

2020 CHS Annual Report

BUILT



OUR PURPOSE CREATING CONNECTIONS TO EMPOWER AGRICULTURE



OUR VALUES

INTEGRITY

We set high standards and hold ourselves accountable.

SAFETY

We put the well-being of our people, customers and communities first every day.

INCLUSION

We believe excellence and growth stem from diverse thinking.

COOPERATIVE SPIRIT

We work together for shared success and to strengthen our communities.

BUILT

BUILT FOR YOU



Dan Schurr

Jay Debertin

CHS was built to withstand ups and downs of markets, weather, trade and more. We plan for the unexpected — and we rise to the challenge when it happens. Our diverse company, our commitment to creating connections that empower agriculture and our people give us a firm foundation on which to stand strong and grow.

Fiscal 2020 was a year of two halves. The first half was marked by a cold harvest season and early winter weather through much of our trade area. Crop yields were reduced by exceptionally poor 2019 planting conditions, the difficult harvest reduced grain volumes even more and prevented fall fertilizer applications. At the same time, our extensive supply network met historic demand for propane to dry corn and heat homes and businesses, which contributed to a record-setting year for propane volumes.

The second half of the year enjoyed an excellent growing season in most regions, but the COVID-19 pandemic dramatically reduced refined fuels demand and disrupted the foodservice industry, which hurt our Ventura Foods, LLC, joint venture and oilseeds business. While our primarily rural customer base helped maintain diesel demand relatively well, the significant refining margins our refineries in Montana and Kansas enjoyed in fiscal 2019 by processing heavy Canadian crude oil diminished in fiscal 2020, reducing energy margins.

A bright spot throughout the year was the easing of trade disruption with China. Increased grain purchases and new markets established by CHS traders helped sustain grain volumes and move stored grain to prepare for the large 2020 harvest.

We realized a full year of revenue from our fiscal 2019 acquisition of the remaining 75 percent of West Central

Distribution, LLC, a crop input distributor and supplier of proprietary crop protection products. Our ability to provide differentiated, high-value crop protection technologies combined with our substantial crop nutrients business make CHS a stronger agronomy partner for our owners and customers.

Amid the year's headwinds, our core businesses delivered solid performance and took significant steps toward more efficient operations. Our commitment to the Lean approach of employee-led continuous improvement laid the groundwork for lasting benefits. More centralized sourcing added cost savings and leveraged enterprisewide strength.

Technology advances streamlined the flow of data throughout the supply chain, improving communications, shortening wait times, easing management requirements and adding value for our owners.

The challenges we felt at the close of fiscal 2020 will continue well into fiscal 2021. We will face them head-on with these priorities:

- We will navigate the pandemic, protecting the safety and well-being of our employees, owners, customers and communities.
- We will protect our financial health by identifying efficiencies and cost savings across the enterprise.
- We will advance our operating model to build a stronger, more efficient company, delivering more value at every point in our supply chain.

Thank you for your business and for your commitment to the cooperative system. CHS is built to provide the products, services and value you need. Our system is built to help you withstand unexpected pressures and stay strong. CHS is built for you.

Dan Schurr

Chair, Board of Directors

Handwritten signature of Dan Schurr in black ink.

Jay Debertin

President and Chief Executive Officer

Handwritten signature of Jay Debertin in black ink.

YEAR IN REVIEW

- **CHS Global Grain Marketing** continued its transition to a product line operating model in fiscal 2020 while maintaining team productivity amid the global pandemic. The new model is improving data transfer and communication across the CHS global supply chain, enhancing value for owners, increasing efficiency and providing new career opportunities for employees. Reduced trade disruption triggered significant increases in grain volume in South America and record sales in Europe and Asia. Volumes of durum wheat more than tripled and canola origination increased significantly. CHS traders identified and served new customers in Nigeria, Turkey and other countries, and the container program for specialty products such as dry green peas and non-GMO crops continued to provide new market opportunities for growers.
- Collaboration in grain origination and trading between **CHS Global Grain Marketing** and the **CHS Country Operations** retail channel brought additional opportunities related to purchasing scale and supply chain efficiency. One significant effort in this area included TEMCO, LLC, a grain-exporting joint venture with Cargill, for streamlined origination and movement of wheat through ports in the Pacific Northwest. Enhanced communication, better market insights and increased efficiency are adding value for CHS owners.
- Major shocks to consumer demand related to the pandemic reduced edible vegetable oil consumption in the second half of the fiscal year, adding challenges for **CHS Processing and Food Ingredients**. The business responded by developing new markets for biodiesel and other soy oil products. While reductions in vehicle use diminished demand for ethanol from the CHS plants in Rochelle and Annawan, Ill., the strength of the CHS supply chain and market position in the Chicago market helped maintain volume and profitability. Construction at the Fairmont, Minn., soybean crushing plant continued; the \$100 million project will be complete in late calendar 2021 and will increase production capacity by 30 percent. In early fiscal 2021, CHS consolidated its grain marketing and processing businesses into the CHS Global Grain & Processing business unit.
- Ongoing evolution of **CHS Sunflower** included firmly establishing CHS-owned Royal Hybrid® hybrid sunflower seed as the leading North American sunflower genetics supplier with the purchase of the Corteva Agriscience confectionary sunflower seed lines. One positive outcome of the pandemic has been increased interest in backyard bird-feeding, which triggered 20 percent growth in bird food sales for the Grandin, N.D., CHS sunflower processing plant.
- **CHS Hedging** marked fiscal 2020 by rebranding Russell Consulting as AgSurion™ Risk Consulting, a service of CHS Hedging. The business also updated its customer experience with a new brand presence and redesigned website and added clearing capabilities. Additional growth came through increased use of fertilizer risk management services by member cooperatives seeking to capitalize on volatile global markets.
- **CHS Capital** grew its innovative producer financing programs with strategic partnerships across the enterprise. The new Accolade Producer Financing Program was offered through member cooperatives selling CHS crop nutrient and crop protection products. A 30 percent increase in loan commitments through the Country Operations Autumn Rewards Finance Program indicated strong acceptance for the low-cost financing solution.



SIGNIFICANT INCREASES IN GRAIN VOLUMES DELIVERED TO CUSTOMERS IN EUROPE AND ASIA



RECORD SALES OF 915 MILLION GALLONS OF CENEX[®] PREMIUM DIESEL FUEL



- Effects of the global pandemic were felt sharply in the energy sector, where miles driven plummeted in March and April 2020 as consumers adhered to stay-at-home orders. **CHS Energy** maintained its focus on the Cenex® brand, supporting retailers who serve a largely rural client base, including many essential workers. Despite difficult market conditions, strong demand for Cenex premium diesel fuel drove record sales for that product line. New artificial intelligence tools helped manage inventory and price risk.
- Partnering with **refined fuels** retailers to provide an inviting customer experience, CHS launched the Cenex LIFT initiative to enhance outdoor lighting and brand image elements at retail locations across the country. Financing is available through CHS Capital for Cenex brand retailers to update store interiors.
- **CHS Lubricants** recorded stronger year-over-year volumes with excellent earnings for the year, despite challenging market conditions. A focus on safety in the three CHS lubricant blending plants resulted in no lost-time injuries for the second consecutive year, a first-time achievement.
- An exceptionally wet 2019 harvest season sharply increased demand for fuel to dry crops and helped **CHS Propane** reach record earnings on sales of more than 1 billion total gallons of propane and natural gas liquids. Industry-leading programs and effective supply planning also led to significant market share growth. The energy equipment business leveraged access to valuable equipment solutions, an online ordering platform and emphasis on alternative propane uses to bring in record revenues for the year. The CHS propane safety reimbursement program, which gives financial support to propane marketers, helped ensure safe propane handling and delivery to homes, farms and rural businesses.
- Leveraging its strategic turnaround and capital investments completed in fiscal 2019, the CHS **refinery** in McPherson, Kan., processed a record-high volume of crude oil in fiscal 2020. Significant safety and reliability upgrades were made to piping systems at the Conway, Kan., underground storage facility, which provides unique flexibility to optimize product storage for the McPherson refinery. Replacement of the Cenex pipeline segment from Glendive, Mont., to Minot, N.D., was successfully completed in fiscal 2020 and will play an important long-term role in success of the CHS Laurel, Mont., refinery and ability of CHS to distribute gasoline and diesel products to eastern Montana, North Dakota and western Minnesota.
- **CHS Transportation** delivered strong return on assets in fiscal 2020, including reporting record volumes for its Automated Fuel Delivery program. Managing employee safety and asset use while addressing COVID-19 challenges and seasonal demands called for strong collaboration across CHS businesses. CHS drivers showed their cooperative spirit as many shifted work locations, schedules, routes and load types to ensure owner product needs were met. Consistently performing in the top 10 percent of U.S. fleets for safety, CHS Transportation reported one of its best safety records in history in fiscal 2020 as its drivers logged more than 30 million miles and more than 350,000 deliveries. An investment in new in-cab computer systems and paperless documents will help ensure compliance with changing federal regulations and increase efficiency for CHS and its transportation customers.



■ **CHS Agronomy** successfully navigated pandemic challenges, finishing the fiscal year with record-high crop nutrient volumes and crop protection revenues. Maintaining emphasis on its branded proprietary crop protection product line and building relationships with strategic retail customers helped drive 12 percent year-over-year internal growth in crop protection revenues while shipments of crop nutrients topped 8 million tons. Continued alignment of the supply chain helped enable growth in all agronomy businesses. Coordinating wholesale and retail demand data and using increased scale delivered greater efficiency and sourcing advantages for cooperatives and growers.

■ More than 4 million crop acres benefited from a new line of **soy-enhanced adjuvants** formulated with refined soybean oil made from CHS owners' soybeans. The adjuvant — available to growers as CHS Acuvant™ from CHS Country Operations and to retailers as Petrichor™ from CHS Agronomy — completed its first full season of availability. CHS received a patent for its proprietary Levesol® formulation that includes a unique chelate to make phosphorus more available to crops and powers a suite of products including Trivar™, a new enhanced-efficiency solution for dry phosphate fertilizers.

■ CHS investment in a balanced supply chain including **CF Nitrogen** and import assets was maximized with a new agreement with The Mosaic Company to supply urea for sale in Brazil. Shifting market dynamics led to the sale of the Mermentau, La., CHS crop nutrients facility to allow more effective use of other facilities in the system.

■ Executing on its strategy to expand its customer-focused retail solutions platform, **CHS Country Operations** delivered strong annual revenues and growth while reducing operating costs through

a focus on efficiency, including improved coordination across business areas to enable integrated competitive sourcing. Favorable growing conditions in most regions supported the strong performance despite market challenges related to the pandemic and the continued difficult ag economy. Leading enterprise efforts to advance customer experience through enhanced service, support and technology, CHS Country Operations enhanced its MyCHS and Agellum® platforms, empowering growers with tools to focus on productivity and profitability and access account information to enable day-to-day business decisions.

■ The value-added **CHS Animal Nutrition** portfolio provided a strong return on assets with improved nutrition solutions for beef, dairy and other livestock producers. Quality and process advances, specialized training and a focus on sales and marketing helped build market share for trusted Payback® and Equis® feed brands.

■ **Ventura Foods, LLC**, is a joint venture between CHS and Mitsui, Inc., and a leader in oils, dressings, sauces, mayonnaises and margarines for foodservice and retail customers in more than 60 countries. In fiscal 2020, Ventura Foods increased its presence in Latin America by establishing a co-manufacturing partner in Mexico. Ventura Foods also launched Culinaire™, a new line of dressings, sauces and mayonnaises for international distribution to foodservice, wholesale and retail customers.

■ **Ardent Mills, LLC**, a CHS joint venture with Cargill Incorporated and Conagra Brands, pursued its growth strategy with acquisitions of a Klamath Falls, Ore., organic facility and the Andean Naturals quinoa business. CHS continues as the largest wheat supplier to Ardent Mills, providing 51 million bushels as a key ingredient in innovative, nutritious grain-based food products.



12 PERCENT GROWTH IN CROP PROTECTION REVENUES





**MATCHING
GRANTS
SUPPORTED
360 RURAL
COMMUNITIES**

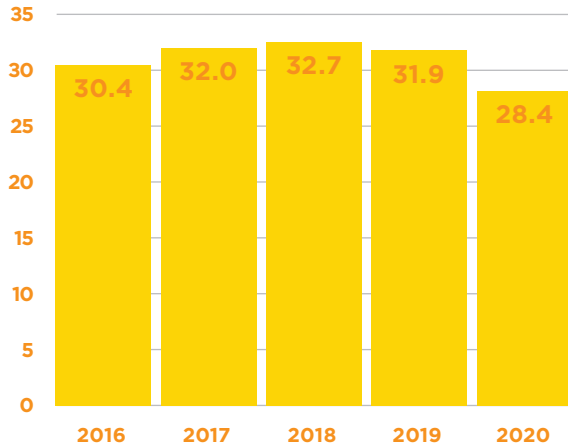


- CHS introduced new policies to help the company effectively manage trading risk in complex and highly regulated marketplaces. These policies will encourage **principle-based performance** and intelligent risk management.
- CHS demonstrated its commitment to **compliance and integrity** creating an integrity champions program in key international markets that gives employees additional communications and training to promote a culture of integrity, improve risk detection and strengthen the company's first line of defense for compliance concerns. Integrity champion networks will expand across U.S. locations over the next two years. A new online policy center helps CHS employees access current information, including the new unmanned aircraft system (drone) program that helps ensure this valuable technology can be used effectively to enhance safety and monitoring at CHS facilities.
- Collaboration across all areas of the company around the globe helped ensure the well-being of employees, owners, customers and communities as the organization responded to risks related to the **COVID-19 pandemic**. Software-assisted monitoring and response protocols helped track supplies of personal protective equipment (PPE) and sanitation materials, and manage business continuity and employee movement, including shifting many employees to remote work and keeping employees remaining in the workplace safe.
- Enhanced focus on the CHS value of **safety** across all businesses led to significant improvements in key safety metrics, including recording the lowest injury and crash rates in company history and reductions of 24 to 33 percent over three-year averages for recordable lost-time and injury data, respectively.
- A companywide commitment to **continuous improvement** gained momentum during the year as a significant portion of CHS employees completed Lean training and began applying the approach. The Lean model is a collaborative approach to employee-driven process improvement.
- **CHS Government Affairs** helped navigate rapidly changing federal, state and local rules and regulations related to the pandemic. The team facilitated connections between CHS owners and leaders and key Washington, D.C., policymakers on issues ranging from international trade and taxes to funding for crucial infrastructure. The team continued to help lead advocacy efforts to preserve Section 199A (DPAD) tax benefits for CHS and its owners.
- **CHS Community Giving** exceeded its three-year goals for supporting safety and community well-being by providing safety equipment and training to first responders in 450 communities and delivering matching grants to 360 communities, including grants for COVID-19 relief efforts. The **CHS Foundation** exceeded its three-year goals to develop future ag leaders by supporting 6,000 students through scholarships and university support and better preparing more than 72,000 students for ag careers.
- Nearly 300 current and future member cooperative leaders participated in Cooperative Leadership Academy programs offered by **CHS Cooperative Resources** in fiscal 2020. To continue learning and development opportunities during the global pandemic and beyond, virtual options were developed and implemented for nearly all Cooperative Leadership Academy programs.
- A multimedia CHS **brand campaign** demonstrating the benefits of cooperative ownership launched in early fiscal 2020. The campaign reminds stakeholders of the value of working with a cooperative connected to CHS and brings to life the CHS purpose of creating connections to empower agriculture.

FISCAL 2020 FINANCIAL HIGHLIGHTS

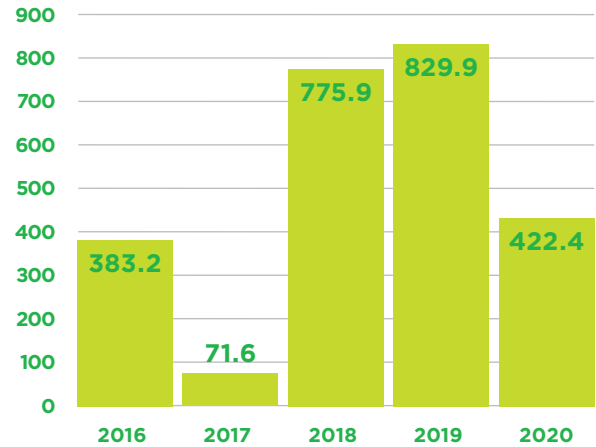
REVENUES

(\$ in billions)



NET INCOME

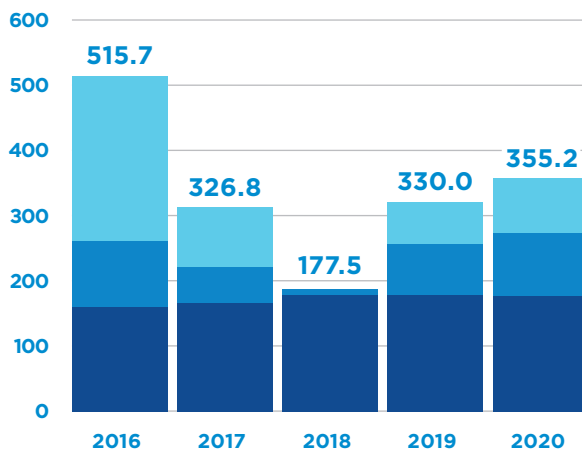
(\$ in millions)



CASH RETURN

(\$ in millions)

- Cash patronage
- Equity redemption
- Preferred stock dividends



NET INCOME DECLINED IN FISCAL 2020, DUE TO PANDEMIC-RELATED MARKET SWINGS AND POOR WEATHER

Consolidated net income decreased in fiscal 2020 versus fiscal 2019, despite strong performance by our propane business and improved weather conditions during the 2020 planting season, which drove increased earnings across much of our Ag segment for the second half of fiscal 2020. Challenging market conditions in our refined fuels business, primarily driven by the COVID-19 pandemic, resulted in volume and price declines compared with the previous year. Poor weather for the 2019 harvest reduced grain quality and crop nutrient sales for fall applications, reducing revenues for our Ag segment in the first half of fiscal 2020.

CHS reported net income of \$422.4 million for fiscal 2020 (Sept. 1, 2019, through Aug. 31, 2020) compared with \$829.9 million in net income reported in fiscal 2019 (Sept. 1, 2018, through Aug. 31, 2019). Consolidated revenues totaled \$28.4 billion for fiscal 2020, compared with \$31.9 billion recorded in fiscal 2019. Pretax income of \$386.9 million for fiscal 2020 was a significant decrease from the \$815.6 million in pretax income reported in fiscal 2019.

