

CHS INC  
Form 10-Q  
July 11, 2018  
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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Form 10-Q

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Quarterly  
Report  
pursuant  
to Section  
13 or  
15(d) of  
the  
Securities  
Exchange  
Act of  
1934 for  
the  
quarterly  
period  
ended  
May 31,  
2018.

or  
Transition  
Report  
pursuant  
to Section  
13 or  
15(d) of  
the  
Securities  
Exchange  
Act of  
1934 for  
the  
transition  
period  
from to

Commission file number: 001-36079

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CHS Inc.  
(Exact name of registrant as specified in its charter)  
Minnesota

41-0251095

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(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

5500 Cenex Drive Inver Grove Heights, Minnesota 55077  
(Address of principal executive offices, including zip code)

(651) 355-6000  
(Registrant's telephone number, including area code)

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

YES  NO

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
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(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date: The Registrant has no common stock outstanding.

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## INDEX

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited)</u>	<u>2</u>
<u>Consolidated Balance Sheets as of May 31, 2018, and August 31, 2017</u>	<u>2</u>
<u>Consolidated Statements of Operations for the three and nine months ended May 31, 2018, and 2017</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended May 31, 2018, and 2017</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the nine months ended May 31, 2018, and 2017</u>	<u>5</u>
<u>Notes to Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>45</u>
<u>Item 4. Controls and Procedures</u>	<u>46</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>47</u>
<u>Item 1A. Risk Factors</u>	<u>47</u>
<u>Item 6. Exhibits</u>	<u>47</u>
<u>SIGNATURE PAGE</u>	<u>48</u>

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Unless the context otherwise requires, for purposes of this Quarterly Report on Form 10-Q, the words “we,” “us,” “our,” the “Company” and “CHS” refer to CHS Inc., a Minnesota cooperative corporation, and its subsidiaries as of May 31, 2018.

#### FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains and our other publicly available documents may contain, and our officers, directors and other representatives may from time to time make, "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by words such as "anticipate," "intend," "plan," "goal," "seek," "believe," "project," "estimate," "expect," "strategy," "future," "likely," "may," "should," "will" and similar references to future periods. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on our current beliefs, expectations and assumptions regarding the future of our businesses, financial condition and results of operations, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control. Our actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not place undue reliance on any of these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those indicated in the forward-looking statements are discussed or identified in our public filings made with the U.S. Securities and Exchange Commission, including in the "Risk Factors" discussion in Item 1A of our Annual Report on Form 10-K for the year ended August 31, 2017. Any forward-looking statements made by us in this Quarterly Report on Form 10-Q are based only on information currently available to us and speak only as of the date on which the statement is made. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise, except as required by applicable law.

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

CHS INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	May 31, 2018	August 31, 2017
	(Dollars in thousands)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$533,887	\$181,379
Receivables	2,198,211	1,869,632
Inventories	2,940,907	2,576,585
Derivative assets	483,794	232,017
Margin and related deposits	253,141	206,062
Supplier advance payments	426,607	249,234
Other current assets	198,078	299,618
Total current assets	7,034,625	5,614,527
Investments	3,787,163	3,750,993
Property, plant and equipment	5,140,106	5,356,434
Other assets	973,885	1,251,802
Total assets	\$16,935,779	\$15,973,756
<b>LIABILITIES AND EQUITIES</b>		
Current liabilities:		
Notes payable	\$2,819,086	\$1,988,215
Current portion of long-term debt	53,056	156,345
Customer margin deposits and credit balances	137,999	157,914
Customer advance payments	372,616	413,163
Accounts payable	1,904,819	1,951,292
Derivative liabilities	344,973	316,018
Accrued expenses	538,249	437,527
Dividends and equities payable	209,718	12,121
Total current liabilities	6,380,516	5,432,595
Long-term debt	1,905,515	2,023,448
Long-term deferred tax liabilities	207,912	333,221
Other liabilities	279,303	278,667
Commitments and contingencies (Note 13)		
Equities:		
Preferred stock	2,264,038	2,264,038
Equity certificates	4,253,414	4,341,649
Accumulated other comprehensive loss	(169,726 )	(183,670 )
Capital reserves	1,803,078	1,471,217
Total CHS Inc. equities	8,150,804	7,893,234
Noncontrolling interests	11,729	12,591
Total equities	8,162,533	7,905,825
Total liabilities and equities	\$16,935,779	\$15,973,756

The accompanying notes are an integral part of the consolidated financial statements (unaudited).

2

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Table of Contents

CHS INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	For the Three Months Ended May 31,		For the Nine Months Ended May 31,	
	2018	2017	2018	2017
	(Dollars in thousands)			
Revenues	\$9,027,525	\$8,614,090	\$23,927,508	\$23,982,746
Cost of goods sold	8,728,914	8,366,988	23,173,151	23,142,205
Gross profit	298,611	247,102	754,357	840,541
Marketing, general and administrative	161,578	153,498	488,459	459,831
Reserve and impairment charges (recoveries), net	(3,811)	) 323,901	(18,944)	) 414,009
Operating earnings (loss)	140,844	(230,297)	) 284,842	(33,299)
(Gain) loss on disposal of business	(124,050)	) —	(131,755)	) —
Interest expense	49,340	39,201	130,218	117,411
Other (income) loss	(14,622)	) (11,947)	) (51,000)	) (66,183)
Equity (income) loss from investments	(59,308)	) (48,393)	) (137,111)	) (124,521)
Income (loss) before income taxes	289,484	(209,158)	) 474,490	39,994
Income tax expense (benefit)	60,338	(163,018)	) (100,901)	) (137,781)
Net income (loss)	229,146	(46,140)	) 575,391	177,775
Net income (loss) attributable to noncontrolling interests	(187)	) (955)	) (699)	) (757)
Net income (loss) attributable to CHS Inc.	\$229,333	\$ (45,185)	) \$576,090	\$178,532

The accompanying notes are an integral part of the consolidated financial statements (unaudited).

Table of Contents

CHS INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

	For the Three Months Ended May 31, 2018		For the Nine Months Ended May 31, 2017	
	2018	2017	2018	2017
	(Dollars in thousands)			
Net income (loss)	\$229,146	\$(46,140)	\$575,391	\$177,775
Other comprehensive income (loss), net of tax:				
Postretirement benefit plan activity, net of tax expense (benefit) of \$1,424, \$2,257, \$5,353 and \$6,580, respectively	3,417	3,635	10,755	10,599
Unrealized net gain (loss) on available for sale investments, net of tax expense (benefit) of \$2,620, \$(72), \$4,505 and \$1,010, respectively	6,286	(117 )	13,480	1,627
Cash flow hedges, net of tax expense (benefit) of \$172, \$233, \$613 and \$1,238, respectively	413	375	1,472	1,993
Foreign currency translation adjustment, net of tax expense (benefit) of \$(254), \$(334), \$(275) and \$(329), respectively	(11,617 )	(2,151 )	(11,763 )	(12,193 )
Other comprehensive income (loss), net of tax	(1,501 )	1,742	13,944	2,026
Comprehensive income (loss)	227,645	(44,398 )	589,335	179,801
Less: comprehensive income (loss) attributable to noncontrolling interests	(187 )	(955 )	(699 )	(757 )
Comprehensive income (loss) attributable to CHS Inc.	\$227,832	\$(43,443)	\$590,034	\$180,558

The accompanying notes are an integral part of the consolidated financial statements (unaudited).



