



**APRIL 2016**

Balaton • Elkton • Lake Benton • Marshall • Pipestone • Ruthton • Tracy • Tyler

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Division of CHS Inc.



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# ANNUAL MEETING SPOTLIGHTS

## OUR POSITIONING FOR THE FUTURE

### MANAGER'S CONNECTIONS

By Kent Mulder, General Manager



This year's annual meeting marked my first year with CHS Marshall. When I took to the podium last year, I'd only been on the job for three weeks!

In the past five years, your local co-op did a terrific job of investing an average of \$3.2 million annually in facilities and equipment. Those investments will enable us to perform up to your expectations in the next few years, when low prices will dictate a conservative financial stance.

Numbers in our financial statement prove our success in all aspects of our business. Does that mean we should sit back fully satisfied with our performance? Of course not. We're working to decrease expenses in ways that will streamline our efficiency for the long haul.

For one thing, we evaluated underutilized facilities and those in need of upgrades. As a result, we sold the Arco facility, where the cost of remodeling to achieve regulatory compliance far outweighed the expected return. Then, looking at future strategic needs, we purchased a warehouse in Pipestone.

Our agronomy division completed substantial precautionary maintenance this past year. That approach saved, and will continue to save, a lot of money. Meanwhile, we geared up for the steadily increasing demand for precision ag services by hiring our own CHS YieldPoint™ Specialist to use

modern data resources to your best advantage.

Thanks to the extensive CHS network, our agronomy division will share in the advantages of a recent CHS buy-in to West Central, a wholesale distributor in Willmar, Minnesota. We're gaining more scope in our crop protection services with this strategic connection.

Reviewing the annual report numbers, you'll spot reduced farmer spending in some areas—

our feed division, for one. That drop reflects cutbacks by individual local livestock producers and also the impact of avian flu on our local egg producers. Biosecurity measures have always been a significant part

of our service to customers. Through it all our livestock staff worked to provide services that really make a difference in tight times—especially financial tools. A new recordkeeping system, sponsored by our CHS feed division, enables our customers to effortlessly benchmark their own progress. It's a hands-free program—data entry is completed for customers—which allows them to track costs and more precisely measure productivity for every sales period.

Previous investments will enable us to perform up to your expectations in the next few years when low prices will dictate a conservative financial stance.

## OUR BRAND PROMISE

*Personalized Service,  
Profitable Solutions.*

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# ANNUAL MEETING SPOTLIGHTS...

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This year your energy division's services expanded, too. We're offering more hands-on attention to customers in our Western District, with a new certified energy specialist for the Elkton and Lake Benton area. Two new 5,600-gallon delivery trucks are further evidence that we're positioning for the future and skillfully managing our expenses along the way. Since the old trucks still had good market value, selling those gave us the ability to buy bigger, smarter trucks. In-cab technology facilitates deliveries.

In the grain division, we hired two farm-to-elevator grain experts. One covers the Ruthton area and west, and one the

Tracy area. Take all of our recent investments in expertise and technology as a reminder: CHS Marshall is following through with our commitment to stay relevant to your needs. As CHS Inc. Owner Board Member Curt Eischens mentioned at the annual meeting (see page 4), relevance is a watchword throughout our cooperative system. When we say CHS is "Farmer owned with global connections," we're referencing options for strategic alignments around the world that assure your cooperative's long-term financial strength. ▸

## THE FUEL YOU GROW DESERVES ANOTHER CHANCE

### ENERGY CONNECTIONS

By Marla Verlinde, Energy Division Manager  
[marla.verlinde@chsinc.com](mailto:marla.verlinde@chsinc.com)

In January, my husband and I attended the 2016 National Biodiesel Conference and Expo in Tampa, Florida, at the request of the Minnesota Soybean Research and Promotions Council. They underwrote our trip to the event for the simple reason that the soybean growers want people like us—an energy professional and a farmer—to see what makes biodiesel a better option than ever before.

I know you might be thinking, "I tried it before and had problems." Believe me, I haven't forgotten 2009 either. But I came away from the Tampa conference re-convicted and thinking we owe it to ourselves to give biodiesel another chance.

We didn't know what to expect going into the conference. The theme was "See for Yourself" and the sessions were available to a very diverse group of attendees, people from all walks of life. Some were invited knowing they were opposed to biodiesel and others because they're concerned about using potential food for fuel.

