

WEST CENTRAL AG SERVICES

ULEN, MINNESOTA

FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

ANNUAL MEMBERS' MEETING

MARCH 15, 2018

OFFICERS AND DIRECTORS

Duane BrendemuhlPresident

Kim Syverson Vice President

Brian Olek.Secretary

Dwight Heitman Director

Daryl Moore Director

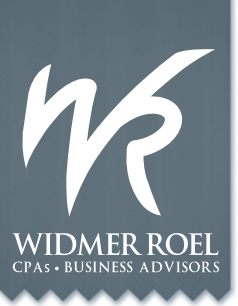
Robert Kuehl Director

Jim Amundson Director

Robert Braseth Director

Scott TollefsonDirector

NOTES



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
West Central Ag Services
Ulen, Minnesota

We have audited the accompanying financial statements of **West Central Ag Services** (a Cooperative), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations, changes in patrons' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **West Central Ag Services** as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Widmer Roel PC

Fargo, North Dakota
March 7, 2018

WEST CENTRAL AG SERVICES**BALANCE SHEETS
DECEMBER 31, 2017 AND 2016**

ASSETS	2017	2016
CURRENT ASSETS		
Cash and cash equivalents		
Cash on hand and in banks	\$ 12,936,983	\$ 10,214,666
Receivables		
Patron accounts, net of allowances	7,131,986	6,073,274
Grain in transit, net of advances	998,062	4,116,651
Futures and options	954,714	1,667,884
Patron advances	19,415,359	14,504,960
Other receivables	403,217	633,090
	<u>28,903,338</u>	<u>26,995,859</u>
Inventory		
Grain inventory, at local market	57,574,881	35,290,738
Other inventories, at lower of cost, principally first in, first out, or market	97,697,757	82,915,825
	<u>155,272,638</u>	<u>118,206,563</u>
Prepaid expenses		
Prepaid income taxes	311,202	560,431
Prepaid expense	512,690	551,644
	<u>823,892</u>	<u>1,112,075</u>
Total current assets	<u>197,936,851</u>	<u>156,529,163</u>
OTHER ASSETS		
Investment in other cooperatives	25,744,781	25,117,732
Investment in Alton Agronomy, LLC	696,657	696,657
Investment in Central Plains Ag Services, LLC.	13,378,165	13,615,333
	<u>39,819,603</u>	<u>39,429,722</u>
PROPERTY, PLANT AND EQUIPMENT, at cost		
Land	4,281,936	2,530,936
Buildings and equipment	141,366,524	132,666,519
New construction	22,559,548	868,659
	<u>168,208,008</u>	<u>136,066,114</u>
Accumulated depreciation	(62,384,616)	(55,345,122)
	<u>105,823,392</u>	<u>80,720,992</u>
Total assets	<u>\$ 343,579,846</u>	<u>\$ 276,679,877</u>

LIABILITIES AND PATRONS' EQUITY	2017	2016
CURRENT LIABILITIES		
Seasonal loan payable		
Outstanding drafts in excess CHS, Inc. loan account	\$ 26,992,561	\$ -
Notes and contracts payable		
Deferred payment contracts	23,771,258	28,133,111
Grain payable	62,186,926	57,463,156
Current portion of long-term liabilities	2,811,993	1,011,237
	<u>88,770,177</u>	<u>86,607,504</u>
Accounts payable		
Accounts payable	14,885,580	15,805,032
Patrons' credit balances	27,713,810	26,868,091
Patronage dividends payable	4,114,878	3,746,157
Other	449,473	666,324
	<u>47,163,741</u>	<u>47,085,604</u>
Taxes and expenses accrued or payable		
Other accrued expenses	412,000	412,000
Grain, sales and payroll taxes payable	745,662	801,523
Accrued taxes payable	-	74,673
Accrued interest	1,113,162	739,795
Property tax payable	112,245	109,394
	<u>2,383,069</u>	<u>2,137,385</u>
Total current liabilities	<u>165,309,548</u>	<u>135,830,493</u>
LONG-TERM LIABILITIES		
CHS Capital	22,000,000	13,858,981
Long term capital leases	24,055,359	3,986,870
Deferred tax liability	1,171,645	787,546
	<u>47,227,004</u>	<u>18,633,397</u>
Less current maturities listed above	(2,811,993)	(1,011,237)
Total long-term liabilities	<u>44,415,011</u>	<u>17,622,160</u>
Total liabilities	<u>209,724,559</u>	<u>153,452,653</u>
PATRONS' EQUITY		
Local patronage credits	41,729,292	37,939,383
Local patrons' reserve	343,845	343,845
Regional patronage credits	22,407,779	21,937,012
Unallocated capital reserve	69,374,371	63,006,984
Total patrons' equity	<u>133,855,287</u>	<u>123,227,224</u>
	<u>\$ 343,579,846</u>	<u>\$ 276,679,877</u>

