GROWMARK, INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED AUGUST 31, 2018 AND 2017

with

REPORT OF INDEPENDENT AUDITORS

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Report of Independent Auditors

The Board of Directors of GROWMARK, Inc.

We have audited the accompanying consolidated financial statements of GROWMARK, Inc., which comprise the consolidated statements of financial position as of August 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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 did not audit the financial statements of Total Grain Marketing, LLC, and Western Grain Marketing, LLC, wholly-owned subsidiaries of the Company, which statements reflect total assets constituting 7% as of August 31, 2018 and 7% as of August 31, 2017 and net sales constituting 9% for the year ended August 31, 2018 and 8% for the year ended August 31, 2017 of the related consolidated totals. We also did not audit the financial statements of FS Grain, LLC, a limited liability company in which the Company has a 44% interest. In the consolidated financial statements, the Company's investment in FS Grain, LLC, is stated at $31 million as of August 31, 2018 and 2017, and the Company's equity in the net income (loss) of FS Grain, LLC, is stated at $(0.1) million and $(1.0) million, for the years then ended. The statements for the previously mentioned subsidiaries and investee company were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those subsidiaries and investee company, is based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of GROWMARK, Inc. at August 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

October 31, 2018

GROWMARK, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

August 31, 2018 and 2017

($ In Thousands)

ASSETS	2018	2017
Current assets:		
Cash and equivalents	$ 65,225	81,831
Segregated funds	34,627	25,087
Receivables - net	708,693	619,661
Inventories	883,971	727,470
Prepaid expenses and other assets	107,477	47,958
Deferred income taxes	10,694	7,960
Total current assets	1,810,687	1,509,967
Other assets	207,473	195,385
Ownership in cooperatives and others	128,091	137,686
Property, plant and equipment:		
Land and improvements	102,156	96,608
Buildings	200,581	192,491
Machinery and equipment	531,362	476,075
Transportation equipment	153,135	144,992
Leasehold improvements	8,701	9,634
Construction in progress	41,302	35,539
	1,037,237	955,339
Less accumulated depreciation	554,720	496,848
Net property, plant and equipment	482,517	458,491
Total assets	$ 2,628,768	2,301,529

LIABILITIES AND SHAREHOLDERS' EQUITY	2018	2017
Current liabilities:		
Notes payable	251,736	27,011
Accounts payable	503,491	473,831
Patronage refunds payable in cash	45,089	40,619
Long-term debt due within one year	2,175	42,175
Customer prepayments	140,811	97,510
Other current liabilities	145,395	90,411
Total current liabilities	1,088,697	771,557
Long-term debt	191,545	193,626
Other long-term liabilities	135,384	161,874
GROWMARK shareholders' equity:		
Capital stock	326,872	316,014
Retained earnings	862,984	848,234
Accumulated other comprehensive income/(loss)	(64,303)	(77,368)
Total GROWMARK shareholders' equity	1,125,553	1,086,880
Non-GROWMARK ownership in subsidiaries	87,589	87,592
Total equity	1,213,142	1,174,472
Total liabilities and equity	$ 2,628,768	2,301,529

See accompanying notes.

GROWMARK, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended August 31, 2018 and 2017

($ In Thousands)

		2018	2017
Net sales	$	8,522,438	7,291,180
Cost of sales		8,278,136	7,038,878
Gross margin		244,302	252,302
General, administrative and selling expense		(176,075)	(190,735)
Other income - net		7,442	19,505
Total operating income		75,669	81,072
Net gain from marketable securities		16,075	25,339
Interest expense		(22,218)	(15,488)
Pretax income		69,526	90,923
Income tax (expense)/benefit		(3,738)	24,434
Consolidated net income		65,788	115,357
Less: Net income attributable to non-GROWMARK ownership in subsidiaries		(3,434)	(6,547)
Net income attributable to GROWMARK	$	62,354	108,810
Distribution of net income attributable to GROWMARK:			
Patronage - cash	$	45,089	39,593
- preferred stock		17,011	18,436
- non-qualified preferred stock		1,474	925
Dividends		7	7
(Decrease)/Increase in retained earnings		(1,227)	49,849
	$	62,354	108,810

See accompanying notes.

GROWMARK, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended August 31, 2018 and 2017

($ In Thousands)

	2018	2017
Consolidated Net Income	$ 65,788	115,357
Other comprehensive income, net of tax: Unrealized net holding (loss) gain on available-for-sale securities	(8,569)	(8,513)
Foreign currency translation adjustments	(5,265)	(399)
Unrealized (loss) gain on derivative financial instruments	(264)	(7)
Defined benefit and other postretirement adjustments	26,873	27,930
Other Comprehensive Income (Loss)	12,775	19,011
Comprehensive income	78,563	134,368
Less: comprehensive income attributable to non-GROWMARK ownership in subsidiaries	(3,145)	(6,320)
Comprehensive income attributable to GROWMARK	75,418	128,048

See accompanying notes.

GROWMARK, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended August 31, 2018 and 2017
($ In Thousands)

	GROWMARK				
	Capital Stock	Retained Earnings	Accumulated Other Comprehensive Income	Non-GROWMARK Ownership in Subsidiaries	Total
Balance at August 31, 2016	$ 319,866	798,385	(96,606)	82,988	1,104,633
Net earnings before patronage refunds		108,810		6,547	115,357
Cash dividends on preferred stock		(7)			(7)
Preferred stock redemption	(23,213)				(23,213)
Patronage dividends to be distributed in cash		(39,593)			(39,593)
Patronage dividends to be distributed in capital stock	18,436	(18,436)			0
Patronage dividends to be distributed in non-qualified capital stock	925	(925)			0
Contributions by owners					
Distributions to owners				(1,716)	(1,716)
Unrealized net holding loss on available-for-sale securities $(13,747), net of tax $(5,563)			(8,184)	(329)	(8,513)
Foreign currency translation adjustments ($3,395), net of tax ($3,826)			(430)	31	(399)
Unrealized loss on derivative financial instruments $(12) net of tax $(5)			(7)		(7)
Defined benefit and other postretirement plan adjustments $54,972, net of tax $21,112			27,859	71	27,930
Balance at August 31, 2017	$ 316,014	848,234	(77,368)	87,592	1,174,472
Net earnings before patronage refunds		62,354		3,434	65,788
Cash dividends on preferred stock		(7)			(7)
Preferred stock redemption	(7,627)				(7,627)
Patronage dividends to be distributed in cash		(45,089)			(45,089)
Patronage dividends to be distributed in capital stock	17,011	(17,011)			0
Patronage dividends to be distributed in non-qualified capital stock	1,474	(1,474)			0
Impact of revaluation of OCI deferred taxes on prior year retained earnings		15,976			15,976
Contributions by owners					
Distributions to owners				(3,148)	(3,148)
Unrealized net holding loss on available-for-sale securities $(12,375), net of tax $(4,262)			(8,113)	(456)	(8,569)
Foreign currency translation adjustments ($7,820), net of tax ($2,631)			(5,189)	(76)	(5,265)
Unrealized loss on derivative financial instruments $(415) net of tax $(151)			(264)		(264)
Defined benefit and other postretirement plan adjustments $56,180, net of tax $29,550			26,630	243	26,873
Balance at August 31, 2018	$ 326,872	862,983	(64,304)	87,589	1,213,140