Energy

In Energy, year-over-year income before income taxes decreased by \$392.9 million to \$225.3 million, reflecting significantly less advantageous market conditions in our refined fuels business that reduced margins and volumes. These market conditions

were driven by decreased crude oil differentials on heavy Canadian crude oil processed by our refineries and decreased crack spreads, which were negatively affected by demand shocks associated with COVID-19. Increased propane volumes and improved propane margins in fiscal 2020 were supported by significant demand for propane to dry crops and heat homes and businesses during the cold, wet weather at the close of calendar 2019 and helped partially offset decreased overall earnings. Energy segment results reflected positive resolution of an \$80.8 million gain contingency associated with a tax credit in fiscal 2019 that did not reoccur in fiscal 2020.

Ag

The Ag segment, which includes global grain marketing, country operations, wholesale agronomy, processing and food ingredients and renewable fuels, recorded income before income taxes in fiscal 2020 of \$53.7 million, a \$10.7 million increase over fiscal 2019. Poor fall harvest conditions in calendar 2019 reduced grain volumes and ongoing global trade tensions limited revenues in the first half of fiscal 2020. Many of those conditions improved in the second half of the fiscal year, however, as optimism over improved trade relations between the United States and foreign trade partners and favorable spring planting conditions improved margins across certain Ag business

segments, including feed and farm supplies, grain, and renewable fuels. Results were tempered somewhat by declining agronomy margins due to oversupply in the market and reduced margins in processing and food ingredients as a result of disruptions caused by the COVID-19 pandemic.

Additional Segments and Categories

The Nitrogen Production segment, which consists solely of our investment in CF Nitrogen, generated \$51.8 million in income before income taxes, a \$21.0 million decrease from fiscal 2019. The decrease reflects reduced sale prices of urea and UAN, which are produced and sold by CF Nitrogen.

Corporate and Other recorded income before income taxes of \$56.0 million, a \$25.5 million decrease from fiscal 2019. The earnings decrease reflects lower income from our Ventura Foods, LLC, joint venture, which experienced significantly reduced demand in the foodservice industry due to the COVID-19 pandemic. Income also declined in our financing and brokerage businesses as a result of lower interest rates during fiscal 2020 compared to the previous year.

Based on fiscal 2020 earnings, CHS expects to return an estimated \$30 million in cash patronage and \$33 million in equity redemptions to member cooperatives and individual owners in fiscal 2021.



CONSOLIDATED BALANCE SHEETS

AUGUST 31,
(DOLLARS IN THOUSANDS)

2020

2019

ASSETS

Current assets:

Cash and cash equivalents	\$	140,874	\$	211,179
Receivables		2,366,047		2,731,209
Inventories		2,742,138		2,854,288
Other current assets		1,017,488		865,919
Total current assets		6,266,547		6,662,595
Investments		3,630,033		3,683,996
Property, plant and equipment		4,957,938		5,088,708
Other assets		1,139,429		1,012,195
Total assets	\$	15,993,947	\$	16,447,494

LIABILITIES AND EQUITIES

Current liabilities:

Notes payable	\$	1,575,491	\$	2,156,108
Current portion of long-term debt		189,287		39,210
Accounts payable		1,724,516		1,931,415
Accrued expenses		501,904		555,323
Other current liabilities		928,843		901,651
Total current liabilities		4,920,041		5,583,707
Long-term debt		1,601,836		1,749,901
Other liabilities		652,897		496,356

Commitments and contingencies (Note 17)

Equities:

Preferred stock		2,264,038		2,264,038
Equity certificates		5,161,610		4,988,877
Accumulated other comprehensive loss		(233,924)		(226,933)
Capital reserves		1,618,147		1,584,158
Total CHS Inc. equities		8,809,871		8,610,140
Noncontrolling interests		9,302		7,390
Total equities		8,819,173		8,617,530
Total liabilities and equities	\$	15,993,947	\$	16,447,494

*The accompanying notes are an integral part of the consolidated financial statements.
CHS Inc. and Subsidiaries*

CONSOLIDATED STATEMENTS OF OPERATION

YEARS ENDED AUGUST 31, (DOLLARS IN THOUSANDS)	2020	2019	2018
Revenues	\$ 28,406,365	\$ 31,900,453	\$ 32,683,347
Cost of goods sold	27,424,558	30,516,120	31,591,227
Gross profit	981,807	1,384,333	1,092,120
Marketing, general and administrative expenses	704,542	724,731	639,756
Operating earnings	277,265	659,602	452,364
Gain on disposal of business	(1,450)	(3,886)	(131,816)
Interest expense	116,977	167,065	149,202
Other income	(38,425)	(82,423)	(82,737)
Equity income from investments	(186,715)	(236,755)	(153,515)
Income before income taxes	386,878	815,601	671,230
Income tax benefit	(36,731)	(12,456)	(104,076)
Net income	423,609	828,057	775,306
Net income (loss) attributable to noncontrolling interests	1,170	(1,823)	(601)
Net income attributable to CHS Inc.	\$ 422,439	\$ 829,880	\$ 775,907

The accompanying notes are an integral part of the consolidated financial statements.
CHS Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED AUGUST 31, (DOLLARS IN THOUSANDS)	2020	2019	2018
Net income	\$ 423,609	\$ 828,057	\$ 775,306
Other comprehensive income (loss), net of tax:			
Pension and other postretirement benefits	12,798	(32,559)	20,066
Unrealized net loss on available-for-sale investments	—	—	(3,148)
Cash flow hedges	(4,411)	20,196	2,540
Foreign currency translation adjustment	(15,378)	(9,949)	(12,021)
Other comprehensive (loss) income, net of tax	(6,991)	(22,312)	7,437
Comprehensive income	416,618	805,745	782,743
Comprehensive income (loss) attributable to noncontrolling interests	1,170	(1,823)	(601)
Comprehensive income attributable to CHS Inc.	\$ 415,448	\$ 807,568	\$ 783,344

The accompanying notes are an integral part of the consolidated financial statements.
CHS Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITIES

(DOLLARS IN THOUSANDS)	YEARS ENDED AUGUST 31, 2020, 2019 AND 2018		
	EQUITY CERTIFICATES		
	CAPITAL EQUITY CERTIFICATES	NONPATRONAGE EQUITY CERTIFICATES	NONQUALIFIED EQUITY CERTIFICATES
BALANCES, AUGUST 31, 2017	\$ 3,906,426	\$ 29,836	\$ 405,387
Reversal of prior year patronage and redemption estimates	6,058	—	(126,333)
Distribution of 2017 patronage refunds	—	—	128,831
Redemptions of equities	(6,064)	(185)	(476)
Preferred stock dividends	—	—	—
Other, net	(3,840)	(153)	(361)
Net income (loss)	—	—	—
Other comprehensive income, net of tax	—	—	—
Reclassification of tax effects to capital reserves	—	—	—
Estimated 2018 patronage refunds	—	—	345,330
Estimated 2018 equity redemptions	(65,000)	—	(10,000)
BALANCES, AUGUST 31, 2018	3,837,580	29,498	742,378
Reversal of prior year patronage and redemption estimates	78,941	—	(345,330)
Distribution of 2018 patronage refunds	—	—	352,980
Redemptions of equities	(70,859)	(409)	(14,272)
Preferred stock dividends	—	—	—
Other, net	(2,169)	(15)	(1,844)
Net income (loss)	—	—	—
Other comprehensive loss, net of tax	—	—	—
Reclassification of tax effects to capital reserves	—	—	—
Estimated 2019 patronage refunds	—	—	472,398
Estimated 2019 equity redemptions	(90,000)	—	—
BALANCES, AUGUST 31, 2019	3,753,493	29,074	1,206,310
Reversal of prior year patronage and redemption estimates	80,000	—	(462,398)
Distribution of 2019 patronage refunds	—	—	474,407
Redemptions of equities	(80,133)	(340)	(15,965)
Preferred stock dividends	—	—	—
ASC Topic 842 cumulative-effect adjustment	—	—	—
Other, net	(1,173)	(7)	(628)
Net income	—	—	—
Other comprehensive loss, net of tax	—	—	—
Estimated 2020 patronage refunds	—	—	211,970
Estimated 2020 equity redemptions	(28,000)	—	(5,000)
BALANCES, AUGUST 31, 2020	\$ 3,724,187	\$ 28,727	\$ 1,408,696

The accompanying notes are an integral part of the consolidated financial statements.
CHS Inc. and Subsidiaries

YEARS ENDED AUGUST 31, 2020, 2019 AND 2018

PREFERRED STOCK	ACCUMULATED OTHER COMPREHENSIVE LOSS	CAPITAL RESERVES	NONCONTROLLING INTERESTS	TOTAL EQUITIES
\$ 2,264,038	\$ (180,360)	\$ 1,267,808	\$ 12,505	\$ 7,705,640
—	—	126,333	—	6,058
—	—	(128,831)	—	—
—	—	—	—	(6,725)
—	—	(168,668)	—	(168,668)
—	—	2,792	(2,458)	(4,020)
—	—	775,907	(601)	775,306
—	7,437	—	—	7,437
—	(26,992)	26,992	—	—
—	—	(420,330)	—	(75,000)
—	—	—	—	(75,000)
2,264,038	(199,915)	1,482,003	9,446	8,165,028
—	—	420,330	—	153,941
—	—	(428,756)	—	(75,776)
—	—	—	—	(85,540)
—	—	(168,668)	—	(168,668)
—	—	7,061	(233)	2,800
—	—	829,880	(1,823)	828,057
—	(22,312)	—	—	(22,312)
—	(4,706)	4,706	—	—
—	—	(562,398)	—	(90,000)
—	—	—	—	(90,000)
2,264,038	(226,933)	1,584,158	7,390	8,617,530
—	—	562,398	—	180,000
—	—	(564,522)	—	(90,115)
—	—	—	—	(96,438)
—	—	(168,668)	—	(168,668)
—	—	25,320	—	25,320
—	—	(1,008)	742	(2,074)
—	—	422,439	1,170	423,609
—	(6,991)	—	—	(6,991)
—	—	(241,970)	—	(30,000)
—	—	—	—	(33,000)
\$ 2,264,038	\$ (233,924)	\$ 1,618,147	\$ 9,302	\$ 8,819,173

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED AUGUST 31,
(DOLLARS IN THOUSANDS)

	2020	2019	2018
Cash flows from operating activities:			
Net income	\$ 423,609	\$ 828,057	\$ 775,306
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization, including amortization of deferred major maintenance	550,251	541,507	539,736
Equity (income) loss from investments, net of distributions received	49,130	12,560	36,782
Provision for doubtful accounts	3,418	57,745	2,085
Gain/recovery on disposal of business	(1,450)	(3,886)	(131,816)
Deferred taxes	(32,761)	(13,852)	(146,961)
Other, net	(1,642)	6,094	(3,699)
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	308,399	(218,192)	210,775
Inventories	104,884	284,694	(169,581)
Accounts payable and accrued expenses	(330,949)	(38,229)	(78,388)
Other, net	14,340	(316,567)	40,258
Net cash provided by operating activities	1,087,229	1,139,931	1,074,497
Cash flows from investing activities:			
Acquisition of property, plant and equipment	(418,359)	(443,216)	(355,412)
Proceeds from disposition of property, plant and equipment	32,670	53,974	91,153
Proceeds from sale of business	1,139	5,044	234,914
Expenditures for major maintenance	(14,496)	(232,094)	(80,514)
Changes in CHS Capital notes receivable, net	119,591	(10,903)	25,335
Financing extended to customers	(6,386)	(12,210)	(74,402)
Payments from customer financing	35,791	90,193	52,453
Business acquisitions, net of cash acquired	231	(119,421)	—
Other investing activities, net	6,114	7,350	26,949
Net cash used in investing activities	(243,705)	(661,283)	(79,524)
Cash flows from financing activities:			
Proceeds from notes payable and long-term borrowings	24,343,870	29,071,363	36,040,240
Payments on notes payable, long-term debt and finance lease obligations	(24,948,926)	(29,450,339)	(36,525,136)
Preferred stock dividends paid	(168,668)	(168,668)	(168,668)
Redemptions of equities	(96,438)	(85,540)	(8,847)
Cash patronage dividends paid	(90,115)	(75,776)	—
Other financing activities, net	29,129	(16,686)	(69,759)
Net cash used in financing activities	(931,148)	(725,646)	(732,170)
Effect of exchange rate changes on cash and cash equivalents	4,942	2,733	8,864
Net (decrease) increase in cash and cash equivalents and restricted cash	(82,682)	(244,265)	271,667
Cash and cash equivalents and restricted cash at beginning of period	299,675	543,940	272,273
Cash and cash equivalents and restricted cash at end of period	\$ 216,993	\$ 299,675	\$ 543,940
Supplemental cash flow information:			
Cash paid for interest	\$ 119,354	\$ 172,259	\$ 148,874
Cash paid for income taxes, net of refunds	6,840	19,918	13,410
Other significant noncash investing and financing transactions:			
Notes receivable reacquired under securitization facility	—	—	615,089
Trade receivables reacquired under securitization facility	—	—	402,421
Securitized debt reacquired under securitization facility	—	—	634,000
Deferred purchase price receivable extinguished under securitization facility	—	—	386,900
Capital expenditures and major maintenance incurred but not yet paid	14,906	28,478	53,453
Finance lease obligations incurred	11,190	7,351	396
Accrual of dividends and equities payable	63,000	180,000	153,941
Assets contributed to joint venture	—	7,353	—

The accompanying notes are an integral part of the consolidated financial statements.
CHS Inc. and Subsidiaries

ONE

Organization, Basis of Presentation and Significant Accounting Policies

Organization

CHS Inc. (referred to herein as “CHS,” “we,” “us” or “our”) is the nation’s leading integrated agricultural cooperative. As a cooperative, CHS is owned by farmers and ranchers and their member cooperatives (“members”) across the United States. We also have preferred shareholders that own shares of our various series of preferred stock, which are each listed and traded on the Global Select Market of The Nasdaq Stock Market LLC (“The Nasdaq”). See Note 12, *Equities*, for more detailed information.

We buy commodities from and provide products and services to individual agricultural producers, local cooperatives and other companies (including member and other nonmember customers), both domestic and international. Those products and services include initial agricultural inputs such as fuels, farm supplies, crop nutrients and crop protection products; as well as agricultural outputs that include grains and oilseeds, grain and oilseed processing and food products, and ethanol production and marketing. A portion of our operations are conducted through equity investments and joint ventures whose operating results are not fully consolidated with our results; rather, a proportionate share of the income or loss from those entities is included as a component in our net income under the equity method of accounting.

Basis of Presentation

The consolidated financial statements include the accounts of CHS and all our subsidiaries and limited liability companies in which we have a controlling interest. The effects of all significant intercompany transactions have been eliminated.

The notes to our consolidated financial statements refer to 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. The Nitrogen Production reportable segment results from our investment in CF Industries Nitrogen, LLC (“CF Nitrogen”). See Note 14, *Segment Reporting*, for more information.

Certain captions within the Consolidated Balance Sheets, Consolidated Statements of Operations and Consolidated Statements of Cash Flows have been combined within other captions as allowed by Securities

and Exchange Commission financial statement reporting requirements under Regulation S-X. Prior year information has been updated to conform with the current presentation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates on assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates. We evaluate our estimates and assumptions on an ongoing basis.

Significant Accounting Policies

Significant accounting policies are summarized below or within the related notes to our consolidated financial statements.

Cash and Cash Equivalents and Restricted Cash

Cash equivalents include short-term, highly liquid investments with original maturities of three months or less at the date of acquisition. The fair value of cash and cash equivalents approximates the carrying value due to the short-term nature of the instruments.

Restricted cash is included in our Consolidated Balance Sheets within other current assets (current portion) and other assets (noncurrent 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.

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

ONE: Organization, Basis of Presentation and Significant Accounting Policies, continued

amount presented in our Consolidated Statements of Cash Flows.

(DOLLARS IN THOUSANDS)	AUGUST 31,		
	2020	2019	2018
Cash and cash equivalents	\$ 140,874	\$ 211,179	\$ 450,617
Restricted cash included in other current assets	76,119	88,496	90,193
Restricted cash included in other assets	—	—	3,130
Total cash and cash equivalents and restricted cash	\$ 216,993	\$ 299,675	\$ 543,940

Recent Accounting Pronouncements

Except for the recent accounting pronouncements described below, other recent accounting pronouncements are not expected to have a material impact on our condensed consolidated financial statements.

Adopted

We adopted Accounting Standards Codification (“ASC”) Topic 842, *Leases* (“ASC Topic 842”), as of September 1, 2019, using the modified retrospective approach. In addition, we used the additional optional transition method and package of practical expedients in the period of adoption without retrospective adjustment to previous periods presented, although we elected not to apply the hindsight practical expedient available under the standard. As a result of using the modified retrospective method, prior periods have not been restated, and a \$25.3 million cumulative-effect adjustment, including the deferred income tax impact, was recorded to increase the opening balance of capital reserves as of the adoption date related to recognition of previously deferred gains associated with the

sale-leaseback of our primary corporate office building located in Inver Grove Heights, Minnesota. Additionally, adoption of ASC Topic 842 resulted in the recognition of operating lease right-of-use assets and associated lease liabilities of \$268.4 million and \$267.0 million, respectively, as of September 1, 2019. Adoption of ASC Topic 842 did not have a material impact on our Consolidated Statements of Operations or Consolidated Statements of Cash Flows. Additional information and further disclosures related to our leases and lease-related financial statement amounts are included within Note 19, *Leases*.

Not Yet Adopted

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13, *Financial Instruments—Credit Losses* (“ASC 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 the opening balance of capital reserves as of the beginning of the first reporting period in which the guidance is adopted. This ASU is effective for us beginning September 1, 2020, for our fiscal year 2021 and for interim periods within that fiscal year. Based on various data-gathering activities, development of a credit losses model, data analyses and accounting policy election determinations, the impact of adoption is not expected to have a material impact on our consolidated financial statements.

TWO

Revenues

We provide a wide variety of products and services, from agricultural inputs such as fuels, farm supplies and agronomy products, to agricultural outputs that include

grain and oilseed, processed grains and oilseeds and food products, and renewable fuels production and marketing. We primarily conduct our operations and

derive revenues within our Energy and Ag segments. Our Energy segment derives its revenues through refining, wholesaling and retailing of petroleum products. Our Ag segment derives its revenues through origination and marketing of grain, including service activities conducted at export terminals; through wholesale sales of agronomy products and processed sunflowers; from sales of soybean meal, soybean refined oil and soyflour products; through production and marketing of renewable fuels; and through retail sales of petroleum and agronomy products, and feed and farm supplies. Corporate and Other primarily consists of our financing and hedging businesses.

