

CHS INC
Form 10-Q
April 03, 2019
Table of Contents

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

Form 10-Q

Quarterly
Report
pursuant
to Section
13 or
15(d) of
the
Securities
Exchange
Act of
1934 for
the
quarterly
period
ended
February
28, 2019.

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

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

41-0251095

Edgar Filing: CHS INC - Form 10-Q

(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)

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 every Interactive Data File required to be submitted 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 such files).

YES NO

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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

Accelerated
filer

Non-accelerated
filer

Smaller reporting
company

Emerging growth
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.

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 February 28, 2019, and August 31, 2018</u>	<u>2</u>
<u>Consolidated Statements of Operations for the three and six months ended February 28, 2019, and 2018</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income for the three and six months ended February 28, 2019, and 2018</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the six months ended February 28, 2019, and 2018</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>38</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>57</u>
<u>Item 4. Controls and Procedures</u>	<u>58</u>
<u>PART II. OTHER INFORMATION</u>	<u>59</u>
<u>Item 1. Legal Proceedings</u>	<u>59</u>
<u>Item 1A. Risk Factors</u>	<u>59</u>
<u>Item 5. Other Information</u>	<u>59</u>
<u>Item 6. Exhibits</u>	<u>59</u>
<u>SIGNATURE PAGE</u>	<u>60</u>

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 February 28, 2019.

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, 2018. 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)February 28, August 31,
2019 2018
(Dollars in thousands)

ASSETS

Current assets:

Cash and cash equivalents	\$367,307	\$450,617
Receivables	2,227,064	2,460,401
Inventories	3,554,780	2,768,649
Derivative assets	251,645	329,757
Margin and related deposits	141,179	151,150
Supplier advance payments	603,370	288,423
Other current assets	245,354	244,208
Total current assets	7,390,699	6,693,205
Investments	3,718,097	3,711,925
Property, plant and equipment	5,016,202	5,141,719
Other assets	811,176	834,329
Total assets	\$16,936,174	\$16,381,178

LIABILITIES AND EQUITIES

Current liabilities:

Notes payable	\$2,643,191	\$2,272,196
Current portion of long-term debt	167,804	167,565
Customer margin deposits and credit balances	132,633	137,395
Customer advance payments	735,875	409,088
Accounts payable	1,629,511	1,844,489
Derivative liabilities	215,720	438,465
Accrued expenses	393,933	511,032
Dividends and equities payable	339,585	153,941
Total current liabilities	6,258,252	5,934,171
Long-term debt	1,744,502	1,762,690
Long-term deferred tax liabilities	220,857	182,770
Other liabilities	310,334	336,519
Commitments and contingencies (Note 15)		
Equities:		
Preferred stock	2,264,038	2,264,038
Equity certificates	4,524,928	4,609,456
Accumulated other comprehensive loss	(189,348)	(199,915)
Capital reserves	1,794,279	1,482,003
Total CHS Inc. equities	8,393,897	8,155,582
Noncontrolling interests	8,332	9,446
Total equities	8,402,229	8,165,028
Total liabilities and equities	\$16,936,174	\$16,381,178

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

2

Table of Contents

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

	For the Three Months Ended February 28,		For the Six Months Ended February 28,	
	2019	(As Restated) 2018	2019	(As Restated) 2018
	(Dollars in thousands)			
Revenues	\$6,483,539	\$6,980,153	\$14,967,828	\$15,012,037
Cost of goods sold	6,056,126	6,845,184	14,069,774	14,556,576
Gross profit	427,413	134,969	898,054	455,461
Marketing, general and administrative	177,429	187,558	339,925	327,904
Reserve and impairment charges (recoveries), net	339	(11,346)	(6,014)	(15,133)
Operating earnings (loss)	249,645	(41,243)	564,143	142,690
(Gain) loss on disposal of business	—	(7,705)	(1,412)	(7,705)
Interest expense	41,269	40,176	80,177	80,878
Other (income) loss	(11,763)	(12,544)	(35,485)	(38,739)
Equity (income) loss from investments	(41,716)	(39,441)	(108,224)	(77,803)
Income (loss) before income taxes	261,855	(21,729)	629,087	186,059
Income tax expense (benefit)	13,551	(187,688)	33,668	(167,082)
Net income (loss)	248,304	165,959	595,419	353,141
Net income (loss) attributable to noncontrolling interests	(462)	(48)	(851)	(512)
Net income (loss) attributable to CHS Inc.	\$248,766	\$166,007	\$596,270	\$353,653

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 February 28,		For the Six Months Ended February 28,	
	2019	(As Restated) 2018	2019	(As Restated) 2018
	(Dollars in thousands)			
Net income (loss)	\$248,304	\$165,959	\$595,419	\$353,141
Other comprehensive income (loss), net of tax:				
Postretirement benefit plan activity	2,002	3,142	4,103	4,736
Unrealized net gain (loss) on available for sale investments	—	3,554	—	7,194
Cash flow hedges	9,969	1,063	8,662	1,059
Foreign currency translation adjustment	2,913	2,352	2,508	141
Other comprehensive income (loss), net of tax	14,884	10,111	15,273	13,130
Comprehensive income (loss)	263,188	176,070	610,692	366,271
Less: comprehensive income (loss) attributable to noncontrolling interests	(462)	(48)	(851)	(512)
Comprehensive income (loss) attributable to CHS Inc.	\$263,650	\$176,118	\$611,543	\$366,783

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 Six Months Ended February 28, 2019 (Dollars in thousands)	(As Restated) 2018
Cash flows from operating activities:		
Net income (loss)	\$ 595,419	\$ 353,141
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	233,628	240,349
Amortization of deferred major repair costs	38,283	32,839
Equity (income) loss from investments	(108,224)	(77,803)
Distributions from equity investments	113,164	78,461
Provision for doubtful accounts	6,988	(3,625)
Gain and recovery on disposal of business	(1,534)	(24,236)
Deferred taxes	33,439	(169,455)
Other, net	3,332	16,236
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	177,334	199,227
Inventories	(786,527)	(1,077,185)
Derivative assets	89,524	(24,527)
Margin and related deposits	9,939	17,895
Supplier advance payments	(314,947)	(409,581)
Other current assets and other assets	12,543	(1,654)
Customer margin deposits and credit balances	(4,762)	(51,591)
Customer advance payments	326,788	332,872
Accounts payable and accrued expenses	(291,812)	(72,047)

Edgar Filing: CHS INC - Form 10-Q

Derivative liabilities	(229,145	)	56,538	
Other liabilities	(28,681	)	(58,252)
Net cash provided by (used in) operating activities	(125,251	)	(642,398)
Cash flows from investing activities:				
Acquisition of property, plant and equipment	(177,991	)	(142,886)
Proceeds from disposition of property, plant and equipment	25,680		59,680	
Proceeds from sale of business	1,730		53,552	
Expenditures for major repairs	(2,634	)	(2,832)
Investments redeemed	7,036		6,496	
Changes in CHS Capital notes receivable, net	(30,508	)	(25,846)
Financing extended to customers	(6,660	)	(66,014)
Payments from customer financing	79,809		30,893	
Other investing activities, net	5,275		(10,203)
Net cash provided by (used in) investing activities	(98,263	)	(97,160)
Cash flows from financing activities:				
Proceeds from lines of credit and long-term debt borrowings	12,360,325		18,414,973	
Payments on lines of credit, long-term debt and capital lease obligations	(12,000,939	)	(17,509,212)
Preferred stock dividends paid	(84,334	)	(84,334)
Retirements of equities	(30,753	)	(4,742)
Cash patronage paid	(74,980)	—	
Other financing activities, net	(30,332	)	(55,861)
Net cash provided by (used in) financing activities	138,987		760,824	
Effect of exchange rate changes on cash and	(2,051	)	(2,372)

cash equivalents			
Net increase (decrease)			
in cash and cash	(86,578	)	18,894
equivalents and			
restricted cash			
Cash and cash			
equivalents and	543,940		272,272
restricted cash at			
beginning of period			
Cash and cash			
equivalents and	\$	457,362	\$
restricted cash at end			291,166
of period			

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 Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The unaudited Consolidated Balance Sheet as of February 28, 2019, the Consolidated Statements of Operations for the three and six months ended February 28, 2019, and 2018, the Consolidated Statements of Comprehensive Income for the three and six months ended February 28, 2019, and 2018, and the Consolidated Statements of Cash Flows for the six months ended February 28, 2019, and 2018, 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, 2018, 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").

As described in Note 2, Restatement of Previously Issued Financial Information, the consolidated financial statements for the three and six months ended February 28, 2018, have been restated to reflect the correction of misstatements. We have also restated all relevant amounts impacted within the notes to the consolidated financial statements.

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. See Note 12, 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, 2018, included in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission (the "SEC").

Significant Accounting Policies

The following significant accounting policies have been updated since our Annual Report on Form 10-K for the year ended August 31, 2018, as a result of the adoption of certain new accounting pronouncements effective for us during the six months ended February 28, 2019.