	2018	2017
Cumulative unrealized holding gains on available-for-sale securities, net of tax $221 in 2018, $4,483 in 2017	$ 672	$ 8,785 $
Cumulative foreign currency translation adjustments, net of tax $(4,923) in 2018, $(2,292) in 2017	(14,174)	(8,985)
Cumulative unrealized gains (losses) on derivative financial instruments, net of tax $(24) in 2018, $113 in 2017	(62)	202
Cumulative defined benefit/ postretirement accounting, net of tax $(17,774) in 2018, $(47,323) in 2017	(50,740)	(77,370)
	$ (64,304)	$ (77,368)

See accompanying notes.

GROWMARK, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended August 31, 2018 and 2017
($ In Thousands)

		2018	2017
Operating Activity			
Consolidated net income	$	65,788	115,357
Less: Net income attributable to non-GROWMARK ownership in subsidiaries		(3,434)	(6,547)
Net income attributable to GROWMARK		62,354	108,810
Patronage		(63,574)	(58,954)
Net income attributable to GROWMARK and after patronage	$	(1,220)	49,856
Depreciation		75,710	72,045
Amortization		10,723	12,053
Non-cash earnings and patronage received		1,759	1,346
Patronage refund declared in stock		18,485	19,361
Other non-cash items		15,975	22,370
Net gain on available-for-sale securities		(16,075)	(25,339)
Segregated funds		(9,540)	21,088
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts and notes receivable		(92,801)	27,245
Inventories		(156,200)	(123,405)
Accounts payable		25,637	109,198
Patronage refunds payable		4,469	2,135
Other long-term liabilities		8,709	(26,929)
Vendor prepayments		(46,580)	15,190
Customer prepayments		43,302	(11,591)
Other assets/liabilities		9,529	(179,730)
Net cash used in operating activities		(108,118)	(15,107)
Investing Activity			
Proceeds from sale of available-for-sale securities		45,606	65,377
Purchases of available-for-sale securities		(28,244)	(7,213)
Redemption of ownership in cooperatives and others		(4,175)	(1,933)
Purchases of property, plant & equipment, and software		(101,618)	(86,403)
Proceeds from sale of property, plant and equipment		9,254	6,665
Acquisition of businesses, net of cash acquired		(4,227)	(18,488)
Net cash used in investing activities		(83,404)	(41,995)
Financing Activity			
Decrease in term debt, net		(42,175)	(7,862)
Increase in short-term borrowings, net		224,725	27,011
Redemption of preferred stock		(7,627)	(23,215)
Dividends on preferred stock		(7)	(7)
Net cash provided by /(used in) financing activities		174,916	(4,073)
Net decrease in cash and equivalents		(16,606)	(61,175)
Cash and equivalents at beginning of year		81,831	143,006
Cash and equivalents at end of year	$	65,225	81,831
Supplemental disclosures of cash flow information			
Cash paid (received) during the year for:			
Interest	$	22,089	14,857
Income Taxes		(1,020)	(27,013)

See accompanying notes.

1. Principal accounting policies

a. Organization

GROWMARK, Inc. (the Company) is an agricultural cooperative corporation operating for the benefit of its common shareholders/ patrons. The Company is primarily a wholesale supplier of agricultural products operating principally in the Midwestern United States and the Province of Ontario, Canada. Through certain divisions/subsidiaries, the Company is a retail supplier in the Northeastern and Midwestern United States, and Ontario Canada. Pursuant to its Certificate of Incorporation and Bylaws, Common Stock shall be issued only to agricultural producers or to associations of agricultural producers meeting the requirements of and operating in accordance with the provisions of an Act of Congress entitled the "Agricultural Marketing Act," as amended (12 U.S.C. § 1141), or an Act of Congress known as the Capper-Volstead Act (7 U.S.C. § 291), or by cooperatives which serve agricultural producers, and which are incorporated under and governed by the Co-operative Corporations Act of Ontario, Canada (R.S.O. 1990 c. C.35), as amended, or comparable legislation of Canada or another province of Canada (“Associations of Producers”).

Further, no dividends shall be paid on the common stock. Whenever full dividends upon all classes of preferred stock at the rate specified shall have been paid or declared, all remaining earnings for the year, after providing for such reasonable reserves and additions to retained earnings as may be determined by the Board of Directors, shall be distributed and paid in cash, property, qualified or nonqualified written notices of allocation, patronage equity credits, notes, stock or stock credits to the common shareholders and, at the discretion of the Board of Directors, to nonmember patrons upon the basis of patronage. In the event of distribution of retained earnings, such distribution shall be made to the common shareholders.

b. Consolidation policies

The consolidated financial statements of GROWMARK, Inc. include the accounts of the parent company and its controlled subsidiaries.

c. Cash and equivalents

Cash and equivalents includes all short-term highly-liquid negotiable instruments with original maturities of three months or less.

d. Financial instruments

The Company believes that the carrying value of its financial instruments, which include cash and equivalents, segregated funds, accounts receivable, notes receivable and accounts payable, approximates their fair value based on market rates currently available for financial instruments with similar terms and remaining maturities (note 10). The Company has determined it is not practical to calculate the fair value of debt without incurring excessive cost to do so. See notes 5 and 6 for disclosure about fair values of available for sale investments and derivatives, respectively.

e. Receivables

Receivables are stated net of an allowance for doubtful accounts of $15.2 million at August 31, 2018 and $15.2 million in 2017. The Company estimates the allowance based on an aging of the receivables and an evaluation of the likelihood of success in collecting the receivables. Aging for delinquency purposes is based on the due dates and terms of the receivables. Receivables are written off through a charge to the allowance for doubtful accounts after reasonable collection efforts have been made and management has determined collection is doubtful.

f. Ownership in cooperatives and others

Securities of nonsubsidiary cooperatives which have been purchased are carried at cost, and securities received as patronage refunds are carried generally at par value, less adjustments for impairments. The Company believes it is not practicable to estimate the fair value of the securities without incurring excessive costs because there is no established market for these securities and it is highly subjective to estimate future cash flows which are largely dependent on future patronage earnings of the nonsubsidiary cooperatives.