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 in accordance with the underlying contract. 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 ownership of the 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 as the transaction price we expect to be entitled to in exchange for transferring goods or services to a customer, excluding amounts collected on behalf of third parties. 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, *Revenue from Contracts with Customers* ("ASC Topic 606"). Revenues arising from our financing business are recognized in accordance with ASC Topic 470,

Debt ("ASC Topic 470"), and fall outside the scope of ASC Topic 606.

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.

Taxes Collected from Customers and Remitted to Governmental Authorities

Revenues are 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, *Derivatives and Hedging* ("ASC Topic 815"), and other applicable accounting guidance for the year ended August 31, 2020 and 2019. Other applicable accounting guidance primarily includes revenues recognized under ASC Topic 842 and ASC Topic 470 that fall outside the scope of ASC Topic 606.

REPORTABLE SEGMENT* (DOLLARS IN THOUSANDS)	YEAR ENDED AUGUST 31, 2020			
	ASC TOPIC 606	ASC TOPIC 815	OTHER GUIDANCE	TOTAL REVENUES
Energy	\$ 4,833,003	\$ 598,131	\$ —	\$ 5,431,134
Ag	5,963,198	16,901,258	61,643	22,926,099
Corporate and Other	22,903	—	26,229	49,132
Total revenues	\$ 10,819,104	\$ 17,499,389	\$ 87,872	\$ 28,406,365

TWO: Revenues, continued

REPORTABLE SEGMENT* (DOLLARS IN THOUSANDS)	YEAR ENDED AUGUST 31, 2019			
	ASC TOPIC 606	ASC TOPIC 815	OTHER GUIDANCE	TOTAL REVENUES
Energy	\$ 6,393,075	\$ 726,001	\$ —	\$ 7,119,076
Ag	6,319,304	18,268,977	131,791	24,720,072
Corporate and Other	20,262	—	41,043	61,305
Total revenues	\$ 12,732,641	\$ 18,994,978	\$ 172,834	\$ 31,900,453

* Our Nitrogen Production reportable segment represents an equity method investment that records earnings and allocated expenses, but not revenues.

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

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 on 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 August 31, 2020 and 2019.

Contract liabilities relate to advance payments from customers for goods and services that we have yet to provide. Contract liabilities of \$139.1 million and \$207.5 million as of August 31, 2020 and 2019, respectively, are recorded within other current liabilities on our Consolidated Balance Sheets. For the years ended August 31, 2020 and 2019, we recognized revenues of \$194.8 million and \$170.7 million, respectively, which were included in the other current liabilities balance at the beginning of the period.

THREE

Receivables

Receivables as of August 31, 2020 and 2019, are as follows:

(DOLLARS IN THOUSANDS)	2020	2019
Trade accounts receivable	\$ 1,476,585	\$ 1,803,284
CHS Capital short-term notes receivable	563,934	592,909
Other	491,068	511,821
Gross receivables	2,531,587	2,908,014
Less allowances and reserves	165,540	176,805
Total receivables	\$ 2,366,047	\$ 2,731,209

Trade Accounts Receivable

Trade accounts receivable are initially recorded at a selling price that 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. Receivables from related parties are disclosed in Note 18, *Related Party Transactions*. No third-party customer accounted for more than 10% of the total receivables balance as of August 31, 2020 or 2019.

CHS Capital Notes Receivable

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-term duration and use of market pricing adjusted for risk.

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 North Dakota and Minnesota. 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.

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 \$101.5 million and \$180.0 million at August 31, 2020 and 2019, respectively. The long-term notes receivable are included in other assets on our Consolidated Balance Sheets. As of August 31, 2020 and 2019, commercial notes represented 33% and 41%, respectively, and producer notes represented 67% and 59%, respectively, of 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 August 31, 2020, CHS Capital customers had additional available credit of \$714.5 million.

Allowance for Loan Losses and Impairments

CHS Capital maintains an allowance for loan losses that is an 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 marketing, general and administrative expenses 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. No significant amounts of CHS Capital notes were past due as of August 31, 2020 or 2019, and specific and general loan loss reserves related to CHS Capital notes were not material as of either date.

Interest Income

Interest income is recognized on the accrual basis using a method that computes simple interest on a daily basis. Accrual of interest on commercial loans receivable is discontinued at the time the 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.

Troubled Debt Restructurings

Restructuring of a loan constitutes a troubled debt restructuring, or restructured loan, if the creditor for economic reasons related to the debtor's financial difficulties grants a concession to the debtor that it would otherwise not consider. Concessions vary by program and borrower. Concessions may include interest rate reductions, term extensions, payment deferrals or the acceptance of additional collateral in lieu of payments. In limited circumstances, principal may be forgiven. When a restructured loan constitutes a troubled debt restructuring, CHS includes these loans within its impaired loans. CHS Capital had no significant troubled debt restructurings and no third-party borrowers that accounted for more than 10% of the total CHS Capital notes receivable or total receivables as of August 31, 2020 or 2019.

Loan Participations

For the years ended August 31, 2020 and 2019, CHS Capital sold \$70.6 million and \$92.3 million of notes receivable, respectively, to various counterparties under a master participation agreement. The sale resulted in the removal of notes receivable from the Consolidated Balance Sheet. CHS Capital has no retained interests in the transferred notes receivable, other than collection and administrative services. Proceeds from sales of

THREE: *Receivables, continued*

notes receivable have been included in investing activities in the Consolidated Statements of Cash Flows. Fees received related to the servicing of notes receivable are recorded in other income in the Consolidated Statements of Operations. We consider the fees received adequate compensation for services rendered and, accordingly, have recorded no servicing asset or liability.

Other Receivables

Other receivables are comprised of certain other amounts recorded in the normal course of business, including receivables related to vendor rebates, value-added taxes, certain financing receivables and pre-crop financing, primarily to Brazilian farmers, to finance a portion of supplier production costs. We receive volume-based rebates from certain vendors during the year. These vendor rebates are accounted for in accordance with ASC 705, *Cost of Sales and Services*, based

on the terms of the volume rebate program. For rebates that meet the definition of a binding arrangement and are both probable and estimable, we estimate the amount of the rebate we will receive and accrue it as a reduction of the cost of inventory and cost of goods sold over the period in which the rebate is earned. For pre-crop financing arrangements, we do not bear costs or operational risks associated with the related growing crops, although our ability to be paid depends on the crops actually being 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. No significant troubled debt restructurings occurred and no third-party customer or borrower accounted for more than 10% of the total receivables balance as of August 31, 2020 or 2019.

FOUR

Inventories

Inventories as of August 31, 2020 and 2019, are as follows:

(DOLLARS IN THOUSANDS)	2020	2019
Grain and oilseed	\$ 1,064,079	\$ 1,024,645
Energy	696,858	717,378
Agronomy	822,535	954,037
Processed grain and oilseed	126,022	109,900
Other	32,644	48,328
Total inventories	\$ 2,742,138	\$ 2,854,288

Grain, processed grain, oilseed, processed oilseed and other minimally processed soy-based inventories are stated at net realizable value. These inventories are agricultural commodity inventories that are readily convertible to cash because of their commodity characteristics, widely available markets and international pricing mechanisms. Agricultural commodity inventories have quoted market prices in active markets, may be sold without significant further processing and have predictable and insignificant disposal costs. Changes in the net

realizable value of merchandisable agricultural commodities inventories are recognized in earnings as a component of cost of goods sold.

All other inventories are stated at the lower of cost or net realizable value. Costs for inventories produced or modified by us through a manufacturing process include fixed and variable production and raw material costs, and in-bound freight costs for raw materials. Costs for inventories purchased for resale include the cost of products and freight incurred to place the products at our points of sale. The costs of certain energy inventories (wholesale refined products, crude oil and asphalt) are determined on the last-in, first-out ("LIFO") method; all other inventories of nongrain products purchased for resale are valued on the first-in, first-out ("FIFO") and average cost methods.

As of August 31, 2020 and 2019, we valued approximately 16% of inventories, primarily crude oil and refined fuels within our Energy segment, using the lower of cost, determined on the LIFO method, or net realizable value.

If the FIFO method of accounting had been used, inventories would have been higher than the reported amount by \$93.5 million and \$215.0 million as of August 31, 2020 and 2019, respectively. During the third quarter of fiscal 2020, we experienced price declines in our energy inventories associated with the COVID-19 pandemic. As a result, we recorded a noncash, lower of

cost or market charge of \$42.0 million in cost of goods sold to reduce the carrying value of our energy inventories to their market value as of May 31, 2020. Based upon market prices observed as of August 31, 2020, the lower of cost or market reserve was decreased by approximately \$34.0 million as prices improved while inventories were sold.

FIVE

Other Current Assets

Other current assets as of August 31, 2020 and 2019, are as follows:

(DOLLARS IN THOUSANDS)	2020	2019
Derivative assets (Note 15)	\$ 371,195	\$ 253,341
Margin and related deposits	194,097	155,306
Supplier advance payments	198,699	197,290
Other	253,497	259,982
Total other current assets	\$ 1,017,488	\$ 865,919

Margin and Related Deposits

Many of our derivative contracts with futures and options brokers require us to make margin deposits of cash or other assets. Subsequent margin deposits may also be necessary when changes in commodity prices

result in a loss on the contract value to comply with applicable regulations. Our margin and related deposit assets are generally held in segregated accounts to support the associated derivative contracts and may be used to fund or partially fund the settlement of those contracts as they expire. Similar to our derivative financial instruments, margin and related deposits are reported on a gross basis.

Supplier Advance Payments

Supplier advance payments are typically for periods less than 12 months and primarily include amounts paid for grain purchases from suppliers and amounts paid to crop nutrient and crop protection product suppliers to lock in future supply and pricing.

SIX

Investments

Investments as of August 31, 2020 and 2019, are as follows:

(DOLLARS IN THOUSANDS)	2020	2019
Equity method investments:		
CF Industries Nitrogen, LLC	\$ 2,662,618	\$ 2,708,942
Ventura Foods, LLC	381,351	374,516
Ardent Mills, LLC	208,927	209,027
Other equity method investments	253,182	267,247
Other investments	123,955	124,264
Total investments	\$ 3,630,033	\$ 3,683,996

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 significant equity method investments consist of CF Nitrogen, Ventura Foods, LLC ("Ventura Foods"), and Ardent Mills, LLC ("Ardent Mills"), which are summarized below. In addition to the recognition of our share of income from our equity method investments, our equity method investments are evaluated for indicators of other-than-temporary impairment on an ongoing basis in accordance with U.S. GAAP. We have approximately \$383.0 million of cumulative undistributed earnings from our equity method investees included in the investments balance as of August 31, 2020.

SIX: Investments, continued

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. Our share in the income or loss of these equity method investments is recorded within equity (income) loss from investments in the Consolidated Statements of Operations. Other investments consist primarily of investments in cooperatives without readily determinable fair values and are generally recorded at cost, unless an impairment or other observable market price change occurs requiring an adjustment. 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.

CF Nitrogen

We have a \$2.7 billion investment in CF Nitrogen, a 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. At the time we entered into the strategic venture, we also entered into a supply agreement that entitles us to purchase up to 1.1 million tons of granular urea and 580,000 tons of urea ammonium nitrate ("UAN") annually from CF Nitrogen for ratable delivery through fiscal 2096. Our purchases under the supply agreement are based on prevailing market prices and we receive semi-annual cash distributions (in January and July of each year) from CF Nitrogen via our membership interest. These distributions are based on actual volumes purchased from CF Nitrogen under the strategic venture and will have the effect of reducing our investment to zero over 80 years on a straight-line basis. We account for this investment using the hypothetical liquidation at book value method, recognizing our share of the earnings and losses of CF Nitrogen as equity income from investments in our Nitrogen Production segment based on 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.

Cash distributions received from CF Nitrogen for the years ended August 31, 2020 and 2019, were \$174.3 million and \$186.5 million, respectively.

The following tables provide aggregate summarized financial information for CF Nitrogen for the balance sheets as of August 31, 2020 and 2019, and the statements of operations for the 12 months ended August 31, 2020, 2019 and 2018:

(DOLLARS IN THOUSANDS)	2020	2019
Current assets	\$ 552,127	\$ 590,057
Noncurrent assets	6,564,086	7,028,766
Current liabilities	222,391	228,324
Noncurrent liabilities	3,036	2,455

(DOLLARS IN THOUSANDS)	2020	2019	2018
Net sales	\$ 2,522,827	\$ 2,894,795	\$ 2,449,695
Gross profit	570,901	737,168	423,612
Net earnings	529,462	706,291	401,295
Earnings attributable to CHS Inc.	127,954	160,373	106,895

Ventura Foods and Ardent Mills

We have a 50% interest in Ventura Foods, which is a joint venture with Wilsey Foods, Inc., a majority-owned subsidiary of MBK USA Holdings, Inc., that produces and distributes primarily vegetable-oil-based products, and we have a 12% interest in Ardent Mills, which is a joint venture with Cargill Incorporated and Conagra Brands, Inc., and is the largest flour miller in the United States. We account for Ventura Foods and Ardent Mills as equity method investments included in Corporate and Other.

The following tables provide aggregate summarized financial information for our equity method investments in Ventura Foods and Ardent Mills for balance sheets as of August 31, 2020 and 2019, and statements of operations for the 12 months ended August 31, 2020, 2019 and 2018:

(DOLLARS IN THOUSANDS)	2020	2019
Current assets	\$ 1,548,930	\$ 1,469,003
Noncurrent assets	2,461,886	2,327,217
Current liabilities	628,440	535,579
Noncurrent liabilities	895,620	790,401

(DOLLARS IN THOUSANDS)	2020	2019	2018
Net sales	\$ 5,440,143	\$ 5,752,368	\$ 5,882,035
Gross profit	584,352	565,784	601,927
Net earnings	181,049	248,303	226,776
Earnings attributable to CHS Inc.	48,927	69,157	46,069

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

SEVEN

Property, Plant and Equipment

As of August 31, 2020 and 2019, major classes of property, plant and equipment, which include finance lease assets, consisted of the amounts in the table below.

(DOLLARS IN THOUSANDS)	2020	2019
Land and land improvements	\$ 317,714	\$ 319,452
Buildings	1,110,490	1,079,073
Machinery and equipment	7,559,437	7,392,767
Office equipment and other	362,084	346,649
Construction in progress	310,901	329,297
Gross property, plant and equipment	9,660,626	9,467,238
Less accumulated depreciation and amortization	4,702,688	4,378,530
Total property, plant and equipment	\$ 4,957,938	\$ 5,088,708

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided on the straight-line method by charges to operations at rates based on the expected useful lives of individual or groups of assets (generally 15 to 20 years for land improvements; 20 to 40 years for buildings; five to 20 years for machinery and equipment; and three to 10 years for office equipment and other). Expenditures for maintenance and minor repairs and renewals are expensed. We also capitalize and amortize eligible costs to acquire or develop internal-use software that are incurred during the application development stage. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation and amortization are removed from the related accounts and resulting gains or losses are reflected in operations.

Depreciation expense, including amortization of finance lease assets, for the years ended August 31, 2020, 2019 and 2018, was \$470.4 million, \$495.3 million and \$475.8 million, respectively.

Property, plant and equipment and other long-lived assets are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable in accordance with U.S. GAAP. This evaluation of recoverability is based on various indicators, including the nature, future economic

benefits and geographic locations of the assets, historical or future profitability measures and other external market conditions. If these indicators suggest the carrying amounts of an asset or asset group may not be recoverable, potential impairment is evaluated using undiscounted estimated future cash flows. Should the sum of the expected future net cash flows be less than the carrying value, an impairment loss would be recognized. An impairment loss would be measured as the amount by which the carrying value of the asset or asset group exceeds its fair value. No significant impairments were identified during fiscal 2020; however, as a result of these monitoring activities, our Ag segment recorded impairment charges of approximately \$12.2 million associated with certain nonstrategic long-lived assets that ceased operation during fiscal 2019. These impairments were included in marketing, general and administrative expenses in the Consolidated Statements of Operations.

We have asset retirement obligations with respect to certain of our refineries and other assets due to various legal obligations to clean and/or dispose of the component parts at the time they are retired. In most cases, these assets can be used for extended and indeterminate periods of time if they are properly maintained and/or upgraded. It is our practice and current intent to maintain refineries and related assets and to continue making improvements to those assets based on technological advances. As a result, we believe our refineries and related assets have indeterminate lives for purposes of estimating asset retirement obligations because dates or ranges of dates upon which we would retire a refinery and related assets cannot reasonably be estimated at this time. When a date or range of dates can reasonably be estimated for the retirement of any component part of a refinery or other asset, we estimate the cost of performing the retirement activities and record a liability for the fair value of that future cost.

We have other assets that we may be obligated to dismantle at the end of corresponding lease terms subject to lessor discretion for which we have recorded asset retirement obligations. Based on our estimates of timing, cost and probability of removal, these obligations are not material.

Other Assets

Other assets as of August 31, 2020 and 2019, are as follows:

(DOLLARS IN THOUSANDS)	2020	2019
Goodwill	\$ 172,404	\$ 172,404
Customer lists, trademarks and other intangible assets	65,025	71,206
Notes receivable	109,145	189,045
Long-term derivative assets	21,157	36,408
Prepaid pension and other benefits	106,209	73,100
Capitalized major maintenance	228,511	286,890
Cash value life insurance	130,673	122,792
Operating lease right of use assets	257,834	—
Other	48,471	60,350
Total other assets	\$ 1,139,429	\$ 1,012,195

Goodwill and Other Intangible Assets

Goodwill represents the excess of cost over the fair value of identifiable assets acquired. Goodwill is assessed for impairment on an annual basis as of July 31, either by first assessing qualitative factors to determine whether a quantitative goodwill impairment test is necessary or by proceeding directly to the quantitative test. The quantitative test may be required more frequently if triggering events or other circumstances occur that could indicate impairment. Goodwill is assessed for impairment at the reporting unit level, which has been determined to be our operating segments or one level below our operating segments in certain instances.

There were no changes in the net carrying amount of goodwill for the year ended August 31, 2020. Changes in the net carrying amount of goodwill for the year ended August 31, 2019, by segment, are as follows:

(DOLLARS IN THOUSANDS)	ENERGY	AG	CORPORATE AND OTHER	TOTAL
Balances, August 31, 2018	\$ 552	\$ 127,338	\$ 10,574	\$ 138,464
Goodwill acquired during the period	—	61,358	—	61,358
Impairment	—	(27,418)	—	(27,418)
Balances, August 31, 2019	\$ 552	\$ 161,278	\$ 10,574	\$ 172,404

Goodwill of \$61.4 million acquired during the third quarter of fiscal 2019 was related to our acquisition of the remaining 75% ownership in West Central Distribution, LLC (“WCD”) that we did not previously own. See Note 20, *Acquisitions*, for additional information related to the acquisition. No goodwill has been allocated to our Nitrogen Production segment, which consists of a single investment accounted for under the equity method.