Restricted Cash

Restricted cash is included in our Consolidated Balance Sheets within other current assets (current portion) and other assets (non-current portion), as appropriate, and primarily relates to customer deposits for futures and option contracts associated with regulated commodities held in separate accounts as required under federal and other regulations. Pursuant to the requirements of the Commodity Exchange Act, such funds must be carried in separate accounts that are designated as segregated customer accounts, as applicable. Restricted cash also includes funds held in escrow pursuant to applicable regulations limiting their usage.

Table of Contents

The following table provides a reconciliation of cash and cash equivalents and restricted cash as reported within our Consolidated Balance Sheets that aggregates to the amount presented in our Consolidated Statements of Cash Flows. During the six months ended February 28, 2019, we updated the presentation of our Consolidated Statements of Cash Flows to include restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on our Consolidated Statements of Cash Flows.

	February 28, 2019	August 31, 2018	February 28, 2018	August 31, 2017
	(Dollars in thousands)			
Cash and cash equivalents	\$367,307	\$450,617	\$219,273	\$181,379
Restricted cash included in other current assets	89,371	90,193	68,600	83,561
Restricted cash included in other assets	684	3,130	3,293	7,332
Total cash and cash equivalents and restricted cash	\$457,362	\$543,940	\$291,166	\$272,272

Investments

As described in the "Recent Accounting Pronouncements" section below, we adopted Accounting Standards Update ("ASU") No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which was effective for us September 1, 2018. As a result, all equity securities that do not result in consolidation and are not accounted for under the equity method are measured at fair value with changes therein reflected in net income. We have elected to utilize the measurement alternative for equity investments that do not have readily determinable fair values and measure these investments at cost less impairment plus or minus observable price changes in orderly transactions.

Investments in other cooperatives are recorded in a manner similar to equity investments without readily determinable fair values, plus patronage dividends received in the form of capital stock and other equities. Patronage dividends are recorded as a reduction to cost of goods sold at the time qualified written notices of allocation are received. Investments in debt and equity instruments are carried at amounts that approximate fair values.

Revenue Recognition

We provide a wide variety of products and services, ranging from agricultural inputs such as fuels, farm supplies and crop nutrients, to agricultural outputs that include grain and oilseed, processed grains and oilseeds and food products, and ethanol production and marketing. Revenue is recognized when performance obligations under the terms of a contract with a customer are satisfied, which generally occurs when control of the goods has transferred to the customer. For the majority of our contracts with customers, control transfers to customers at a point-in-time when the goods/services have been delivered, as that is generally when legal title, physical possession and risks and rewards of goods/services transfer to the customer. In limited arrangements, control transfers over time as the customer simultaneously receives and consumes the benefits of the service as we complete the performance obligation(s).

Revenue is recognized at the transaction price that we expect to be entitled to in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. We follow a policy of recognizing revenue at the point-in-time or over the period of time we satisfy our performance obligation by transferring control over a product or service to a customer in accordance with the underlying contract. For physically settled derivative sales contracts that are outside the scope of the revenue guidance, we recognize revenue when control of the inventory is transferred within the meaning of Accounting Standards Codification ("ASC") Topic 606.

Recent Accounting Pronouncements

Adopted

In March 2017, the Financial Accounting Standards Board (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 provides that the service cost component should be included in the same income statement line item as other compensation costs arising from services rendered by the employees during the period. The other components of net periodic benefit cost (such as interest, expected return on plan assets, prior service cost amortization and actuarial gain/loss amortization) are required to be presented in the Consolidated Statements of Operations separately

7

Table of Contents

outside of operating income. Additionally, only service cost may be capitalized in assets. This ASU was 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 has been applied retrospectively, and the guidance regarding the capitalization of the service cost component in assets has been applied prospectively. The adoption of this guidance had no impact on previously reported income (loss) before income taxes or net income attributable to CHS; however, non-service cost components of net periodic benefit costs in prior periods have been reclassified from cost of goods sold and marketing, general and administrative expenses, and are now reported outside of operating income within other (income) loss. Refer to Note 2, Restatement of Previously Issued Financial Information, for the amounts of the retrospective adjustments recorded as a result of the adoption of this guidance.

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 was effective for us beginning September 1, 2018, for our fiscal year 2019 and for interim periods within that fiscal year. The guidance has been applied prospectively. The adoption of this amended guidance did not 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 requires restricted cash and restricted cash equivalents to be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Consolidated Statements of Cash Flows as well as disclosure about the nature of restrictions on cash, cash equivalents and amounts generally described as restricted cash. Additionally, the guidance requires disclosure of the total amount of cash, cash equivalents and restricted cash for each comparative period for which a Consolidated Balance Sheet is presented. This ASU was effective for us beginning September 1, 2018, for our fiscal year 2019 and for interim periods within that fiscal year. The amendments in this ASU were applied retrospectively to all periods presented. Refer to the additional disclosures pertaining to restricted cash within the Restricted Cash significant accounting policy above. The adoption of this amended guidance did not 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 was effective for us beginning September 1, 2018, for our fiscal year 2019 and for interim periods within that fiscal year. The adoption of this amended guidance did not have a material impact on our Consolidated Statements of Cash Flows.

In January 2016, the FASB issued ASU No. 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, which requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. This guidance eliminates the previous cost method of accounting for certain equity securities that did not have readily determinable fair values. This guidance also simplifies the impairment assessment and allows for a fair value measurement alternative for equity investments without readily determinable fair values and includes presentation and disclosure changes. This ASU was effective for us beginning September 1, 2018, for our fiscal year 2019 and for interim periods within that fiscal year and was applied following a prospective basis. We have elected to utilize the measurement alternative for equity investments that do not have readily determinable fair values and measure these investments at cost less impairment plus or minus observable price changes in orderly transactions. As a result of the adoption of this amended guidance, we reclassified approximately \$4.7 million from

accumulated other comprehensive loss to the opening balance of capital reserves within our Consolidated Balance Sheet as of September 1, 2018, which did not have a material impact on our consolidated financial statements.

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 the additional clarifying ASUs issued by the FASB, provide a single comprehensive model to be used to determine the measurement of revenue and timing of recognition for revenue arising from contracts with customers. The core principle of the amended guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. 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. This ASU was effective for us beginning September 1, 2018, for our fiscal year 2019 and for interim periods within that fiscal year, and we elected to apply the modified

Table of Contents

retrospective method of adoption to all contracts as of the date of initial application. The majority of our revenues are attributable to forward commodity sales contracts, which are considered to be physically settled derivatives under ASC 815, Derivatives and Hedging (Topic 815). Revenues arising from derivative contracts accounted for under ASC 815 are specifically outside the scope of ASC Topic 606 and therefore not subject to the provisions of the new revenue recognition guidance. As such, the impact of adoption of the new revenue guidance has only been assessed for our revenue contracts that are not accounted for as derivative arrangements. The primary impact of adoption was changes to the timing of revenue recognition for certain revenue streams that had an immaterial impact. Following the modified retrospective method of adoption, we determined the cumulative effect of adoption for all contracts with customers that had not been completed as of the adoption date was less than \$1.0 million. Additionally, the impact of applying ASC Topic 606 compared to previous guidance during the three and six months ended February 28, 2019, was an overall decrease to revenues of \$9.6 million and \$22.6 million, respectively. Other financial statement impacts related to the adoption of ASC Topic 606 were not material. Our revenue recognition accounting policy and additional information related to our revenue streams and related performance obligations required to be satisfied in order to recognize revenue can be found within the Significant Accounting Policies section above and within Note 3, Revenues.

Not Yet Adopted

In August 2018, the FASB issued ASU No. 2018-15, Intangibles - Goodwill and Other - Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This ASU reduces the complexity of accounting for implementation, setup and other upfront costs incurred in a cloud computing service arrangement that is hosted by a vendor. This ASU aligns the accounting for implementation costs of hosting arrangements, irrespective of whether the arrangements convey a license to the hosted software. This ASU permits either a prospective or retrospective transition approach. This ASU is effective for us beginning September 1, 2020, for our fiscal year 2021 and for interim periods within that fiscal year, with early adoption permitted. The adoption of this amended guidance is not expected to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-14, Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans, which amends ASC 715-20, Compensation - Retirement Benefits - Defined Benefit Plans - General. This ASU modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans by removing and adding certain disclosures for these plans. The eliminated disclosures include (a) the amounts in accumulated other comprehensive income expected to be recognized in net periodic benefit costs over the next fiscal year and (b) the effects of a one-percentage-point change in assumed health care cost trend rates on the net periodic benefit costs and the benefit obligation for postretirement health care benefits. The new disclosures include the interest crediting rates for cash balance plans and an explanation of significant gains and losses related to changes in benefit obligations. This ASU is effective for us beginning September 1, 2021, for our fiscal year 2022 and for interim periods within that fiscal year, with early adoption permitted. The adoption of this amended guidance is not expected to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which amends ASC 820, Fair Value Measurement. This ASU modifies the disclosure requirements for fair value measurements by removing, modifying and adding certain disclosures. Specifically, the guidance removes the requirement to disclose the amount and reasons for any transfers between Level 1 and Level 2 of the fair value hierarchy and removes the requirement to disclose a description of the valuation processes used to value Level 3 fair value measurements. The guidance also requires additional disclosures surrounding Level 3 changes in unrealized gains/losses included in other comprehensive income as well as the range and weighted average of significant unobservable inputs calculation. This ASU is effective for us beginning

September 1, 2020, for our fiscal year 2021 and for interim periods within that fiscal year. Early adoption is permitted. We elected to remove the disclosures permitted by ASU No. 2018-13 during the fourth quarter of fiscal 2018 but have not early adopted the new required additional disclosures, which is permitted by the guidance. The adoption of this amended guidance is not expected to have a material impact on our consolidated financial statements.