WEST CENTRAL AG SERVICES
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
SALES		
Grain	\$ 302,126,650	\$ 269,450,891
Merchandise	155,369,191	150,681,674
	457,495,841	420,132,565
COST OF SALES		
Grain	286,679,797	257,388,231
Merchandise	124,119,851	121,657,816
Total cost of sales	410,799,648	379,046,047
Gross profit on sales	46,696,193	41,086,518
OTHER PROCEEDS		
Freight and delivery income	2,643,226	2,439,889
Patron and other services	1,809,353	1,920,995
Drying income	1,654,858	1,137,283
Partnership income	1,161,390	1,215,797
Storage and handling	893,129	1,119,645
Gain on disposal of property, plant and equipment	356,378	506,507
Finance charges and interest	286,256	448,676
Total other proceeds	8,804,590	8,788,792
Gross operating proceeds	55,500,783	49,875,310
EXPENSES		
Operating expenses	30,497,581	27,877,296
Depreciation	8,221,404	7,632,998
Interest	1,422,418	1,284,222
Total expenses	40,141,403	36,794,516
LOCAL NET INCOME	15,359,380	13,080,794
PATRONAGE FROM OTHER COOPERATIVES, net	4,252,798	4,783,705
NET INCOME BEFORE INCOME TAX	19,612,178	17,864,499
INCOME TAX PROVISION	1,487,837	893,800
NET INCOME	\$ 18,124,341	\$ 16,970,699
DISTRIBUTION OF NET INCOME		
Patronage dividends payable	\$ 4,114,878	\$ 3,746,157
Local patronage credits	7,063,335	5,208,104
CHS, Inc. patronage credits	578,584	1,749,044
Unallocated capital reserve	6,367,544	6,267,394
	\$ 18,124,341	\$ 16,970,699

WEST CENTRAL AG SERVICES
STATEMENTS OF CHANGES IN PATRONS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>Local</u>		<u>Regional</u>	<u>Capital</u>	<u>Total</u>
	<u>Patron</u>	<u>Capital</u>			
	<u>Credits</u>	<u>Reserve</u>	<u>Credits</u>	<u>Reserve</u>	<u>Total</u>
Balance, December 31, 2015	\$ 35,676,244	\$ 343,845	\$ 20,435,045	\$ 56,713,063	\$ 113,168,197
Adjustment to prior year estimated patronage allocation	(12,674)	-	(4,569)	26,527	9,284
Redemption of patrons' equity	(2,932,291)	-	(242,508)	-	(3,174,799)
Cash patronage dividends	(2,804,364)	-	(941,793)	-	(3,746,157)
Net income	<u>8,012,468</u>	<u>-</u>	<u>2,690,837</u>	<u>6,267,394</u>	<u>16,970,699</u>
Balance, December 31, 2016	37,939,383	343,845	21,937,012	63,006,984	123,227,224
Adjustment to prior year estimated patronage allocation	778	-	(876)	(157)	(255)
Redemption of patrons' equity	(3,274,204)	-	(106,941)	-	(3,381,145)
Cash patronage dividends	(3,803,331)	-	(311,547)	-	(4,114,878)
Net income	<u>10,866,666</u>	<u>-</u>	<u>890,131</u>	<u>6,367,544</u>	<u>18,124,341</u>
Balance, December 31, 2017	<u>\$ 41,729,292</u>	<u>\$ 343,845</u>	<u>\$ 22,407,779</u>	<u>\$ 69,374,371</u>	<u>\$ 133,855,287</u>

WEST CENTRAL AG SERVICES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 18,124,341	\$ 16,970,699
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	8,221,404	7,632,998
Patronage refunds received in the form of allocations, net	(1,540,147)	(2,142,081)
Gain on disposal of property, plant and equipment	(356,378)	(506,507)
Partnership income	(1,161,390)	(1,215,797)
Allocation adjustment, prior year	(255)	9,284
Changes in current assets and liabilities		
Receivables	(1,907,479)	(2,098,895)
Inventory	(37,066,075)	(33,378,371)
Prepaid assets	288,183	182,039
Notes and contracts payable	361,917	15,482,746
Accounts payable	(290,584)	12,100,361
Taxes and expenses accrued or payable	245,684	552,382
Deferred tax liability	384,099	(9,690)
	<u>(14,696,680)</u>	<u>13,579,168</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from retirement of equity held in other cooperatives	913,098	300,775
Distributions received from partnerships	1,398,558	511,243
Proceeds from disposal of property, plant and equipment	458,925	744,795
Capital expenditures	<u>(33,061,911)</u>	<u>(6,957,537)</u>
	<u>(30,291,330)</u>	<u>(5,400,724)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Changes in seasonal loan, net	26,992,561	(1,603,609)
Increase in long-term debt	142,892,407	279,781,190
Payments on long-term debt	(115,047,339)	(282,072,347)
Cash portion of patronage allocation, prior year	(3,746,157)	(3,270,464)
Redemption of patrons' equity	<u>(3,381,145)</u>	<u>(3,174,798)</u>
	<u>47,710,327</u>	<u>(10,340,028)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,722,317	(2,161,584)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>10,214,666</u>	<u>12,376,250</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 12,936,983</u>	<u>\$ 10,214,666</u>

WEST CENTRAL AG SERVICES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW
INFORMATION**

Cash paid for interest	\$ <u>1,049,051</u>	\$ <u>1,306,342</u>
Cash paid for income taxes, net	\$ <u>929,182</u>	\$ <u>575,000</u>

**SUPPLEMENTAL DISCLOSURE OF
NON-CASH TRANSACTIONS**

Patronage dividends payable	\$ <u>4,114,878</u>	\$ <u>3,746,157</u>
Debt acquisition of property and equipment	\$ <u>364,440</u>	\$ <u>1,217,083</u>

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

West Central Ag Services, a Minnesota corporation, operates as an agricultural Cooperative. The Cooperative is engaged in purchasing and marketing of grains and sales of crop nutrients, crop protection products, petroleum and other farm supply products to individuals and businesses (principally patrons) located in its trade area. The Cooperative has facilities in central region of western Minnesota and the central region of eastern North Dakota; the Cooperative's headquarters are in Ulen, Minnesota.