The outbreak and pandemic of the novel coronavirus known as COVID-19 and other factors resulted in substantial reductions in demand and sharp price declines in certain industries in which we operate during fiscal 2020, particularly with respect to the production of renewable fuels, other energy products and processing and food ingredients. Based on these deteriorated macroeconomic and industry conditions, management considered the impacts on each of our businesses and determined that we needed to perform interim impairment assessments of goodwill and asset groups, during our third quarter, for a reporting unit within our Ag segment that operates in the renewable fuels industry. Third-party price outlooks, projections of future volumes, expenses and other cash flows and a discount rate reflective of the relative risk of the cash flows were used to estimate fair value. Management believes the assumptions utilized in the assessment are appropriate and reasonable for estimating fair value. The estimated fair value of the reporting unit exceeded the carrying amount by approximately 18%, and thus no impairment was recorded.

As a result of our annual goodwill impairment analyses performed as of July 31, 2019, we recorded a goodwill impairment charge of \$27.4 million associated with a reporting unit in our Ag segment. The impairment charge

primarily resulted from changing market dynamics that reduced future profitability within the reporting unit, as well as strategy changes and the challenging economic environment in the agriculture industry. The impairment charge was recorded in marketing, general and administrative expenses in the Consolidated Statement of Operations for the year ended August 31, 2019. No material impairments related to long-lived assets were recorded, and no goodwill impairments were identified as a result of our annual goodwill analyses performed as of July 31, 2020 or 2018. Management will continue to monitor the results and projected cash flows for each of our businesses to assess whether any reserves or impairments may be necessary in the future, particularly for our businesses that have experienced or could experience substantial reductions in demand or price declines associated with the COVID-19 pandemic.

Intangible assets subject to amortization primarily include customer lists, trademarks and noncompete agreements, and are amortized over their respective useful lives (ranging from two to 30 years). We have no material intangible assets with indefinite useful lives. All long-lived assets, including other identifiable intangible assets, are also assessed for impairment in accordance with U.S. GAAP and evaluated for impairment whenever triggering events or other circumstances indicate the carrying amount of an asset group or reporting unit may not be recoverable. Intangible assets of \$47.2 million were acquired during fiscal 2019 related to the acquisition of the remaining 75% ownership interest in WCD that we did not previously own. See Note 20, *Acquisitions*, for additional information related to the acquisition. Information regarding intangible assets is as follows:

(DOLLARS IN THOUSANDS)	AUGUST 31, 2020			AUGUST 31, 2019		
	CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET	CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET
Customer lists	\$ 84,895	\$ (23,770)	\$ 61,125	\$ 84,815	\$ (17,609)	\$ 67,206
Trademarks and other intangible assets	10,735	(6,835)	3,900	9,736	(5,736)	4,000
Total intangible assets	\$ 95,630	\$ (30,605)	\$ 65,025	\$ 94,551	\$ (23,345)	\$ 71,206

Intangible asset amortization expense for the years ended August 31, 2020, 2019 and 2018, was \$7.3 million, \$5.3 million and \$3.4 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)	
2021	\$ 8,215
2022	7,973
2023	7,870
2024	7,660
2025	7,345
Thereafter	25,866
Total	\$ 64,929

Capitalized Major Maintenance

Activity related to capitalized major maintenance costs at our refineries for the years ended August 31, 2020, 2019 and 2018, is summarized below:

(DOLLARS IN THOUSANDS)	BALANCE AT BEGINNING OF YEAR	COST DEFERRED	AMORTIZATION	BALANCE AT END OF YEAR
2020	\$ 286,890	\$ 14,496	\$ (72,875)	\$ 228,511
2019	130,780	224,406	(68,296)	286,890
2018	105,006	87,460	(61,686)	130,780

EIGHT: Other Assets, continued

Within our Energy segment, major maintenance activities are performed at our Laurel, Montana, and McPherson, Kansas, refineries regularly. Major maintenance activities are the planned and required shutdowns of refinery processing units, which include replacement or overhaul of equipment that has experienced decreased efficiency in resource conversion. Because major maintenance activities are performed to extend the life, increase the capacity and/or improve the safety or efficiency of refinery processing assets, we follow the deferral method of accounting for major maintenance activities. Expenditures for major maintenance activities are capitalized (deferred) when incurred and amortized on a straight-line basis over a period of two to five years, which is the estimated time lapse between major maintenance activities. Should the estimated period between major maintenance activities change, we may be required to amortize the remaining cost of the major maintenance activities over a shorter period, which would result in higher depreciation and amortization costs. Amortization expense related to the capitalized major maintenance costs is included in cost of goods sold in our Consolidated Statements of Operations.

Selection of the deferral method, as opposed to expensing major maintenance activity costs when incurred, results in deferring recognition of major maintenance activity expenditures. The deferral method also results in classification of related cash outflows as investing activities in our Consolidated Statements of Cash Flows, whereas expensing these costs as incurred would result in classifying the cash outflows as operating activities. Repair, maintenance and related labor costs are expensed as incurred and are included in operating cash flows.

NINE

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 August 31, 2020.

Notes Payable

Notes payable as of August 31, 2020 and 2019, consisted of the following:

(DOLLARS IN THOUSANDS)	WEIGHTED-AVERAGE INTEREST RATE		2020	2019
	2020	2019		
Notes payable	1.96%	3.36%	\$ 763,215	\$ 1,330,550
CHS Capital notes payable	1.29%	2.90%	812,276	825,558
Total notes payable			\$ 1,575,491	\$ 2,156,108

Our primary line of credit is a five-year unsecured revolving credit facility with a syndicate of domestic and international banks. The credit facility provides a committed amount of \$2.75 billion that expires on July 16, 2024.

We maintain a series of uncommitted bilateral facilities that are renewed annually. Amounts borrowed under these short-term credit facilities are used to fund our working capital.

The following table summarizes our primary lines of credit as of August 31, 2020 and 2019:

PRIMARY REVOLVING CREDIT FACILITIES (DOLLARS IN THOUSANDS)	FISCAL YEAR OF MATURITY	TOTAL CAPACITY		BORROWINGS OUTSTANDING		INTEREST RATES
		2020	2020	2020	2019	
Committed five-year unsecured facility	2024	\$ 2,750,000	\$ 345,000	\$ 335,000		LIBOR or base rate +0.00% to 1.55%
Uncommitted bilateral facilities*	2021	300,000	—	430,000		LIBOR or base rate + applicable margin

* Total capacity for the uncommitted bilateral facilities was \$630.0 million at August 31, 2019. As of August 31, 2020, the uncommitted bilateral facilities do not include \$300.0 million of capacity with a banking partner for which we are currently in the process of terminating the related agreement.

In addition to our facilities above, our wholly-owned subsidiaries, CHS Europe S.a.r.l. and CHS Agronegocio Industria e Comercio Ltda, had uncommitted lines of credit with \$318.4 million outstanding as of August 31, 2020. In addition, our other international subsidiaries had lines of credit outstanding of \$69.7 million as of August 31, 2020.

CHS Capital Notes Payable

We have a receivables and loans securitization facility (“Securitization Facility”) with certain unaffiliated financial institutions (“Purchasers”). Under the Securitization Facility, we and certain of our subsidiaries (“Originators”) sell trade accounts and notes receivable (“Receivables”) to Cofina Funding, LLC (“Cofina”), a wholly-owned bankruptcy-remote indirect subsidiary of CHS. Cofina in turn transfers the Receivables to the Purchasers, and this arrangement is accounted for as a secured borrowing. 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 amount available under the Securitization Facility fluctuates over time based on the total amount of eligible Receivables generated during the normal course of business. As of August 31, 2020, total availability under the Securitization Facility was \$423.0 million, all of which had been utilized.

We also have a repurchase facility (“Repurchase Facility”) related to the Securitization Facility. Under the Repurchase Facility, we can borrow up to \$150.0 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 August 31, 2020 and 2019, the outstanding balance under the Repurchase Facility was \$150.0 million.

On June 26, 2020, we amended our existing Securitization Facility and Repurchase Facility. As a result of the amendment, the maximum availability of the Securitization Facility was decreased from \$700.0 million to \$500.0 million. On September 24, 2020 the Securitization Facility and Repurchase Facility were further amended increasing the maximum availability under the Securitization Facility to \$600.0 million from \$500.0 million and extending their respective termination dates to July 30, 2021.

CHS Capital sells loan commitments it has originated to Compeer Financial, PCA, d/b/a ProPartners Financial on a recourse basis. The total outstanding commitments under the program were \$150.0 million as of August 31, 2020, of which \$133.3 million was borrowed under these commitments with an interest rate of 1.45%.

CHS Capital borrows funds under short-term notes issued as part of a surplus funds program. Borrowings under this program are unsecured and bear interest at variable rates ranging from 0.35% to 1.40% as of August 31, 2020, and are due upon demand. Borrowings under these notes totaled \$134.9 million as of August 31, 2020.

On September 30, 2019, CHS Capital entered into a credit agreement with a revolving note. Under this agreement, CHS Capital had available capacity of \$100.0 million of which no amount was outstanding as of August 31, 2020. This agreement matured subsequent to August 31, 2020, and was not renewed.

NINE: Notes Payable and Long-Term Debt, continued

Long-Term Debt

During the year ended August 31, 2020, we repaid approximately \$25.4 million of long-term debt consisting of scheduled debt maturities and optional prepayments. On August 14, 2020, we entered into a Note Purchase Agreement to borrow \$375.0 million of long-term debt in the form of notes that was funded on November 2, 2020. Amounts included in longterm debt on our Consolidated Balance Sheets as of August 31, 2020 and 2019, are presented in the table below.

(DOLLARS IN THOUSANDS)	2020	2019
4.00% unsecured notes \$100 million face amount, due in equal installments beginning in fiscal 2017 through fiscal 2021	\$ 20,000	\$ 40,000
4.52% unsecured notes \$160 million face amount, due in fiscal 2021	162,090	161,978
4.67% unsecured notes \$130 million face amount, due in fiscal 2023	137,623	136,086
4.39% unsecured notes \$152 million face amount, due in fiscal 2023	152,000	152,000
3.85% unsecured notes \$80 million face amount, due in fiscal 2025	80,000	80,000
3.80% unsecured notes \$100 million face amount, due in fiscal 2025	100,000	100,000
4.58% unsecured notes \$150 million face amount, due in fiscal 2025	154,012	151,776
4.82% unsecured notes \$80 million face amount, due in fiscal 2026	80,000	80,000
4.69% unsecured notes \$58 million face amount, due in fiscal 2027	58,000	58,000
4.74% unsecured notes \$95 million face amount, due in fiscal 2028	95,000	95,000
4.89% unsecured notes \$100 million face amount, due in fiscal 2031	100,000	100,000
4.71% unsecured notes \$100 million face amount, due in fiscal 2033	100,000	100,000
5.40% unsecured notes \$125 million face amount, due in fiscal 2036	125,000	125,000
Private placement debt	1,363,725	1,379,840
2.25% unsecured term loans from cooperative and other banks, due in fiscal 2025(a)	366,000	366,000
Bank financing	366,000	366,000
Finance lease liabilities	31,460	28,239
Other notes and contracts with interest rates from 0.0% to 10.0%	34,709	18,601
Deferred financing costs	(4,771)	(3,569)
Total long-term debt	1,791,123	1,789,111
Less current portion	189,287	39,210
Long-term portion	\$ 1,601,836	\$ 1,749,901

(a) Borrowings are variable under the agreement and bear interest at a base rate (or LIBOR) plus an applicable margin.

As of August 31, 2020, the fair value of our long-term debt is estimated to be \$1.9 billion based on quoted market prices of similar debt (a Level 2 fair value measurement based on the classification hierarchy of ASC Topic 820, *Fair Value Measurement*).

We have a 10-year term loan with a syndicate of banks. The agreement provides for committed term loans in an amount up to \$600.0 million. As of August 31, 2020, \$236.0 million of term loans were outstanding under this agreement. The agreement includes a revolving feature, whereby we are able to pay down and re-advance

an amount up to \$300.0 million of the \$600.0 million. As of August 31, 2020, \$130.0 million of revolving loans were outstanding under this agreement. Principal on the outstanding balances is payable in full in September 2025.

Long-term debt outstanding as of August 31, 2020, has aggregate maturities, excluding fair value adjustments and finance leases (see Note 19, *Leases*, for a schedule of

minimum future lease payments under finance leases), as follows:

(DOLLARS IN THOUSANDS)

2021	\$ 181,628
2022	30,828
2023	282,828
2024	780
2025	696,780
Thereafter	558,103
Total	\$ 1,750,947

Interest expense for the years ended August 31, 2020, 2019 and 2018, was \$117.0 million, \$167.1 million and \$149.2 million, respectively, net of capitalized interest of \$10.9 million, \$9.4 million and \$6.7 million, respectively.

TEN

Other Current Liabilities

Other current liabilities as of August 31, 2020 and 2019, are as follows:

(DOLLARS IN THOUSANDS)

	2020	2019
Customer margin deposits and credit balances	\$ 149,539	\$ 143,049
Customer advance payments	300,100	336,645
Derivative liabilities (Note 15)	416,204	241,957
Dividends and equity payable	63,000	180,000
Total other current liabilities	\$ 928,843	\$ 901,651

ELEVEN

Income Taxes

CHS is a nonexempt agricultural cooperative and files a consolidated federal income tax return within our tax return period. We are subject to tax on income from nonpatronage sources, nonqualified patronage distributions and undistributed patronage-sourced income. Income tax (benefit) expense is primarily the current tax payable for the period and the change during the period in certain deferred tax assets and liabilities. Deferred

income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized under U.S. GAAP and such amounts recognized for federal and state income tax purposes, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income.

ELEVEN: *Income Taxes, continued*

The (benefit from) provision for income taxes for the years ended August 31, 2020, 2019 and 2018 is as follows:

(DOLLARS IN THOUSANDS)	2020	2019	2018
Current:			
Federal	\$ 4,519	\$ 211	\$ 15,576
State	(2,231)	3,815	7,041
Foreign	2,748	(2,630)	20,268
Total Current	5,036	1,396	42,885
Deferred:			
Federal	(36,231)	(4,923)	(146,780)
State	(5,263)	(8,491)	(127)
Foreign	(273)	(438)	(54)
Total Deferred	(41,767)	(13,852)	(146,961)
Total	\$ (36,731)	\$ (12,456)	\$ (104,076)

Domestic income before income taxes was \$324.4 million, \$825.7 million and \$717.4 million for the years ended August 31, 2020, 2019 and 2018, respectively. Foreign income (loss) before income taxes was \$62.5 million, (\$3.1) million and (\$46.2) million for the years ended August 31, 2020, 2019 and 2018, respectively.

Deferred taxes are comprised of basis differences related to investments, accrued liabilities and certain federal and state tax credits. Deferred tax assets and liabilities as of August 31, 2020 and 2019, are as follows:

(DOLLARS IN THOUSANDS)	2020	2019
Deferred tax assets:		
Accrued expenses	\$ 51,560	\$ 62,245
Postretirement health care and deferred compensation	42,898	42,747
Tax credit carryforwards	123,193	152,347
Loss carryforwards	116,741	136,435
Nonqualified equity	344,924	290,447
Lease obligations	64,140	—
Other	85,856	97,071
Deferred tax assets valuation reserve	(219,891)	(246,344)
Total deferred tax assets	609,421	534,948
Deferred tax liabilities:		
Pension	17,131	11,237
Investments	95,916	99,838
Major maintenance	91	4,679
Property, plant and equipment	556,160	560,334
Right of use asset	64,140	—
Other	15,326	1,760
Total deferred tax liabilities	748,764	677,848
Net deferred tax liabilities	\$ 139,343	\$ 142,900

We have total gross loss carryforwards of \$576.6 million, of which \$366.9 million will expire over periods ranging

from fiscal 2021 to fiscal 2041. The remainder will carry forward indefinitely. Based on estimates of future taxable profits and losses in certain foreign tax jurisdictions, as well as consideration of other factors, we assessed whether a valuation allowance was necessary to reduce specific foreign loss carryforwards to amounts we believe are more likely than not to be realized as of August 31, 2020. If our estimates prove inaccurate, adjustments to the valuation allowances may be required in the future with gains or losses being charged to income in the period such determination is made. McPherson refinery's gross state tax credit carryforwards for income tax were approximately \$125.5 million and \$123.3 million as of August 31, 2020 and 2019, respectively. McPherson refinery's valuation allowance on Kansas state credits is necessary due to the limited amount of taxable income generated in Kansas by the combined group on an annual basis.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was signed into law. As a result, our alternative minimum tax credit became refundable and has been classified in other current assets on the Consolidated Balance Sheet as of August 31, 2020. Our general business credits of \$59.1 million, comprised primarily of low-sulfur diesel credits, will begin to expire on August 31, 2027, and our state tax credits of \$125.5 million began to expire on August 31, 2020.

The reconciliation of the statutory federal income tax rates to the effective tax rates for the years ended August 31, 2020, 2019 and 2018 is as follows:

	2020	2019	2018
Statutory federal income tax rate	21.0%	21.0%	25.7%
State and local income taxes, net of federal income tax benefit	(1.8)	(0.7)	0.7
Patronage earnings	(13.1)	(14.3)	(13.6)
Domestic production activities deduction	(19.0)	(9.9)	(8.4)
Export activities at rates other than the U.S. statutory rate	1.8	(2.1)	5.7
U.S. tax reform	—	—	(23.2)
Intercompany transfer of business assets	(1.6)	—	(6.1)
Increase in unrecognized tax benefits	4.2	0.2	6.8
Valuation allowance	(1.0)	2.6	(3.0)
Tax credits	0.2	0.4	0.7
Other	(0.2)	1.3	(0.8)
Effective tax rate	(9.5)%	(1.5)%	(15.5)%

On December 22, 2017, the Tax Cuts and Jobs Act (“Tax Act”) was enacted into law. The Tax Act provides for significant U.S. tax law changes that reduced our 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 was a blended rate of 25.7%. For fiscal 2020 and fiscal 2019, the annual statutory federal corporate tax rate was 21%.

Primary drivers of the fiscal 2020 income tax benefit were retaining the current Domestic Production Activities Deduction (“DPAD”) benefit and from the settlement of a U.S. federal audit resulting in additional tax credit carryovers, which were partially offset by an increase in our unrecognized deferred tax benefit. Primary drivers of the fiscal 2019 income tax benefit were retaining the current DPAD benefit and deducting previously disallowed DPAD available from the carryback of excise tax credits, which were partially offset by an increase in our unrecognized deferred tax benefit as described below. Primary drivers of the fiscal 2018 income tax benefit were recognition of deferred benefits from revaluation of our net deferred tax liability resulting from the Tax Act, an intercompany transfer of a business on December 1, 2017, and a current tax benefit from retaining a significant portion of the DPAD, which were partially offset by deferred tax expense from an increase in our unrecognized tax benefit as described below.