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 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 the provisions of this ASU 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

Table of Contents

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 within ASC 840, Leases. The amendments within this ASU, as well as within additional clarifying ASUs issued by the FASB, 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. In July 2018, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, Leases, which amends ASU No. 2016-02, Leases. 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 liabilities on our Consolidated Balance Sheets. This will result in a material increase in assets and liabilities recorded on our Consolidated Balance Sheets. Although we expect the new lease guidance will have a material impact on our Consolidated Balance Sheets, we are continuing to evaluate the practical expedient guidance provisions available and the extent of potential impacts on our consolidated financial statements, processes and internal controls.

Note 2 Restatement of Previously Issued Financial Information

The consolidated financial statements for the three and six months ended February 28, 2018, have been restated to reflect the correction of misstatements. We have also restated all amounts impacted within the notes to the consolidated financial statements. A description of the adjustments and their impact on the previously issued financial information are included below.

Descriptions of Restatement Adjustments

Restatement Background

During the preparation of our Annual Report on Form 10-K for the year ended August 31, 2018, we noted potentially excessive valuations in the net derivative asset valuations relating to certain rail freight contracts purchased in connection with our North American grain marketing operations. An investigation concluded that the rail freight misstatements included in our consolidated financial statements were due to intentional misconduct by a former employee in our rail freight trading operations, as well as due to rail freight contracts and certain non-rail contracts not meeting the technical accounting requirements to qualify as derivative financial instruments. The misconduct consisted of the former employee manipulating the mark-to-market valuation of rail cars that were the subject of rail freight purchase contracts and manipulating the quantity of rail cars included in the monthly mark-to-market valuation. In addition, the investigation revealed intentional misstatements were made by the former employee to our independent registered public accounting firm in connection with its audit of our consolidated financial statements for the fiscal year ended August 31, 2017. During the course of, and as a result of, the investigation, we terminated the former employee and have taken additional personnel actions.

As described in additional detail in the Explanatory Note in our Annual Report on Form 10-K for the year ended August 31, 2018, the Company restated its audited consolidated financial statements for the fiscal years ended August 31, 2017 and 2016, and our unaudited consolidated financial statements for the quarterly periods ended November 30, 2017 and 2016, February 28, 2018 and 2017, and May 31, 2018 and 2017. As a result of the misstatements, we restated our interim consolidated financial statements for the three and six months ended February 28, 2018. In

addition to the adjustments related to freight derivatives and related misstatements, we also made adjustments related to certain intercompany balances and other historical misstatements unrelated to the freight derivatives and related misstatements.

Consolidated Financial Statement Adjustment Tables

The following tables present the impacts of the restatement adjustments to our unaudited Consolidated Statements of Operations and unaudited Consolidated Statements of Comprehensive Income for the three and six months ended February 28, 2018, and to our unaudited Consolidated Statement of Cash Flows for the six months ended February 28, 2018. The restatement references identified in the following tables directly correlate to the restatement adjustments detailed below.

The categories of restatement adjustments and their impact on previously reported consolidated financial statements are described below.

Table of Contents

(a) Freight derivatives and related misstatements - Corrections for freight derivatives and related misstatements were driven by the misstatement of amounts associated with both the value and quantity of rail freight contracts, as well as due to rail and certain non-rail freight contracts not meeting the technical accounting requirements to qualify as derivative financial instruments. In addition to the elimination of the underlying freight derivative assets and liabilities and related impacts on revenues and cost of goods sold, additional adjustments were recorded to account for prepaid freight capacity balances in relevant periods. Additional details related to the impact of the freight derivatives and related misstatements and their impact on each period are discussed in restatement reference (a).

(b) Intercompany misstatements - As a result of the work performed in relation to the freight misstatement, additional misstatements related to the incorrect elimination of intercompany balances were also identified and corrected within the consolidated financial statements. Certain of these intercompany misstatements resulted in a misstatement of various financial statement line items; however, the intercompany misstatements did not result in a material misstatement of income (loss) before income taxes or net income (loss). Additional details related to the impact of the intercompany misstatements and their impact on each period are discussed in restatement reference (b).

(c) Other misstatements - We made adjustments for other previously identified misstatements unrelated to the freight derivatives and related misstatements that were not material, individually or in the aggregate, to our consolidated financial statements. These other misstatements related primarily to certain misclassifications, adjustments to revenues and cost of goods sold, and adjustments to various income tax and indirect tax accrual accounts. Additional details related to the impact of the other misstatements and their impact on each period are discussed in restatement reference (c).

Table of Contents

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

	For the Three Months Ended February 28, 2018					
	As Previously Reported	Restatement Adjustments	As Restated	Accounting Changes*	As Presented	Restatement References
	(Dollars in thousands)					
Revenues	\$6,851,093	\$ 129,060	\$6,980,153	\$ —	\$6,980,153	a, b, c
Cost of goods sold	6,708,610	136,239	6,844,849	335	6,845,184	a, b, c
Gross profit	142,483	(7,179)	135,304	(335)	134,969	
Marketing, general and administrative	186,716	(3)	186,713	845	187,558	c
Reserve and impairment charges (recoveries), net	(11,349)	3	(11,346)	—	(11,346)	c
Operating earnings (loss)	(32,884)	(7,179)	(40,063)	(1,180)	(41,243)	
(Gain) loss on disposal of business	(7,705)	—	(7,705)	—	(7,705)	
Interest expense	40,176	—	40,176	—	40,176	
Other (income) loss	(11,364)	—	(11,364)	(1,180)	(12,544)	
Equity (income) loss from investments	(39,441)	—	(39,441)	—	(39,441)	
Income (loss) before income taxes	(14,550)	(7,179)	(21,729)	—	(21,729)	
Income tax expense (benefit)	(181,176)	(6,512)	(187,688)	—	(187,688)	a, c
Net income (loss)	166,626	(667)	165,959	—	165,959	
Net income (loss) attributable to noncontrolling interests	(48)	—	(48)	—	(48)	
Net income (loss) attributable to CHS Inc.	\$ 166,674	\$ (667)	\$ 166,007	\$ —	\$ 166,007	

* Previously reported amounts have been revised to reflect the impact of adopting ASU 2017-17 retrospectively during the first quarter of fiscal 2019. Refer to details related to the adoption of new ASUs within Note 1, Basis of Presentation and Significant Accounting Policies.

For the three months ended February 28, 2018

Freight derivatives and related misstatements

(a) The correction of freight derivatives and related misstatements resulted in a \$22.5 million reduction of income before income taxes and a \$22.6 million reduction of net income. These adjustments related to a \$22.5 million increase of cost of goods sold and a \$0.1 million increase of income tax expense related to the tax effect of the freight derivatives and related misstatements.

Intercompany misstatements

(b) The correction of intercompany misstatements had no impact on income (loss) before income taxes or net income (loss); however, the correction resulted in a \$161.5 million increase of both revenues and cost of goods sold due to different practices of eliminating intercompany sales between CHS businesses that existed in previous periods.

Other misstatements

(c) The correction of other misstatements resulted in a \$15.3 million increase of income before income taxes and a \$21.9 million increase of net income. The \$15.3 million increase of income before income taxes relates primarily to a

\$13.7 million decrease of cost of goods sold arising from the use of a unit of measure assumption in the calculation of an excise tax credit that was changed during fiscal 2018. The remaining increase relates to a \$1.6 million decrease of cost of goods sold as a result of the valuation of crack spread derivatives. In addition to the increase of income before income taxes, an income tax benefit of \$6.6 million was recorded to adjust for the impact of other identified misstatements, as well as income tax items that had previously been identified and recorded as out of period adjustments in subsequent periods.

Additionally, certain misclassification and offsetting adjustments were made between line items included in the Consolidated Statements of Operations, primarily due to the application of differing accounting policies between businesses. These misclassification adjustments resulted in a \$27.7 million decrease of revenues and cost of goods sold.