Table of Contents

CHS INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	For the Nine Months Ended May 31, 2018		2017
	(Dollars in thousands)		
Cash flows from operating activities:			
Net income (loss)	\$ 575,391		\$ 177,775
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	358,134		362,118
Amortization of deferred major repair costs	43,908		50,565
Equity (income) loss from investments	(137,111)	)	(124,521)
Distributions from equity investments	97,665		105,558
Provision for doubtful accounts	(4,145)	)	198,304
Gain on disposal of business	(131,755)	)	—
Unrealized (gain) loss on crack spread contingent liability	—		(13,273)
Long-lived asset impairment, net of recoveries	(12,368)	)	85,431
Reserve against supplier advance payments	—		130,705
Deferred taxes	(135,560)	)	(145,357)
Other, net	30,640		25,559
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	(216,501)	)	(55,498)
Inventories	(366,858)	)	(344,914)
Derivative assets	(86,910)	)	120,294
Margin and related deposits	(47,079)	)	58,581
Supplier advance payments	(177,373)	)	(214,538)

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Other current assets and other assets	75,191		19,289	
Customer margin deposits and credit balances	(19,914)	)	(76,355)	)
Customer advance payments	(40,547)	)	(23,700)	)
Accounts payable and accrued expenses	73,745		152,094	
Derivative liabilities	23,758		(229,881)	)
Other liabilities	(49,842)	)	(53,471)	)
Net cash provided by (used in) operating activities	(147,531)	)	204,765	
Cash flows from investing activities:				
Acquisition of property, plant and equipment	(249,078)	)	(298,015)	)
Proceeds from disposition of property, plant and equipment	80,045		17,702	
Proceeds from sale of business	234,914		—	
Expenditures for major repairs	(39,363)	)	(1,146)	)
Investments in joint ventures and other	(20,606)	)	(13,853)	)
Investments redeemed	6,607		7,698	
Proceeds from sale of investments	25,444		6,170	
Changes in CHS Capital notes receivable, net	(83,908)	)	(104,773)	)
Financing extended to customers	(72,106)	)	(57,783)	)
Payments from customer financing	38,725		67,126	
Other investing activities, net	7,539		2,722	
Net cash provided by (used in) investing activities	(71,787)	)	(374,152)	)
Cash flows from financing activities:				
Proceeds from lines of credit and long-term borrowings	29,802,708		29,890,570	
Payments on lines of credit, long term-debt	(29,028,104)	)	(29,362,970)	)

and capital lease obligations			
Changes in checks and drafts outstanding	(59,358)	)	(118,844)
Preferred stock dividends paid	(126,501)	)	(125,475)
Retirements of equities	(6,391)	)	(25,503)
Cash patronage dividends paid	—		(103,879)
Other financing activities, net	(11,558)	)	1,539
Net cash provided by (used in) financing activities	570,796		155,438
Effect of exchange rate changes on cash and cash equivalents	1,030		1,865
Net increase (decrease) in cash and cash equivalents	352,508		(12,084)
Cash and cash equivalents at beginning of period	181,379		279,313
Cash and cash equivalents at end of period	\$ 533,887		\$ 267,229

The accompanying notes are an integral part of the consolidated financial statements (unaudited).

Table of Contents

CHS INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 Organization, Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The unaudited Consolidated Balance Sheet as of May 31, 2018, the Consolidated Statements of Operations for the three and nine months ended May 31, 2018, and 2017, the Consolidated Statements of Comprehensive Income for the three and nine months ended May 31, 2018, and 2017, and the Consolidated Statements of Cash Flows for the nine months ended May 31, 2018, and 2017, reflect in the opinion of our management, all normal recurring adjustments necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods presented. The results of operations and cash flows for interim periods are not necessarily indicative of results for a full fiscal year because of, among other things, the seasonal nature of our businesses. Our Consolidated Balance Sheet data as of August 31, 2017, has been derived from our audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America ("U.S. GAAP").

Over the course of fiscal 2017, we incurred charges related to a trading partner of ours in Brazil, which entered into bankruptcy-like proceedings under Brazilian law; intangible and fixed asset impairment charges associated with certain assets meeting the criteria to be classified as held for sale; fixed asset impairment charges due to the cancellation of a capital project at one of our refineries; and bad debt/loan loss reserve charges relating to a single large producer borrower. Charges and impairments of this nature, as well as any recoveries related to amounts previously reserved, are included in the Consolidated Statements of Operations in the line item, "Reserve and impairment charges (recoveries), net" for the three and nine months ended May 31, 2018, and 2017. The timing and amounts of these charges and impairments, and any recoveries were determined utilizing facts and circumstances that were present in the respective quarters in which the charges, impairments or recoveries were recorded. Prior year information has been revised to conform to the current year presentation.

The notes to our consolidated financial statements reference our Energy, Ag and Nitrogen Production reportable segments, as well as our Corporate and Other category, which represents an aggregation of individually immaterial operating segments. Our equity method investment in Ventura Foods, LLC ("Ventura Foods"), which previously represented our Foods reportable segment, was determined to represent an individually immaterial operating segment during the second quarter of fiscal 2018 and has been aggregated within the Corporate and Other category. See Note 10, Segment Reporting, for more information related to our reportable segments.

Our consolidated financial statements include the accounts of CHS and all of our wholly owned and majority owned subsidiaries. The effects of all significant intercompany transactions have been eliminated.

These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended August 31, 2017, included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission (the "SEC").

Recent Accounting Pronouncements

Adopted

In October 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-16, Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory (Topic 740). This ASU

is intended to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory by requiring an entity to recognize the income tax consequences when a transfer occurs, instead of when an asset is sold to an outside party. This ASU is effective for periods beginning after December 15, 2017; however, early adoption of this ASU is permitted during the first interim period if an entity issues interim financial statements and the amendments in this ASU should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We elected to early adopt ASU No. 2016-16 during the first quarter of fiscal 2018. The adoption did not have a material impact on our consolidated financial statements.