We file income tax returns in the U.S. federal jurisdiction, as well as various state and foreign jurisdictions. Our uncertain tax positions are affected by the tax years that are under audit or remain subject to examination by the relevant taxing authorities. In addition to the current year, fiscal 2007 through 2019 remain subject to examination, at least for certain issues.

Reserves are recorded against unrecognized tax benefits when we believe certain fully supportable tax return positions are likely to be challenged and we may or may not prevail. If we determine that a tax position is more

likely than not to be sustained upon audit, based on the technical merits of the position, we recognize the benefit by measuring the amount that is greater than 50% likely of being realized. We reevaluate the technical merits of our tax positions and recognize an uncertain tax benefit, or derecognize a previously recorded tax benefit, when there is (i) a completion of a tax audit, (ii) effective settlement of an issue, (iii) a change in applicable tax law including a tax case or legislative guidance, or (iv) expiration of the applicable statute of limitations. Significant judgment is required in accounting for tax reserves. A reconciliation of the gross beginning and ending amounts of unrecognized tax benefits for the periods presented follows:

(DOLLARS IN THOUSANDS)	2020	2019	2018
Balance at beginning of period	\$ 101,128	\$ 91,135	\$ 37,830
Additions attributable to current year tax positions	14,410	14,162	3,640
Additions attributable to prior year tax positions	6,128	—	49,665
Reductions attributable to prior year tax positions	(2,516)	(4,169)	—
Balance at end of period	\$ 119,150	\$ 101,128	\$ 91,135

If we were to prevail on all positions taken in relation to uncertain tax positions, \$111.3 million of the unrecognized tax benefits would ultimately benefit our effective tax rate. It is reasonably possible that the total amount of unrecognized tax benefits could significantly change in the next 12 months.

We recognize interest and penalties related to unrecognized tax benefits in our provision for income taxes. We recognized \$1.0 million benefit and \$1.7 million expense for interest and penalties related to unrecognized tax benefits in our Consolidated Statement of Operations for the years ended August 31, 2020 and 2019, respectively, and a related \$1.0 million and \$2.9 million interest payable on our Consolidated Balance Sheet as of August 31, 2020 and 2019, respectively. No interest or penalties were recognized in our Consolidated Statements of Operations for the year ended August 31, 2018.

TWELVE

Equities

Patronage and Equity Redemptions

In accordance with our bylaws and by action of the Board of Directors, annual net earnings from patronage sources are distributed to consenting patrons following the close of each fiscal year and are based on amounts using financial statement earnings. The cash portion of

the qualified patronage distribution, if any, is determined annually by the Board of Directors, with the balance issued in the form of qualified and/or nonqualified capital equity certificates. Total patronage distributions for fiscal 2020 are estimated to be \$242.0 million, with the qualified cash portion estimated to be \$30.0 million

TWELVE: *Equities, continued*

and nonqualified equity distributions of \$212.0 million. No portion of annual net earnings for fiscal 2020 will be issued in the form of qualified capital equity certificates. Patronage distributions for the years ended August 31, 2019, 2018 and 2017 were \$564.5 million (with a \$90.1 million cash portion), \$428.8 million (with a \$75.8 million cash portion) and \$128.8 million (with no cash portion), respectively.

Annual net earnings from patronage or other sources may be added to the unallocated capital reserve or, upon action by the Board of Directors, may be allocated to members in the form of nonpatronage equity certificates. The Board of Directors authorized, in accordance with our bylaws, that 10% of the earnings from patronage business for fiscal 2020, 2019 and 2018 be added to our capital reserves.

Redemptions of outstanding equity are at the discretion of the Board of Directors. Redemptions of capital equity certificates approved by the Board of Directors are

divided into two pools, one for nonindividuals (primarily member cooperatives) who may participate in an annual redemption program for qualified equities held by them and another for individual members who are eligible for equity redemptions at age 70 or upon death. The CHS redemption policy includes a redemption program for individuals similar to the one that is available to nonindividual members, subject to CHS Board of Directors overall discretion whether to redeem outstanding equity. In accordance with authorization from the Board of Directors, we expect total redemptions related to the year ended August 31, 2020, that will be distributed in fiscal 2021, to be approximately \$33.0 million. This amount is classified as a current liability on our August 31, 2020, Consolidated Balance Sheet. During the years ended August 31, 2020, 2019 and 2018, we redeemed in cash, outstanding owners' equities in accordance with authorization from the Board of Directors, in the amounts of \$96.4 million, \$85.5 million and \$8.8 million, respectively.

Preferred Stock

The following is a summary of our outstanding preferred stock as of August 31, 2020, all shares of which are listed and traded on The Nasdaq:

(DOLLARS IN MILLIONS)	NASDAQ SYMBOL	ISSUANCE DATE	SHARES OUTSTANDING	REDEMPTION VALUE	NET PROCEEDS (a)	DIVIDEND RATE (b) (c)	DIVIDEND PAYMENT FREQUENCY	REDEEMABLE BEGINNING (d)
8% Cumulative Redeemable	CHSCP	(e)	12,272,003	\$306.8	\$311.2	8.00%	Quarterly	7/18/2023
Class B Cumulative Redeemable, Series 1	CHSCO	(f)	21,459,066	536.5	569.3	7.875%	Quarterly	9/26/2023
Class B Reset Rate Cumulative Redeemable, Series 2	CHSCN	3/11/2014	16,800,000	420.0	406.2	7.10%	Quarterly	3/31/2024
Class B Reset Rate Cumulative Redeemable, Series 3	CHSCM	9/15/2014	19,700,000	492.5	476.7	6.75%	Quarterly	9/30/2024
Class B Cumulative Redeemable, Series 4	CHSCL	1/21/2015	20,700,000	517.5	501.0	7.50%	Quarterly	1/21/2025

(a) Includes patrons' equities redeemed with preferred stock.

(b) The Class B Reset Rate Cumulative Redeemable Preferred Stock, Series 2 accumulates dividends at a rate of 7.10% per year until March 31, 2024, and then at a rate equal to the three-month LIBOR plus 4.298%, not to exceed 8.00% per annum, subsequent to March 31, 2024.

(c) The Class B Reset Rate Cumulative Redeemable Preferred Stock, Series 3 accumulates dividends at a rate of 6.75% per year until September 30, 2024, and then at a rate equal to the three-month LIBOR plus 4.155%, not to exceed 8.00% per annum, subsequent to September 30, 2024.

(d) Preferred stock is redeemable for cash at our option, in whole or in part, at a per share price equal to the per share liquidation preference of \$25.00 per share, plus all dividends accumulated and unpaid on that share to and including the date of redemption, beginning on the dates set forth in this column.

(e) The 8% Cumulative Redeemable Preferred Stock was issued at various times from 2003 through 2010.

(f) Shares of Class B Cumulative Redeemable Preferred Stock, Series 1 were issued on September 26, 2013; August 25, 2014; March 31, 2016; and March 30, 2017.

Preferred Stock Dividends

We made dividend payments on our preferred stock of \$168.7 million during each of the years ended August 31, 2020, 2019 and 2018. As of August 31, 2020, we have no authorized but unissued shares of preferred stock.

The following is a summary of dividends per share by series of preferred stock for the years ended August 31, 2020 and 2019.

(DOLLARS PER SHARE)	NASDAQ SYMBOL	Years Ended August 31,	
		2020	2019
8% Cumulative Redeemable	CHSCP	\$ 2.00	\$ 2.00
Class B Cumulative Redeemable, Series 1	CHSCO	1.97	1.97
Class B Reset Rate Cumulative Redeemable, Series 2	CHSCN	1.78	1.78
Class B Reset Rate Cumulative Redeemable, Series 3	CHSCM	1.69	1.69
Class B Cumulative Redeemable, Series 4	CHSCL	1.88	1.88

TWELVE: *Equities, continued*

Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive income (loss) by component, for the years ended August 31, 2020, 2019 and 2018 are as follows:

(DOLLARS IN THOUSANDS)	PENSION AND OTHER POSTRETIREMENT BENEFITS	UNREALIZED NET GAIN (LOSS) ON AVAILABLE FOR SALE INVESTMENTS	CASH FLOW HEDGES	FOREIGN CURRENCY TRANSLATION ADJUSTMENT	TOTAL
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	7,633	21,078	1,031	(10,062)	19,680
Amounts reclassified out	21,804	(25,534)	1,704	(2,042)	(4,068)
Total other comprehensive income (loss), before tax	29,437	(4,456)	2,735	(12,104)	15,612
Tax effect	(9,371)	1,308	(195)	83	(8,175)
Other comprehensive income (loss), net of tax	20,066	(3,148)	2,540	(12,021)	7,437
Reclassification of tax effects to capital reserves	(27,957)	1,968	(1,468)	465	(26,992)
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	(51,118)	—	37,709	(9,990)	(23,399)
Amounts reclassified out	10,279	—	(9,843)	—	436
Total other comprehensive income (loss), before tax	(40,839)	—	27,866	(9,990)	(22,963)
Tax effect	8,280	—	(7,670)	41	651
Other comprehensive income (loss), net of tax	(32,559)	—	20,196	(9,949)	(22,312)
Reclassifications	416	(8,861)	983	2,756	(4,706)
Balance as of August 31, 2019, net of tax	(172,478)	—	15,297	(69,752)	(226,933)
Other comprehensive income (loss), before tax:					
Amounts before reclassifications	(4,751)	—	16,430	(17,021)	(5,342)
Amounts reclassified out	19,908	—	(22,291)	—	(2,383)
Total other comprehensive income (loss), before tax	15,157	—	(5,861)	(17,021)	(7,725)
Tax effect	(2,359)	—	1,450	1,643	734
Other comprehensive income (loss), net of tax	12,798	—	(4,411)	(15,378)	(6,991)
Balance as of August 31, 2020, net of tax	\$ (159,680)	\$ —	\$ 10,886	\$ (85,130)	\$ (233,924)

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 13, *Benefit Plans*, for further information). 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.

THIRTEEN

Benefit Plans

We have various pension and other defined benefit as well as defined contribution plans in which substantially all employees may participate. We also have nonqualified supplemental executive and Board retirement plans. We provide defined life insurance and health care benefits for certain retired employees and Board of Directors participants. The plan is contributory based on

years of service and family status, with retiree contributions adjusted annually.

Financial information on changes in projected benefit obligation, plan assets funded and balance sheet status as of August 31, 2020 and 2019, is as follows:

(DOLLARS IN THOUSANDS)	QUALIFIED PENSION BENEFITS		NONQUALIFIED PENSION BENEFITS		OTHER BENEFITS	
	2020	2019	2020	2019	2020	2019
Change in benefit obligation:						
Projected benefit obligation at beginning of period	\$ 876,696	\$ 767,184	\$ 19,047	\$ 20,755	\$ 31,098	\$ 29,790
Service cost	42,151	38,592	405	311	1,050	1,053
Interest cost	21,722	28,396	429	747	747	1,094
Actuarial loss (gain)	6,265	(9,606)	1,382	76	(2,286)	(2,596)
Assumption change	40,694	102,441	775	1,841	1,275	3,398
Plan amendments	—	18	—	—	—	—
Settlements	—	(615)	(2,130)	(3,975)	—	—
Benefits paid	(69,526)	(49,714)	(725)	(708)	(1,568)	(1,641)
Projected benefit obligation at end of period	\$ 918,002	\$ 876,696	\$ 19,183	\$ 19,047	\$ 30,316	\$ 31,098
Change in plan assets:						
Fair value of plan assets at beginning of period	\$ 909,427	\$ 829,616	\$ —	\$ —	\$ —	\$ —
Actual gain on plan assets	90,241	90,139	—	—	—	—
Company contributions	46,400	40,001	2,855	4,683	1,568	1,641
Settlements	—	(615)	(2,130)	(3,975)	—	—
Benefits paid	(69,526)	(49,714)	(725)	(708)	(1,568)	(1,641)
Fair value of plan assets at end of period	\$ 976,542	\$ 909,427	\$ —	\$ —	\$ —	\$ —
Funded status at end of period	\$ 58,540	\$ 32,731	\$ (19,183)	\$ (19,047)	\$ (30,316)	\$ (31,098)
Amounts recognized on balance sheet:						
Noncurrent assets	\$ 58,540	\$ 32,731	\$ —	\$ —	\$ —	\$ —
Accrued benefit cost:						
Current liabilities	—	—	(1,660)	(1,580)	(2,090)	(2,040)
Noncurrent liabilities	—	—	(17,523)	(17,467)	(28,226)	(29,058)
Ending balance	\$ 58,540	\$ 32,731	\$ (19,183)	\$ (19,047)	\$ (30,316)	\$ (31,098)
Amounts recognized in accumulated other comprehensive loss (pretax):						
Prior service cost (credit)	\$ 938	\$ 1,117	\$ (502)	\$ (616)	\$ (2,715)	\$ (3,160)
Net loss (gain)	225,983	244,164	3,813	2,151	(15,064)	(15,445)
Ending balance	\$ 226,921	\$ 245,281	\$ 3,311	\$ 1,535	\$ (17,779)	\$ (18,605)

THIRTEEN: *Benefit Plans, continued*

The accumulated benefit obligation of the qualified pension plans was \$871.6 million and \$833.2 million at August 31, 2020 and 2019, respectively. The accumulated benefit obligation of the nonqualified pension plans was \$18.2 million and \$16.9 million at August 31, 2020 and 2019, respectively.

Information for the pension plans with an accumulated benefit obligation in excess of plan assets is set forth below:

(DOLLARS IN THOUSANDS)	YEARS ENDED AUGUST 31,	
	2020	2019
Projected benefit obligation	\$ 19,183	\$ 19,047
Accumulated benefit obligation	18,172	16,907

Components of net periodic benefit costs for the years ended August 31, 2020, 2019 and 2018, are as follows:

(DOLLARS IN THOUSANDS)	QUALIFIED PENSION BENEFITS			NON QUALIFIED PENSION BENEFITS			OTHER BENEFITS		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Components of net periodic benefit costs:									
Service cost	\$ 42,151	\$ 38,592	\$ 39,677	\$ 405	\$ 311	\$ 548	\$ 1,050	\$ 1,053	\$ 943
Interest cost	21,722	28,396	24,007	429	747	711	747	1,094	908
Expected return on assets	(46,684)	(44,968)	(48,159)	—	—	—	—	—	—
Settlement of retiree obligations	—	51	—	—	191	(112)	—	—	—
Prior service cost (credit) amortization	178	190	1,437	(114)	(75)	30	(445)	(556)	(565)
Actuarial loss (gain) amortization	21,583	12,348	18,073	98	2	61	(1,392)	(1,627)	(1,224)
Net periodic benefit cost (benefit)	\$ 38,950	\$ 34,609	\$ 35,035	\$ 818	\$ 1,176	\$ 1,238	\$ (40)	\$ (36)	\$ 62
Weighted-average assumptions to determine the net periodic benefit cost:									
Discount rate	3.06%	4.23%	3.80%	2.70%	4.09%	3.53%	2.89%	4.08%	3.56%
Expected return on plan assets	5.50%	5.50%	5.75%	N/A	N/A	N/A	N/A	N/A	N/A
Rate of compensation increase	5.28%	5.14%	5.08%	5.28%	5.14%	5.08%	N/A	N/A	N/A
Weighted-average assumptions to determine the benefit obligations:									
Discount rate	2.67%	3.06%	4.23%	2.15%	2.70%	4.09%	2.43%	2.89%	4.13%
Rate of compensation increase	4.99%	5.28%	5.14%	4.99%	5.28%	5.14%	N/A	N/A	N/A

Components of net periodic benefit costs and amounts recognized in other comprehensive loss (income) for the years ended August 31, 2020, 2019 and 2018, are as follows:

(DOLLARS IN THOUSANDS)	QUALIFIED PENSION BENEFITS			NONQUALIFIED PENSION BENEFITS			OTHER BENEFITS		
	2020	2019	2018	2020	2019	2018	2020	2019	2018
Other comprehensive loss (income):									
Prior service cost	\$ —	\$ 18	\$ 244	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Net actuarial loss (gain)	3,401	47,556	(8,553)	2,157	1,917	(578)	(1,011)	801	(2,234)
Amortization of actuarial (gain) loss	(21,583)	(12,307)	(18,073)	(98)	(2)	(61)	1,392	1,627	1,224
Amortization of prior service (credit) costs	(178)	(190)	(1,437)	114	75	(30)	445	556	565
Settlement of retiree obligations (a)	—	—	—	(397)	(191)	112	—	—	—
Total recognized in other comprehensive loss (income)	\$ (18,360)	\$ 35,077	\$ (27,819)	\$ 1,776	\$ 1,799	\$ (557)	\$ 826	\$ 2,984	\$ (445)

(a) Reflects amounts reclassified from accumulated other comprehensive loss (income) to net earnings.

Estimated amortization in fiscal 2021 from accumulated other comprehensive loss into net periodic benefit cost is as follows:

(DOLLARS IN THOUSANDS)	QUALIFIED PENSION BENEFITS	NONQUALIFIED PENSION BENEFITS	OTHER BENEFITS
Amortization of prior service cost (credit)	\$ 178	\$ (114)	\$ (445)
Amortization of actuarial loss (gain)	21,790	212	(1,365)

A significant assumption for pension costs and obligations is the discount rate. We utilize a full-yield curve approach by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. The discount rate reflects the rate at which the associated benefits could be effectively settled as of the measurement date. In estimating this rate, we look at rates of return on fixed-income investments of similar duration to the liabilities in the plans that receive high investment-grade ratings by recognized ratings agencies.

For measurement purposes, a 7.1% annual rate of increase in the per capita cost of covered health care benefits was assumed for the year ended August 31, 2020. The rate was assumed to decrease gradually to 4.5% by 2027 and remain at that level thereafter.

An annual analysis of the risk versus the return of the investment portfolio is conducted to justify the expected long-term rate of return assumption. We generally use long-term historical return information for the targeted asset mix identified in asset and liability studies. Adjustments are made to the expected long-term rate of return assumption, when deemed necessary, based upon revised expectations of future investment performance of the overall investment markets.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one- percentage-point change in the assumed health care cost trend rates would have the following effects:

(DOLLARS IN THOUSANDS)	1% INCREASE	1% DECREASE
Effect on total of service and interest cost components	\$ 200	\$ (170)
Effect on postretirement benefit obligation	2,100	(1,800)

Contributions depend primarily on market returns on the pension plan assets and minimum funding level requirements. During fiscal 2020, we made a discretionary contribution of \$46.4 million to the pension

THIRTEEN: *Benefit Plans, continued*

plans. Based on the funded status of the qualified pension plans as of August 31, 2020, we do not believe we will be required to contribute to these plans in fiscal 2021, although we may voluntarily elect to do so. We expect to pay \$3.8 million to participants of the non-qualified pension and postretirement benefit plans during fiscal 2021.