Cash and Cash Equivalents

For the purpose of cash flows, the Cooperative considers all highly liquid investments with a maturity of three months or less when purchased to be "cash equivalents".

Accounts Receivable

Accounts receivable are stated at the contractual amount billed to the customer plus any accrued and unpaid finance charges. Customer account balances that do not have special financing terms with invoices dated over 90 days old are considered past due. Interest continues to accrue on past due accounts until the age of any invoices exceeds 180 days at which time the account is placed on nonaccrual status. When a customer balance is placed on nonaccrual status, the Cooperative reverses any accrued but uncollected interest previously recognized through interest income. In addition, the Cooperative discontinues the accrual of interest and does not resume these accruals unless the account first ceases to be classified as past due and then subsequently requalifies for accrual status.

The Cooperative reduces the carrying amount of accounts receivable by an allowance for bad debts that reflects its best estimate of the amounts that will not be collected. The Cooperative individually reviews each customer balance where all or a portion of the balance exceeds 90 days from the invoice date. Based on the assessment of the customer's current creditworthiness, the Cooperative estimates the portion, if any, of the balance that will not be collected.

Inventory

Grain inventory, fertilizer inventory and stored grain outstanding are priced at local market, including adjustments to market for open sales and purchase contracts. Merchandise inventory is priced at the lower of cost (first-in, first-out method) or market.

The Cooperative performed a physical measurement and count of all station grain and merchandise inventory for the periods ended December 31, 2017 and 2016. Variances with perpetual inventory records were determined due to normal operations and appropriate adjustments were approved for recognition in the current period.

Property and Equipment

Property and equipment are stated at cost. Additions, renewals and betterments are capitalized, whereas, expenditures for maintenance and repairs are charged to expense. The cost and related accumulated depreciation of assets retired or sold are removed from the appropriate asset and depreciation accounts and the resulting gain or loss is reflected in income.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

It is the policy of the Cooperative to evaluate for capitalization all fixed asset purchases over \$5,000 and to provide depreciation and amortization over the estimated useful life of the individual asset, ranging from 5 to 40 years.

Investments

Cash paid investments are stated at cost and investments incurred from patronage dividends are recorded as written notices of allocation are received by the Cooperative.

The patronage earnings and/or losses from other Cooperatives vary substantially from period to period, and interim operating results are not available. Accordingly, patronage allocations of earnings and/or losses for which notifications have not been received cannot be reasonably determined.

Patronage allocations are credited to patronage refunds received and are not considered in determining local net income.

The Cooperative believes it is not practicable to estimate the fair value of the securities of these Cooperatives without incurring excessive costs because there is no established market for the securities and it is inappropriate to estimate future cash flows which are largely dependent on future patronage earnings of these Cooperatives.

Grain Payable and Deferred Payment Contracts

Grain payable includes contracted grain payable and delayed pricing contract grain. Contracted grain payables represent grain that title has passed to the Cooperative through receipt of grain under a fixed price, hedge to arrive or basis fixed agreement. Delayed pricing contracts represent grain that title has passed to the Cooperative through receipt of grain with the price to be determined at a later date. Deferred payment contracts represent grain that title has passed to the Cooperative through receipt of grain under a contract with the payment due at a specified future date.

Revenue Recognition

The Cooperative provides numerous products and services to its patrons, commission companies and others. Product sales include grain, production inputs and farm supplies. Revenue from grain sales includes all grain shipped in the current year. The grain revenue is included in income at the contracted price less freight and discounts. All other sales are recognized upon transfer of title.

Income Taxes

The effective income tax rate for fiscal 2017 and 2016 is less than the statutory rate, primarily due to the issuance of patronage refunds, which are deductible for tax purposes but treated as a distribution for financial reporting purposes. The Cooperative files nonexempt federal and state income tax returns wherein it is subject to tax on income from non-patronage sources and undistributed patronage sourced income.

Income tax expense is primarily the tax calculated for the current period. Uncertain tax positions are recorded in a threshold evaluation and measurement process. Management has determined that the Cooperative does not have any uncertain tax positions. With few exceptions, the Cooperative is no longer subject to U.S. federal, state and local, or non-U.S. income tax authorities before 2014.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Commodity Derivatives

The Cooperative uses derivative financial instruments including forward contracts and exchange traded commodity futures and options contracts to manage its exposure to market fluctuations in commodity values. These derivatives are not designated as hedging instruments under FASB Codification subtopic 815-20 and are recorded through cost of sales and included in net income. Futures and options used for hedging are traded through regulated commodity exchanges. The Cooperative's use of commodity contracts and the corresponding freight bookings is a hedge to reduce the risks associated with adverse price movements and market volatility. In its normal course of operations, the Cooperative has exposure to commodity inventory values that may not be fully hedged, due, in part, to the lack of derivative financial instruments for certain commodities. The effect of derivative instruments are identified as commodity contracts and are recorded at fair value.