Table of Contents

## Not Yet Adopted

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220). Under existing U.S. GAAP the effects of changes in tax rates and laws on deferred tax balances are recorded as a component of income tax expense in the period in which the law was enacted. When deferred tax balances related to items originally recorded in accumulated other comprehensive income are adjusted, certain tax effects become stranded in accumulated other comprehensive income. The amendments in ASU 2018-02 allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). The amendments in this ASU also require certain disclosures about stranded tax effects. This ASU is effective for us beginning September 1, 2019, for our fiscal year 2020 and for interim periods within that fiscal year. Early adoption in any period is permitted. The Company's provisional adjustments recorded to account for the impact of the Tax Cuts and Jobs Act resulted in stranded tax effects. We are currently evaluating the timing and impact of adopting ASU 2018-02.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU is intended to improve the financial reporting of hedging relationships to better represent the economic results of an entity's risk management activities in its financial statements and make certain improvements to simplify the application of the hedge accounting guidance. The amendments in this ASU will make more financial and nonfinancial hedging strategies eligible for hedge accounting, amend the presentation and disclosure requirements and change how entities assess effectiveness. Entities are required to apply this ASU's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. This ASU is effective for us beginning September 1, 2019, for our fiscal year 2020 and for interim periods within that fiscal year. We are currently evaluating the impact the adoption will have on our consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Costs and Net Postretirement Benefit Cost. This ASU changes the presentation of net periodic pension cost and net periodic postretirement benefit cost in the Consolidated Statements of Operations. This ASU requires that the service cost component be included in the same line item as other compensation costs arising from services rendered by the employees during the period. The other components of net periodic benefit cost should be presented in the Consolidated Statements of Operations separately outside of operating income if that subtotal is presented. Additionally, only service cost may be capitalized in assets. This ASU is effective for us beginning September 1, 2018, for our fiscal year 2019 and for interim periods within that fiscal year. The guidance on the presentation of the components of net periodic benefit cost in the Consolidated Statements of Operations should be applied retrospectively and the guidance regarding the capitalization of the service cost component in assets should be applied prospectively. The adoption of this amended guidance is not expected to have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments within this ASU narrow the existing definition of a business and provide a more robust framework for evaluating whether a transaction should be accounted for as an acquisition (or disposal) of assets or a business. The definition of a business impacts various areas of accounting, including acquisitions, disposals and goodwill. Under the new guidance, fewer acquisitions are expected to be considered businesses. This ASU is effective for us beginning September 1, 2018, for our fiscal year 2019 and for interim periods within that fiscal year. Early adoption is permitted and the guidance should be applied prospectively to transactions following the adoption date. The adoption of this amended guidance is not expected to have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This ASU is intended to reduce diversity in practice by adding or clarifying guidance on classification and presentation of changes in restricted cash on the Consolidated Statements of Cash Flows. This ASU is effective for us beginning September 1, 2018, for our fiscal year 2019 and for interim periods within that fiscal year. Early adoption is permitted, including in an interim period. The amendments in this ASU should be applied retrospectively to all periods presented. The adoption of this amended guidance is not expected to have a material impact on our Consolidated Statements of Cash Flows.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU is intended to reduce existing diversity in practice in how certain cash receipts and payments are presented and classified in the Consolidated Statements of Cash Flows. This ASU is effective for us beginning September 1, 2018, for our fiscal year 2019 and for interim periods within that fiscal year. We are currently evaluating the impact the adoption will have on our Consolidated Statement of Cash Flows.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this ASU introduce a new approach, based on expected losses, to

Table of Contents

estimate credit losses on certain types of financial instruments. This ASU is intended to provide financial statement users with more decision-useful information about the expected credit losses associated with most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases, and off-balance-sheet credit exposures. Entities are required to apply this ASU's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. This ASU is effective for us beginning September 1, 2020, for our fiscal year 2021 and for interim periods within that fiscal year. We are currently evaluating the impact the adoption will have on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which replaces the existing guidance in Accounting Standards Codification ("ASC") 840 - Leases. The amendments within this ASU introduce a lessee model requiring entities to recognize assets and liabilities for most leases, but continue recognizing the associated expenses in a manner similar to existing accounting guidance. This ASU is effective for us beginning September 1, 2019, for our fiscal year 2020 and for interim periods within that fiscal year. We have initiated our assessment of the new lease standard, including the utilization of surveys to gather more information about existing leases and the implementation of a new lease software to improve the collection, maintenance, and aggregation of lease data necessary for the expanded reporting and disclosure requirements under the new lease standard. It is expected that the primary impact upon adoption will be the recognition, on a discounted basis, of our minimum commitments under noncancelable operating leases as right of use assets and obligations on our Consolidated Balance Sheets. This will result in a significant increase in assets and liabilities recorded on our Consolidated Balance Sheets. Although we expect the new lease guidance to have a material impact on our Consolidated Balance Sheets, we are continuing to evaluate the method of adoption and the extent of potential impacts on our consolidated financial statements, processes, and internal controls.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The amendments within this ASU, as well as within additional clarifying ASUs issued by the FASB, provide a single comprehensive model to be used in the accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The new revenue recognition guidance includes a five-step model for the recognition of revenue, including (1) identifying the contract with a customer, (2) identifying the performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the performance obligations, and (5) recognizing revenue when (or as) an entity satisfies a performance obligation. The adoption of the new revenue recognition guidance will require expanded disclosures in our consolidated financial statements including quantitative disclosure of revenues that fall within and outside the scope of the new revenue recognition guidance. Certain revenue streams are expected to fall within the scope of the new revenue recognition guidance; however, a substantial portion of our revenue falls outside the scope of the new revenue recognition guidance and will continue to follow existing guidance, primarily ASC 815, Derivatives and Hedging. We have completed an initial assessment of our revenue streams and do not believe that the new revenue recognition guidance will have a material impact on our consolidated financial statements. We will complete the final phase of our revenue recognition implementation project during the fourth quarter of fiscal 2018, including the finalization of our revenue recognition accounting policies, expanded disclosures, and position papers. We will adopt ASU No. 2014-09 and the related ASUs using the modified retrospective method on September 1, 2018, in the first quarter of fiscal 2019.

## Note 2      Receivables

	May 31,	August 31,
	2018	2017
	(Dollars in thousands)	

Trade accounts receivable	\$ 1,505,273	\$ 1,234,500
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CHS Capital notes receivable	143,038	164,807
Deferred purchase price receivable	177,827	202,947
Other	589,637	493,104
	2,415,775	2,095,358
Less allowances and reserves	217,564	225,726
Total receivables	\$2,198,211	\$1,869,632

Trade Accounts

Trade accounts receivable are initially recorded at a selling price, which approximates fair value, upon the sale of goods or services to customers. Subsequently, trade accounts receivable are carried at net realizable value, which includes an

## Table of Contents

allowance for estimated uncollectible amounts. We calculate this allowance based on our history of write-offs, level of past due accounts, and our relationships with, and the economic status of, our customers.

### CHS Capital

#### Notes Receivable

CHS Capital, LLC ("CHS Capital"), our wholly-owned subsidiary, has short-term notes receivable from commercial and producer borrowers. The short-term notes receivable have maturity terms of 12 months or less and are reported at their outstanding unpaid principal balances, adjusted for the allowance of loan losses, as CHS Capital has the intent and ability to hold the applicable loans for the foreseeable future or until maturity or pay-off. The carrying value of CHS Capital short-term notes receivable approximates fair value, given the notes' short duration and the use of market pricing adjusted for risk.