Table of Contents

	For the Six Months Ended February 28, 2018					
	As Previously Reported	Restatement Adjustments	As Restated	Accounting Changes*	As Presented	Restatement References
	(Dollars in thousands)					
Revenues	\$ 14,899,982	\$ 112,055	\$ 15,012,037	\$ —	\$ 15,012,037	a, b, c
Cost of goods sold	14,444,237	111,669	14,555,906	670	14,556,576	a, b, c
Gross profit	455,745	386	456,131	(670)	455,461	
Marketing, general and administrative	326,881	(668)	326,213	1,691	327,904	c
Reserve and impairment charges (recoveries), net	(15,133)	—	(15,133)	—	(15,133)	
Operating earnings (loss)	143,997	1,054	145,051	(2,361)	142,690	
(Gain) loss on disposal of business	(7,705)	—	(7,705)	—	(7,705)	
Interest expense	80,878	—	80,878	—	80,878	
Other (income) loss	(36,378)	—	(36,378)	(2,361)	(38,739)	
Equity (income) loss from investments	(77,803)	—	(77,803)	—	(77,803)	
Income (loss) before income taxes	185,005	1,054	186,059	—	186,059	
Income tax expense (benefit)	(161,240)	(5,842)	(167,082)	—	(167,082)	a, c
Net income (loss)	346,245	6,896	353,141	—	353,141	
Net income (loss) attributable to noncontrolling interests	(512)	—	(512)	—	(512)	
Net income (loss) attributable to CHS Inc.	\$ 346,757	\$ 6,896	\$ 353,653	\$ —	\$ 353,653	

* Previously reported amounts have been revised to reflect the impact of adopting ASU 2017-17 retrospectively during the first quarter of fiscal 2019. Refer to details related to the adoption of new ASUs within Note 1, Basis of Presentation and Significant Accounting Policies.

For the six months ended February 28, 2018

Freight derivatives and related misstatements

(a) The correction of freight derivatives and related misstatements resulted in a \$23.0 million reduction of income before income taxes and a \$23.8 million reduction of net income. These adjustments related to a \$23.0 million increase of cost of goods sold and a \$0.8 million increase of income tax expense related to the tax effect of the freight derivatives and related misstatements.

Intercompany misstatements

(b) The correction of intercompany misstatements had no impact on income (loss) before income taxes or net income (loss); however, the correction resulted in a \$150.2 million increase of both revenues and cost of goods sold due to different practices of eliminating intercompany sales between CHS businesses that existed in previous periods.

Other misstatements

(c) The correction of other misstatements resulted in a \$24.1 million increase of income before income taxes and a \$30.7 million increase of net income. The \$24.1 million increase of income before income taxes relates primarily to a \$13.7 million decrease of cost of goods sold that arose from a unit of measure assumption in the calculation of an

excise tax credit that was changed during fiscal 2018. The remaining increase relates to a \$7.9 million decrease of cost of goods sold related to the valuation of crack spread derivatives and a \$2.6 million increase to expense related to postretirement benefit plan activity that resulted from a timing difference associated with the recording of certain benefit plan expenses (included in cost of goods sold and marketing, general and administrative expenses). In addition to the increase of income before income taxes, an income tax benefit of \$6.6 million was recorded to adjust for the impact of other identified misstatements, as well as income tax items that had previously been identified and recorded as out of period adjustments in subsequent periods.

Additionally, certain misclassification and offsetting adjustments were made between line items included in the Consolidated Statements of Operations, primarily due to the application of differing accounting policies between businesses. These misclassification adjustments resulted in a \$33.4 million decrease of revenues and cost of goods sold.

Table of Contents

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

	For the Three Months Ended February 28, 2018			For the Six Months Ended February 28, 2018			Restatement References
	As Previously Reported	Restatement Adjustments	As Restated	As Previously Reported	Restatement Adjustments	As Restated	
	(Dollars in thousands)						
Net income (loss)	\$166,626	\$ (667)	\$165,959	\$346,245	\$ 6,896	\$353,141	a, c
Other comprehensive income (loss), net of tax:							
Postretirement benefit plan activity	3,141	1	3,142	7,338	(2,602)	4,736	c
Unrealized net gain (loss) on available for sale investments	3,554	—	3,554	7,194	—	7,194	
Cash flow hedges	1,063	—	1,063	1,059	—	1,059	
Foreign currency translation adjustment	2,461	(109)	2,352	(146)	287	141	a
Other comprehensive income (loss), net of tax	10,219	(108)	10,111	15,445	(2,315)	13,130	
Comprehensive income	176,845	(775)	176,070	361,690	4,581	366,271	
Less comprehensive income attributable to noncontrolling interests	(48)	—	(48)	(512)	—	(512)	
Comprehensive income attributable to CHS Inc.	\$176,893	\$ (775)	\$176,118	\$362,202	\$ 4,581	\$366,783	

For the three months ended February 28, 2018

Freight derivatives and related misstatements

(a) The correction of freight derivatives and related misstatements resulted in a \$22.6 million reduction of net income. Refer to descriptions of the adjustments and their impact on net income (loss) in the Consolidated Statements of Operations section for the three months ended February 28, 2018, above. The adjustment related to foreign currency translation is attributable to the foreign currency impact associated with goodwill that was impaired during fiscal 2015.

Intercompany misstatements

(b) None.

Other misstatements

(c) The correction of other misstatements resulted in a \$21.9 million increase of net income. Refer to descriptions of the adjustments and their impact on net income (loss) in the Consolidated Statements of Operations section for the three months ended February 28, 2018, above.

For the six months ended February 28, 2018

Freight derivatives and related misstatements

(a) The correction of freight derivatives and related misstatements resulted in a \$23.8 million reduction of net income. Refer to descriptions of the adjustments and their impact on net income (loss) in the Consolidated Statements of Operations section for the six months ended February 28, 2018, above. The adjustment related to foreign currency translation is attributable to the foreign currency impact associated with goodwill that was impaired during fiscal 2015.

Intercompany misstatements

(b) None.

Table of Contents

Other misstatements

(c) The correction of other misstatements resulted in a \$30.7 million increase of net income. Refer to descriptions of the adjustments and their impact on net income (loss) in the Consolidated Statements of Operations section for the six months ended February 28, 2018, above. The adjustment related to postretirement benefit plan activity is attributable to a timing difference associated with recording certain benefit plan expenses.

Table of Contents

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

	For the Six Months Ended February 28, 2018					
	As Previously Reported	Restatement Adjustments	As Restated	Accounting Changes*	As Presented	Restatement References
	(Dollars in thousands)					
Cash flows from operating activities:						
Net income (loss)	\$ 346,245	\$ 6,896	\$ 353,141	\$ —	\$ 353,141	a, c
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Depreciation and amortization	240,349	—	240,349	—	240,349	
Amortization of deferred major repair costs	32,839	—	32,839	—	32,839	
Equity (income) loss from investments	(77,803)	—	(77,803)	—	(77,803)	
Distributions from equity investments	78,461	—	78,461	—	78,461	
Provision for doubtful accounts	(3,625)	—	(3,625)	—	(3,625)	
Gain and recovery on disposal of business	(24,236)	—	(24,236)	—	(24,236)	
Deferred taxes	(166,511)	(2,944)	(169,455)	—	(169,455)	a, c
Other, net	18,840	(2,604)	16,236	—	16,236	c
Changes in operating assets and liabilities, net of acquisitions:						
Receivables	169,359	29,868	199,227	—	199,227	c
Inventories	(1,076,037)	(1,148)	(1,077,185)	—	(1,077,185)	b, c
Derivative assets	(33,757)	9,230	(24,527)	—	(24,527)	a, c
Margin and related deposits	17,895	—	17,895	—	17,895	
Supplier advance payments	(409,581)	—	(409,581)	—	(409,581)	
Other current assets and other assets	21,344	(4,000)	17,344	(18,998)	(1,654)	a, c
Customer margin deposits and credit balances	(51,591)	—	(51,591)	—	(51,591)	
Customer advance payments	314,372	18,500	332,872	—	332,872	c
Accounts payable and accrued expenses	(44,413)	(27,634)	(72,047)	—	(72,047)	b, c
Derivative liabilities	50,922	5,616	56,538	—	56,538	a, c
Other liabilities	(58,252)	—	(58,252)	—	(58,252)	
Net cash provided by (used in) operating activities	(655,180)	31,780	(623,400)	(18,998)	(642,398)	
Cash flows from investing activities:						
Acquisition of property, plant and equipment	(142,886)	—	(142,886)	—	(142,886)	
Proceeds from disposition of property, plant and equipment	59,680	—	59,680	—	59,680	
Proceeds from sale of business	53,552	—	53,552	—	53,552	
Expenditures for major repairs	(2,832)	—	(2,832)	—	(2,832)	
Investments redeemed	6,496	—	6,496	—	6,496	

Edgar Filing: CHS INC - Form 10-Q

Changes in CHS Capital notes receivable, net	(25,846)	—	(25,846)	—	(25,846)
Financing extended to customers	(66,014)	—	(66,014)	—	(66,014)
Payments from customer financing	30,893	—	30,893	—	30,893
Other investing activities, net	(10,203)	—	(10,203)	—	(10,203)
Net cash provided by (used in) investing activities	(97,160)	—	(97,160)	—	(97,160)
Cash flows from financing activities:					
Proceeds from lines of credit and long-term borrowings	18,414,973	—	18,414,973	—	18,414,973
Payments on lines of credit, long-term borrowings and capital lease obligations	(17,512,264)	3,052	(17,509,212)	—	(17,509,212) c
Preferred stock dividends paid	(84,334)	—	(84,334)	—	(84,334)
Redemptions of equities	(4,742)	—	(4,742)	—	(4,742)
Other financing activities, net	(49,874)	(5,987)	(55,861)	—	(55,861) c
Net cash provided by (used in) financing activities	763,759	(2,935)	760,824	—	760,824
Effect of exchange rate changes on cash and cash equivalents	(2,372)	—	(2,372)	—	(2,372)
Net increase (decrease) in cash and cash equivalents and restricted cash	9,047	28,845	37,892	(18,998)	18,894 c
Cash and cash equivalents and restricted cash at beginning of period	181,379	—	181,379	90,893	272,272
Cash and cash equivalents and restricted cash at end of period	\$ 190,426	\$ 28,845	\$ 219,271	\$ 71,895	\$ 291,166

* Previously reported amounts have been revised to reflect the impact of adopting ASU 2016-18 retrospectively during the first quarter of fiscal 2019. Refer to details related to the adoption of new ASUs within Note 1, Basis of Presentation and Significant Accounting Policies.