The Company does not reflect its potential equity in the undistributed earnings of nonsubsidiary cooperatives. The Company believes that it would be entitled to receive portions of the undistributed earnings of certain nonsubsidiary cooperatives in the event of liquidation of these cooperatives. However, the amounts which would be received are subject to various uncertainties and unpredictable future events, including changes in the share of the business of these nonsubsidiary cooperatives done with the Company in future years, the form of any distributions and the taxability thereof, and legal interpretations as to the methods of computation of the Company's share of any such future distributions. Such uncertainties preclude reasonable determination of such amounts prior to actual liquidation of the nonsubsidiary cooperatives and resolution of the uncertainties.

Available for sale securities are measured at fair value. Unrealized holding gains and losses are excluded from earnings and reported in other comprehensive income until realized.

Non-cooperative equity method investments giving the Company the ability to exercise significant influence over operating and financial policies of the investee are accounted for under the equity method. The Company adjusts the carrying amount of the investment and recognizes its share of the earnings or losses of the investee in the periods for which they are reported by the investee.

g. Accounting for sales-based taxes

The Company follows a policy of accounting for taxes on a net basis when the tax is assessed by a governmental authority and is both imposed on and concurrent with revenue-producing transactions.

h. Inventories and cost of sales

Inventories are valued at the lower of cost or net realizable value, except for grain which is valued at market. Cost is determined on the first-in, first-out method.

Patronage refunds are recorded when received and are included in the Consolidated Statements of Operations primarily as reductions of cost of sales.

Costs related to the storage, handling and distribution of products sold by the Company are included in cost of sales.

i. Intangibles

The Company and its subsidiaries have goodwill and other intangible assets primarily including trademarks, customer lists, and covenants not to compete (see Note 4). The Company applies the accounting alternative within Accounting Standards Codification (ASC) 350 – Intangibles – Goodwill and Other, allowing private companies to amortize goodwill and use a simplified one-step impairment test. Goodwill is amortized on a straight-line basis over 10 years, and is tested for impairment at the entity level if a triggering event occurs.

j. Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation. Depreciation is determined on the straight-line method for all assets.

k. Foreign operations

Included in the Company’s Consolidated Statements of Financial Position at August 31, 2018 and 2017 are the total assets of its Ontario, Canada operations which total approximately $232 million ($211 million in 2017.)

l. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

m. Accounting pronouncements

In May 2014, Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, was issued and is effective for GROWMARK in fiscal year 2020. ASU 2014-09 is intended to clarify the principles for recognizing revenue. The Company is currently evaluating the expected financial statement impact.

In November 2015, Accounting Standards Update (ASU) 2015-17, Balance Sheet Classification of Deferred Taxes, was issued and is effective for GROWMARK in fiscal year 2019. Current GAAP requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in the statement of financial position. The amendments in ASU 2015-17 require that deferred tax liabilities and assets be classified as noncurrent in the statement of financial position. The Company is currently evaluating the expected financial statement impact.

In February 2016, Accounting Standards Update (ASU) 2016-02, Leases, was issued and is effective for GROWMARK in fiscal year 2021. ASU 2016-02 is intended to increase transparency and comparability among organizations by recognizing right of use assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The Company is currently evaluating the expected financial statement impact.

In March 2017, Accounting Standards Update (ASU) 2017-07, Improving the Presentation of net Periodic Pension Cost (NPPC) and Net Periodic Postretirement Benefit Cost (NPPBC), was issued and is effective for GROWMARK in fiscal year 2020. ASU 2017-07 requires an employer to report the service cost component of NPPC and NPPBC in the same line items as other compensation costs arising from services rendered by employees during the period. The other components of NPPC and NPPBC are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The Company is currently evaluating the expected financial statement impact.

n. Subsequent events

Subsequent events have been evaluated through October 31, 2018 which is the date that the financial statements were available to be issued.

2. Acquisitions

During 2018, the Company and its subsidiaries acquired various businesses in the transportation and seed sectors of the agricultural industry. As a result of these acquisitions, the Company expects to realize revenue growth and increased earnings. The aggregate purchase price was $4.2 million ($4.2 million paid in cash). The results of these operations have been included in the consolidated financial statements since the dates of acquisition.

The Company applies ASU 2014-18 and does not recognize separately from goodwill (1) customer-related intangible assets unless they are capable of being sold or licensed independently from the other assets of the business and (2) noncompetition agreements.

During 2017, the Company and its subsidiaries acquired wholesale and retail businesses in the energy and grain sectors of the agricultural industry. The aggregate purchase price was $36.8 million ($18.5 million paid in cash). As a result of these acquisitions, the Company recognized gains totaling $5.2 million, which are included in the line item “Other income – net” in the Consolidated Statement of Operations for the year ended August 31, 2017.

3. Segregated funds

A significant portion of the segregated funds of a subsidiary of the Company is held in interest-bearing accounts by ADM Investor Services, Inc., the subsidiary’s principal clearing broker.

4. Other assets ($ in Thousands)

	August 31, 2018	August 31, 2017
Assets held in trust by captive insurance subsidiary	$ 36,635	39,560
Pension Plan Asset	13,311	---
Goodwill, net	8,834	10,273
Other intangible assets, net	69,455	70,557
Deferred Income Taxes	---	6,168
Other	79,238	68,827
Total other assets	$ 207,473	195,385

Goodwill is stated net of accumulated amortization of $5.8 million at August 31, 2018 and $4.3 million at August 31, 2017. Amortization expense was $1.5 million for the year ended August 31, 2018 and $1.3 million for the year ended August 31, 2017.