The notes receivable from commercial borrowers are collateralized by various combinations of mortgages, personal property, accounts and notes receivable, inventories and assignments of certain regional cooperative's capital stock. These loans are primarily originated in the states of Minnesota, Wisconsin and North Dakota. CHS Capital also has loans receivable from producer borrowers which are collateralized by various combinations of growing crops, livestock, inventories, accounts receivable, personal property and supplemental mortgages and are originated in the same states as the commercial notes as well as in Michigan.

In addition to the short-term balances included in the table above, CHS Capital had long-term notes receivable, with durations of generally not more than 10 years, totaling \$0.2 million and \$17.0 million at May 31, 2018, and August 31, 2017, respectively. The long-term notes receivable are included in Other assets on our Consolidated Balance Sheets. As of May 31, 2018, and August 31, 2017, the commercial notes represented 6% and 17%, respectively, and the producer notes represented 94% and 83%, respectively, of the total CHS Capital notes receivable.

CHS Capital has commitments to extend credit to customers if there are no violations of any contractually established conditions. As of May 31, 2018, CHS Capital's customers had additional available credit of \$490.0 million.

#### Allowance for Loan Losses and Impairments

CHS Capital maintains an allowance for loan losses which is the estimate of potential incurred losses inherent in the loans receivable portfolio. In accordance with FASB ASC 450-20, Accounting for Loss Contingencies, and ASC 310-10, Accounting by Creditors for Impairment of a Loan, the allowance for loan losses consists of general and specific components. The general component is based on historical loss experience and qualitative factors addressing operational risks and industry trends. The specific component relates to loans receivable that are classified as impaired. Additions to the allowance for loan losses are reflected within reserve and impairment charges (recoveries), net in the Consolidated Statements of Operations. The portion of loans receivable deemed uncollectible is charged off against the allowance. Recoveries of previously charged off amounts increase the allowance for loan losses. The amount of CHS Capital notes that were past due was not significant at any reporting date presented.

#### Interest Income

Interest income is recognized on the accrual basis using a method that computes simple interest daily. The accrual of interest on commercial loans receivable is discontinued at the time the commercial loan receivable is 90 days past due unless the credit is well-collateralized and in process of collection. Past due status is based on contractual terms of the

loan. Producer loans receivable are placed in non-accrual status based on estimates and analysis due to the annual debt service terms inherent to CHS Capital's producer loans. In all cases, loans are placed in nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

#### Sale of Receivables

##### Receivables Securitization Facility

On July 18, 2017, we amended an existing receivables and loans securitization facility ("Securitization Facility") with certain unaffiliated financial institutions (the "Purchasers"). Under the Securitization Facility, we and certain of our subsidiaries sell trade accounts and notes receivable (the "Receivables") to Cofina Funding, LLC ("Cofina"), a wholly-owned bankruptcy-remote indirect subsidiary of CHS. Cofina in turn sells the purchased Receivables in their entirety to the Purchasers. Prior to amending the Securitization Facility in July 2017, the transfer of Receivables was accounted for as a secured borrowing. Under

Table of Contents

the terms of the amended Securitization Facility CHS accounts for Receivables sold under the Securitization Facility as a sale of financial assets pursuant to ASC 860, Transfers and Servicing and derecognizes the sold Receivables from its Consolidated Balance Sheets.

Sales of Receivables by Cofina occur continuously and are settled with the Purchasers on a monthly basis. The proceeds from the sale of these Receivables comprise a combination of cash and a deferred purchase price (“DPP”) receivable. The DPP receivable is ultimately realized by CHS following the collection of the underlying Receivables sold to the Purchasers. The amount available under the Securitization Facility fluctuates over time based on the total amount of eligible Receivables generated during the normal course of business, with maximum availability of \$700.0 million. As of May 31, 2018, the total availability under the Securitization Facility was \$592.0 million, of which all was utilized. We use the proceeds from the sale of Receivables under the Securitization Facility for general corporate purposes.

We have no retained interests in the transferred Receivables, other than our right to the DPP receivable and collection and administrative services. The DPP receivable is recorded at fair value within the Consolidated Balance Sheets, including a current portion within receivables and a long-term portion within other assets. Subsequent cash receipts related to the DPP receivable have been reflected as investing activities and additional sales of Receivables under the Securitization Facility are reflected in operating or investing activities, based on the underlying Receivable, in our Consolidated Statements of Cash Flows. Losses incurred on the sale of Receivables are recorded in interest expense and fees received related to the servicing of the Receivables are recorded in other income (loss) in the Consolidated Statements of Operations. We consider the fees received adequate compensation for services rendered, and accordingly have recorded no servicing asset or liability.

The fair value of the DPP receivable is determined by discounting the expected cash flows to be received based on unobservable inputs consisting of the face amount of the Receivables adjusted for anticipated credit losses. The DPP receivable is being measured like an investment in debt securities classified as available for sale, with changes to the fair value being recorded in other comprehensive income in accordance with ASC 320, Investments - Debt and Equity Securities. Our risk of loss following the transfer of Receivables under the Securitization Facility is limited to the DPP receivable outstanding and any short-falls in collections for specified non-credit related reasons after sale. Payment of the DPP receivable is not subject to significant risks other than delinquencies and credit losses on accounts receivable sold under the Securitization Facility.

The Securitization Facility was set to expire on July 17, 2018; however, we amended the Securitization Facility on June 28, 2018, and the transfer of Receivables will once again be accounted for as a secured borrowing. See Note 14, Subsequent Events, to our unaudited consolidated financial statements for additional information on the June 28, 2018, amendment.

The following table is a reconciliation of the beginning and ending balances of the DPP receivable for the nine months ended May 31, 2018:

	(Dollars in thousands)
Balance - as of August 31, 2017	\$ 548,602
Monthly settlements, net	(89,160 )
Cash collections on DPP	(9,612 )
Fair value adjustment	14,686
Balance - as of May 31, 2018	\$ 464,516

There was no DPP receivable as of May 31, 2017, and therefore, no comparative period is included in the table above.

Other Receivables

Other receivables are comprised of certain other amounts recorded in the normal course of business, including receivables related to value added taxes and pre-crop financing, primarily to Brazilian farmers, to finance a portion of supplier production costs. We do not bear any of the costs or operational risks associated with the related growing crops. The financing is collateralized by future crops, land and physical assets of the suppliers, carries a local market interest rate and settles when the farmer's crop is harvested and sold.

Table of Contents

Note 3	Inventories		
		May 31,	August 31,
		2018	2017
		(Dollars in thousands)	
	Grain and oilseed	\$1,436,568	\$1,145,285
	Energy	663,111	755,886
	Crop nutrients	199,246	248,699
	Feed and farm supplies	479,621	353,130
	Processed grain and oilseed	152,465	49,723
	Other	9,896	23,862
	Total inventories	\$2,940,907	\$2,576,585

As of May 31, 2018, we valued approximately 15% of inventories, primarily related to our Energy segment, using the lower of cost, determined on the LIFO method, or net realizable value (19% as of August 31, 2017). If the FIFO method of accounting had been used, inventories would have been higher than the reported amount by \$370.4 million and \$186.2 million as of May 31, 2018, and August 31, 2017, respectively. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Interim LIFO calculations are based on management's estimates of expected year-end inventory levels, and are subject to the final year-end LIFO inventory valuation.

