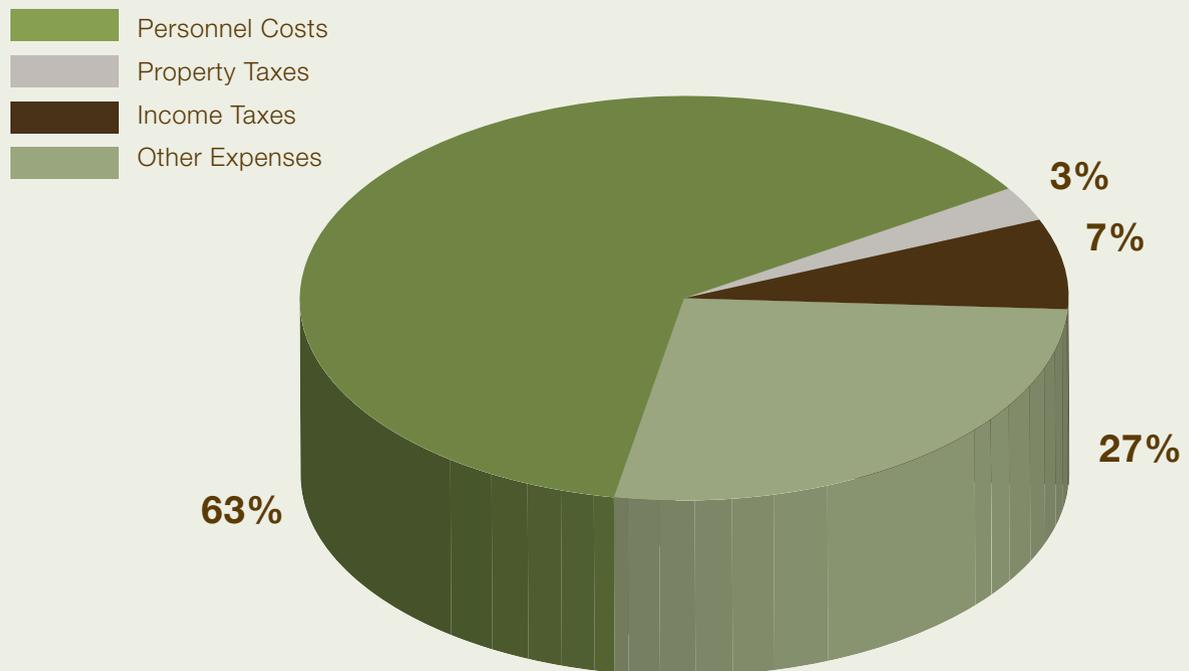
CASH DISTRIBUTIONS TO MEMBERS - 10 YEAR HISTORY

YEAR ENDED	EQUITY REDEMPTIONS	CASH PATRONAGE	TOTAL
2012	\$ 698,399	\$ 2,379,444	\$ 3,077,843
2011	746,339	2,296,816	3,043,155
2010	649,765	1,703,704	2,353,469
2009	714,116	2,673,170	3,387,286
2008	563,574	805,434	1,369,008
2007	835,730	675,936	1,511,666
2006	558,727	1,263,906	1,822,633
2005	229,503	479,277	708,780
2004	523,156	0	523,156
2003	248,302	0	248,302
TOTALS	\$ 5,767,611	\$ 12,277,687	\$ 18,045,298