Advertising Costs

Advertising and promotion costs are expensed as incurred. Total advertising costs totaled \$71,636 and \$44,203 for the years ended December 31, 2017 and 2016.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Presentation of Grain Taxes

The State of Minnesota imposes a grain tax on all of the Cooperative's purchases from nonexempt producers. The Cooperative withholds that grain tax from customers and remits the entire amount to the State. The Cooperative's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Reclassification of Financial Statement Presentation

Certain reclassifications may have been made to the 2016 financial statements to conform to 2017 financial statement presentation. Such reclassifications had no effect on net income as previously reported.

NOTE 2 – CONCENTRATION OF CREDIT RISK

Due to the nature of its business operations, the Cooperative grants unsecured credit to its patrons and customers, substantially all of who are local residents engaged in agri-business. In addition, as a member affiliate, the Cooperative markets a substantial amount of its commodities to CHS, Inc.

Other financial instruments that potentially subject the Cooperative to concentration of credit risk consist principally of local bank deposits in excess of federally insured limits, the uninsured deposits in the CHS, Inc. account and hedging accounts. The Cooperative is at risk for funds in excess of the FDIC insurance limits with regard to financial institutions in the amount of \$9,847,568 and \$6,922,338 as of December 31, 2017 and 2016, respectively.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 3 – TRADE ACCOUNTS RECEIVABLE

The aging classification of trade accounts receivable is as follows as of December 31:

	2017	2016
Current	\$ 8,709,802	\$ 6,921,873
31 to 60 days	185,916	145,878
61 to 90 days	17,253	41,447
91 to 120 days	35,073	55,045
121 to 365 days	164,790	717,802
Over 1 year	31,152	83,229
	9,143,986	7,965,274
Allowance for doubtful accounts	(2,012,000)	(1,892,000)
	\$ 7,131,986	\$ 6,073,274

NOTE 4 – GRAIN INVENTORY, STORAGE OBLIGATIONS AND COMMODITY CONTRACTS

Stored grain inventory is deducted from gross inventories to reflect the net value of the grain inventory owned by the Cooperative. The Cooperative acts as warehouseman insofar as the stored inventory is concerned and its only liability is to deliver the warehouse receipted grain when it is called for. A summary of grain inventory, stored grain liability and alternative disclosure of trading activities is presented as follows as of December 31:

		2017					
		Total Grain Inventory		Warehouse Receipt and Open Stored Grain		Cash Grain Position	
		Amount	Bu./Cwt.	Amount	Bu./Cwt.	Amount	Bu./Cwt.
Spring wheat	\$	19,780,058	3,302,507	-	-	\$ 19,780,058	3,302,507
Soybeans		3,341,578	381,630	-	-	3,341,578	381,630
Corn		36,134,691	12,420,577	-	-	36,134,691	12,420,577
Commodity contracts		(1,681,446)	-	-	-	(1,681,446)	-
	\$	57,574,881		-		\$ 57,574,881	
		2016					
		Total Grain Inventory		Warehouse Receipt and Open Stored Grain		Cash Grain Position	
		Amount	Bu./Cwt.	Amount	Bu./Cwt.	Amount	Bu./Cwt.
Spring wheat	\$	14,466,130	2,888,759	-	-	\$ 14,466,130	2,888,759
Winter wheat		92,603	18,570	-	-	92,603	18,570
Soybeans		13,104,562	1,426,961	-	-	13,104,562	1,426,961
Corn		11,649,788	3,999,821	-	-	11,649,788	3,999,821
Commodity contracts		(4,022,345)	-	-	-	(4,022,345)	-
	\$	35,290,738		-		\$ 35,290,738	

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 5 – MERCHANDISE INVENTORY

The major classifications of merchandise inventory on hand were as follows as of December 31:

	<u>2017</u>	<u>2016</u>
Prepaid merchandise	\$ 52,377,458	\$ 39,935,689
Chemicals	18,025,029	17,976,778
Dry fertilizer	12,352,439	9,192,223
Seed	10,014,883	10,302,568
Liquid fertilizer	3,059,641	3,837,114
Other merchandise	748,173	726,953
Nutritionals	688,828	570,920
Petroleum	132,974	181,702
Tires and tubes	106,046	76,693
Propane	97,019	56,724
Oil and grease	70,055	45,652
Batteries and antifreeze	25,212	12,809
	<u>\$ 97,697,757</u>	<u>\$ 82,915,825</u>

NOTE 6 – INVESTMENTS IN OTHER COOPERATIVES

The principal investments held in other Cooperatives, consisting of allocated equities and cash investments, were as follows as of December 31:

	<u>2017</u>	<u>2016</u>
CHS, Inc.	\$ 21,263,270	\$ 20,773,966
Land O'Lakes, Inc.	3,767,759	3,633,384
All others	713,752	710,382
	<u>\$ 25,744,781</u>	<u>\$ 25,117,732</u>

NOTE 7 – OTHER ASSETS

The principal other assets held by the Cooperative consists of investments in other companies.