Note 4	Investments		
		May 31,	August 31,
		2018	2017
		(Dollars in thousands)	
	Equity method investments:		
	CF Industries Nitrogen, LLC	\$2,786,806	\$2,756,076
	Ventura Foods, LLC	354,588	347,016
	Ardent Mills, LLC	205,805	206,529
	TEMCO, LLC	37,769	41,323
	Other equity method investments	271,229	268,444
	Cost method investments	130,966	131,605
	Total investments	\$3,787,163	\$3,750,993

## Equity Method Investments

Joint ventures and other investments, in which we have significant ownership and influence, but not control, are accounted for in our consolidated financial statements using the equity method of accounting. Our primary equity method investments are described below.

On February 1, 2016, we invested \$2.8 billion in CF Industries Nitrogen, LLC ("CF Nitrogen"), commencing our strategic venture with CF Industries Holdings, Inc. ("CF Industries"). The investment consists of an approximate 11% membership interest (based on product tons) in CF Nitrogen. We account for this investment using the hypothetical liquidation at book value method, recognizing our share of the earnings and losses of CF Nitrogen based upon our contractual claims on the entity's net assets pursuant to the liquidation provisions of CF Nitrogen's limited liability company agreement, adjusted for the semi-annual cash distributions we receive as a result of our membership interest in CF Nitrogen. For the three months ended May 31, 2018, and 2017, this amount was \$35.6 million and \$24.5 million, respectively. For the nine months ended May 31, 2018, and 2017, this amount was \$80.0 million and \$60.8 million, respectively. These amounts are included as equity income from investments in our Nitrogen Production

segment.

We have a 50% interest in Ventura Foods, a joint venture which produces and distributes primarily vegetable oil-based products. We account for Ventura Foods as an equity method investment, and as of May 31, 2018, our carrying value of Ventura Foods exceeded our share of its equity by \$12.9 million, which represents equity method goodwill. The earnings are reported as equity income from investments in Corporate and Other.

11

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Table of Contents

We have a 12% interest in Ardent Mills, LLC ("Ardent Mills"), a joint venture with Cargill Incorporated ("Cargill") and ConAgra Foods, Inc., which combines the North American flour milling operations of the three parent companies. We account for Ardent Mills as an equity method investment included in Corporate and Other.

TEMCO, LLC ("TEMCO") is owned and governed by Cargill (50%) and CHS (50%). Both owners have committed to sell all of their feedgrains, wheat, oilseeds and by-product origination that are tributary to the Pacific Northwest, United States ("Pacific Northwest") to TEMCO and to use TEMCO as their exclusive export-marketing vehicle for such grains exported through the Pacific Northwest through January 2037. We account for TEMCO as an equity method investment included in our Ag segment.

The following table provides aggregate summarized unaudited financial information for our equity method investments in CF Nitrogen, Ventura Foods and Ardent Mills for the nine months ended May 31, 2018, and 2017:

	For the Nine Months Ended May 31,	
	2018	2017
	(Dollars in thousands)	
Net sales	\$6,238,495	\$5,807,777
Gross profit	719,555	651,705
Net earnings	435,192	317,674
Earnings attributable to CHS Inc.	109,266	104,568

#### Note 5 Goodwill and Other Intangible Assets

Goodwill of \$152.3 million and \$154.1 million as of May 31, 2018, and August 31, 2017, respectively, is included in other assets on our Consolidated Balance Sheets. Changes in the net carrying amount of goodwill for the nine months ended May 31, 2018, by segment, are as follows:

	EnergyAg	Corporate and Other	Total
	(Dollars in thousands)		
Balances, August 31, 2017	\$552	\$142,929	\$10,574
Effect of foreign currency translation adjustments	—	(1,709)	—
Balances, May 31, 2018	\$552	\$141,220	\$10,574

No goodwill has been allocated to our Nitrogen Production segment, which consists solely of our CF Nitrogen investment accounted for using the equity method of accounting.

Intangible assets subject to amortization primarily include customer lists, trademarks and non-compete agreements, and are amortized over their respective useful lives (ranging from 2 to 30 years). Information regarding intangible assets that are included in other assets on our Consolidated Balance Sheets is as follows:

	May 31, 2018			August 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
	(Dollars in thousands)					
Customer lists	\$41,077	\$(12,328)	\$28,749	\$46,180	\$(14,695)	\$31,485



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Trademarks and other intangible assets	6,536	(4,871	)	1,665	23,623	(21,778	)	1,845
Total intangible assets	\$47,613	\$ (17,199	)	\$30,414	\$69,803	\$ (36,473	)	\$33,330

12

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Table of Contents

Total amortization expense for intangible assets during the three and nine months ended May 31, 2018, was \$0.8 million and \$2.5 million, respectively. Total amortization expense for intangible assets during the three and nine months ended May 31, 2017, was \$1.0 million and \$3.3 million, respectively. The estimated annual amortization expense related to intangible assets subject to amortization for the next five years is as follows:

	(Dollars in thousands)
Year 1	\$ 3,290
Year 2	3,125
Year 3	2,981
Year 4	2,856
Year 5	2,671

#### Note 6 Notes Payable and Long-Term Debt

Our notes payable and long-term debt are subject to various restrictive requirements for maintenance of minimum consolidated net worth and other financial ratios. We were in compliance with our debt covenants as of May 31, 2018. The table below summarizes our notes payable as of May 31, 2018, and 2017.

	May 31, 2018	August 31, 2017
	(Dollars in thousands)	
Notes payable	\$2,650,859	\$1,695,423
CHS Capital notes payable	168,227	292,792
Total notes payable	\$2,819,086	\$1,988,215

On May 31, 2018, our primary line of credit was a five-year, unsecured revolving credit facility with a committed amount of \$3.0 billion which expires in September 2020. The outstanding balance on this facility increased to \$1.1 billion at May 31, 2018, from \$480.0 million at August 31, 2017, due to the seasonal nature of our business operations.

Interest expense for the three months ended May 31, 2018, and 2017, was \$49.3 million and \$39.2 million, respectively, net of capitalized interest of \$1.7 million and \$1.6 million, respectively. Interest expense for the nine months ended May 31, 2018, and 2017, was \$130.2 million and \$117.4 million, respectively, net of capitalized interest of \$4.8 million and \$4.7 million, respectively.