Our retiree benefit payments, which reflect expected future service, are anticipated to be paid as follows:

(DOLLARS IN THOUSANDS)	QUALIFIED PENSION BENEFITS	NONQUALIFIED PENSION BENEFITS	OTHER BENEFITS
2021	\$ 75,700	\$ 1,660	\$ 2,090
2022	65,900	1,840	2,280
2023	63,500	1,840	2,470
2024	64,700	1,620	2,450
2025	65,300	1,820	2,450
2026-2030	326,700	8,010	9,790

We have trusts that hold the assets for the defined benefit plans. CHS has a qualified plan committee that sets investment guidelines with the assistance of external consultants. Investment objectives for the plans' assets are as follows:

- Optimization of the long-term returns on plan assets at an acceptable level of risk;

- Maintenance of broad diversification across asset classes and among investment managers; and
- Focus on long-term return objectives.

Asset allocation targets promote optimal expected return and volatility characteristics given the long-term time horizon for fulfilling the obligations of the pension plans. The investment portfolio contains a diversified portfolio of investment categories, including equities, fixed-income securities and real estate. Securities are also diversified in terms of domestic and international securities, short- and long-term securities, growth and value equities, large and small cap stocks, as well as active and passive management styles. Our pension plans' investment policy strategy is such that liabilities match assets. This is being accomplished through the asset portfolio mix by reducing volatility and de-risking the plans. The plans' target allocation percentages range between 45% and 65% for fixed income securities and range between 35% and 55% for equity securities.

The qualified plan committee believes that with prudent risk tolerance and asset diversification, the plans should be able to meet pension obligations in the future.

Our pension plans' recurring fair value measurements by asset category at August 31, 2020 and 2019, are presented in the tables below:

(DOLLARS IN THOUSANDS)	2020			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and cash equivalents	\$ 57,801	\$ —	\$ —	\$ 57,801
Equities:				
Common/collective trust at net asset value (1)	—	—	—	219,050
Fixed income securities:				
Common/collective trust at net asset value (1)	—	—	—	603,250
Partnership and joint venture interests measured at net asset value(1)	—	—	—	94,400
Other assets measured at net asset value(1)	—	—	—	2,041
Total	\$ 57,801	\$ —	\$ —	\$ 976,542

(DOLLARS IN THOUSANDS)	2019			
	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Cash and cash equivalents	\$ 7,938	\$ —	\$ —	\$ 7,938
Equities:				
Common/collective trust at net asset value(1)	—	—	—	209,860
Fixed income securities:				
Common/collective trust at net asset value(1)	—	—	—	574,296
Partnership and joint venture interests measured at net asset value (1)	—	—	—	101,641
Other assets measured at net asset value (1)	—	—	—	15,692
Total	\$ 7,938	\$ —	\$ —	\$ 909,427

- (1) In accordance with ASC Topic 820-10, Fair Value Measurement, certain assets that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of net assets.

Definitions for valuation levels are found in Note 16, *Fair Value Measurements*. We use the following valuation methodologies for assets measured at fair value.

Common/collective trusts. Common/collective trusts primarily consist of equity and fixed income funds and are valued using other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risks, referenced indices, quoted prices in inactive markets, adjusted quoted prices in active markets, adjusted quoted prices on foreign equity securities that were adjusted in accordance with pricing procedures approved by the trust, etc.). Common/collective trust investments can be redeemed daily and without restriction. Redemption of the entire investment balance generally requires a 45- to

60-day notice period. The equity funds provide exposure to large, mid and small cap U.S. equities, international large and small cap equities and emerging market equities. The fixed income funds provide exposure to U.S., international and emerging market debt securities.

Partnership and joint venture interests. Valued at the net asset value of shares held by the plan at year-end as a practical expedient for fair value. The net asset value is based on the fair value of the underlying assets owned by the trust, minus its liabilities, then divided by the number of units outstanding. Redemptions of these interests generally require a 45- to 60-day notice period.

Other assets. Other assets primarily include real estate funds and hedge funds held in the asset portfolio of our U.S. defined benefit pension plans.

THIRTEEN: *Benefit Plans, continued*

We are one of approximately 400 employers that contribute to the Co-op Retirement Plan (“Co-op Plan”), which is a defined benefit plan constituting a “multiple employer plan” under the Internal Revenue Code of 1986, as amended, and a “multiemployer plan” under the accounting standards. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers;

- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and
- If we choose to stop participating in the multiemployer plan, we may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability. The withdrawal liability associated with the multiemployer plan was approximately \$46.0 million as of August 31, 2020.

Our participation in the Co-op Plan for the years ended August 31, 2020, 2019 and 2018, is outlined in the table below:

(DOLLARS IN THOUSANDS)		CONTRIBUTIONS OF CHS			SURCHARGE IMPOSED	EXPIRATION DATE OF COLLECTIVE BARGAINING AGREEMENT
PLAN NAME	EIN/PLAN NUMBER	2020	2019	2018		
Co-op Retirement Plan	01-0689331 / 001	\$1,455	\$ 1,712	\$ 1,662	N/A	N/A

Our contributions for the years stated above did not represent more than 5% of total contributions to the Co-op Plan as indicated in the Co-op Plan’s most recently available annual report (Form 5500).

Provisions of the Pension Protection Act of 2006 (“PPA”) do not apply to the Co-op Plan because there is a special exemption for cooperative plans if the plan is maintained by more than one employer and at least 85% of the employers are rural cooperatives or cooperative organizations owned by agricultural producers. In the Co-op Plan, a “zone status” determination is not required, and therefore not determined. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employers. The most recent financial statements available in 2020 and 2019 are for the Co-op Plan’s year-end at March 31, 2020 and 2019, respectively. In total, the Co-op Plan was at least 80% funded on those dates

based on the total plan assets and accumulated benefit obligations.

Because the provisions of the PPA do not apply to the Co-op Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

In addition to the contributions to the Co-op Plan listed above, total contributions to individually insignificant multiemployer pension plans were immaterial in fiscal 2020, 2019 and 2018.

We have other contributory defined contribution plans covering substantially all employees. Total contributions by us to these plans were \$34.5 million, \$31.0 million and \$24.7 million, for the years ended August 31, 2020, 2019 and 2018, respectively.

FOURTEEN

Segment Reporting

We are an integrated agricultural enterprise, providing grain, foods and energy resources to businesses and consumers on a global basis. We provide a wide variety of products and services, from initial agricultural inputs such as fuels, farm supplies, crop nutrients and crop protection products, to agricultural outputs that include grains and oilseeds, grain and oilseed processing and food products, and the production and marketing of ethanol. 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 the 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 with CF Nitrogen, to purchase up to a specified quantity of granular urea and UAN annually from CF Nitrogen. Corporate and Other represents our financing and hedging businesses, which primarily consists of a U.S. Commodity Futures Trading Commission-regulated futures commission merchant for commodities hedging, financial services related to crop production, and insurance which was disposed of in May 2018. Our nonconsolidated investments in Ventura Foods and Ardent Mills are also included in our Corporate and Other category.

Corporate administrative expenses and interest are allocated to each reportable segment, along with Corporate and Other, based on direct use 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 country operations business generally experiences higher volumes and income during the spring planting season and during the fall harvest season and our agronomy business generally experiences higher volumes and income during the spring planting season. Our global 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 crop-drying seasons.

Our revenues, assets and cash flows can be significantly affected by global market prices for commodities such as petroleum products, natural gas, 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 plant disease or insects, drought, availability and adequacy of supply, availability of a reliable rail and river transportation network, outbreaks of disease, government regulations and policies, global trade disputes, and general political and economic conditions.

While our revenues and operating results are derived primarily from businesses and operations that are wholly-owned or subsidiaries and limited liability companies in which we have a controlling interest, a portion of our business operations are conducted through companies in which we hold ownership interests of 50% or less or do not control the operations. We account for these investments primarily using the equity method of accounting, wherein we record our proportionate share of income or loss reported by the entity as equity income from investments, without consolidating the revenues and expenses of the entity in our Consolidated Statements of Operations. In our Nitrogen Production segment, this consists of our approximate 10% membership interest (based on product tons) in CF Nitrogen. In

FOURTEEN: Segment Reporting, continued

Corporate and Other, this principally includes our 50% ownership in Ventura Foods and our 12% ownership in Ardent Mills. See Note 6, *Investments*, for more information related to CF Nitrogen, Ventura Foods and Ardent Mills.

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

Segment information for the years ended August 31, 2020, 2019 and 2018 is presented in the tables below. The fiscal 2020 and fiscal 2019 results for our Ag segment include results associated with our acquisition of the remaining 75% ownership interest in WCD that we did not previously own on March 1, 2019, which were not included in our fiscal 2018 results. Refer to further details related to our acquisition of the remaining 75% ownership interest in WCD that we did not previously own within Note 20, *Acquisitions*.

(DOLLARS IN THOUSANDS)	ENERGY	AG	NITROGEN PRODUCTION	CORPORATE AND OTHER	RECONCILING AMOUNTS	Total
For the year ended August 31, 2020						
Revenues, including intersegment revenues	\$ 5,820,154	\$ 22,940,712	\$ —	\$ 55,567	\$ (410,068)	\$ 28,406,365
Intersegment revenues	(389,020)	(14,613)	—	(6,435)	410,068	—
Revenues, net of intersegment revenues	\$ 5,431,134	\$ 22,926,099	\$ —	\$ 49,132	\$ —	\$ 28,406,365
Operating earnings (loss)	219,861	82,543	(33,497)	8,358	—	277,265
Gain on disposal of business	—	(211)	—	(1,239)	—	(1,450)
Interest expense	308	71,682	45,255	11,806	(12,074)	116,977
Other income	(3,005)	(35,349)	(2,635)	(9,510)	12,074	(38,425)
Equity income from investments	(2,759)	(7,303)	(127,954)	(48,699)	—	(186,715)
Income before income taxes	\$ 225,317	\$ 53,724	\$ 51,837	\$ 56,000	\$ —	\$ 386,878
Capital expenditures	175,169	158,903	—	84,287	—	418,359
Depreciation and amortization	245,983	196,510	—	34,882	—	477,375
Total assets as of August 31, 2020	4,447,526	6,325,857	2,681,616	2,538,948	—	15,993,947

(DOLLARS IN THOUSANDS)	ENERGY	AG	NITROGEN PRODUCTION	CORPORATE AND OTHER	RECONCILING AMOUNTS	TOTAL
For the year ended August 31, 2019						
Revenues, including intersegment revenues	\$ 7,581,450	\$ 24,736,425	\$ —	\$ 68,710	\$ (486,132)	\$ 31,900,453
Intersegment revenues	(462,374)	(16,353)	—	(7,405)	486,132	—
Revenues, net of intersegment revenues	\$ 7,119,076	\$ 24,720,072	\$ —	\$ 61,305	\$ —	\$ 31,900,453
Operating earnings (loss)	615,662	65,181	(35,046)	13,805	—	659,602
Gain on disposal of business	—	(3,886)	—	—	—	(3,886)
Interest expense	5,719	101,386	55,226	11,684	(6,950)	167,065
Other income	(5,548)	(70,888)	(2,769)	(10,168)	6,950	(82,423)
Equity income from investments	(2,697)	(4,447)	(160,373)	(69,238)	—	(236,755)
Income before income taxes	\$ 618,188	\$ 43,016	\$ 72,870	\$ 81,527	\$ —	\$ 815,601
Capital expenditures	268,877	110,197	—	64,142	—	443,216
Depreciation and amortization	233,624	208,294	—	31,293	—	473,211
Total assets as of August 31, 2019	4,401,793	6,415,580	2,730,306	2,899,815	—	16,447,494

(DOLLARS IN THOUSANDS)	ENERGY	AG	NITROGEN PRODUCTION	CORPORATE AND OTHER	RECONCILING AMOUNTS	TOTAL
For the year ended August 31, 2018						
Revenues, including intersegment revenues	\$ 8,068,717	\$25,052,395	\$ —	\$ 64,516	\$ (502,281)	\$32,683,347
Intersegment revenues	(479,598)	(14,914)	—	(7,769)	502,281	—
Revenues, net of intersegment revenues	\$ 7,589,119	\$ 25,037,481	\$ —	\$ 56,747	\$ —	\$32,683,347
Operating earnings (loss)	388,112	93,728	(20,619)	(8,857)	—	452,364
Gain on disposal of business	(65,862)	(7,707)	—	(58,247)	—	(131,816)
Interest expense	14,627	94,256	50,499	(7,712)	(2,468)	149,202
Other income	(9,698)	(68,471)	(3,061)	(3,975)	2,468	(82,737)
Equity (income) loss from investments	(3,063)	1,392	(106,895)	(44,949)	—	(153,515)
Income before income taxes	\$ 452,108	\$ 74,258	\$ 38,838	\$ 106,026	\$ —	\$ 671,230
Capital expenditures	248,207	77,962	—	29,243	—	355,412
Depreciation and amortization	230,230	218,716	—	29,104	—	478,050

We have international sales, which are predominantly in our Ag segment. The following table presents our sales, based on the geographic location of the subsidiary making the sale, for the years ended August 31, 2020, 2019 and 2018:

(DOLLARS IN THOUSANDS)	2020	2019	2018
North America(a)	\$ 25,360,077	\$ 27,896,269	\$ 29,475,724
South America	1,559,380	2,027,020	1,569,330
Europe, Middle East and Africa (EMEA)	774,068	895,472	536,501
Asia Pacific (APAC)	712,840	1,081,692	1,101,792
Total	\$ 28,406,365	\$ 31,900,453	\$ 32,683,347

(a) Revenues in North America are substantially all attributed to revenues from the United States.

Long-lived assets include our property, plant and equipment, finance lease assets and capitalized major maintenance costs. The following table presents long-lived assets by geographical region based on physical location:

(DOLLARS IN THOUSANDS)	2020	2019
United States	\$ 5,121,315	\$ 5,295,752
International	65,134	79,846
Total	\$ 5,186,449	\$ 5,375,598

FIFTEEN

Derivative Financial Instruments and Hedging Activities

We enter into various derivative instruments to manage our exposure to movements primarily associated with agricultural and energy commodity prices and, to a lesser degree,

foreign currency exchange rates and interest rates. Except for certain interest rate swaps and certain pay-fixed, receive-variable, cash-settled swaps related to future crude

FIFTEEN: Derivative Financial Instruments and Hedging Activities, continued

oil purchases, which are accounted for as fair value hedges and cash flow hedges, respectively, our derivative instruments represent economic hedges of price risk for which hedge accounting under ASC Topic 815 is not applied. Rather, the derivative instruments are recorded on our Consolidated Balance Sheets at fair value with changes in fair value being recorded directly to earnings, primarily within cost of goods sold in our Consolidated Statements of Operations. See Note 16, *Fair Value Measurements*, for additional information. The majority of our exchange traded agricultural commodity futures are settled daily through CHS Hedging, our wholly-owned futures commission merchant.

The following tables present the gross fair values of derivative assets, derivative liabilities and margin deposits (cash collateral) recorded on our Consolidated Balance Sheets, along with related amounts permitted to be offset in accordance with U.S. GAAP. Although we have certain netting arrangements for our exchange-traded futures and options contracts and certain over-the-counter (“OTC”) contracts, we have elected to report our derivative instruments on a gross basis on our Consolidated Balance Sheets under ASC Topic 210-20, *Balance Sheet—Offsetting*.

	AUGUST 31, 2020			
	AMOUNTS NOT OFFSET ON THE CONSOLIDATED BALANCE SHEET BUT ELIGIBLE FOR OFFSETTING			
	GROSS AMOUNTS RECOGNIZED	CASH COLLATERAL	DERIVATIVE INSTRUMENTS	NET AMOUNTS
<i>(DOLLARS IN THOUSANDS)</i>				
Derivative Assets				
Commodity derivatives	\$ 327,493	\$ —	\$ 2,980	\$ 324,513
Foreign exchange derivatives	11,809	—	9,385	2,424
Embedded derivative asset	18,998	—	—	18,998
Total	\$ 358,300	\$ —	\$ 12,365	\$ 345,935
Derivative Liabilities				
Commodity derivatives	\$ 343,343	\$ 956	\$ 5,578	\$ 336,809
Foreign exchange derivatives	69,466	—	9,385	60,081
Total	\$ 412,809	\$ 956	\$ 14,963	\$ 396,890

	AUGUST 31, 2019			
	AMOUNTS NOT OFFSET ON THE CONSOLIDATED BALANCE SHEET BUT ELIGIBLE FOR OFFSETTING			
	GROSS AMOUNTS RECOGNIZED	CASH COLLATERAL	DERIVATIVE INSTRUMENTS	NET AMOUNTS
<i>(DOLLARS IN THOUSANDS)</i>				
Derivative Assets				
Commodity derivatives	\$ 215,030	\$ —	\$ 58,726	\$ 156,304
Foreign exchange derivatives	10,334	—	7,108	3,226
Embedded derivative asset	21,364	—	—	21,364
Total	\$ 246,728	\$ —	\$ 65,834	\$ 180,894
Derivative Liabilities				
Commodity derivatives	\$ 223,410	\$ 4,191	\$ 41,647	\$ 177,572
Foreign exchange derivatives	20,609	—	7,108	13,501
Total	\$ 244,019	\$ 4,191	\$ 48,755	\$ 191,073

Derivative assets and liabilities with maturities of less than 12 months are recorded in other current assets and other current liabilities, respectively, on the Consolidated Balance Sheets. Derivative assets and liabilities

with maturities greater than 12 months are recorded in other assets and other liabilities, respectively, on the Consolidated Balance Sheets. The amount of long-term derivative assets, excluding derivatives accounted for as

fair value hedges, recorded on the Consolidated Balance Sheet at August 31, 2020 and 2019, was \$21.2 million and \$26.6 million, respectively. The amount of long-term derivative liabilities, excluding derivatives accounted for as fair value hedges, recorded on the Consolidated Balance Sheet at August 31, 2020 and 2019, was \$5.4 million and \$7.4 million, respectively.

Derivatives Not Designated as Hedging Instruments

The majority of our derivative instruments have not been designated as hedging instruments. The following table sets forth the pretax gains (losses) on derivatives not accounted for as hedging instruments that have been included in our Consolidated Statements of Operations for the years ended August 31, 2020, 2019 and 2018.