Other intangible assets include customer relationships, trademarks, tradenames, and enterprise resource planning (ERP) systems. Other intangibles are stated net of accumulated amortization of $40.5 million at August 31, 2018 and $31.2 million at August 31, 2017. Amortization expense was $9.2 million for the year ended August 31, 2018 and $10.7 million for the year ended August 31, 2017.

The Company began the process of implementing a new enterprise resource planning (ERP) system during 2015. Capitalized computer software costs totaled $60.3 million at August 31, 2018 ($50.4 million at August 31, 2017). Amortization expense of capitalized computer software costs was $6.9 million for the year ended August 31, 2018 and $5.3 million for the year ended August 31, 2017.

Estimated amortization expense for the succeeding five years for goodwill and other intangibles is ($ in thousands) $11,780 in 2019, $11,866 in 2020, $11,793 in 2021, $11,346 in 2022, and $9,978 in 2023.

5. Ownership in cooperatives and others

($ in Thousands)	August 31, 2018	August 31, 2017
Nonsubsidiary cooperatives:		
CHS	24,583	24,270
CoBank, ACB	5,651	6,188
Other cooperatives	8,912	9,059
	39,146	39,517
Available-for-sale securities ($18,905 cost at August 31, 2018, $20,192 at August 31, 2017)	19,821	31,832
Non-coop equity method investments:		
FS GRAIN, LLC	31,112	30,925
Other	38,012	35,412
Ownership in coops and others	$ 128,091	137,686

At August 31, 2018, the gross pre-tax unrealized gains on long-term available-for-sale securities were $1.3 million (or $1.0 million, net of $0.3 million of deferred income taxes). The gross pre-tax unrealized losses on long-term available-for-sale securities were $0.4 million (or $0.3 million, net of $0.1 million of deferred income taxes) at August 31, 2018. At August 31, 2017, the gross pre-tax unrealized gains on long-term available-for-sale securities were $13.3 million (or $8.8 million, net of $4.5 million of deferred income taxes). There were no gross pre-tax unrealized losses on long-term available-for-sale securities at August 31, 2017.

The gross realized loss on sales of long-term available-for-sale securities was $0.02 million during 2018 ($0.7 million in 2017). The gross realized gain on sales of long-term available-for-sale securities was $16.1 million as reported in the Statement of Operations for the year ended August 31, 2018 ($25.9 million in 2017). The cost basis used to compute the net realized gain on sales was specific identification for all available-for-sale securities.

6. Derivative instruments

($ and Quantities in Thousands, unless stated otherwise)

The Company manages interest rate risk with derivatives designated in a hedging relationship as cash flow hedges having a maximum term of 7 months at August 31, 2018. The objective is to minimize the risk and volatility of interest expense by fixing the interest rate on a portion of actual or forecasted borrowings. These derivative instruments may include over-the-counter (OTC) swap and option contracts. The changes in the market value of such contracts has historically been, and is expected to continue to be, highly effective at offsetting changes in expected cash flows on the underlying floating rate debt and is a component of other comprehensive income.

Interest rate swaps outstanding at August 31, 2018 hedge $20 million of projected future variable rate borrowings ($10 million at August 31, 2017). Unrealized gains and losses on interest rate swaps currently recorded in accumulated other comprehensive income will be reclassified as a component of interest expense as the derivatives approach maturity in the same period or periods during which the hedged transaction affects earnings. The Company anticipates that $0.01 million will be reclassified to interest expense within the next twelve months.

The Company also manages some of its overall commodity price risk with derivatives designated in a hedging relationship as cash flow hedges having a maximum term of 7 months at August 31, 2018. The objective is to reduce the variability of cash flows associated with the Company’s forecasted purchases and sales of soybeans and wheat. These derivative instruments may include exchange-traded futures and options contracts. The changes in the market value of such contracts has historically been, and is expected to continue to be, highly effective at offsetting changes in the expected cash flows associated with purchasing and selling the underlying commodity and is a component of other comprehensive income.

The contract quantity of soybean and wheat futures and options at August 31, 2018 is 0.3 million bushels ((0.5) million bushels in

2017). Unrealized gains and losses on futures and options contracts currently recorded in accumulated other comprehensive income will be reclassified as a component of cost of sales as the derivatives approach maturity in the same period or periods during which the hedged transaction affects earnings. The Company anticipates that approximately $(0.1) million will be reclassified to cost of sales within the next twelve months.

Certain operations and subsidiaries of the Company hold derivative instruments that have not been designated as hedges, such as futures, options, forward contracts, and over-the-counter (OTC) swaps that are believed to provide an economic hedge of overall price risk of grain, fuel, and fertilizer commodities. The purpose in holding these derivatives is to reduce the variability of cash flows associated with forecasted purchases and sales of the underlying commodities.

As of August 31, 2018 and August 31, 2017, the Company and its subsidiaries had the following quantities outstanding (on a net basis) on derivative contracts that were entered into as non-designated economic hedges of overall price risk:

Underlying	Long (Short)Quantity	
	2018	2017
Corn	(21,037) bushels	(29,460) bushels
Soybeans	(4,083) bushels	(5,003) bushels
Wheat/Other grain	(777) bushels	(4,315) bushels
Liquid fuels	(9,650) gallons	(11,524) gallons
Fertilizer	(45) tons	(51) tons

The fair value of derivative instruments reported in the Statement of Financial Position are shown below, segregated by derivatives designated as hedging instruments under ASC 815 and derivatives not designated as hedging instruments under ASC 815 as of August 31, 2018 and August 31, 2017, respectively.