Table of Contents

## Note 7 Equities

## Changes in Equities

Changes in equities for the nine months ended May 31, 2018, are as follows:

	Equity Certificates Capital Equity Certificates (Dollars in thousands)	Nonpatronage Equity Certificates	Nonqualified Equity Certificates	Preferred Stock	Accumulated Other Comprehensive Loss	Capital Reserves	Noncontrol Interests	Total Equities
Balance, August 31, 2017	\$3,906,426	\$29,836	\$405,387	\$2,264,038	\$(183,670)	\$1,471,217	\$12,591	\$7,905,825
Reversal of prior year patronage and redemption estimates	4,270	—	(126,333)	—	—	126,333	—	4,270
Distribution of 2017 patronage refunds	—	—	128,831	—	—	(128,831)	—	—
Redemptions of equities	(3,814)	(86)	(369)	—	—	—	—	(4,269)
Preferred stock dividends	—	—	—	—	—	(126,501)	—	(126,501)
Other, net	(5,999)	(113)	(381)	—	—	4,517	(163)	(2,139)
Net income (loss)	—	—	—	—	—	576,090	(699)	575,391
Other comprehensive income (loss), net of tax	—	—	—	—	13,944	—	—	13,944
Estimated 2018 cash patronage refunds	—	—	—	—	—	(119,747)	—	(119,747)
Estimated 2018 equity redemptions	(84,241)	—	—	—	—	—	—	(84,241)
Balance, May 31, 2018	\$3,816,642	\$29,637	\$407,135	\$2,264,038	\$(169,726)	\$1,803,078	\$11,729	\$8,162,533

## Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive income (loss) by component, net of tax, are as follows for the nine months ended May 31, 2018, and 2017:

	Pension and Other Postretirement Benefits	Unrealized Net Gain on Available for Sale Investments	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
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	(Dollars in thousands)				
Balance as of August 31, 2017, net of tax	\$(135,046)	\$ 10,041	\$(6,954)	\$(51,711)	) \$(183,670)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	—	19,512	806	(9,996)	) 10,322
Amounts reclassified out	16,108	(1,527)	) 1,279	(2,042)	) 13,818
Total other comprehensive income (loss), before tax	16,108	17,985	2,085	(12,038)	) 24,140
Tax effect	(5,353)	) (4,505)	) (613)	) 275	(10,196)
Other comprehensive income (loss), net of tax	10,755	13,480	1,472	(11,763)	) 13,944
Balance as of May 31, 2018, net of tax	\$(124,291)	\$ 23,521	\$(5,482)	\$(63,474)	) \$(169,726)

Table of Contents

	Pension and Other Postretirement Benefits	Unrealized Net Gain on Available For Sale Investments	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total
	(Dollars in thousands)				
Balance as of August 31, 2016, net of tax	\$(165,146)	\$ 5,656	\$(9,196)	\$(43,040)	\$(211,726)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	(500)	2,637	1,920	(12,537)	(8,480)
Amounts reclassified out	17,679	—	1,311	15	19,005
Total other comprehensive income (loss), before tax	17,179	2,637	3,231	(12,522)	10,525
Tax effect	(6,580)	(1,010)	(1,238)	329	(8,499)
Other comprehensive income (loss), net of tax	10,599	1,627	1,993	(12,193)	2,026
Balance as of May 31, 2017, net of tax	\$(154,547)	\$ 7,283	\$(7,203)	\$(55,233)	\$(209,700)

Amounts reclassified from accumulated other comprehensive income (loss) were primarily related to pension and other post-retirement benefits. Pension and other post-retirement reclassifications include amortization of net actuarial loss, prior service credit and transition amounts and are recorded as marketing, general and administrative expenses (see Note 9, Benefit Plans for further information).

## Note 8 Income Taxes

During the third quarter of fiscal 2018, we recorded a \$15.5 million impairment of income tax receivables related to Brazilian tax legislation enacted on May 30, 2018, which restricts our ability to utilize our Brazilian income tax credits. We also recorded current tax expense of \$21.3 million related to the sale of certain assets, and \$10.0 million stemming from CHS Inc.'s performance of guarantees to its Brazilian subsidiary for a fiscal 2017 loss.

The third quarter of fiscal 2018 tax costs described above were more than offset by the deferred tax benefit from the revaluation of our U.S. net deferred tax liability as a result of the Tax Act recognized in the second quarter of fiscal 2018, which is the primary contributor to our tax benefit position for the nine months ended May 31, 2018, within the Consolidated Statements of Operations.

On December 22, 2017, the Tax Act was enacted into law. The Tax Act provides for significant U.S. tax law changes and reduces the federal corporate statutory tax rate from 35% to 21% as of January 1, 2018. As a fiscal year-end taxpayer, our annual statutory federal corporate tax rate applicable to fiscal 2018 is a blended rate of 25.7%. Beginning in fiscal 2019, the annual statutory federal corporate tax rate will be 21%.

The Tax Act also requires companies to pay a one-time repatriation tax on certain unrepatriated earnings of foreign subsidiaries that were previously tax deferred ("transition tax"), and creates new taxes on certain foreign sourced earnings. Foreign taxes historically have not had a material impact on our consolidated financial statements, and the foreign impacts of the Tax Act are discussed below.

The Tax Act initially repealed the Domestic Production Activities Deduction ("DPAD") and enacted the Deduction for Qualified Business Income of Pass-Thru Entities ("QBI Deduction"); however, the Consolidated Appropriations Act, 2018 (the "Appropriations Act") enacted into law on March 23, 2018, impacted these deductions. The Appropriations Act modifies the QBI deduction under Sec. 199A of the Tax Act to reenact DPAD for agricultural and horticultural cooperatives as it existed prior to the enactment of the Tax Act, and it also modifies the QBI deduction available to cooperative patrons as enacted by the Tax Act. All references to the Tax Act below include the

modifications introduced by the Appropriations Act.

On December 22, 2017, the SEC issued Staff Accounting Bulletin 118 ("SAB 118") which provides guidance on accounting for the effects of the Tax Act. SAB 118 provides for a measurement period of up to one year from the Tax Act's enactment date for companies to complete their accounting under ASC 740, Income Taxes. In accordance with SAB 118, to the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in its financial statements. If a company cannot determine a provisional estimate to be included in its financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

Table of Contents

As of May 31, 2018, we have not finalized our work associated with the income tax effects of the enactment of the Tax Act; however, we have made a reasonable estimate of the effects on our existing deferred tax balances, and believe there will be no significant additional tax expense as a result of the one-time transition tax.

Our income tax provision for the nine months ended May 31, 2018, reflects the current year impacts of the Tax Act on the estimated annual effective tax rate and a discrete provisional net benefit of \$133.6 million from the revaluation of our U.S. net deferred tax liability resulting directly from the enactment of the Tax Act based on information available, prepared, or analyzed as of the date of this report.

Deferred Tax Assets and Liabilities

We remeasured our existing U.S. deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, of which the federal component is approximately 25.7% for reversals expected in fiscal 2018 and 21.0% thereafter. The calculation cannot be completed until all of the underlying timing differences as of August 31, 2018, are known and we are still analyzing certain aspects of the Tax Act and refining our calculations. As we complete our work and refine our calculations, any changes may give rise to new or additional deferred tax amounts. Specifically, we are now subject to the employee compensation deduction limitations under Internal Revenue Code Section 162(m), and we are evaluating whether our written binding employment contracts are exempted under the Tax Act's Section 162(m) transition rule. Additional guidance from the IRS is necessary to ascertain the scope of the transition rule.