DERIVATIVE TYPE (DOLLARS IN THOUSANDS)	LOCATION OF GAIN (LOSS)	2020	2019	2018
Commodity derivatives	Cost of goods sold	\$ 89,248	\$ 125,323	\$ 162,321
Foreign exchange derivatives	Cost of goods sold	(184,692)	4,228	(26,010)
Foreign exchange derivatives	Marketing, general and administrative expenses	(2,986)	(1,229)	596
Interest rate derivatives	Interest expense	(1,226)	—	(1)
Embedded derivative	Other income	2,634	2,769	3,061
Total		\$ (97,022)	\$ 131,091	\$ 139,967

Commodity Contracts

When we enter a commodity purchase or sales commitment, we are exposed to risks related to price changes and performance, including delivery, quality, quantity and shipment period. If market prices decrease, we are exposed to risk of loss in the market value of inventory and purchase contracts with a fixed or partially fixed price. Conversely, we are exposed to risk of loss on our fixed or partially fixed price sales contracts if market prices increase.

Our use of hedging reduces exposure to price volatility by protecting against adverse short-term price movements, but also limits the benefits of favorable short-term price movements. To reduce price risk associated with fixed price commitments, we generally enter into commodity derivative contracts, to the extent practical, to achieve a net commodity position within the formal position limits we have established and deemed prudent for each commodity. These contracts are primarily transacted on regulated commodity futures exchanges, but may also include over-the-counter derivative instruments when deemed appropriate. For commodities where there is no liquid derivative contract, risk is managed using forward sales contracts, other pricing arrangements and, to some extent, futures contracts in highly correlated commodities. These contracts are economic hedges of price risk, but are not

designated as hedging instruments for accounting purposes. The contracts are recorded on our Consolidated Balance Sheets at fair values based on quotes listed on regulated commodity exchanges or the market prices of the underlying products listed on the exchanges, except that fertilizer and certain propane contracts are accounted for as normal purchase and normal sales transactions. Unrealized gains and losses on these contracts are recognized in cost of goods sold in our Consolidated Statements of Operations.

When a futures position is established, initial margin must be deposited with the applicable exchange or broker. The amount of margin required varies by commodity and is set by the applicable exchange at its sole discretion. If the market price relative to a short futures position increases, an additional margin deposit would be required. Similarly, a margin deposit would be required if the market price relative to a long futures position decreases. Conversely, if the market price increases relative to a long futures position or decreases relative to a short futures position, margin deposits may be returned by the applicable exchange or broker.

Our policy is to manage our commodity price risk exposure according to internal policies and in alignment with our tolerance for risk. Our profitability from operations is primarily derived from margins on products sold and grain merchandised, not from hedging transactions. At

FIFTEEN: *Derivative Financial Instruments and Hedging Activities, continued*

any one time, inventory and purchase contracts for delivery to us may be substantial. We have risk management policies that include established net position limits. These limits are defined for each commodity and business unit and may include both trader and management limits as appropriate. The limits policy is managed within each individual business unit to ensure any limits overage is explained and exposures reduced, or a temporary limit increase is established if needed. The position limits are reviewed at least annually with our senior leadership and Board of Directors. We monitor current market conditions and may expand or reduce our net position limits in response to changes in those conditions. In addition, all purchase and sales contracts are subject to credit approvals and appropriate terms and conditions.

The use of hedging instruments does not protect against nonperformance by counterparties to cash contracts. We evaluate counterparty exposure by reviewing contracts and adjusting the values to reflect potential nonperformance. Risk of nonperformance by counterparties includes inability to perform because of a counterparty's financial condition and the risk that the counterparty will refuse to perform on a contract during periods of price fluctuations where contract prices are significantly different than the current market prices. We manage these risks by entering into fixed price purchase and sales contracts with preapproved producers and by establishing appropriate limits for individual suppliers. Fixed price contracts are entered into with customers of acceptable creditworthiness, as internally evaluated. Regarding our use of derivatives, we primarily transact in exchange traded instruments or enter into over-the-counter derivatives that clear through a designated clearing organization, which limits our counterparty exposure relative to hedging activities. Historically, we have not experienced significant events of nonperformance on open contracts. Accordingly, we only adjust the estimated fair values of specifically identified contracts for nonperformance. Although we have established policies and procedures, we make no assurances that historical nonperformance experience will carry forward to future periods.

As of August 31, 2020 and 2019, we had outstanding commodity futures and options contracts that were used as economic hedges, as well as fixed-price forward contracts related to physical purchases and sales of

commodities. The table below presents the notional volumes for all outstanding commodity contracts.

DERIVATIVE TYPE (UNITS IN THOUSANDS)	2020		2019	
	LONG	SHORT	LONG	SHORT
Grain and oilseed (bushels)	664,673	892,303	547,096	717,522
Energy products (barrels)	10,028	6,570	13,895	4,663
Processed grain and oilseed (tons)	657	3,304	597	2,454
Crop nutrients (tons)	74	127	76	23
Ocean freight (metric tons)	1,140	95	295	85
Natural gas (MMBtu)	—	—	130	—

Foreign Exchange Contracts

We conduct a substantial portion of our business in U.S. dollars, but we are exposed to risks relating to foreign currency fluctuations primarily due to global grain marketing transactions in South America, the Asia Pacific region and Europe, and purchases of products from Canada. We use foreign currency derivative instruments to mitigate the impact of exchange rate fluctuations. Although CHS has some risk exposure relating to foreign currency transactions, a larger impact with exchange rate fluctuations is the ability of foreign buyers to purchase U.S. agricultural products and the competitiveness of U.S. agricultural products compared to the same products offered by alternative sources of world supply. The notional amounts of our foreign exchange derivative contracts were \$1.2 billion and \$894.7 million as of August 31, 2020 and 2019, respectively.

Embedded Derivative Asset

Under the terms of our strategic investment in CF Nitrogen, if the CF Industries credit rating is reduced below certain levels by two of three specified credit ratings agencies, we are entitled to receive a nonrefundable annual payment of \$5.0 million from CF Industries. These payments will continue on an annual basis until the date the CF Industries credit rating is upgraded to or above certain levels by two of the three specified credit ratings agencies or February 1, 2026, whichever is earlier.

Since the CF Industries credit rating was reduced below the specified levels during fiscal 2017, we have received an annual payment of \$5.0 million from CF Industries.

Gains totaling \$2.6 million, \$2.8 million and \$3.1 million were recognized in other income in our Consolidated Statements of Operations during fiscal 2020, fiscal 2019 and fiscal 2018, respectively. The fair value of the embedded derivative asset recorded on our Consolidated Balance Sheet as of August 31, 2020, was equal to \$19.0 million. The current and long-term portions of the embedded derivative asset are included in other current assets and other assets on our Consolidated Balance Sheet, respectively. See Note 16, *Fair Value Measurements*, for additional information regarding the valuation of the embedded derivative asset.

Derivatives Designated as Cash Flow or Fair Value Hedging Strategies

Fair Value Hedges

During the year ended August 31, 2020, we exited all our interest rate swaps resulting in a \$16.4 million gain,

which is being amortized over the life of the fixed-rate debt for which the swaps had previously been designated as fair value hedges, through fiscal 2025. As of August 31, 2019, we had outstanding interest rate swaps with an aggregate notional amount of \$365.0 million designated as fair value hedges of portions of our fixed-rate debt. Our objective in entering into these transactions was to offset changes in the fair value of the debt associated with the risk of variability in the three-month U.S. dollar LIBOR interest rate, in essence converting the fixed-rate debt to variable-rate debt. Under these interest rate swaps, we received fixed-rate interest payments and made interest payments based on the three-month LIBOR. Offsetting changes in the fair values of both the swap instruments and the hedged debt were recorded contemporaneously each period and only created an impact to earnings to the extent the hedge was ineffective.

The following table presents the fair value of our derivative interest rate swap instruments designated as fair value hedges and the line items on our Consolidated Balance Sheets in which they are recorded as of August 31, 2020 and 2019.

BALANCE SHEET LOCATION (DOLLARS IN THOUSANDS)	2020	2019
	DERIVATIVE ASSETS	
Other assets	\$ —	\$ 9,841

The following table sets forth the pretax gains (losses) on derivatives accounted for as hedging instruments that have been included in our Consolidated Statements of Operations for the years ended August 31, 2020, 2019 and 2018.

GAIN (LOSS) ON FAIR VALUE HEDGING RELATIONSHIPS (DOLLARS IN THOUSANDS)	LOCATION OF GAIN (LOSS)	2020	2019	2018
Interest rate swaps	Interest expense	\$ (1,897)	\$ 21,158	\$ 18,723
Hedged item	Interest expense	1,897	(21,158)	(18,723)
Total		\$ —	\$ —	\$ —

The following table provides the location and carrying amount of hedged liabilities in our Consolidated Balance Sheets as of August 31, 2020 and 2019.

BALANCE SHEET LOCATION (DOLLARS IN THOUSANDS)	AUGUST 31, 2020		AUGUST 31, 2019	
	CARRYING AMOUNT OF HEDGED LIABILITIES	CUMULATIVE AMOUNT OF FAIR VALUE HEDGING ADJUSTMENTS INCLUDED IN THE CARRYING AMOUNT OF HEDGED LIABILITIES	CARRYING AMOUNT OF HEDGED LIABILITIES	CUMULATIVE AMOUNT OF FAIR VALUE HEDGING ADJUSTMENTS INCLUDED IN THE CARRYING AMOUNT OF HEDGED LIABILITIES
Long-term debt	\$ —	\$ —	\$ 334,389	\$ 30,611

Cash Flow Hedges

In fiscal 2018, our Energy segment began designating certain of its pay-fixed, receive-variable, cash-settled

swaps as cash flow hedges of future crude oil purchases. We also began designating certain pay-variable, receive-fixed, cash-settled swaps as cash flow hedges of

FIFTEEN: *Derivative Financial Instruments and Hedging Activities, continued*

future refined product sales. These hedging instruments and the related hedged items are exposed to significant market price risk and potential volatility. As part of our risk management strategy, we look to hedge a portion of our expected future crude oil needs and the resulting refined product output based on prevailing futures

prices, management's expectations about future commodity price changes and our risk appetite. As of August 31, 2020 and 2019, the aggregate notional amount of cash flow hedges was 9.7 million and 7.7 million barrels, respectively.

The following table presents the fair value of our commodity derivative instruments designated as cash flow hedges and the line items on our Consolidated Balance Sheets in which they are recorded as of August 31, 2020 and 2019.

BALANCE SHEET LOCATION (DOLLARS IN THOUSANDS)	DERIVATIVE ASSETS		BALANCE SHEET LOCATION (DOLLARS IN THOUSANDS)	DERIVATIVE LIABILITIES	
	2020	2019		2020	2019
Other current assets	\$ 34,052	\$33,179	Other current liabilities	\$ 8,821	\$ 5,351

The following table presents the pretax gains (losses) recorded in other comprehensive income relating to cash flow hedges for the years ended August 31, 2020, 2019 and 2018:

(DOLLARS IN THOUSANDS)	2020	2019	2018
Commodity derivatives	\$ (2,596)	\$ 27,650	\$178

The following table presents the pretax gains (losses) relating to cash flow hedges that were reclassified from accumulated other comprehensive loss into our Consolidated Statements of Operations for the years ended August 31, 2020, 2019 and 2018:

(DOLLARS IN THOUSANDS)	Location of Gain (Loss)	2020	2019	2018
Commodity derivatives	Cost of goods sold	\$ 23,807	\$ 11,497	\$ —

SIXTEEN

Fair Value Measurements

ASC Topic 820, *Fair Value Measurement*, defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

We determine fair values of derivative instruments and certain other assets, based on the fair value hierarchy established in ASC Topic 820, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are inputs that reflect the

assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. ASC Topic 820 describes three levels within its hierarchy that may be used to measure fair value, and our assessment of relevant instruments within those levels is as follows:

Level 1. Values are based on unadjusted quoted prices in active markets for identical assets or liabilities. These assets and liabilities may include exchange-traded derivative instruments, rabbi trust investments, deferred compensation investments and available-for-sale investments.

Level 2. Values are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. These assets and liabilities include interest rate, foreign exchange and commodity swaps; forward commodity contracts with a fixed price component; and other OTC derivatives whose value is determined with inputs that are based on exchange traded prices, adjusted for location specific inputs that are primarily observable in the market or can be derived principally from, or corroborated by, observable market data.

Level 3. Values are generated from unobservable inputs that are supported by little or no market activity and that are a significant component of the fair value of the assets or liabilities. These unobservable inputs

would reflect our own estimates of assumptions that market participants would use in pricing related assets or liabilities. Valuation techniques might include the use of pricing models, discounted cash flow models or similar techniques.

The following tables present assets and liabilities, included on our Consolidated Balance Sheets, that are recognized at fair value on a recurring basis and indicate the fair value hierarchy utilized to determine these fair values. Assets and liabilities are classified in their entirety based on the lowest level of input that is a significant component of the fair value measurement. The lowest level of input is considered Level 3. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the classification of fair value assets and liabilities within the fair value hierarchy levels.

Recurring fair value measurements at August 31, 2020 and 2019, are as follows:

(DOLLARS IN THOUSANDS)	2020			TOTAL
	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	
Assets				
Commodity derivatives	\$ 5,762	\$ 355,783	\$ —	\$ 361,545
Foreign currency derivatives	—	11,523	—	11,523
Deferred compensation assets	47,669	—	—	47,669
Embedded derivative asset	—	18,998	—	18,998
Segregated investments	85,950	—	—	85,950
Other assets	5,276	—	—	5,276
Total	\$ 144,657	\$ 386,304	\$ —	\$ 530,961
Liabilities				
Commodity derivatives	\$ 6,037	\$ 346,126	\$ —	\$ 352,163
Foreign currency derivatives	—	69,467	—	69,467
Total	\$ 6,037	\$ 415,593	\$ —	\$ 421,630

SIXTEEN: Fair Value Measurements, continued

(DOLLARS IN THOUSANDS)	2019			TOTAL
	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	
Assets				
Commodity derivatives	\$ 67,817	\$ 180,392	\$ —	\$ 248,209
Foreign currency derivatives	—	10,339	—	10,339
Interest rate swap derivatives	—	9,841	—	9,841
Deferred compensation assets	40,368	—	—	40,368
Embedded derivative asset	—	21,364	—	21,364
Segregated investments	77,777	—	—	77,777
Other assets	6,519	—	—	6,519
Total	\$ 192,481	\$ 221,936	\$ —	\$ 414,417
Liabilities				
Commodity derivatives	\$ 40,305	\$ 188,455	\$ —	\$ 228,760
Foreign currency derivatives	—	20,701	—	20,701
Total	\$ 40,305	\$ 209,156	\$ —	\$ 249,461

Commodity and foreign currency derivatives. Exchange-traded futures and options contracts are valued based on unadjusted quoted prices in active markets and are classified within Level 1. Our forward commodity purchase and sales contracts with fixed-price components, select ocean freight contracts and other OTC derivatives are determined using inputs that are generally based on exchange traded prices and/or recent market bids and offers, adjusted for location specific inputs, and are classified within Level 2. Location-specific inputs are driven by local market supply and demand and are generally based on broker or dealer quotations or market transactions in either listed or OTC markets. Changes in the fair values of these contracts are recognized in our Consolidated Statements of Operations as a component of cost of goods sold.

Interest rate swap derivatives. Fair values of our interest rate swap derivatives are determined utilizing valuation models that are widely accepted in the market to value these OTC derivative contracts. The specific terms of the contracts, as well as market observable inputs, such as interest rates and credit risk assumptions, are factored into the models. As all significant inputs are market observable, all interest rate swaps are classified within Level 2. Changes in the fair values of contracts not designated as hedging instruments for accounting purposes are recognized in our Consolidated Statements of Operations as a component of interest expense. As of August 31, 2020, all interest rate

swaps were unwound. See Note 15, *Derivative Financial Instruments and Hedging Activities*, for additional information about interest rate swaps designated as fair value and cash flow hedges.

Deferred compensation and other assets. Our deferred compensation investments consist primarily of rabbi trust assets that are valued based on unadjusted quoted prices on active exchanges and classified within Level 1. Changes in the fair values of these other assets are primarily recognized in our Consolidated Statements of Operations as a component of marketing, general and administrative expenses.

Embedded derivative asset. The embedded derivative asset relates to contingent payments inherent to our investment in CF Nitrogen. The inputs used in the fair value measurement include the probability of future upgrades and downgrades of the CF Industries credit rating based on historical credit rating movements of other public companies and the discount rates applied to potential annual payments based on applicable historical and current yield coupon rates. Based on these observable inputs, our fair value measurement is classified within Level 2. See Note 15, *Derivative Financial Instruments and Hedging Activities*, for additional information.

Segregated investments. Our segregated investments are comprised of U.S. Treasury securities, which are valued using quoted market prices and classified within Level 1.

SEVENTEEN

Commitments and Contingencies

Environmental

We are required to comply with various environmental laws and regulations incidental to our normal business operations. To meet our compliance requirements, we establish reserves for future costs of remediation associated with identified issues that are both probable and can be reasonably estimated. Estimates of environmental costs are based on current available facts, existing technology, undiscounted site-specific costs and currently enacted laws and regulations and are included in cost of goods sold and marketing, general and administrative expenses in our Consolidated Statements of Operations. Recoveries, if any, are recorded in the period in which recovery is received. Liabilities are monitored and adjusted as new facts or changes in law or technology occur. The resolution of any such matters may affect consolidated net income for any fiscal period; however, we believe any resulting liabilities, individually or in the aggregate, will not have a material effect on our consolidated financial position, results of operations or cash flows during any fiscal year.

Other Litigation and Claims

We are involved as a defendant in various lawsuits, claims and disputes, which are in the normal course of our business. The resolution of any such matters may

affect consolidated net income for any fiscal period; however, we believe any resulting liabilities, individually or in the aggregate, will not have a material effect on our consolidated financial position, results of operations or cash flows during any fiscal year.

Guarantees

We are a guarantor for lines of credit and performance obligations of related, nonconsolidated companies. Our bank covenants allow maximum guarantees of \$1.0 billion, of which \$127.9 million were outstanding on August 31, 2020. We have collateral for a portion of these contingent obligations. We have not recorded a liability related to the contingent obligations as we do not expect to pay out any cash related to them, and the fair values are considered immaterial. The underlying loans to the counterparties for which we provide these guarantees are current as of August 31, 2020.

Credit Commitments

CHS Capital has commitments to extend credit to customers if there is no violation of any condition established in the contracts. As of August 31, 2020, CHS Capital customers have additional available credit of \$714.5 million.