Table of Contents

Freight derivatives and related misstatements

(a) The correction of freight derivatives and related misstatements resulted in a \$23.8 million reduction of net income for the six months ended February 28, 2018. Refer to descriptions of the adjustments and their impact on net income (loss) in the Consolidated Statements of Operations section for the three and six months ended February 28, 2018, above. The impact of the adjustments to the Consolidated Balance Sheets as of August 31, 2017, and February 28, 2018, resulted in certain misclassifications of less than \$13.0 million between operating activity line items in the Consolidated Statement of Cash Flows; however, none of the freight derivatives and related misstatements impacted the classifications between operating, investing or financing activities.

Intercompany misstatements

(b) The correction of intercompany misstatements did not impact net income for the six months ended February 28, 2018; however, the impact of adjustments to the Consolidated Balance Sheets as of August 31, 2017, and February 28, 2018, resulted in certain misclassification adjustments of less than \$6.0 million between line items in the Consolidated Statement of Cash Flows. None of the intercompany misstatements impacted the classifications between operating, investing or financing activities within the Consolidated Statement of Cash Flows.

Other misstatements

(c) The correction of other misstatements resulted in a \$30.7 million increase of net income for the six months ended February 28, 2018. Refer to further details of the adjustments and their impact on net income (loss) in the Consolidated Statement of Operations section for the three and six months ended February 28, 2018, above. The impact of the adjustments to the Consolidated Balance Sheets as of August 31, 2017, and February 28, 2018, resulted in certain misclassification adjustments between line items in the Consolidated Statements of Cash Flows. As a result, two misclassification adjustments were made between operating and financing activities, including a \$3.1 million reduction of notes payable resulting from a duplicative entry and the misclassification of \$6.0 million of cash associated with a timing difference for the application of in-transit cash. In addition, various misclassification adjustments were made between operating activity lines, the most significant of which related to (1) a \$24.1 million decrease of inventory and increase in accounts receivable as of August 31, 2017, due to a timing difference related to the settlement of a single ocean vessel and (2) the \$21.2 million net impact associated with the decrease of inventory and increase of accounts payable that resulted from the misclassification adjustment for certain items previously included within a contra-inventory account to accounts payable as of August 31, 2017, and February 28, 2018.

Table of Contents

Note 3 Revenues

Adoption of New Revenue Guidance

As described in Note 1, Basis of Presentation and Significant Accounting Policies, we adopted the guidance within ASU 2014-09 as of September 1, 2018, using the modified retrospective transition approach. Consistent with other companies that actively trade commodities, a majority of our revenues are attributable to forward commodity sales contracts that are considered to be physically settled derivatives under ASC 815, Derivatives and Hedging (ASC Topic 815) and therefore fall outside the scope of ASC Topic 606. As a result, these revenues are not subject to the provisions of the new revenue guidance and the impact of adoption is limited to our revenue streams that fall within the scope of the new revenue guidance.

The majority of our revenue streams that fall within the scope of the new revenue guidance are recognized at a point-in-time; however, the adoption of ASU 2014-09 resulted in a minimal number of changes to the timing of revenue recognition for certain revenue streams. Under the modified retrospective method of adoption, we determined the cumulative effect of adoption for all contracts with customers that had not been completed as of the adoption date and recognized an adjustment of less than \$1.0 million to the opening capital reserves balance within the Consolidated Balance Sheet as of September 1, 2018. Additionally, the impact of applying ASC Topic 606 compared to previous guidance during the three and six months ended February 28, 2019, was an overall decrease to revenues of \$9.6 million and \$22.6 million, respectively, which was primarily related to the change in revenue recognition for certain contracts from a gross basis to a net basis.

The change in accounting for revenue recognition under ASU 2014-09 did not have a material impact on our Consolidated Statements of Operations for the three and six months ended February 28, 2019, or Consolidated Balance Sheet as of February 28, 2019.

Revenue Recognition Accounting Policy and Performance Obligations

We provide a wide variety of products and services, from agricultural inputs such as fuels, farm supplies and crop nutrients, to agricultural outputs that include grain and oilseed, processed grains and oilseeds and food products, and ethanol production and marketing. We primarily conduct our operations and derive revenues within our Energy and Ag businesses. Our Energy business derives its revenues through refining, wholesaling and retailing of petroleum products. Our Ag business derives its revenues through the origination and marketing of grain, including service activities conducted at export terminals; through wholesale sales of crop nutrients and processed sunflowers; from sales of soybean meal, soybean refined oil and soyflour products; through the production and marketing of renewable fuels; and through retail sales of petroleum and agronomy products, and feed and farm supplies.

Revenue is recognized when performance obligations under the terms of a contract with a customer are satisfied, which generally occurs when control of the goods has transferred to customers. For the majority of our contracts with customers, control transfers to customers at a point-in-time when goods/services have been delivered, as that is generally when legal title, physical possession and risks and rewards of goods/services transfer to the customer. In limited arrangements, control transfers over time as the customer simultaneously receives and consumes the benefits of the service as we complete our performance obligation(s).

Revenue is recognized at the transaction price that we expect to be entitled to in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. We follow a policy of recognizing revenue at the point-in-time or over the period of time that we satisfy our performance obligation by transferring control over a product or service to a customer in accordance with the underlying contract. For physically settled

derivative sales contracts that are outside the scope of the revenue guidance, we recognize revenue when control of the inventory is transferred within the meaning of ASC Topic 606.

The amount of revenue recognized during the three and six months ended February 28, 2019, for performance obligations that were fully satisfied in previous periods was not material.

Shipping and Handling Costs

Shipping and handling amounts billed to a customer as part of a sales transaction are included in revenues, and the related costs are included in cost of goods sold. Shipping and handling is treated as a fulfillment activity rather than a promised service, and therefore is not considered a separate performance obligation.

Table of Contents

Taxes Collected from Customers and Remitted to Governmental Authorities

Revenue is recorded net of taxes collected from customers that are remitted to governmental authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority.

Contract Costs

Commissions related to contracts with a duration of less than one year are expensed as incurred. We recognize incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets we otherwise would have recognized is one year or less.

Disaggregation of Revenues

The following table presents revenues recognized under ASC Topic 606 disaggregated by reportable segment, as well as the amount of revenues recognized under ASC Topic 815 and other applicable accounting guidance for the three and six months ended February 28, 2019. Other applicable accounting guidance primarily includes revenues recognized under ASC Topic 840, Leases and ASC Topic 470, Debt that fall outside the scope of ASC Topic 606.

	ASC 606	ASC 815	Other Guidance	Total Revenues
For the Three Months Ended February 28, 2019:	(Dollars in thousands)			
Energy	\$1,310,529	\$164,248	\$ —	\$1,474,777
Ag	984,000	3,976,765	33,780	4,994,545
Corporate and Other	4,744	—	9,473	14,217
Total revenues	\$2,299,273	\$4,141,013	\$ 43,253	\$6,483,539
For the Six Months Ended February 28, 2019:				
Energy	\$3,173,056	\$463,009	\$ —	\$3,636,065
Ag	2,339,825	8,890,193	69,924	11,299,942
Corporate and Other	9,978	—	21,843	31,821
Total revenues	\$5,522,859	\$9,353,202	\$ 91,767	\$14,967,828

Less than 1% of revenues accounted for under ASC Topic 606 included within the table above are recorded over time; these revenues are primarily related to service contracts.

Our Energy segment derives its revenues through refining, wholesaling and retailing of petroleum products. Our Energy segment produces and sells (primarily wholesale) gasoline, diesel fuel, propane, asphalt, lubricants and other related products and provides transportation services. We are the nation's largest cooperative energy company, with operations that include petroleum refining and pipelines; the supply, marketing and distribution of refined fuels (gasoline, diesel fuel and other energy products); the blending, sale and distribution of lubricants; and the wholesale supply of propane and other natural gas liquids. For the majority of revenues arising from sales to Energy customers, we satisfy our performance obligation of providing energy products such as gasoline, diesel fuel, propane, asphalt, lubricants and other related products at the point-in-time that the finished petroleum product is delivered or made available to the wholesale or retail customer, at which point control is considered to have been transferred to the customer and revenue can be recognized, as there are no remaining performance obligations that we need to satisfy in order to be entitled to the agreed-upon transaction price as stated in the contract. For fixed and provisionally-priced derivative sales contracts that are accounted for under the provisions of the derivative accounting guidance and are outside the scope of the revenue recognition guidance, we recognize revenue when control of the inventory is transferred within the meaning of ASC Topic 606.