Foreign Tax Effects

To determine the amount of the transition tax, we must determine, in addition to other factors, the amount of post-1986 accumulated and current earnings and profits of our relevant subsidiaries as well as the amount of non-U.S. income taxes paid on such earnings. We are able to make a reasonable estimate of the transition tax and recorded no provisional tax liability. However, we continue to gather additional information and will refine the amount if necessary.

We continue to review the anticipated impacts of global intangible low-taxed income ("GILTI"), including whether we should account for its tax effects as an in-period or deferred tax expense. Due to the complexity of the GILTI tax rules and the dependency upon future results of our global operations and our global structure, we are unable to make a reasonable estimate of this provision and consequently we haven't decided how to treat the deferred taxes associated with GILTI. Accordingly, we have not recorded any impact associated with GILTI in the tax rate during the three months ended May 31, 2018.

Table of Contents

## Note 9 Benefit Plans

We have various pension and other defined benefit and defined contribution plans, in which substantially all employees may participate. We also have non-qualified supplemental executive and Board retirement plans.

Components of net periodic benefit costs for the three and nine months ended May 31, 2018, and 2017, are as follows:

	Qualified Pension Benefits		Non-Qualified Pension Benefits		Other Benefits	
	2018	2017	2018	2017	2018	2017
Components of net periodic benefit costs for the three months ended May 31 are as follows:	(Dollars in thousands)					
Service cost	\$9,920	\$10,537	\$137	\$302	\$236	\$290
Interest cost	5,997	5,753	177	210	227	232
Expected return on assets	(12,044 )	(12,058 )	—	—	—	—
Prior service cost (credit) amortization	360	385	7	4	(142 )	(141 )
Actuarial (gain) loss amortization	4,905	5,708	16	136	(306 )	(199 )
Net periodic benefit cost	\$9,138	\$10,325	\$337	\$652	\$15	\$182
Components of net periodic benefit costs for the nine months ended May 31 are as follows:						
Service cost	\$29,758	\$31,612	\$411	\$905	\$707	\$870
Interest cost	17,988	17,257	533	632	681	698
Expected return on assets	(36,133 )	(36,173 )	—	—	—	—
Prior service cost (credit) amortization	1,078	1,155	23	14	(424 )	(424 )
Actuarial (gain) loss amortization	16,304	17,123	46	409	(918 )	(598 )
Net periodic benefit cost	\$28,995	\$30,974	\$1,013	\$1,960	\$46	\$546

## Employer Contributions

Total contributions to be made during fiscal 2018 will depend primarily on market returns on the pension plan assets and minimum funding level requirements. During the nine months ended May 31, 2018, we made no contributions to the pension plans. At this time, we do not anticipate being required to make a contribution for our benefit plans in fiscal 2018.

## Note 10 Segment Reporting

We define our operating segments in accordance with ASC Topic 280, Segment Reporting, to reflect the manner in which our chief operating decision maker, our Chief Executive Officer, evaluates performance and allocates resources in managing our business. We have aggregated those operating segments into three reportable segments: Energy, Ag and Nitrogen Production.

Our Energy segment produces and provides primarily for the wholesale distribution of petroleum products and transportation of those products. Our Ag segment purchases and further processes or resells grains and oilseeds originated by our country operations business, by our member cooperatives and by third parties; serves as a wholesaler and retailer of crop inputs; and produces and markets ethanol. Our Nitrogen Production segment consists solely of our equity method investment in CF Nitrogen, which entitles us, pursuant to a supply agreement that we entered into with CF Nitrogen, to purchase up to a specified annual quantity of granular urea and urea ammonium nitrate annually from CF Nitrogen. Insignificant operating segments, including our equity method investment in



Ventura Foods have been aggregated within Corporate and Other. Prior to becoming an insignificant operating segment, our investment in Ventura Foods previously constituted our Foods segment. Reported segment results and balances for prior periods have been revised to reflect the aggregation of our equity method investment in Ventura Foods within Corporate and Other. No changes were made to the Ag, Energy, or Nitrogen Production segments as a result of the aggregation of our Foods segment.

Table of Contents

Corporate administrative expenses and interest are allocated to each business segment, and Corporate and Other, based on direct usage for services, such as information technology and legal, and other factors or considerations relevant to the costs incurred.

Many of our business activities are highly seasonal and operating results vary throughout the year. For example, in our Ag segment, our crop nutrients and country operations businesses generally experience higher volumes and income during the spring planting season and in the fall, which corresponds to harvest. Our grain marketing operations are also subject to fluctuations in volume and earnings based on producer harvests, world grain prices and demand. Our Energy segment generally experiences higher volumes and profitability in certain operating areas, such as refined products, in the summer and early fall when gasoline and diesel fuel usage is highest and is subject to global supply and demand forces. Other energy products, such as propane, may experience higher volumes and profitability during the winter heating and fall crop drying seasons.

Our revenues, assets and cash flows can be significantly affected by global trade and associated market prices for commodities such as petroleum products, natural gas, ethanol, grains, oilseeds, crop nutrients and flour. Changes in market prices for commodities that we purchase without a corresponding change in the selling prices of those products can affect revenues and operating earnings. Commodity prices are affected by a wide range of factors beyond our control, including the weather, crop damage due to disease or insects, drought, the availability and adequacy of supply, government regulations and policies, world events, and general political and economic conditions.

While our revenues and operating results are derived from businesses and operations which are wholly owned and majority owned, a portion of our business operations are conducted through companies in which we hold ownership interests of 50% or less and do not control the operations. See Note 4, Investments for more information on these entities.

Reconciling Amounts represent the elimination of revenues and interest between segments. Such transactions are executed at market prices to more accurately evaluate the profitability of the individual business segments.

Segment information for the three and nine months ended May 31, 2018, and 2017, is presented in the tables below.

	Energy	Ag	Nitrogen Production	Corporate and Other	Reconciling Amounts	Total
For the Three Months Ended May 31, 2018:	(Dollars in thousands)					
Revenues	\$2,009,907	\$7,125,024	\$ —	\$14,074	\$(121,480)	\$9,027,525
Operating earnings (loss)	31,525	115,052	(4,153)	(1,580)	—	140,844
(Gain) loss on disposal of business	(65,903)	5	—	(58,152)	—	(124,050)
Interest expense	3,496	28,854	13,119	4,324	(453)	49,340
Other (income) loss	(472)	(13,891)	(441)	(271)	453	(14,622)
Equity (income) loss from investments	(967)	(11,359)	(35,639)	(11,343)	—	(59,308)
Income (loss) before income taxes	\$95,371	\$111,443	\$18,808	\$63,862	\$—	\$289,484
Intersegment revenues	\$(116,286)	\$(3,784)	\$ —	\$(1,410)	\$121,480	\$—