The Cooperative holds a 50% interest in Central Plains Ag Services, LLC, a 16.67% interest in Alton Agronomy, LLC and an immaterial percentage of ownership in all other investments. Due to the Cooperative's ability to exercise significant influence as a result of ongoing patron contact and relationships, these investments are accounted for under the equity method of accounting.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

The Cooperative's investment in Central Plains Ag Services, LLC is reflected on the accompanying balance sheets as investments in LLC's and on the accompanying statements of operations as partnership income. The following is a summary of the financial position and results of operations for Central Plains Ag Services, LLC for the years ended December 31:

	2017	2016
Current assets	\$ 69,518,211	\$ 67,164,708
Noncurrent assets	30,971,333	27,852,944
	100,489,544	95,017,652
Current liabilities	64,711,016	57,775,727
Noncurrent liabilities	9,022,198	10,011,260
Equity	26,756,330	27,230,665
	\$ 100,489,544	\$ 95,017,652

The Cooperative's 50% interest in equity is reflected on the balance sheet as follows:

	\$ 13,378,165	\$ 13,615,333
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	2017	2016
Total revenue	\$ 132,796,159	\$ 103,595,478
Total expenses	130,670,494	101,282,294
Net income	\$ 2,125,665	\$ 2,313,184

The Cooperative's 50% interest in net income is reflected on the statement of operations as follows:

	\$ 1,062,833	\$ 1,156,592
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NOTE 8 – RELATED PARTY TRANSACTIONS

The Cooperative is a membership cooperative with one member, one vote. The Board of Directors, each serving three year staggered terms, is elected from among its membership each year at the patrons' annual meeting. Director compensation is established by the Board and consists of \$500 per month and \$200 per meeting for both its President and Secretary and \$150 for all remaining directors. The Cooperative purchases commodities and sells products and services to members of the Board of Directors in the ordinary course of business.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Transactions between West Central Ag Services and related parties were principally the result of the purchase of grain and the sale of agronomy products in the ordinary course of business with the Board of Directors. Related party transactions for the years ended December 31, 2017 and 2016 were as follows, net:

	2017	2016
Sales to	\$ 8,134,084	\$ 7,701,428
Purchase from	12,751,418	9,083,607

Related party receivables and payables resulting from transactions in the ordinary course of business as of December 31, 2017 and 2016 were as follows:

	2017	2016
Due to	\$ 6,893,552	\$ 5,298,072
Due from	321,936	316,170

NOTE 9 – NOTES PAYABLE AND LONG-TERM LIABILITIES

The Cooperative was indebted on seasonal loans and long-term financing on December 31, 2017 and 2016 as follows:

The Cooperative has seasonal loan commitment from CHS Capital which matures on July 15th of each year the commitments is in effect. Interest is payable at a variable rate, currently 3.03%, determined by CHS Capital on any outstanding balance. Advances on the seasonal loan shall be limited to \$100,000,000. The loan is secured by all accounts receivable, inventories, personal property and fixtures owned by the Cooperative. The balances outstanding on the seasonal loan as of December 31, 2017 and 2016 were \$11,375,397 and \$-0- and the pending draws for outstanding transactions to be cleared total \$15,617,164 and \$-0- as of December 31, 2017 and 2016, respectively.

Under terms of the special term loan agreement with CHS Capital the Cooperative was granted a term-loan commitment to be repaid at final maturity on February 15, 2019. Interest is payable at a variable rate, currently 3.28%, determined by CHS Capital. Advances on the seasonal loan shall be limited to \$22,000,000. The Cooperative has a clearing account utilized for the processing of cleared checks. This account is utilized for short-term funds before transactions are processed and drawn against the CHS capital term and seasonal loans. The CHS Capital special term loan is secured by a first real estate mortgage covering all real property and a security interest in all personal property and fixtures owned by the Cooperative. The balances outstanding on the term loan account were \$22,000,000 and \$1,280,806 and the pending draws for outstanding transactions to be cleared total \$-0- and \$12,427,945 as of December 31, 2017 and 2016, respectively.

Under terms of the special term loan agreement with CHS Capital the Cooperative was granted a term-loan commitment to be repaid by monthly principal payments of \$15,365 due on or before the day of each and every month with final maturity on October 1, 2017. Interest is payable at a variable rate, currently 2.55%, determined by CHS Capital. The CHS Capital special term loan is secured by a first real estate mortgage covering all real property and a security interest in all personal property and fixtures owned by the Cooperative.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

<u>Payee</u>	<u>Assigned as Collateral</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>2017</u>	<u>2016</u>
CHS Capital	Security Agreement (see below)	3.28%	2/15/2019	\$ 22,000,000	\$ 13,708,751
CHS Capital	Security Agreement (see below)	2.55%	10/1/2017	-	150,230
				<u>22,000,000</u>	<u>13,858,981</u>
Current maturities				-	(150,230)
				<u>\$ 22,000,000</u>	<u>\$ 13,708,751</u>

While the loan agreement is in effect, the Cooperative has agreed to comply with (among others) the following conditions placed on them by CHS Capital:

Financial Records

Maintain its books and records in accordance with GAAP, applied on a consistent basis, and permit Lender to examine and audit Borrower's books and records at all reasonable times.