	2018 Assets/Liabilities Location			
	Receivables-Net	Accounts Payable	Other Current Liabilities	Other Long-term Liabilities
Designated contracts:				
Interest rate	$ ---	$ ---	$ 1	$ 4
Commodity	13	---	94	---
Total designated	13	---	95	4
Non-designated contracts:				
Commodity	36,738	---	50,114	---
Total derivatives	$ 36,751	$ ---	$ 50,209	$ 4

	2017 Assets/Liabilities Location			
	Receivables-Net	Accounts Payable	Other Current Liabilities	Other Long-term Liabilities
Designated contracts:				
Interest rate	$ 33	$ ---	$ ---	$ ---
Commodity	295	---	---	---
Total designated	328	---	---	---
Non-designated contracts:				
Commodity	23,519	---	34,147	---
Total derivatives	$ 23,847	$ ---	$ 34,147	$ ---

Assets and liabilities attributable to interest rate swaps are offset in the statement of financial position as follows:

	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Statement of Financial Position	Net Amount of Liabilities Presented in the Statement of Financial Position
2018	$ 307	$ 302	$ 5
2017	$ 44	$ 77	$ (33)

See footnote 10 categorization of derivative instruments measured using the fair value hierarchy.

The pre-tax effect of derivatives designated as hedges under ASC 815 is shown below, as reported in the Statement of Operations, Statement of Comprehensive Income and the Statement of Shareholders' Equity for the years ended August 31, 2018 and August 31, 2017, respectively:

	2018 Designated Derivatives Gain (Loss)			
	Interest Rate	Foreign Currency	Commodity	Total
Effective portion:				
Recognized in OCI	$ (5)	$ ---	$ (81)	$ (86)
Reclassified from AOCI to expense:				
Location	Interest Expense	Other income	Cost of Sales	
Amount	$ 33	$ ---	$ 295	$ 328

	2017 Designated Derivatives Gain (Loss)			
	Interest Rate	Foreign Currency	Commodity	Total
Effective portion:				
Recognized in OCI	$ 26	$ ---	$ 295	$ 321
Reclassified from AOCI to expense:				
Location	Interest expense	Other income	Cost of Sales	
Amount	$ (104)	$ ---	$ 438	$ 334

During 2018 and 2017, immaterial levels of ineffectiveness were recognized in interest expense.

The effect of derivatives held as economic hedges but not designated under ASC 815 is shown below, as reported in the Statement of Operations for the years ended August 31, 2018 and August 31, 2017, respectively:

	Non-Designated Derivatives Gain (Loss)	
	Commodity Contracts	
	2018	2017
Recognized in income:		
Location	Cost of sales	Cost of sales
Amount	$ (19,505)	$ 32,771

Certain subsidiaries and divisions of the Company utilize exchange-traded futures and options as well as over-the-counter (OTC) cash forward purchase and sales contracts to manage commodity price risk associated with marketing grain. Substantially all of the grain sales of these subsidiaries/divisions are the result of physical delivery of commodities against cash forward contracts, and substantially all of the grain cost of sales are the result of purchases of commodities on forward cash contracts, gains and losses from all other commodity derivatives along with the change in value of grain inventories (non-derivatives) which are recorded at market price. These derivatives meet the definition of trading activities for which the Company discloses the realized and unrealized gains and losses on both derivative instruments and non-derivative instruments.

The following table includes the effect of trading activities on the Statement of Operations for the years ended August 31, 2018 and August 31, 2017, respectively:

Commodity Contracts	2018	2017
Sales	$987,489	$945,303
Cost of sales	943,115	906,396

7. Debt ($ in Thousands)

	August 31, 2018	August 31, 2017
Long-term notes payable:		
3.25% long term secured note due in annual installments from 2016 through 2021 (3.25% in 2017)	2,025	2,700
5.83% secured note due in annual installments from 2017 through 2021 (5.83% in 2017)	32,000	33,500
4.45% secured note due in 2018 (4.45% in 2017)	---	40,000
4.92% secured note due in 2020 (4.92% in 2017)	50,000	50,000
5.29% secured note due in 2023 (5.29% in 2017)	60,000	60,000
5.54% secured note due in 2026 (5.54% in 2017)	50,000	50,000
Total debt	194,025	236,200
Less: Amounts due within one year	2,175	42,175
Less: Unamortized debt issuance costs	305	399

Net long-term debt	$ 191,545	193,626

Long-term debt maturities for the four years succeeding August 31, 2019 are $52.2 million in 2020, $29.7 million in 2021, none in 2022, and $60.0 million in 2023.

During 2018, gross advances on term debt were $13.5 million ($15.0 million in 2017), and gross repayments were $55.7 million ($22.9 million in 2017). Gross advances on short-term debt were $2.4 billion in 2018 ($1.5 billion in 2017), and gross repayments were $2.2 billion ($1.5 billion in 2017).

Long-term notes payable of the Company

The Company has $160 million ($200 million at August 31, 2017) of long term fixed rate debt through a private placement. Substantially all of the Company’s and certain subsidiaries’ current assets, as well as certain ownership in other companies are pledged as collateral. These notes expire between 2020 and 2026 and rank pari passu with the Company’s syndicated short-term line of credit.

The Company has a long-term note payable of $32.0 million with Metropolitan Life Insurance Company ($33.5 million at August 31, 2017). The note has a fixed rate and is secured by certain public stock holdings of the Company.

The Company has a fixed rate long-term note payable of $2.0 million ($2.7 million at August 31, 2017) with Nationwide Exchange Services Corp., which is secured by a mortgage on certain real property.

Certain covenants of these loans require the Company to maintain a minimum amount of net worth and working capital, and limit the amount of debt and direct or contingent obligations. The Company was in compliance with these covenants as of August 31, 2018 and 2017.

Short-term notes payable of the Company

The Company has secured short-term lines of credit extending to June 2020 totaling $450.0 million at August 31, 2018 ($600.0 million at August 31, 2017). At August 31, 2018, there were $236.7 million borrowings outstanding at variable rates ($8.0 million at August 31, 2017). Substantially all of the Company’s and certain subsidiaries’ current assets and certain ownership in other companies are security under a syndicated credit facility agreement for this short-term line of credit. On June 12, 2015, a second amendment to the short-term credit agreement was executed. The Company reduced the cost of borrowing, enhanced operational flexibility, and extended the maturity from August 2017 to June 2020. These lines of credit rank pari passu with the Company’s long term fixed rate private placement debt.

The Company has a short-term note payable with Evergreen FS with a total capacity of $15.0 million and $15.0 million borrowings outstanding at August 31, 2018 ($9.0 million borrowings at August 31, 2017). The note has a variable rate.

The Company has a short-term note payable with Ag View FS with a total capacity of $5.0 million and no borrowings outstanding at August 31, 2018 (no borrowings at August 31, 2017). The note has a variable rate.