Our Ag segment derives its revenues through the origination and marketing of grain, including service activities conducted at export terminals; through wholesale sales of crop nutrients and processed sunflowers; from sales of soybean meal, soybean refined oil and soyflour products; through the production and marketing of renewable fuels; and through retail sales of petroleum and agronomy products, and feed and farm supplies. For the majority of revenues arising from sales to Ag customers, we satisfy our performance obligation of delivering a commodity or other agricultural end product to a customer at the point-in-time that the commodity or other end-product (wholesale grain, crop nutrients/agronomy products, soybean products, ethanol or country operations retail products) has been delivered or is made available to the customer, at which point control is considered to have been transferred to the customer and revenue can be recognized, as there are no remaining

Table of Contents

performance obligations that need to be satisfied in order to be entitled to the agreed-upon transaction price as stated in the contract. The amount of revenue recognized follows the contractually specified price, which may include freight or other contractually specified cost components. For fixed and provisionally-priced derivative sales contracts that are accounted for under the provisions of the derivative accounting guidance and are outside the scope of the revenue recognition guidance, we recognize revenue when control of the inventory is transferred within the meaning of ASC Topic 606.

Corporate and Other primarily consists of our financing and hedging businesses, which are presented together due to the similar nature of their products and services as well as the relatively lower amount of revenues for those businesses compared to our Ag and Energy businesses. Prior to its sale on May 4, 2018, our insurance business was also included in Corporate and Other. Revenues arising from Corporate and Other are primarily comprised of revenues generated by our hedging and financing businesses. Revenues from our hedging business are primarily recognized at the point-in-time that the hedging transaction is completed after we have fully satisfied all performance obligations under the contract, and revenues arising from our financing business are recognized in accordance with ASC Topic 470, Debt, and fall outside the scope of ASC Topic 606.

Contract Assets and Contract Liabilities

Contract assets relate to unbilled amounts arising from goods that have already been transferred to the customer where the right to payment is not conditional upon the passage of time. This results in the recognition of an asset, as the amount of revenue recognized at a certain point-in-time exceeds the amount billed to the customer. Contract assets are recorded in accounts receivable within our Consolidated Balance Sheets and were immaterial as of February 28, 2019, and August 31, 2018.

Contract liabilities relate to advance payments from customers for goods and services that we have yet to provide. Contract liabilities of \$560.4 million and \$167.2 million as of February 28, 2019, and August 31, 2018, respectively, are recorded within customer advance payments on our Consolidated Balance Sheets. For the three and six months ended February 28, 2019, we recognized revenues of \$45.8 million and \$130.1 million, respectively, which were included in the customer advance payments balance at the beginning of the period.

Practical Expedients

We applied ASC Topic 606 utilizing the following allowable exemptions or practical expedients:

- Election to not disclose the unfulfilled performance obligation balance for contracts with an original duration of one year or less.

- Recognition of the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that would otherwise have been recognized is one year or less.

- Election to present revenues net of sales taxes and other similar taxes.

- Practical expedient to treat shipping and handling as a fulfillment activity rather than a promised service, resulting in the conclusion that shipping and handling is not a separate performance obligation.

Note 4 Receivables

	February 28,	August 31,
	2019	2018
	(Dollars in thousands)	
Trade accounts receivable	\$1,415,994	\$1,578,764
CHS Capital notes receivable	592,985	569,379

Edgar Filing: CHS INC - Form 10-Q

Other	441,710	534,071
	2,450,689	2,682,214
Less: allowances and reserves	223,625	221,813
Total receivables	\$2,227,064	\$2,460,401

20

Table of Contents

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 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 that 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 \$197.6 million and \$203.0 million at February 28, 2019, and August 31, 2018, respectively. The long-term notes receivable are included in other assets on our Consolidated Balance Sheets. As of February 28, 2019, and August 31, 2018, the commercial notes represented 66% and 40%, respectively, and the producer notes represented 34% and 60%, 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 February 28, 2019, CHS Capital's customers had additional available credit of \$551.1 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 nonaccrual 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.

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, though our

Table of Contents

ability to be paid depends on the crops actually produced. 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.

Note 5 Inventories

	February 28, 2019	August 31, 2018
	(Dollars in thousands)	
Grain and oilseed	\$1,350,927	\$1,298,522
Energy	827,468	715,161
Crop nutrients	469,946	246,326
Feed and farm supplies	771,810	391,906
Processed grain and oilseed	114,177	99,426
Other	20,452	17,308
Total inventories	\$3,554,780	\$2,768,649

As of February 28, 2019, we valued approximately 18% of inventories, primarily related to our Energy segment, using the lower of cost, determined on the LIFO method, or net realizable value (16% as of August 31, 2018). If the FIFO method of accounting had been used, inventories would have been higher than the reported amount by \$219.8 million and \$345.0 million as of February 28, 2019, and August 31, 2018, 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 6 Investments

	February 28, 2019	August 31, 2018
	(Dollars in thousands)	
Equity method investments:		
CF Industries Nitrogen, LLC	\$2,725,095	\$2,735,073
Ventura Foods, LLC	372,220	360,150
Ardent Mills, LLC	208,989	205,898
Other equity method investments	288,513	288,016
Other investments	123,280	122,788
Total investments	\$3,718,097	\$3,711,925

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.

CF Nitrogen

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 10% 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 February 28, 2019, and 2018, this amount was \$35.5 million and \$24.0 million, respectively. For the six months ended February 28, 2019, and 2018, this amount was \$76.5 million and \$44.3 million, respectively. These amounts are included as equity income from investments in our Nitrogen Production segment.

Table of Contents

Ventura Foods and Ardent Mills

We have a 50% interest in Ventura Foods, LLC ("Ventura Foods"), which is a joint venture that produces and distributes primarily vegetable oil-based products, and we have a 12% interest in Ardent Mills, LLC ("Ardent Mills"), which is a joint venture with Cargill Incorporated and ConAgra Foods, Inc. that combines the North American flour milling operations of the three parent companies. We account for Ventura Foods and Ardent Mills as equity method investments included in Corporate and Other.

The following table provides aggregate summarized unaudited financial information for our equity method investments in CF Nitrogen, Ventura Foods and Ardent Mills for the six months ended February 28, 2019, and 2018:

	For the Six Months	
	Ended	
	February 28,	
	2019	2018
	(Dollars in thousands)	
Net sales	\$4,385,722	\$3,788,709
Gross profit	615,772	420,912
Net earnings	382,852	227,988
Earnings attributable to CHS Inc.	108,552	61,432

Our investments in other equity method investees are not significant in relation to our consolidated financial statements, either individually or in the aggregate.

Note 7 Goodwill and Other Intangible Assets

Goodwill of \$138.5 million is included in other assets on our Consolidated Balance Sheets as of February 28, 2019, and August 31, 2018. There were no changes in the net carrying amount of goodwill for the six months ended February 28, 2019.

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:

	February 28,			August 31,		
	2019			2018		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
	(Dollars in thousands)					
Customer lists	\$40,815	\$ (14,500)	\$26,315	\$40,815	\$ (13,082)	\$27,733
Trademarks and other intangible assets	6,536	(5,038)	1,498	6,536	(4,931)	1,605
Total intangible assets	\$47,351	\$ (19,538)	\$27,813	\$47,351	\$ (18,013)	\$29,338

Total amortization expense for intangible assets during the three and six months ended February 28, 2019, was \$0.8 million and \$1.5 million, respectively. Total amortization expense for intangible assets during the three and six months ended February 28, 2018, was \$0.8 million and \$1.7 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 \$ 3,034

Year 2 2,958

Year 3 2,877

Year 4 2,787

Year 5 2,667

Table of Contents

Note 8 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 February 28, 2019. The table below summarizes our notes payable as of February 28, 2019, and August 31, 2018.

	February 28, 2019	August 31, 2018
	(Dollars in thousands)	
Notes payable	\$1,857,728	\$1,437,264
CHS Capital notes payable	785,463	834,932
Total notes payable	\$2,643,191	\$2,272,196

On February 28, 2019, our primary line of credit was a five-year, unsecured revolving credit facility with a committed amount of \$3.0 billion that expires in September 2020. The outstanding balance on this facility was \$604.0 million at February 28, 2019. There was no outstanding balance at August 31, 2018.

On June 28, 2018, we amended our existing receivables and loans securitization facility (the "Securitization Facility") with certain unaffiliated financial institutions (the "Purchasers"). Under the Securitization Facility, we and certain of our subsidiaries (the "Originators") 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 transfers the Receivables to the Purchasers, which is accounted for as a secured borrowing. During the period from July 2017 through the amendment of the Securitization Facility in June 2018, CHS accounted for Receivables sold under the Securitization Facility as a sale of financial assets pursuant to ASC 860, Transfers and Servicing, and the Receivables sold were derecognized from our Consolidated Balance Sheets. We use the proceeds from the sale of Receivables under the Securitization Facility for general corporate purposes and settlements are made on a monthly basis. The Securitization Facility terminates on June 17, 2019, but may be extended.