Environmental Compliance and Reports

The Cooperative shall comply in all respects with any and all environmental laws; not cause or permit to exist, as a result of an intentional or unintentional action or omission on borrower's part or on the part of any third party, on property owned and/or occupied by borrower, any environmental activity where damage may result to the environment, unless such environmental activity is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal, state or local governmental authorities; shall furnish to lender promptly and in any event within thirty (30) days after receipt thereof a copy of any notice, summons, lien, citation, directive, letter or other communication from any governmental agency or instrumentality concerning any intentional or unintentional action or omission on borrower's part in connection with any environmental activity whether or not there is damage to the environment and/or other natural resources.

Tangible Net Worth Requirements

The Cooperative shall maintain minimum local net worth of not less than \$90,000,000 at fiscal year ending December 31, 2017.

Working Capital Requirements

The Cooperative shall maintain minimum working capital of not less than \$12,500,000 at fiscal year ending December 31, 2017.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

Negative Pledge

The Cooperative shall not (1) engage in any business activities substantially different than those in which Borrower is presently engaged (2) cease operations, liquidate, merge, transfer, acquire or consolidate with any other entity, change name, dissolve or transfer or sell Collateral out of the ordinary course of business.

Long-term debt maturities are as follows:

2019	\$ <u>22,000,000</u>
	\$ <u><u>22,000,000</u></u>

NOTE 10 – CAPITAL LEASE

Property held under capital lease, included with owned property on the balance sheets, consists of the following, net of insurance proceeds received as of December 31:

	<u>2017</u>	<u>2016</u>
Case Floaters	\$ 2,625,165	\$ 2,625,165
Peterbuilt Tender Trucks	1,415,000	1,415,000
Timpte Trailers	508,550	508,550
Freightliners	2,246,321	2,018,380
Site Preparation	3,687,546	-
Accumulated depreciation	<u>(3,939,850)</u>	<u>(2,609,386)</u>
Equipment under capital lease, net	<u>\$ 6,542,732</u>	<u>\$ 3,957,709</u>

Capital lease obligations consist of the following as of December 31:

The Cooperative is entering into long-term capital lease agreements with CoBank. As of the date of this audit report the lease agreement had not been finalized and current maturities are imputed based on the lease balance as of December 31, 2017. Equipment cost incurred and accumulated depreciation on the equipment as of December 31, 2017 is \$25,678,418 and \$95,643, respectively. The total balances and current portion of these new long-term capital lease arrangements as of December 31, 2017 is \$20,679,715 and \$1,557,301, respectively.

Non-cancelable equipment leases expiring through March of 2021, payable in installments aggregating approximately \$1,368,675, annually, including imputed interest at various rates ranging from 2.80% to 3.6%, secured by equipment under lease.

	<u>2017</u>	<u>2016</u>
Total capital lease obligations	\$ 24,055,359	\$ 3,986,870
Current portion of capital lease	<u>(2,811,993)</u>	<u>(861,007)</u>
Long-term capital lease obligations, net	<u>\$ 21,243,366</u>	<u>\$ 3,125,863</u>

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

The following is a schedule of future lease payments under capital lease as of the periods ending December 31:

2018	\$ 3,513,366
2019	3,103,620
2020	3,018,051
2021	2,510,871
2022	<u>14,868,267</u>
	27,014,175
Amount representing interest	<u>(2,958,816)</u>
	24,055,359
Current portion	<u>(2,811,993)</u>
Long-term lease obligations, net	<u>\$ 21,243,366</u>

NOTE 11 – INCOME TAXES

The provision for income taxes consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Currently payable	\$ 1,103,738	\$ 906,490
Tax effect of timing differences	<u>384,099</u>	<u>(9,690)</u>
Income tax provision	<u>\$ 1,487,837</u>	<u>\$ 896,800</u>

The income tax provision for the years ended December 31, 2017 and 2016, was reduced as a result of the Cooperative utilizing certain deductions available to Cooperative's pursuant to the internal revenue code.

The deferred tax liability resulting from temporary differences consisted of the following at December 31:

	<u>2017</u>	<u>2016</u>
Deferred tax liability		
Accelerated tax depreciation	\$ 869,469	\$ 148,368
Allowance for doubtful accounts	(321,920)	-
Accelerated partnership tax depreciation	727,710	779,902
Section 263a adjustment	<u>(103,614)</u>	<u>(140,724)</u>
Total deferred tax liability	<u>\$ 1,171,645</u>	<u>\$ 787,546</u>

NOTE 12 – PATRONAGE DIVIDENDS AND PATRONAGE CREDITS

The Board of Directors determines annually the cash dividends to be paid to the patrons from current period net income. The balance of patronage credits represents accumulated patronage dividends allocated to patrons but not paid in cash.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 13 – RETIREMENT PLANS

The Cooperative participates in the defined and cash balance multiple employer pension plans for all employees of member Cooperatives of CHS, Inc. All employees who work over 1,000 hours per year and have at least one year of service are covered by the plan. The plan is greater than 100% funded as reported on the Annual Report of Employee Benefit Plan, IRS form 5500. Contributions made by the Cooperative are determined on an actuarial basis. Benefits are funded by an unallocated group annuity contract. Employer contributions to the plan for the years ended December 31, 2017 and 2016 totaled \$1,095,361 and \$1,046,459, respectively.