The Company has a short-term note payable with Carroll Service Company with a total capacity of $5.0 million and no borrowings outstanding at August 31, 2018 (no borrowings at August 31, 2017). The note has a variable rate.

The Company has a short-term note payable with Christian County Farmers Company with a total capacity of $4.0 million and no borrowings outstanding at August 31, 2018 (no borrowings at August 31, 2017). The note has a variable rate.

The Company has a short-term note payable with Gateway FS with a total capacity of $15.0 million and no borrowings outstanding at August 31, 2018 ($10.0 million of borrowings at August 31, 2017). The note has a variable rate.

The Company has a short-term note payable with Gold Star FS with a total capacity of $15.0 million and no borrowings outstanding at August 31, 2018 (no borrowings at August 31, 2017). The note has a variable rate.

The Company has a short-term note payable with West Central FS with a total capacity of $10.0 million and no borrowings outstanding at August 31, 2018 (no borrowings at August 31, 2017). The note has a variable rate.

Consolidated non-recourse long-term notes payable

At August 31, 2018, a subsidiary (Total Grain Marketing, LLC, or TGM) of the Company has a long-term revolving note payable with CoBank (non-recourse to the Company), with a total capacity of $13.5 million and no borrowings outstanding at August 31, 2018. No borrowings were outstanding at August 31, 2017. The note is collateralized by a first mortgage on TGM's facilities, security agreement, assignment of leases and rents and fixture filing, and are not cross- collateralized with assets of the Company.

At August 31, 2018, a subsidiary (WESTERN GRAIN MARKETING, LLC, or WGM) of the Company has a long-term revolving note payable with CoBank (non-recourse to the Company), with a total capacity of $9.0 million and no borrowings outstanding at August 31, 2018 ($10.0 million capacity and no borrowings outstanding at August 31, 2017). The note is collateralized by a security agreement and mortgages covering all assets of the subsidiary and is not cross-collateralized with assets of the Company.

Consolidated non-recourse short-term notes payable

At August 31, 2018, a subsidiary (TGM) of the Company has a short-term line of credit of $100.0 million ($100.0 million at August 31, 2017) with CoBank that is collateralized by a security agreement covering personal property of TGM (not cross collateralized with assets of the Company) and is used to finance business operations with no borrowings outstanding at August 31, 2018 (none at August 31, 2017).

At August 31, 2018, a subsidiary (WGM) of the Company has a short-term line of credit of $30.0 million ($30.0 million at August 31, 2017) with CoBank that is collateralized by a security agreement covering all assets of WGM (not cross-collateralized with assets of the Company) and is used to finance business operations with no borrowings outstanding at August 31, 2018 (none at August 31, 2017).

8. Other long-term liabilities ($ in Thousands)

	August 31, 2018	August 31, 2017
Pensions/postretirement benefits	$ 64,587	106,896
Other liabilities	70,797	54,978
Total other long-term liabilities	$ 135,384	161,874

9. Capital stock ($ in Thousands)

	August 31, 2018	August 31, 2017
Class B Preferred, 3% cumulative, $.15 par value, authorized 2,000,000 shares	$ 219	219
Class D Preferred, nondividend, $100 par value, authorized 5,000,000 shares	291,600	280,856
Class F Preferred, nondividend, nonvoting, $25 par value, authorized 2,000,000 shares	1,959	1,906
Class D Non-qualified Preferred, nondividend,$100 par value	13,172	12,234
To be issued as patronage refunds in:		
Class D Preferred, or Class F Preferred	17,011	18,437
Non-qualified Class D Preferred stock, or stock credits	1,474	925
Paid-In Capital	1,437	1,437
Common, no par or stated value; 1,500 shares authorized, 224 shares outstanding, (220 shares in 2017)	---	---
	$ 326,872	316,014

10. Fair value measurements ($ in Thousands)

Assets and liabilities recorded at fair value on the balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair values. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;

- Quoted prices for identical or similar assets or liabilities in inactive markets;

- Inputs other than quoted prices that are observable for the asset or liability;

- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

The following fair value hierarchy tables present information about assets and liabilities measured at fair value on a recurring basis as of August 31, 2018 and August 31, 2017.

	Assets/(Liabilities) at Fair Value as of August 31, 2018			
	Level 1	Level 2	Level 3	Total
Financial Securities	$54,132	36,635	---	90,767
Interest rate derivatives	---	(5)	---	(5)
Commodity contracts	25,145	(38,602)	---	(13,457)
Grain inventory	96,676	---	---	96,676

	Assets/(Liabilities) at Fair Value as of August 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial securities	$63,045	39,438	---	102,483
Interest rate derivatives	---	33	---	33
Commodity contracts	10,116	(17,797)	---	(7,681)
Grain inventory	80,646	---	---	80,646

The valuation of financial assets and liabilities classified in Level 2 is determined using a market approach based upon quoted prices for similar assets and liabilities in active markets, or other inputs that are observable for substantially the full term of the financial instrument. For additional required disclosures regarding the Company’s use of derivative instruments see footnote 6.

11. Income taxes ($ in Thousands)

At August 31, 2018, the Company and its subsidiaries have total net deferred tax assets of $3.6 million ($14.1 million net deferred tax asset at August 31, 2017) with deferred assets totaling $73.2 million and deferred liabilities totaling $69.6 million ($112.6 million and $98.5 million at August 31, 2017, respectively).

The deferred items include temporary differences related to accounting methods being used for financial accounting that differ from those used for tax accounting. The types of differences include items such as bad debt expense, depreciation of property, plant and equipment, pension cost, postretirement health benefit cost, and the unrealized gain on available-for-sale securities.

The following table identifies key components of income tax expense/(benefit):

	Years Ended August 31, 2018	2017
Current tax expense/(benefit)	$ 15,713	(21,302)
Deferred tax benefit	(11,975)	(3,132)
	$ 3,738	(24,434)

The Company and its subsidiaries are subject to income tax filing requirements imposed by the federal, state, and provincial taxing authorities in the United States and Canada. Income tax returns filed, or to be filed, by the Company and its U.S. subsidiaries are subject to examination by the U.S. federal, state and local taxing authorities for tax years ending after August 31, 2008. The income tax returns filed, or to be filed, by the Company and its foreign subsidiaries are subject to examination by the Canadian and provincial taxing authorities for tax years ending after August 31, 2010.