On September 4, 2018, we entered into a repurchase facility (the "Repurchase Facility") related to the Securitization Facility. Under the Repurchase Facility, we can borrow up to \$150 million, collateralized by a subordinated note issued by Cofina in favor of the Originators and representing a portion of the outstanding balance of the Receivables sold by the Originators to Cofina under the Securitization Facility. As of February 28, 2019, the outstanding balance under the Repurchase Facility was \$150 million.

Interest expense for the three months ended February 28, 2019, and 2018, was \$41.3 million and \$40.2 million, respectively, net of capitalized interest of \$2.6 million and \$1.3 million, respectively. Interest expense for the six months ended February 28, 2019, and 2018, was \$80.2 million and \$80.9 million, respectively, net of capitalized interest of \$4.6 million and \$3.1 million, respectively.

Table of Contents

Note 9 Equities

Changes in Equities

Changes in equities for the six months ended February 28, 2019, and 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, 2018	\$3,837,580	\$ 29,498	\$ 742,378	\$ 2,264,038	\$(199,915)	\$ 1,482,003	\$ 9,446	\$ 8,165,028
Reversal of prior year redemption estimates	24,072	—	—	—	—	—	—	24,072
Redemptions of equities	(22,004)	(183)	(1,885)	—	—	—	—	(24,072)
Preferred stock dividends	—	—	—	—	—	(84,334)	—	(84,334)
Reclassification of unrealized (gain) loss on investments	—	—	—	—	(4,706)	4,706	—	—
Other, net	(409)	—	(26)	—	—	3,436	318	3,319
Net income (loss)	—	—	—	—	—	347,504	(389)	347,115
Other comprehensive income (loss), net of tax	—	—	—	—	389	—	—	389
Estimated 2019 cash patronage refunds	—	—	—	—	—	(89,344)	—	(89,344)
Estimated 2019 equity redemptions	(50,081)	—	—	—	—	—	—	(50,081)
Balance, November 30, 2018	\$3,789,158	\$ 29,315	\$ 740,467	\$ 2,264,038	\$(204,232)	\$ 1,663,971	\$ 9,375	\$ 8,292,092
Reversal of prior year patronage and redemption estimates	6,681	—	(345,330)	—	—	420,330	—	81,681
Distribution of 2018 patronage refunds	—	—	349,353	—	—	(424,333)	—	(74,980)
Redemptions of equities	(5,988)	(74)	(619)	—	—	—	—	(6,681)

Edgar Filing: CHS INC - Form 10-Q

Preferred stock dividends	—	—	—	—	—	(42,167)	—	(42,167)
Other, net	(774)	—	2,589	—	—	(2,888)	(581)	(1,654)
Net income (loss)	—	—	—	—	—	248,766	(462)	248,304
Other comprehensive income (loss), net of tax	—	—	—	—	14,884	—	—	14,884
Estimated 2019 cash patronage refunds	—	—	—	—	—	(69,400)	—	(69,400)
Estimated 2019 equity redemptions	(39,850)	—	—	—	—	—	—	(39,850)
Balance, February 28, 2019	\$3,749,227	\$ 29,241	\$ 746,460	\$ 2,264,038	\$ (189,348)	\$ 1,794,279	\$ 8,332	\$ 8,402,229

Table of Contents

	Equity Certificates Capital Equity Certificates (Dollars in thousands)	Nonpatronage Equity Certificates	Nonqualified Equity Certificates	Preferred Stock	Accumulated Other Comprehensive Loss*	Capital Reserves*	Noncontrolling Interests*	Total Equities*
Balance, August 31, 2017	\$3,906,426	\$ 29,836	\$ 405,387	\$ 2,264,038	\$(180,360)	\$ 1,267,808	\$ 12,505	\$ 7,705,640
Reversal of prior year redemption estimates	1,561	—	—	—	—	—	—	1,561
Redemptions of equities	(1,449)	(53)	(59)	—	—	—	—	(1,561)
Preferred stock dividends	—	—	—	—	—	(84,334)	—	(84,334)
Other, net	(1,498)	(66)	(344)	—	—	3,954	(2)	2,044
Net income (loss)	—	—	—	—	—	187,646	(464)	187,182
Other comprehensive income (loss), net of tax	—	—	—	—	3,019	—	—	3,019
Estimated 2018 cash patronage refunds	—	—	—	—	—	(50,702)	—	(50,702)
Estimated 2018 equity redemptions	(19,901)	—	—	—	—	—	—	(19,901)
Balance, November 30, 2017 (As Restated)	\$3,885,139	\$ 29,717	\$ 404,984	\$ 2,264,038	\$(177,341)	\$ 1,324,372	\$ 12,039	\$ 7,742,948
Reversal of prior year patronage and redemption estimates	1,060	—	(126,333)	—	—	126,333	—	1,060
Distribution of 2017 patronage refunds	—	—	128,858	—	—	(128,858)	—	—
Redemptions of equities	(953)	(16)	(91)	—	—	—	—	(1,060)
Preferred stock dividends	—	—	—	—	—	(42,167)	—	(42,167)
Other, net	(2,652)	(45)	(1)	—	—	816	(60)	(1,942)
Net income (loss)	—	—	—	—	—	166,007	(48)	165,959
Other comprehensive income (loss),	—	—	—	—	10,111	—	—	10,111

net of tax									
Estimated 2018 cash patronage refunds	—	—	—	—	—	3,823	—	3,823	
Estimated 2018 equity redemptions	(12,375)	—	—	—	—	—	—	(12,375)	
Balance, February 28, 2018 (As Restated)	\$3,870,219	\$29,656	\$407,417	\$2,264,038	\$(167,230)	\$1,450,326	\$11,931	\$7,866,357	

* Certain amounts associated with Accumulated Other Comprehensive Loss, Capital Reserves and Noncontrolling Interests in the changes in equities table above were restated to reflect the impact of the misstatements associated with the restatement of previously issued financial statements. Note that the majority of the restatement adjustments within the changes in equities table above relate to the opening restatement adjustments to the August 31, 2017, balances. Additionally, the misstatements for activity in the changes in equities table above relates primarily to net income (loss) during the first quarter of fiscal 2018. Refer to further details included within Note 2, Restatement of Previously Issued Financial Information.

Preferred Stock Dividends

The following is a summary of dividends per share by class of preferred stock for the three and six months ended February 28, 2019, and 2018. Note that due to the timing of dividend declarations during the first quarter of each fiscal year, the per share amount of dividends is comprised of two quarterly dividend declarations for those periods.

		For the Three Months Ended February 28,		For the Six Months Ended February 28,	
	Nasdaq symbol	2019	2018	2019	2018
8% Cumulative Redeemable	CHSCP	\$0.50	0.50	1.50	1.50
Class B Cumulative Redeemable, Series 1	CHSCO	\$0.49	0.49	1.48	1.48
Class B Reset Rate Cumulative Redeemable, Series 2	CHSCN	\$0.44	0.44	1.33	1.33
Class B Reset Rate Cumulative Redeemable, Series 3	CHSCM	\$0.42	0.42	1.27	1.27
Class B Cumulative Redeemable, Series 4	CHSCL	\$0.47	0.47	1.41	1.41

Table of Contents

Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) by component, net of tax, are as follows for the six months ended February 28, 2019, and 2018:

	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, 2018, net of tax	\$(140,335)	\$ 8,861	\$(5,882)	\$(62,559)	\$(199,915)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	175	—	(317)	(25)	(167)
Amounts reclassified out	2,565	—	(1,475)	—	1,090
Total other comprehensive income (loss), before tax	2,740	—	(1,792)	(25)	923
Tax effect	(639)	—	485	(380)	(534)
Other comprehensive income (loss), net of tax	2,101	—	(1,307)	(405)	389
Reclassifications	416	(8,861)	983	2,756	(4,706)
Balance as of November 30, 2018, net of tax	\$(137,818)	\$ —	\$(6,206)	\$(60,208)	\$(204,232)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	102	—	18,954	3,176	22,232
Amounts reclassified out	2,564	—	(5,677)	—	(3,113)
Total other comprehensive income (loss), before tax	2,666	—	13,277	3,176	19,119
Tax effect	(664)	—	(3,308)	(263)	(4,235)
Other comprehensive income (loss), net of tax	2,002	—	9,969	2,913	14,884
Balance as of February 28, 2019, net of tax	\$(135,816)	\$ —	\$3,763	\$(57,295)	\$(189,348)