The Cooperative provides a 401(k) plan for its employees. All employees who work over 1,000 hours per year, are at least 21 years of age and have at least 1,000 hours of service are eligible to participate in the plan. The Cooperative matches employee contributions up to 4% for each individual that participates in the plan. For the years ended December 31, 2017 and 2016, contributions made by the Cooperative totaled \$403,670 and \$440,295, respectively.

NOTE 14 – COMMITMENT AND CONTINGENCIES

Any gain or loss that may be realized from weight, grade or quality variations on open grain sales, purchase and hedging contracts are not necessarily reflected in these financial statements. The Cooperative is contingently liable for any weight, grade or quality deficiencies that may occur at settlement of stored grain obligations and delayed pricing grain contracts payable.

The Cooperative is party to various leases classified as operating leases. Rents paid for sites, storage and equipment totaled \$579,232 and \$712,154 for the years ended December 31, 2017 and 2016, respectively.

Future minimum lease payments on such operating leases are as follows:

2018	\$	176,370
2019		44,300
2020		44,300
2021		44,300
2022		<u>7,300</u>
	\$	<u><u>316,570</u></u>

The Cooperative is subject to federal and state regulations regarding the care, delivery and containment of petroleum, agronomy and other products the Cooperative handles or has handled. The Cooperative is contingently liable for any cleanup costs resulting from contamination which could arise from the handling, delivery and containment of these products.

The Cooperative has entered into contractual agreements to construct additional storage and service facilities. The cost to complete the project is estimated by management to approximate \$1,550,000. As of December 31, 2017, the Cooperative has made capital expenditures of approximately \$22,560,000 associated with these projects.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 15 – FINANCIAL INSTRUMENTS WITH OFF BALANCE SHEET RISK

In the normal course of business, the Cooperative incurs commitments and contingent liabilities, such as commitments to extend credit and guarantees of its customers' third party credit, which are not included in the accompanying financial statements. As of December 31, 2017 and 2016, the Cooperative had contingent liabilities associated with third party guarantees totaling \$2,097,623 and \$1,101,390, respectively.

NOTE 16 – GRAIN RECEIPTS AND SALES IN UNITS

The major commodities handled by the Cooperative were as follows for the years ended December 31:

			<u>2017</u>	<u>2016</u>
Units received				
Wheat	Bu.		15,845,143	10,602,605
Soybeans	Bu.		11,845,851	13,144,488
Corn	Bu.		<u>31,959,496</u>	<u>26,524,126</u>
Total			<u>59,650,490</u>	<u>50,271,219</u>
			<u>2017</u>	<u>2016</u>
Units sold				
Wheat	Bu.		15,449,965	10,831,916
Soybeans	Bu.		12,891,182	12,044,101
Corn	Bu.		<u>23,538,740</u>	<u>27,008,681</u>
Total			<u>51,879,887</u>	<u>49,884,698</u>

NOTE 17 – FAIR VALUE MEASUREMENTS

Fair value estimates, methods, and assumptions are set forth below for the Cooperative's financial instruments. The estimated fair values of the Cooperative's financial instruments were as follows:

	<u>12/31/17</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets				
Cash on hand and in banks	12,311,623	12,311,623	-	-
CHS Capital Surplus Funds	625,360	625,360	-	-
Grain inventory and contracts	57,574,881	1,621,463	55,953,418	-
Financial liabilities				
Accrued interest payable	1,113,161	1,113,161	-	-
Delayed price grain payable	44,893,965	-	44,893,965	-
CHS Capital	22,000,000	22,000,000	-	-

(Continued)

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>12/31/16</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets				
Cash on hand and in banks	10,205,269	10,205,269	-	-
CHS Capital Surplus Funds	9,397	9,397	-	-
Grain inventory and contracts	35,290,738	(274,100)	35,564,838	-
Financial liabilities				
Accrued interest payable	739,794	739,794	-	-
Delayed price grain payable	39,464,721	-	39,464,721	-
CHS Capital	13,858,981	13,858,981	-	-

The following methods and assumptions were used by the Cooperative in estimating fair values of financial instruments as disclosed herein:

Cash on hand and in banks – The carrying amounts of cash and equivalents approximate their fair value.

CHS Capital Surplus Funds – Deposits in CHS surplus approximate their fair value.

Grain inventory and contracts – Fair values for grain inventory and contracts to purchase and sell grain are based on local market prices or quoted market prices based on the contracted instrument. Those instruments approximated fair value.

Accrued interest payable – The carrying amounts of accrued interest payable approximate their fair values.

Delayed price grain payable – Fair values for delayed price grain payable are based on local market prices and approximate fair value.

CHS Capital – The carrying amount of short-term CHS capital borrowings approximates its fair value. Long-term CHS Capital borrowings have a variable interest rate, and approximate their fair value.

Limitations - Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Cooperative's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Cooperative's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets and liabilities that are not considered financial assets or liabilities include the patron advances receivable, patron accounts receivable, other inventories, property plant and equipment and accounts payable. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in many of the estimates.