The Company and its subsidiaries recognize interest and penalty expense, if any, in its provision for income taxes. Interest expense related to unrecognized tax benefits in the Consolidated Statement of Operations is immaterial for the years ended August 31, 2018 and August 31, 2017.

The effective income tax rate for fiscal 2018 and 2017 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.

In fiscal year 2018, the Company revised its estimated annual effective tax rate to reflect the change in the federal statutory rate to 21%, effective December 31, 2017 resulting from legislation that was enacted on December 22, 2017. As a result, income tax expense reported for the fiscal year was adjusted to reflect the effects of the change in the tax law using a fiscal year blended rate. Included in income tax expense is a $3.5 million loss on the revaluation of net deferred tax assets resulting from the application of the newly enacted rates to existing deferred balances.

The Company elected to early adopt ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive income (AOCI), which gives entities the option to reclassify to retained earnings tax effects resulting from the Act related to items in AOCI that the FASB refers to as having been stranded in AOCI. As a result of adopting this standard, the Company reclassified $16.0 million from AOCI to retained earnings.

12. Pensions and postretirement health benefits ($ in Thousands)

The pension and health benefits measurements below are based on an August 31 valuation date.

	Pension		Health Benefits	
	August 31,		August 31,	
	2018	2017	2018	2017
Total plan assets	$586,718	529,671	---	---
Total projected benefit obligation	621,718	619,060	17,631	23,009
Funded status	$ (35,000)	(89,389)	(17,631)	(23,009)
Accumulated benefit obligation	$ 566,560	558,645	---	---

	Pension		Health Benefits	
	Years Ended August 31,		Years Ended August 31,	
	2018	2017	2018	2017
Service cost	$ 18,982	$ 18,974	55	71
Interest cost	24,426	23,020	865	976
Expected return on plan assets	(35,500)	(31,222)	---	---
Net amortization	8,428	14,980	(1,119)	(383)
Settlement	1,230	---	---	---
Benefit cost	$ 17,566	$ 25,752	(199)	664
Benefits paid	24,858	18,153	2,437	1,032
Premiums paid by company	---	---	2,437	1,032
Employer contribution	20,313	31,628	---	---

Amounts recognized in the Consolidated Statements of Financial Position consist of:

	Pension		Health Benefits	
	August 31,		August 31,	
	2018	2017	2018	2017
Current liabilities	$ (1,883)	(4,440)	(1,229)	(1,061)
Noncurrent assets	$ 15,281	---	---	---
Noncurrent liabilities	$ (48,398)	(84,949)	(16,402)	(21,948)

Amounts recognized in Accumulated other comprehensive (income) loss consist of:

	Pension		Health Benefits	
	August 31,		August 31,	
	2018	2017	2018	2017
Prior service cost/(credit)	$ 394	604	(197)	---
Net actuarial (gain)/loss	$ 82,608	132,192	(10,922)	(8,378)

Estimated amounts to be amortized from Accumulated other comprehensive (income) loss into net periodic benefit cost during the following fiscal year are:

	Pension		Health Benefits	
	August 31,		August 31,	
	2018	2017	2018	2017
Prior service cost/(credit)	$ 190	$ 210	(53)	---
Net actuarial (gain)/loss	$ 2,387	$ 8,587	(1,725)	(1,119)

	Assumptions - Pension Benefit Cost In Fiscal Year Ending		Assumptions - Health Benefit Cost In Fiscal Year Ending	
	08/31/2018	08/31/2017	08/31/2018	08/31/2017
Discount rate	4.00%	3.85%	3.85%	3.70%
Long-term rate of return	6.75%	6.75%	---	---
Salary increase	3.0%-8.5%	3.5%-8.5%	---	---

	Assumptions - Pension Benefit Obligations at		Assumptions – Health Benefit Obligations at	
	08/31/2018	08/31/2017	08/31/2018	08/31/2017
Discount rate	4.32%	4.00%	4.17%	3.85%
Salary increase	3.0%-8.5%	3.0%-8.5%	---	---

The investment policy for retirement plan assets is established by GROWMARK management with asset management being performed by professional asset management firms. The plan's primary investment objective is to ensure that liabilities are met when due, using a strategy to maximize long-term investment return consistent with a reasonable level of risk.

In developing strategic asset allocation guidelines for the plan, an emphasis is placed on the long-term characteristics of individual asset classes, and the benefits of diversification among multiple asset classes. Over the long term, equities are expected to outperform fixed income investments. The plan's asset allocation may also include alternative investments such as private equity for higher return potential and real estate for diversification benefits. A portion of the plan's assets may be invested passively due to the low cost realized by this strategy in the segments of the capital markets that are viewed to be reasonably efficient.

The plan's primary investment objective is to exceed, on a net-of-fee basis, the return of a policy portfolio composed of the following indices mixed according to the corresponding weights:

Asset Class	Index	Weights
U.S. Equities	Russell 3000 Index	25%
Non-U.S. Equities	MSCI All Country World Ex–U.S.Investable Index	25%
Real Estate	NCREIF OCDE Index	15%
Private Capital	Cambridge AI PE Index	15%
Fixed Income	Bloomberg Barclays US Aggregate Bond Index	20%
Total		100%

The plan assets are invested according to the asset classes and weights shown in the above table with rebalancing as needed in order to keep the plan compliant with asset allocations. Investments in private equity and real estate are generally less liquid than investments in public market securities and are made via periodic commitments as called by investment managers. Until commitments are fully invested, actual allocations to these asset classes may deviate from their targets for extended periods, and shall be considered an exception to the policy.

The expected long term rate of return for plan assets has been derived based on historical averages of similarly diversified portfolios of high quality equities and fixed income securities.

In 2018, the Company adopted ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent). The new standard removes the requirement to categorize all investments measured at net asset value (NAV) per share using the practical expedient allowed under ASC 820 in the fair value hierarchy.

The plan assets measured using fair value techniques on a recurring basis, have been categorized based upon a fair value hierarchy (see Note 10) in the table below.