	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, 2017, net of tax	\$(132,444)	\$ 10,041	\$(6,954)	\$(51,003)	\$(180,360)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	—	4,044	(435)	(612)	2,997
Amounts reclassified out	4,214	—	429	(2,042)	2,601
Total other comprehensive income (loss), before tax	4,214	4,044	(6)	(2,654)	5,598
Tax effect	(2,620)	(404)	2	443	(2,579)
Other comprehensive income (loss), net of tax	1,594	3,640	(4)	(2,211)	3,019
Balance as of November 30, 2017, net of tax (As Restated)	\$(130,850)	\$ 13,681	\$(6,958)	\$(53,214)	\$(177,341)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	—	6,562	1,081	2,774	10,417
Amounts reclassified out	4,451	(1,527)	425	—	3,349
Total other comprehensive income (loss), before tax	4,451	5,035	1,506	2,774	13,766
Tax effect	(1,309)	(1,481)	(443)	(422)	(3,655)

Edgar Filing: CHS INC - Form 10-Q

Other comprehensive income (loss), net of tax	3,142	3,554	1,063	2,352	10,111
Balance as of February 28, 2018, net of tax (As Restated)	\$(127,708)	\$ 17,235	\$(5,895)	\$(50,862)	\$(167,230)

27

Table of Contents

Amounts reclassified from accumulated other comprehensive income (loss) were related to pension and other postretirement benefits, cash flow hedges, available for sale investments and foreign currency translation adjustments. Pension and other postretirement reclassifications include amortization of net actuarial loss, prior service credit and transition amounts and are recorded as cost of goods sold and marketing, general and administrative expenses (see Note 11, Benefit Plans, for further information). Amortization related to gains or losses on cash flow hedges was recorded to interest expense. Gains or losses on the sale of available for sale investments are recorded to other income. Foreign currency translation reclassifications related to sales of businesses are recorded to other income.

Note 10 Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act of 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, our annual statutory federal corporate tax rate is 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"). We do not have any unrepatriated earnings for foreign subsidiaries and have not recorded a liability for the transition tax.

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 Section 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.

As of August 31, 2018, the effects of the Tax Act were provisional in accordance with the SEC's Staff Accounting Bulletin No.118. No adjustments were recorded for the six months ended February 28, 2019, associated with the remeasurement of deferred tax balances or the one-time transition tax, and in accordance with Staff Accounting Bulletin No.118, the amounts are no longer provisional.

Table of Contents

Note 11 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 six months ended February 28, 2019, and 2018, are as follows:

	Qualified Pension Benefits		Non-Qualified Pension Benefits		Other Benefits	
	2019	2018	2019	2018	2019	2018
Components of net periodic benefit costs for the three months ended February 28 are as follows:	(Dollars in thousands)					
Service cost	\$9,648	\$9,920	\$ 78	\$ 137	\$263	\$236
Interest cost	7,099	5,991	187	178	274	227
Expected return on assets	(11,242)	(12,049)	—	—	—	—
Prior service cost (credit) amortization	42	360	(19)	7	(139)	(142)
Actuarial (gain) loss amortization	3,087	4,511	1	16	(407)	(306)
Settlement (gain) loss	169	—	—	—	—	—
Net periodic benefit cost	\$8,803	\$8,733	\$ 247	\$ 338	\$(9)	\$15
Components of net periodic benefit costs for the six months ended February 28 are as follows:						
Service cost	\$19,296	\$19,839	\$ 155	\$ 274	\$527	\$472
Interest cost	14,198	11,992	374	356	547	454
Expected return on assets	(22,484)	(24,089)	—	—	—	—
Prior service cost (credit) amortization	85	719	(37)	15	(278)	(283)
Actuarial (gain) loss amortization	6,174	11,399	1	30	(814)	(612)
Settlement (gain) loss	169	—	—	—	—	—
Net periodic benefit cost	\$17,438	\$19,860	\$ 493	\$ 675	\$(18)	\$31

The service cost component of defined benefit net periodic benefit cost is recorded in cost of goods sold and marketing, general and administrative expenses. The other components of net periodic benefit cost are reflected in other (income) loss.

Employer Contributions

Total contributions to be made during fiscal 2019 will depend primarily on market returns on the pension plan assets and minimum funding level requirements. During the six months ended February 28, 2019, 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 2019.

Note 12 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 have been aggregated within Corporate and Other.

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, global trade disputes, and general political and economic conditions.

While our revenues and operating results are derived from businesses and operations that 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 6, 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 six months ended February 28, 2019, and 2018, is presented in the tables below.

	Energy	Ag	Nitrogen Production	Corporate and Other	Reconciling Amounts	Total
For the Three Months Ended February 28, 2019:	(Dollars in thousands)					
Revenues, including intersegment revenues	\$ 1,570,968	\$ 4,998,137	\$ —	\$ 16,694	\$ (102,260)	\$ 6,483,539
Operating earnings (loss)	301,721	(47,129)	(9,880)	4,933	—	249,645
Interest expense	(1,652)	25,398	15,342	3,299	(1,118)	41,269
Other (income) loss	(2,217)	(10,257)	(392)	(15)	1,118	(11,763)
Equity (income) loss from investments	(995)	128	(35,542)	(5,307)	—	(41,716)
Income (loss) before income taxes	\$ 306,585	\$ (62,398)	\$ 10,712	\$ 6,956	\$ —	\$ 261,855
Intersegment revenues	\$ (96,191)	\$ (3,592)	\$ —	\$ (2,477)	\$ 102,260	\$ —

	Energy	Ag	Nitrogen Production	Corporate and Other	Reconciling Amounts	Total
--	--------	----	------------------------	------------------------	------------------------	-------

Edgar Filing: CHS INC - Form 10-Q

For the Three Months Ended February
28, 2018: (As Restated)

(Dollars in thousands)

Revenues, including intersegment revenues	\$1,771,809	\$5,300,503	\$—	\$13,168	\$(105,327)	\$6,980,153
Operating earnings (loss)	25,318	(53,125)	(7,239)	(6,197)		(41,243)
(Gain) loss on disposal of business	—	(7,705)	—	—	—	(7,705)
Interest expense	2,629	22,784	12,676	2,665	(578)	40,176
Other (income) loss	(1,122)	(9,112)	(433)	(2,455)	578	(12,544)
Equity (income) loss from investments	(660)	(5,567)	(24,012)	(9,202)	—	(39,441)
Income (loss) before income taxes	\$24,471	\$(53,525)	\$4,530	\$2,795	\$—	\$(21,729)
Intersegment revenues	\$(100,010)	\$(3,575)	\$—	\$(1,742)	\$105,327	\$—

Table of Contents

	Energy	Ag	Nitrogen Production	Corporate and Other	Reconciling Amounts	Total
For the Six Months Ended February 28, 2019:	(Dollars in thousands)					
Revenues, including intersegment revenues	\$3,881,048	\$11,306,851	\$—	\$35,761	\$(255,832)	\$14,967,828
Operating earnings (loss)	537,360	32,998	(15,008)	8,793	—	564,143
(Gain) loss on disposal of business	—	(1,412)	—	—	—	(1,412)
Interest expense	2,585	46,398	29,021	4,062	(1,889)	80,177
Other (income) loss	(3,203)	(31,245)	(1,963)	(963)	1,889	(35,485)
Equity (income) loss from investments	(1,068)	1,337	(76,457)	(32,036)	—	(108,224)
Income (loss) before income taxes	\$539,046	\$17,920	\$34,391	\$37,730	\$—	\$629,087
Intersegment revenues	\$(244,983)	\$(6,909)	\$—	\$(3,940)	\$255,832	\$—
Total assets at February 28, 2019	\$4,349,524	\$6,969,518	\$2,745,652	\$2,871,480	\$—	\$16,936,174

	Energy	Ag	Nitrogen Production	Corporate and Other	Reconciling Amounts	Total
For the Six Months Ended February 28, 2018: (As Restated)	(Dollars in thousands)					
Revenues, including intersegment revenues	\$3,845,809	\$11,381,530	\$—	\$31,943	\$(247,245)	\$15,012,037
Operating earnings (loss)	149,349	7,784	(10,374)	(4,069)	—	142,690
(Gain) loss on disposal of business	—	(7,705)	—	—	—	(7,705)
Interest expense	8,264	40,388	25,948	7,245	(967)	80,878
Other (income) loss	(2,010)	(32,698)	(2,171)	(2,827)	967	(38,739)
Equity (income) loss from investments	(1,812)	(13,821)	(44,347)	(17,823)	—	(77,803)
Income (loss) before income taxes	\$144,907	\$21,620	\$10,196	\$9,336	\$—	\$186,059
Intersegment revenues	\$(234,864)	\$(7,608)	\$—	\$(4,773)	\$247,245	\$—

Note 13 Derivative Financial Instruments and Hedging Activities

Our derivative instruments primarily consist of commodity and forward contracts and, to a minor 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 that are accounted for as fair value hedges and certain future crude oil purchases that are accounted for as cash flow hedges. Derivative instruments are recorded on our Consolidated Balance Sheets at fair value as described in Note 14, 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.

February 28, 2019

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 derivatives	\$223,133	\$—	\$ 27,357	\$195,776
Foreign exchange derivatives	18,814	—	3,792	15,022
Embedded derivative asset	20,557	—	—	20,557
Total	\$262,504	\$—	\$ 31,149	\$231,355

Derivative Liabilities:

Commodity derivatives	\$212,028	\$5,446		
-----------------------	-----------	---------	--	--