NET EARNINGS AND LOCAL BENEFITS

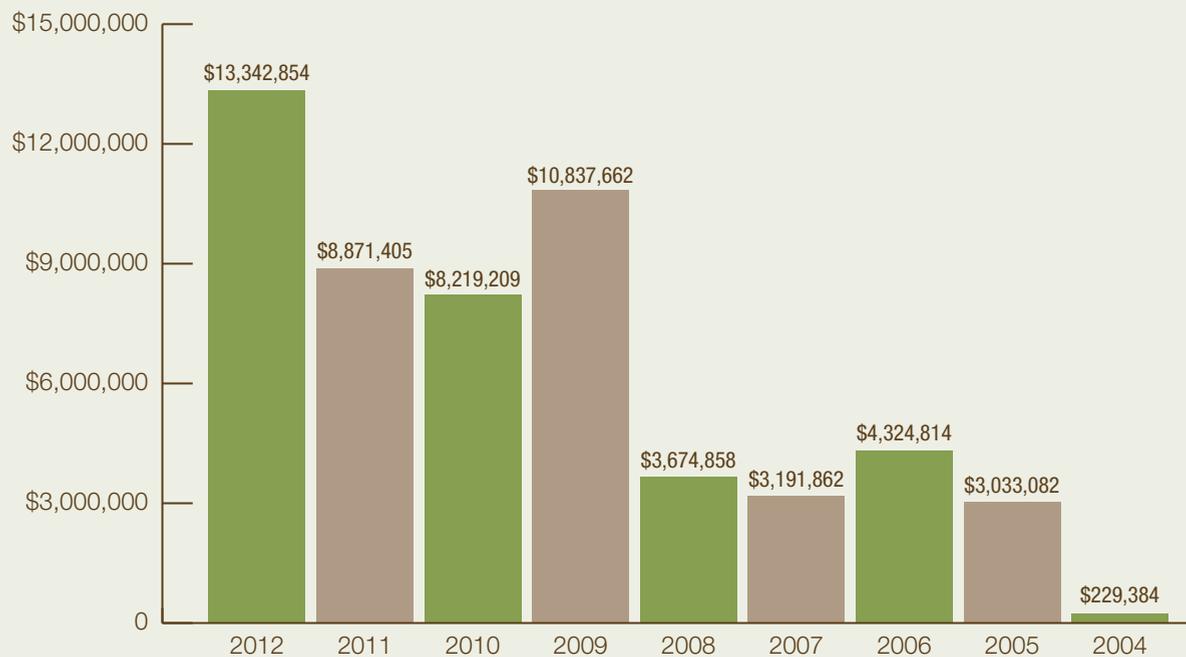


2012 LOCAL BENEFITS - \$25,279,674

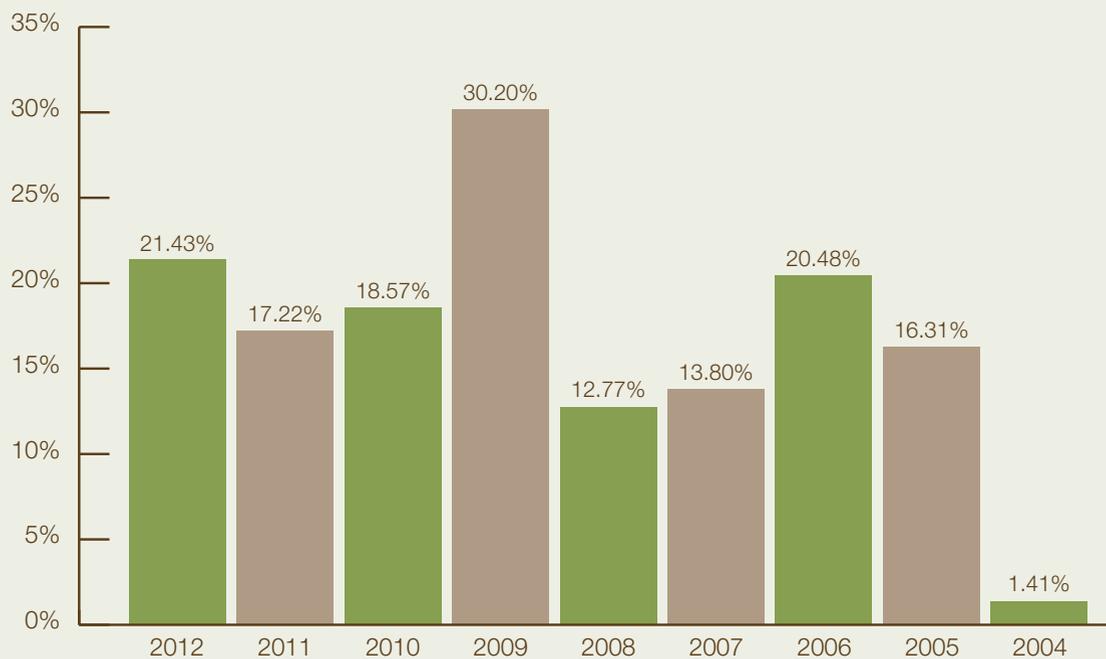


HISTORICAL DATA

HISTORICAL NET EARNINGS



HISTORICAL RETURN ON EQUITY



GUEST SPEAKER
JOLENE BROWN, CSP



Jolene Brown is an award winning communicator, and an honored recipient of the Certified Speaking Professional, the highest earned designation of speaking achievement worldwide. Jolene has made numerous guest appearances for television and radio broadcasts and her work has been featured in several major agricultural publications.

She is a walking-talking spokesperson and champion of the family-owned business. As founder of the Business-First Family Institute, she knows the unique challenges facing parents, siblings, in-laws and “outlaws” who work together – or are trying to! Jolene’s just released book, *Sometimes You Need More Than a 2x4!*, contains how-to-tips so those in agriculture can increase productivity, profitability and peace of mind.

As co-owner and active partner on an Eastern Iowa corn and soybean farm, her practical experience includes plugging a grain auger, hypnotizing chickens and entertaining folks behind the equipment parts counter.

Jolene cares deeply about the ag industry. She’s a passionate supporter, promoter and champion for the people who feed, clothe and fuel the world. She is on a mission to share leading-edge best practices that have the power to increase productivity, profitability and peace of mind.

Her worldwide audiences appreciate her fun-filled humor and real-life stories. They leave with take home value, great big smiles on their faces and are eager to return for more.

MKC

*Shared growth.
Shared success.*

mkcoop.com



Cover photo courtesy of Meagan Beeman.

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