	Assets at Fair Value as of August 31, 2018				
	Level 1	Level 2	Level 3	NAV	Total
Cash and cash equivalents:	$ 33,012	$ ---	$ ---	$ ---	$ 33,012
Equities:					
US equity funds	180,571	---	---	---	180,571
Foreign equity funds	173,253	---	---	---	173,253
Total equities	353,824	---	---	---	353,824
Fixed income:					
Government bonds	---	61,358	---	---	61,358
Corporate bonds	---	43,200	---	---	43,200
Mortgage-backed securities	---	24,146	---	---	24,146
Total fixed income	---	128,704	---	---	128,704
Private Equity funds	---	---	---	3,705	3,705
Real Estate	---	---	---	67,429	67,429
Venture Capital	---	---	---	44	44
Total assets at fair value	$ 386,836	$128,704	$ ---	$ 71,178	$ 586,718

	Assets at Fair Value as of August 31, 2017				
	Level 1	Level 2	Level 3	NAV	Total
Cash and cash equivalents:	$ 3,752	$ ---	$ ---	$ ---	$ 3,752
Equities:					
US equities & mutual funds	167,848	---	---	---	167,848
US index funds	70,930	---	---	---	70,930
Foreign equities and mutual funds	75,836	---	---	---	75,836
Foreign index funds	19,915	---	---	---	19,915
Total equities	338,281	---	---	---	338,281
Fixed income:					
Money market funds	40,152	---	---	---	40,152
Government bonds	7,004	59,690	---	---	66,694
Corporate bonds	---	50,392	---	---	50,392
Mortgage-backed securities	---	34,152	---	---	34,152
Total fixed income	47,156	144,234	---	---	191,390
Total assets at fair value	$ 385,437	$144,234	$ ---	$ ---	$ 529,671

Expected future benefit payments from the plans, which reflect expected future service, as appropriate, are as follows:

	Pension Benefit Payments	Post Retirement Other Than Pension Benefit Payments
2019	$ 23,920	1,229
2020	34,631	1,315
2021	26,910	1,361
2022	29,990	1,374
2023	34,705	1,351
Years 2024-2028	171,504	6,254

The assumed annual rates of increase in the per capita cost of covered medical benefits for retirees is 7.60% in 2018 and 7.20% in 2019. It is assumed by 2027 that rates will have changed to 4.50%.

13. Rentals under operating leases ($ In Thousands)

The following is a schedule of minimum future rentals on non-cancelable operating leases as of August 31, 2018:

Year ending August 31,	
2019	$ 15,990
2020	11,941
2021	8,825
2022	6,777
2023	5,860
Later years	23,393
	$ 72,786

Rent expense was $20,649 in 2018 ($20,845 in 2017).

14. Commitments and guarantees

At August 31, 2018, a subsidiary of the Company was contingently liable under a guarantee for up to $25.0 million ($25.0 million at August 31, 2017) of loans to patrons of GROWMARK, Inc. member cooperatives participating in the FS Agri-Finance program. The estimated fair value of the guarantee was an immaterial amount. The Company anticipates that in the event that this guarantee was activated there would be sufficient proceeds from liquidation of collateral to materially cover the maximum potential amount of future payments.

At August 31, 2018, the Company was contingently liable for $1.2 million under recourse provisions of FS Agri-Finance and other producer financing arrangements. The estimated fair value of the recourse contingency was an immaterial amount.

As part of the Company's overall risk management program the Company self-insures for certain risk exposure situations. As part of this program, a performance bond has been purchased from an insurance company. As of August 31, 2018, the amount of the performance bond coverage was $14.0 million ($16.0 million at August 31, 2017).

During 2017, the Company entered into a supply agreement to purchase crop protection products from a to-be-constructed facility. The supply agreement is effective for twenty years from the facility start-up date. The Company commitment is to purchase a minimum volume of product each year of the twenty year agreement with an option to purchase additional volume up to a maximum amount. The facility start-up date is estimated to be February 2020. Based on current market pricing, the Company's annual purchase commitment is approximately $11.3 million dollars.

15. Other litigation and claims

The Company is involved as a defendant in various lawsuits, claims, and disputes which are in the normal course of business. The Company intends to vigorously defend itself against these actions and proceedings. The Company believes the resolution of any such matters will not have a material adverse impact on the consolidated financial position of the Company.

16. Accumulated Other Comprehensive Income

Changes in Accumulated Other Comprehensive Income by Component (net of tax)

	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Available-for-Sale Securities	Defined Benefit/ Postretirement Accounting	Foreign Currency Translation
Balance at August 31, 2016	$ 210	$ 16,969	$ (105,231)	$ (8,554)
Other comprehensive income before reclassifications	210	2,989	18,901	(299)
Amounts reclassified from accumulated other comprehensive income	(218)	(11,173)	8,960	(132)
Net current period other comprehensive income	(8)	(8,184)	27,861	(431)
Ending balance at August 31, 2017	$ 202	$ 8,785	$ (77,370)	$ (8,985)
Other comprehensive income before reclassifications	(49)	(990)	21,908	(5,189)
Amounts reclassified from accumulated other comprehensive income	(215)	(7,123)	4,722	-
Net current period other comprehensive income	(264)	(8,113)	26,630	(5,189)
Ending balance at August 31, 2018	$ (62)	$ 672	$ (50,740)	$ (14,174)

Reclassifications Out of Accumulated Other Comprehensive Income

Accumulated Other Comprehensive Income (AOCI) Components	Amount Reclassified from AOCI in fy2017	Amount Reclassified from AOCI in fy2018	Affected Line Item in the Statement of Operations
Gains (Losses) on Cash Flow Hedges			
Interest rate swaps	$ (104)	$ 33	Interest expense
Commodity futures and options	438	295	Cost of sales
	334	328	Total before tax
	(116)	(113)	Tax expense
	$ 218	$ 215	Net of tax
Unrealized Gains (Losses) on available-for-sale securities	18,167	11,582	Net gain from securities activity
	(6,994)	(4,459)	Tax expense
	$ 11,173	$ 7,123	Net of tax
Amortization of defined benefit/ postretirement items			
Prior service costs	(250)	(210)	General, administrative and selling expense
Actuarial losses	(14,319)	(7,468)	General, administrative and selling expense
	(14,569)	(7,678)	Total before tax
	5,609	2,956	tax benefit
	$ (8,960)	$ (4,722)	Net of tax
Total reclassifications for the year	$ 2,431	$ 2,615	Net of tax