	Energy	Ag	Nitrogen Production	Corporate and Other	Reconciling Amounts	Total
For the Three Months Ended May 31, 2017:	(Dollars in thousands)					
Revenues	\$1,638,107	\$7,053,991	\$ —	\$26,820	\$(104,828)	\$8,614,090
Operating earnings (loss)	(5,723)	(226,668)	(5,619)	7,713	—	(230,297)

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Interest expense	4,343	16,609	10,708	8,127	(586	) 39,201
Other (income) loss	(332	) (12,886	) (477	) 1,162	586	(11,947 )
Equity (income) loss from investments	(391	) (9,199	) (24,534	) (14,269	) —	(48,393 )
Income (loss) before income taxes	\$(9,343	) \$(221,192	) \$ 8,684	\$ 12,693	\$—	\$(209,158 )
Intersegment revenues	\$(97,876	) \$(7,545	) \$ —	\$ 593	\$ 104,828	\$—

Table of Contents

	Energy	Ag	Nitrogen Production	Corporate and Other	Reconciling Amounts	Total
For the Nine Months Ended May 31, 2018:	(Dollars in thousands)					
Revenues	\$5,878,657	\$18,375,507	\$—	\$46,018	\$(372,674)	\$23,927,508
Operating earnings (loss)	159,070	145,907	(14,527)	(5,608)	—	284,842
(Gain) loss on disposal of business	(65,903)	(7,700)	—	(58,152)	—	(131,755)
Interest expense	11,760	69,242	39,067	11,569	(1,420)	130,218
Other (income) loss	(1,492)	(45,511)	(2,612)	(2,805)	1,420	(51,000)
Equity (income) loss from investments	(2,779)	(25,180)	(79,986)	(29,166)	—	(137,111)
Income (loss) before income taxes	\$217,484	\$155,056	\$29,004	\$72,946	\$—	\$474,490
Intersegment revenues	\$(355,099)	\$(11,391)	\$—	\$(6,184)	\$372,674	\$—
Total assets at May 31, 2018	\$4,208,214	\$7,510,962	\$2,810,256	\$2,406,347	\$—	\$16,935,779

	Energy	Ag	Nitrogen Production	Corporate and Other	Reconciling Amounts	Total
For the Nine Months Ended May 31, 2017:	(Dollars in thousands)					
Revenues	\$4,867,321	\$19,345,316	\$—	\$85,691	\$(315,582)	\$23,982,746
Operating earnings (loss)	86,563	(131,363)	(14,033)	25,534	—	(33,299)
Interest expense	12,176	49,798	35,626	27,512	(7,701)	117,411
Other (income) loss	(828)	(41,801)	(30,047)	(1,208)	7,701	(66,183)
Equity (income) loss from investments	(2,039)	(18,071)	(60,787)	(43,624)	—	(124,521)
Income (loss) before income taxes	\$77,254	\$(121,289)	\$41,175	\$42,854	\$—	\$39,994
Intersegment revenues	\$(297,057)	\$(16,068)	\$—	\$(2,457)	\$315,582	\$—

## Note 11 Derivative Financial Instruments and Hedging Activities

Our derivative instruments primarily consist of commodity and freight futures and forward contracts and, to a lesser degree, may include foreign currency and interest rate swap contracts. These contracts are economic hedges of price risk, but we do not apply hedge accounting under ASC Topic 815, Derivatives and Hedging, except with respect to certain interest rate swap contracts which are accounted for as fair value hedges. Derivative instruments are recorded on our Consolidated Balance Sheets at fair value as described in Note 12, Fair Value Measurements.

Table of Contents

## Derivatives Not Designated as Hedging Instruments

The following tables present the gross fair values of derivative assets, derivative liabilities, and margin deposits (cash collateral) for derivatives not accounted for as hedging instruments, recorded on our Consolidated Balance Sheets along with the related amounts permitted to be offset in accordance with U.S. GAAP. We have elected not to offset derivative assets and liabilities when we have the right of offset under ASC Topic 210-20, Balance Sheet - Offsetting; or when the instruments are subject to master netting arrangements under ASC Topic 815-10-45, Derivatives and Hedging - Overall.

May 31, 2018

		Amounts Not Offset on the Consolidated Balance Sheet but Eligible for Offsetting		
	Gross Amounts Recognized	Cash Collateral	Derivative Instruments	Net Amounts
	(Dollars in thousands)			
Derivative Assets:				
Commodity and freight derivatives	\$473,418	\$—	\$ 33,979	\$439,439
Foreign exchange derivatives	9,298	—	5,814	3,484
Embedded derivative asset	23,145	—	—	23,145
Total	\$505,861	\$—	\$ 39,793	\$466,068
Derivative Liabilities:				
Commodity and freight derivatives	\$330,364	\$4,063	\$ 33,979	\$292,322
Foreign exchange derivatives	23,084	—	5,814	17,270
Interest rate derivatives - non-hedge	3	—	—	3
Total	\$353,451	\$4,063	\$ 39,793	\$309,595

August 31, 2017

		Amounts Not Offset on the Consolidated Balance Sheet but Eligible for Offsetting		
	Gross Amounts Recognized	Cash Collateral	Derivative Instruments	Net Amounts
	(Dollars in thousands)			
Derivative Assets:				
Commodity and freight derivatives	\$384,648	\$—	\$ 35,080	\$349,568
Foreign exchange derivatives	8,771	—	3,636	5,135
Embedded derivative asset	25,533	—	—	25,533
Total	\$418,952	\$—	\$ 38,716	\$380,236
Derivative Liabilities:				
Commodity and freight derivatives	\$309,762	\$3,898	\$ 35,080	\$270,784
Foreign exchange derivatives	19,931	—	3,636	16,295
Total	\$329,693	\$3,898	\$ 38,716	\$287,079

Derivative assets and liabilities with maturities of 12 months or less are recorded in derivative assets and derivative liabilities, respectively, on the Consolidated Balance Sheets. Derivative assets and liabilities with maturities greater than 12 months are recorded in other assets and other liabilities, respectively, on the Consolidated Balance Sheets. The amount of long-term derivative assets and liabilities recorded on the Consolidated Balance Sheet at May 31, 2018, were \$22.1 million and \$17.3 million, respectively. The amount of long-term derivative assets and liabilities recorded on the Consolidated Balance Sheet at August 31, 2017, were \$186.9 million and \$13.7 million, respectively.

Table of Contents

The following table sets forth the pretax gains (losses) on derivatives not accounted for as hedging instruments that have been included in our Consolidated Statements of Operations for the three and nine months ended May 31, 2018, and 2017.

		For the Three Months Ended May 31,		For the Nine Months Ended May 31,	
		2018	2017	2018	2017
Location of Gain (Loss)		(Dollars in thousands)			
Commodity and freight derivatives	Cost of goods sold	\$68,813	\$102,327	\$254	\$177,633
Foreign exchange derivatives	Cost of goods sold	(16,549 )	(7,168 )	(15,600)	(4,573 )
Foreign exchange derivatives	Marketing, general and administrative	(1,109 )	22	(1,260)	(784 )
Interest rate derivatives	Interest expense				