Unconditional Purchase Obligations

Unconditional purchase obligations are commitments to transfer funds in the future for fixed or minimum amounts or quantities of goods or services at fixed or minimum prices. Our long-term unconditional purchase obligations primarily relate to pipeline and grain handling take-or-pay and throughput agreements and are not recorded on our Consolidated Balance Sheets. As of August 31, 2020, minimum future payments required under long-term commitments that are noncancelable, and that third parties have used to secure financing for facilities that will provide contracted goods, are as follows:

(DOLLARS IN THOUSANDS)	PAYMENTS DUE BY PERIOD						
	Total	2021	2022	2023	2024	2025	THEREAFTER
Long-term unconditional purchase obligations	\$ 544,203	\$ 78,939	\$ 58,214	\$ 58,592	\$ 58,262	\$ 52,702	\$ 237,494

Total payments under these arrangements were \$77.6 million, \$70.8 million and \$61.4 million for the years ended August 31, 2020, 2019 and 2018, respectively.

EIGHTEEN

Related Party Transactions

We purchase and sell grain and other agricultural commodity products from certain equity investees, primarily CF Nitrogen, Ventura Foods, Ardent Mills and TEMCO, LLC. Sales to and purchases from related parties for the years ended August 31, 2020, 2019 and 2018, respectively, are as follows:

(DOLLARS IN THOUSANDS)	2020	2019	2018
Sales	\$ 2,528,921	\$ 2,628,670	\$ 2,928,984
Purchases	872,819	901,812	2,505,185

Receivables due from and payables due to related parties as of August 31, 2020 and 2019, are as follows:

(DOLLARS IN THOUSANDS)	2020	2019
Due from related parties	\$ 129,397	\$ 26,785
Due to related parties	53,602	60,156

As a cooperative, we are owned by farmers and ranchers and their member cooperatives, which are referred to as members. We buy commodities from and provide products and services to our members. Individually, our members do not have a significant ownership in CHS.

NINETEEN

Leases

We adopted ASC Topic 842 on September 1, 2019, using the modified retrospective approach. In addition, we used the additional optional transition method and package of practical expedients in the period of adoption without retrospective adjustment to previous periods presented, although we elected not to apply the hindsight practical expedient. As a result of using the additional optional transition method and following a modified retrospective approach, prior periods have not been restated, and a \$25.3 million cumulative-effect adjustment, including the deferred income tax impact, was recorded to increase the opening balance of capital reserves as of the adoption date related to recognition of previously deferred gains associated with the sale-leaseback of our primary corporate office building located in Inver Grove Heights, Minnesota. Our accounting for finance leases (previously referred to as

capital leases) remains substantially unchanged; however, adoption of ASC Topic 842 resulted in recognition of operating lease right of use assets and associated lease liabilities of \$268.4 million and \$267.0 million, respectively, as of September 1, 2019. Adoption of ASC Topic 842 did not have a material impact on our Consolidated Statements of Operations or Consolidated Statements of Cash Flows.

We assess arrangements at inception to determine whether they contain a lease. An arrangement is considered to contain a lease if it conveys the right to control the use of an asset for a period of time in exchange for consideration. The right to control the use of an asset must include both (a) the right to obtain substantially all economic benefits associated with an identified asset and (b) the right to direct how and for what purpose the identified asset is used. Certain arrangements provide

us with the right to use an identified asset; however, most of these arrangements are not considered to represent a lease as we do not control how and for what purpose the identified asset is used. For example, our supply agreements, warehousing and distribution services agreements, and transportation services agreements generally do not contain leases.

We lease property, plant and equipment used in our operations primarily under operating lease agreements and, to a lesser extent, under finance lease agreements. Our operating leases are primarily for railcars, equipment, vehicles and office space, many of which contain renewal options and escalation clauses. Renewal options are included as part of the right of use asset and liability when it is reasonably certain that we will exercise the renewal option; however, renewal options are generally not included as we are not reasonably certain to exercise such options.

Operating lease right of use assets and liabilities for operating leases are recognized at the lease commencement date for leases in excess of 12 months based on the present value of lease payments over the lease term. For measurement and classification of lease agreements, lease and nonlease components are grouped into a single lease component for all asset classes. Variable lease payments are excluded from measurement of right of use assets and liabilities and generally include payments for nonlease components such as maintenance costs, payments for leased assets beyond their

noncancelable lease term and payments for other nonlease components such as sales tax. The discount rate used to calculate present value is our collateralized incremental borrowing rate or, if available, the rate implicit in the lease. The incremental borrowing rate is determined for each lease based primarily on its lease term. Certain lease arrangements include rental payments adjusted annually based on changes in an inflation index. Our lease arrangements generally do not contain residual value guarantees or material restrictive covenants.

Lease expense is recognized on a straight-line basis over the lease term. The components of lease expense recognized in our Condensed Consolidated Statements of Operations are as follows:

(DOLLARS IN THOUSANDS)	YEAR ENDED AUGUST 31, 2020
Operating lease expense	\$ 71,541
Finance lease expense:	
Amortization of assets	8,205
Interest on lease liabilities	1,060
Short-term lease expense	15,991
Variable lease expense	3,674
Total net lease expense*	\$ 100,471

* Income related to sub-lease activity is not material and has been excluded from the table above.

NINETEEN: Leases, continued

Supplemental balance sheet information related to operating and finance leases is as follows:

(DOLLARS IN THOUSANDS)	BALANCE SHEET LOCATION	AUGUST 31, 2020
Operating leases		
<i>Assets</i>		
Operating lease right of use assets	Other assets	\$ 257,834
<i>Liabilities</i>		
Current operating lease liabilities	Accrued expenses	57,200
Long-term operating lease liabilities	Other liabilities	203,691
Total operating lease liabilities		\$ 260,891
Finance leases		
<i>Assets</i>		
Finance lease assets	Property, plant and equipment	\$ 44,860
<i>Liabilities</i>		
Current finance lease liabilities	Current portion of long-term debt	7,993
Long-term finance lease liabilities	Long-term debt	23,467
Total finance lease liabilities		\$ 31,460
Weighted average remaining lease term (in years)		
Operating leases		8.3
Finance leases		6.0
Weighted average discount rate		
Operating leases		3.11%
Finance leases		3.33%

Supplemental cash flow and other information related to operating and finance leases is as follows:

(DOLLARS IN THOUSANDS)	YEAR ENDED AUGUST 31, 2020
Cash paid for amounts included in measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 71,003
Operating cash flows from finance leases	1,060
Financing cash flows from finance leases	7,949
Supplemental noncash information:	
Right of use assets obtained in exchange for lease liabilities	56,461
Right of use asset modifications	7,333

Maturities of lease liabilities as of August 31, 2020, were as follows:

(DOLLARS IN THOUSANDS)	AUGUST 31, 2020	
	FINANCE LEASES	OPERATING LEASES
Fiscal 2021	\$ 8,845	\$ 64,379
Fiscal 2022	7,017	50,398
Fiscal 2023	6,053	40,269
Fiscal 2024	3,443	32,195
Fiscal 2025	2,046	23,034
Thereafter	7,933	95,553
Total maturities of lease liabilities	35,337	305,828
Less amounts representing interest	3,877	44,937
Present value of future minimum lease payments	31,460	260,891
Less current obligations	7,993	57,200
Long-term obligations	\$ 23,467	\$ 203,691

Disclosures Related to Periods Prior to Adoption of New Lease Standard

The following pertains to previously disclosed information in our Annual Report on Form 10-K for the fiscal year ended August 31, 2019, which incorporates information about leases now in the scope of ASC Topic 842. Total rental expense for operating leases was \$113.3 million, \$88.5 million and \$81.3 million for the years ended August 31, 2019, 2018 and 2017, respectively. Various leases under capital lease totaled \$62.7 million and \$50.0 million as of August 31, 2019 and 2018, respectively. Accumulated amortization on assets under capital leases was \$20.6 million and \$18.9 million as of August 31, 2019 and 2018, respectively. Minimum future lease payments required under noncancelable capital

and operating leases as of August 31, 2019, were as follows:

(DOLLARS IN THOUSANDS)	AUGUST 31, 2019	
	FINANCE LEASES	OPERATING LEASES
Fiscal 2020	\$ 6,761	\$ 87,168
Fiscal 2021	6,199	57,381
Fiscal 2022	5,021	43,665
Fiscal 2023	4,548	34,328
Fiscal 2024	2,638	26,793
Thereafter	6,517	92,653
Total minimum future lease payments	31,684	\$ 341,988
Less amount representing interest	3,445	
Present value of net minimum lease payments	\$ 28,239	

TWENTY

Acquisitions

On March 1, 2019, we completed our acquisition of the remaining 75% ownership interest in WCD, a full-service wholesale distributor of agronomy products that operates primarily in the United States. The purchase price was equal to \$113.4 million, including \$6.7 million that was previously paid and \$106.7 million paid on March 1, 2019, of which the net cash flows were reduced by \$8.0 million of cash acquired. Prior to completing this acquisition and through February 28, 2019, we had a 25% ownership interest in WCD, which was accounted for under the equity method of accounting whereby we shared in the economics of WCD earnings on a pro-rata basis. Related party transactions through the date of the acquisition have been included within Note 18, *Related Party Transactions*. By acquiring the remaining ownership interest in WCD, we were able to expand our agronomy platform, position ourselves as a leading supply partner to cooperatives and retailers serving growers throughout the United States and add value for our owners. The WCD enterprise value was determined

using a discounted cash flow model in which the fair value of the business was estimated based on the earning capacity of WCD. We estimated the fair value of the previously held equity interest to be equal to 25% of the total fair value of WCD, which was implied based on the purchase price we paid for the remaining 75% interest. The acquisition-date fair value of the previous equity interest was \$37.8 million and is included in the measurement of the consideration transferred. We recognized a gain of approximately \$19.1 million as a result of remeasuring our prior equity interest in WCD held before the acquisition of the remaining 75% interest. The gain is included in other (income) loss in our Consolidated Statements of Operations.

Allocation of the purchase price for this transaction resulted in goodwill of \$61.4 million, which is nondeductible for tax purposes, and definite-lived intangible assets of \$47.2 million. As this acquisition is not considered to have a material impact on our financial statements, pro

TWENTY: *Acquisitions, continued*

forma results of operations are not presented. The acquisition resulted in fair value measurements that are not on a recurring basis and did not have a material impact on our consolidated results of operations. Purchase accounting has been finalized and fair values assigned to the net assets acquired are as follows:

(DOLLARS IN THOUSANDS)

Cash	\$ 8,033
Other current assets	708,764
Property, plant and equipment	44,064
Goodwill	61,358
Other intangible assets	47,200
Other non-current assets	55
Liabilities	(718,262)
Total net assets acquired	\$ 151,212

Operating results for WCD are included in our Consolidated Statements of Operations from the day of the acquisition on March 1, 2019, through August 31, 2020. WCD revenues and income before income taxes were \$569.2 million and \$19.0 million, respectively, for the year ended August 31, 2020, and \$456.2 million and \$12.9 million, respectively, for the year ended August 31, 2019. Due to the timing of the acquisition during the third quarter of fiscal 2019, WCD's results prior to acquisition were not included in the fiscal 2019 or fiscal 2018 results.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors, Members and Patrons of CHS Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of CHS Inc. and its subsidiaries (the “Company”) as of August 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive income, changes in equities and cash flows for each of the three years in the period ended August 31, 2020, including the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of August 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended August 31, 2020 in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for leases as of September 1, 2019.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.



PricewaterhouseCoopers LLP
Minneapolis, Minnesota
November 5, 2020

We have served as the Company’s auditor since 1998.

ACKNOWLEDGEMENTS

To create this annual report, CHS worked with cooperative teams and farmer-owners and their families. The collective accomplishments described in these pages reflect their commitment to the cooperative system. We thank them for their cooperative spirit.

Minnesota: Ken Bourquin, Bourquin Farms, Eyota, Minn.; Dusty Dienst, Faribault, Minn.; Brittany Smith, Dallas Tesmer, Jordan Thiel, Tommy Weinrich and the teams at CHS locations based in Rochester, Minn.; the CHS team based in Herman, Minn.; the CHS grain terminal team at Savage, Minn.; Troy Hamstad and the CHS Agronomy team at Brooten, Minn.

Montana: Amy Thompson, Lewiston, Mont.; Baily Hagedorn and Bronya Willmore, CHS Animal Nutrition, Lewiston, Mont.; the team at CHS Mountain West, Kalispell, Mont.; Darin Foote, Stene Hultgren and the CHS refinery team, Laurel, Mont.

Nebraska: Greg, Davin and Erik Peterson, Gering, Neb.; Greta Birch, Marcie Oehlke and the team of WESTCO, Alliance, Neb.

North Dakota: Peter Ness, Sharon, N.D.; Devin Gaugler and the CHS Sunflower team at Grandin, N.D.

Oklahoma: Tim Darst, Jason Kroener and the CHS team at Okarche, Okla.

Washington: Jordyn Land, Jori Templeton and the TEMCO export facility teams at Kalama and Tacoma, Wash.

Wisconsin: The team of Synergy Cooperative, based in Ridgeland, Wis.

CHS BOARD OF DIRECTORS



Dan Schurr
Chair
LeClaire, Iowa



C.J. Blew
First vice chair
Castleton, Kansas



Jon Erickson
Second vice chair
Minot, North Dakota



Russ Kehl
Secretary-treasurer
Quincy, Washington



Steve Riegel
Assistant secretary-treasurer
Ford, Kansas



David Beckman
Elgin, Nebraska



Hal Clemensen
Aberdeen, South Dakota



Scott Cordes
Wanamingo, Minnesota



Mark Farrell
Cross Plains, Wisconsin



Steve Fritel
Barton, North Dakota



Alan Holm
Sleepy Eye, Minnesota



David Johnsrud
Starbuck, Minnesota



Tracy Jones
Kirkland, Illinois



David Kayser
Alexandria, South Dakota



Edward Malesich
Dillon, Montana



Perry Meyer
New Ulm, Minnesota



Kevin Throener
Cogswell, North Dakota

Detailed biographical information on the CHS Board of Directors is available at chsinc.com.

EXECUTIVE TEAM



Jay Debertin
*President and
chief executive officer*



David Black
*Senior vice president,
enterprise strategy and
chief information officer*



Rick Dusek
*Executive vice
president, CHS
Country Operations*



John Griffith
*Senior vice president,
CHS Global Grain
& Processing and
CHS Hedging*



Gary Halvorson
*Senior vice president,
CHS Agronomy*



Darin Hunhoff
*Executive vice president,
CHS Energy*



Mary Kaul-Hottinger
*Senior vice president,
Human Resources*

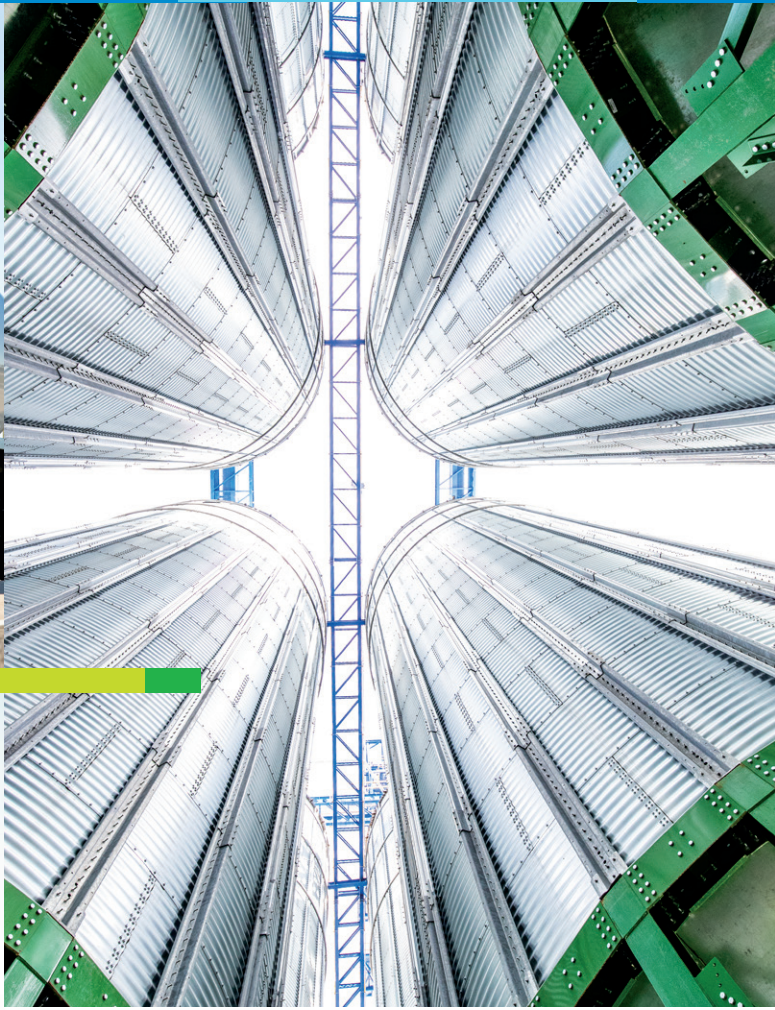


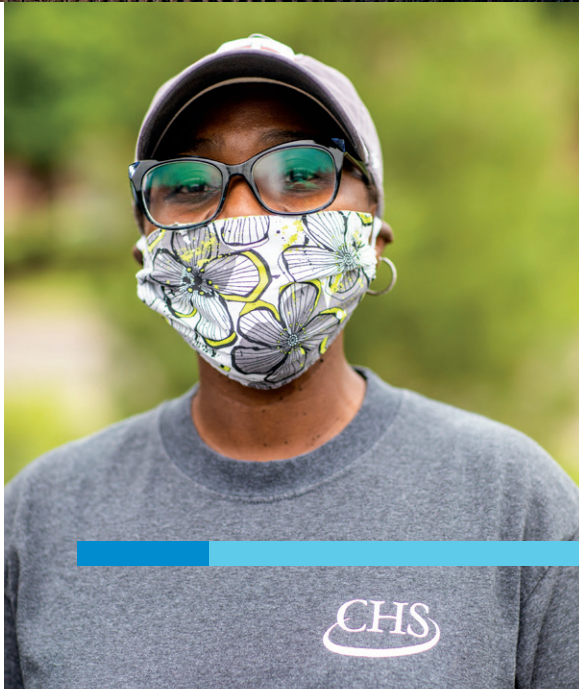
Olivia Nelligan
*Executive vice
president and chief
financial officer*



Jim Zappa
*Executive vice president
and general counsel*

Detailed biographical information on the CHS leadership team is available at chsinc.com.





5500 Cenex Drive
Inver Grove Heights, MN 55077

chsinc.com

NASDAQ: CHSCP, CHSCO,
CHSCN, CHSCM, CHSCL