There were others whose issue is clean air. Not many of us had a petroleum focus, in fact there was only one other CHS employee. I represented a company that has investments in biofuels but also in petroleum. I wondered how I'd fit in.

### Here is what I learned

We all need to be aware of improved standards for biodiesel production. In 1993, the American Society for Testing Materials (ASTM) formed the first biodiesel standards council with energy producers and equipment manufacturers (companies such as John Deere). Each company on the council gets a vote as the group forges standards for producers and guidelines government agencies can use to determine regulations and tax refunds. A lot has changed since the inception of this task force.



Ryan and Marla Verlinde attended the National Biodiesel Conference in January.

The newest ASTM standards (BQ9000) are all about quality and consistency. Every year since 2001 there have been improvements in biodiesel. Those of us at CHS who work with the product can see that.

Today's product is better. That's one good reason to give it another chance. But you'll also want to consider what biodiesel brings back to the farming community. One presenter told us biodiesel increases bean prices by as much as 73 cents per bushel. That would add up to \$30,000 in additional farm income for a 1,000-acre farmer. Right in our back yard, we have three Minnesota plants capable of creating over 60 million gallons of soy oil per year for biofuels.

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# SERVING UP A PROMISING FUTURE

It was great to see so many young people at the annual meeting. As General Manager Kent Mulder reminded everyone in attendance, "That is the way co-ops stay relevant, by staying in touch with the next generation."

CHS Inc. Owner Board Member Alan Holm, visiting from Sleepy Eye, added, "It's an honor to be here, to see all the members who take pride of ownership in the company. It looks as if CHS Marshall has a promising future."

To give direction to that future, members re-elected Merle Zeinstra for the western district, Tom Versaevel in our central district and Mike Olson to represent customers in the eastern district. All were ratified by unanimous ballot.

Long-time Owner Board Member Dick Verlinde retired at the annual meeting. During an interview back in 2002 he said, "I believe in the cooperative system all the way. I know sometimes a guy might gain a penny or two somewhere else, but to me service from the co-op adds more value." His opinion clearly never changed.

Retirees recognized at the annual meeting were Duane Maeyaert, who retired from the feed division on Oct. 2, and Gary Wyffels, who had responsibilities in fertilizer spreading and in the seed department. Joan Baack, from the Marshall office, retired

in early March. She started at Balaton in 1998 and was valued throughout her career for her knowledge and sense of humor.

"We've filled those retirement voids in our staff lineup, thanks partly to an internship program that helps us meet and prepare excellent full-time employees," Kent explained. Supporting ag education is important to CHS—to the tune of \$200,000 for research at SDSU—and scholarship support for local students. "If you know of students who want to pursue a career in agriculture, be sure they investigate the CHS Scholarship program." April 1 is the 2016-2017 school year application deadline. Encourage students to find the online form or talk with school guidance counselors soon.

## Recognizing how CHS links you to new resources

The agreement that recently made CHS Inc. the sole grain procurement source for Highwater Ethanol LLC in Lambertton will work in favor of CHS Marshall customers. Our geography gives us an advantage.

On Feb. 1, CHS and CF Industries officially commenced the relationship that will establish a long-term nitrogen fertilizer supply source for our farmer-owners. CHS purchased equity interest in CF Industries entitling CHS to first-purchase rights for up to 1.1 million tons of granular urea and 580,000 tons of UAN.



Divas Gone Country, one of the shows available from Divas Entertainment, kept the crowd involved with plenty of audience participation.





CHS Inc. Corporate Owner Board Member and CHS Marshall customer Curt Eischens drew attention to this arrangement at the recent annual meeting. "The CF Nitrogen investment brings us dependable and patronage-eligible fertilizer products. I toured the Port Neal, Iowa, plant with Al Holm and witnessed its ability to provide products for Minnesota, Iowa, Nebraska and Missouri."

Curt continued, "That's just one example of how we're following through with the CHS commitment to stay relevant. We're always on the lookout for strategic alignments, global connections and ways our cooperative can remain financially strong."

He went on to remind annual meeting attendees how, in the past year, CHS purchased an ethanol plant in Anawan, Illinois, and a canola plant in Hallock, Minnesota. Both will serve as valuable marketing outlets for CHS co-ops in those areas.