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 18 – FAIR VALUE MEASUREMENTS

In accordance with the Fair Value Measurements Topic of the FASB Accounting Standards Codification (ASC 820), the Fair Value Measurements table represents the Cooperative’s fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of the measurement date. Exchange traded futures and options are valued based on unadjusted quoted prices in active markets and are classified within Level 1 of Fair Value Measurements. Forward commodity purchase and sales contracts, flat price or basis fixed contracts and rail freight contracts are adjusted for local inputs and are classified within Level 2 of Fair Value Measurements. The Cooperative is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Cooperative has the ability to access at the measurement date. These assets and liabilities include the Cooperative’s exchange traded derivative contracts and available-for-sale investments.

Level 2: Inputs are other than quoted prices included within Level 1; the inputs are observable for the asset or liability, either directly or indirectly.

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.

The carrying value of the Cooperative’s financial instruments, consisting of cash and cash equivalents, receivables, inventory, prepaid expenses, lines of credit, payables and other obligations, approximates fair value based on the short-term maturity of these instruments. The carrying value of long-term obligations approximates its fair value as interest rates approximate market rates.

The following table sets forth the level within the fair value hierarchy of the Cooperative’s assets and liabilities at fair value as of December 31:

	2017			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Grain inventory	\$ -	\$ 59,256,327	\$ -	\$ 59,256,327
Grain futures contracts	1,621,463	-	-	1,621,463
Forward grain contracts	-	(3,302,909)	-	(3,302,909)
	<u>\$ 1,621,463</u>	<u>\$ 55,953,418</u>	<u>\$ -</u>	<u>\$ 57,574,881</u>
Financial liabilities				
Delayed price grain	\$ -	\$ 44,893,965	\$ -	\$ 44,893,965

(Continued)

WEST CENTRAL AG SERVICES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Grain inventory	\$ -	\$ 39,313,083	\$ -	\$ 39,313,083
Grain futures contracts	(274,100)	-	-	(274,100)
Forward grain contracts	-	(3,748,245)	-	(3,748,245)
	\$ (274,100)	\$ 35,564,838	\$ -	\$ 35,290,738
Financial liabilities				
Delayed price grain	\$ -	\$ 39,464,721	\$ -	\$ 39,464,721

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016:

Grain futures contracts – Valued at the end of the trading day market value. The values, as provided by the CME Group Inc. and Minneapolis Grain Exchange, Inc., is an unadjusted quoted price for identical assets or liabilities.

Grain inventory, forward grain contracts and delayed price contracts – Valued at the contract value of the underlying units, which approximates fair value. Fair value is determined by adjusting the exchange traded futures and options for local market basis. Basis is defined as the amount in cents per bushel a specified local cash price is above or below a futures price for a specified delivery month, due to factors including transportation costs, the cost and availability of storage, and the local demand for the commodity.

NOTE 19 – SUBSEQUENT EVENTS

The Cooperative has evaluated subsequent events through March 7, 2018, the date which financial statements were available to be issued. Subsequent to the balance sheet date the Board of Directors authorized an equity retirement of approximately \$3,467,000 as a component of the financing activities due and payable during the 2018 calendar year.

WEST CENTRAL AG SERVICES

**SUPPLEMENTARY FINANCIAL INFORMATION
DECEMBER 31, 2017 AND 2016**



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**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTARY FINANCIAL INFORMATION**

Board of Directors
West Central Ag Services
Ulen, Minnesota

We have audited the financial statements of **West Central Ag Services** (a Cooperative) as of and for the years ended December 31, 2017 and 2016, and our report thereon dated March 7, 2018, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 23 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Widmer Roel PC

Fargo, North Dakota
March 7, 2018

WEST CENTRAL AG SERVICES
SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Salaries and wages	\$ 14,782,960	\$ 13,598,246
Payroll taxes	1,144,876	987,797
Employee insurance	2,646,726	2,480,833
Employee retirement plans	1,499,031	1,486,754
Total salaries and benefits	<u>20,073,593</u>	<u>18,553,630</u>
Mobile equipment	1,819,160	1,485,533
Insurance and bonds	1,431,141	1,573,595
Repairs and maintenance	1,353,118	1,111,178
Utilities	1,201,840	1,075,132
Dryer fuel	826,906	367,667
Building, equipment and other rent	579,232	712,154
Meetings, convention and travel	464,239	528,915
Property taxes	438,066	566,661
General supplies	346,372	196,728
Data processing	279,679	257,709
Postage	279,155	265,508
Bank and credit card charges	244,001	208,370
Miscellaneous	199,699	44,310
Professional fees	187,993	113,353
Telephone	158,278	173,545
Bad debt expense	122,376	115,960
Licenses and fees	117,675	108,451
Dues, subscriptions and memberships	95,710	100,627
Director fees	80,600	77,250
Advertising	71,636	44,203
Market quoter	61,928	63,216
Contributions	29,610	34,800
Contract labor	19,690	19,299
Safety, training and education	15,884	35,429
Commissions	-	44,073
	<u>10,423,988</u>	<u>9,323,666</u>
	<u>\$ 30,497,581</u>	<u>\$ 27,877,296</u>

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