"We continue to create a value chain with significant potential. Think of these investments in fertilizer, grain marketing, DDGS and ethanol production. Do you begin to see how it all ties together? Each of those entities brings resources to local farmers and increases the long-term value and staying power of CHS." ▮





Included in the conference was an expo that highlighted the best in biofuels technology.



Our offer made it easy for 4-H member Lauren Verlinde to get a new propane water heater for the barn she uses to get animals ready for the fair. She looks forward to using it and is impressed by the amount of space saving made by converting to a tank-less propane water heater.

## THE FUEL YOU GROW...

*Continued from page 2*

### There's definitely a growing market for it

On the East Coast a huge number of businesses and residences still use heating oil, realizing there's no easy way to convert their infrastructure to natural gas. At the national conference, I learned consumers out there are very big proponents of biodiesel for heating and New York Mayor Bill de Blasio is really in favor.

Millions of homeowners are switching to a percentage of biodiesel in their furnaces. Some distributors are using up to 80% bio, though most are at 5%. They like it because it burns clean!

Ryan Verlinde was never one who was turned off by biodiesel, so he attended the conference not to be convinced, but to learn more. These are his top three takeaways:

1. "I learned that right now we export two out of every three of our soybeans produced in the United States to China. If we didn't have demand for the biodiesel product we, as farmers, would have to be even more dependent on China to buy our product.
2. "As a livestock producer, I was surprised to learn that biodiesel demand adds 10 to 12 cents per pound to the value of a beef carcass. Since soy isn't readily available in all parts of the U.S. some bio processors use animal fats. Approximately 25 percent of U.S. animal fats are utilized for biodiesel production; that's a significant income resource.



3. "With all the improvements in the quality of biodiesel, coupled with the value it brings to ag producers, why wouldn't we be using it in our own equipment?" Ryan asks.

As a fuel person, I was impressed when I met John Deere and Case IH dealers who'd been invited to the conference. Our energy team often hears a farmer say, "My equipment guy tells me not to use biodiesel." The conversations we had with equipment dealers in Tampa were a learning experience for all of us about working together.

Here in Minnesota, we need to remember the B5 mandate switches to B10 from April 1 through Sept. 30. In 2018, the level moves to B20. We'll need to adapt to that reality.

For every gallon of Number 2 biodiesel CHS Marshall delivers in the winter, we include a cold-flow additive. We haven't had a lot of fuel issues since we started that practice. As a result, and taking into account what I learned at the conference, I encourage you to put your faith in the fuel you produce. ▶

## WARM UP TO A NEW WATER HEATER—WE'LL HELP!

Your furnace runs no more than half a year, but you use your water heater every day. We're making it easy to install a new propane water heater and capture clean-burning fuel savings in the long run, along with a sizeable rebate.

### Water Heater Installation Incentive Program

- It's sponsored by the Minnesota Propane Association.
- Install a new propane water heater as part of any new construction project and we'll help you collect \$650!
- Replace your electric, fuel oil or natural gas unit with a new propane water heater and collect \$650!
- Or, upgrade your current propane water heater and collect \$200!
- To earn your rebate, you must contact CHS Marshall for a safety inspection before your new water heater is installed. (We'll also need a copy of your paid purchase invoice.)
- This offer is limited, so contact your CHS Marshall Energy Department now.



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Marshall, MN 56258

PRSR STD  
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FIND OUT WHY  
BIODIESEL GETS BETTER  
ALL THE TIME.

**SEE PAGE 2**



## KEY YEAR-END NUMBERS AND PATRONAGE DIVIDEND BREAKDOWN

- Our total net savings for the year ending Aug. 31, 2015, were **\$2,797,087** compared with \$2,411,927 for the previous year.
- Grain margins were up substantially from \$1,503,960 to **\$2,850,567**.
- Merchandise margins were down, for the reasons noted in Kent Mulder's article, from \$9,377,400 to **\$8,287,742**.
- It's important to note how employees reduced overall expenses by well over a million dollars—going from \$18,352,564 in 2014 to **\$17,064,715** in 2015.
- Patronage was returned to members using the following formula:
  - o Soybeans at 6.7 cents and corn at 1.2 cents per bushel sold.
  - o 1.09 percent of all feed purchases and 2.8 percent of fertilizer purchases.
  - o 1.25 percent on propane gallons purchased and 7.1 percent on premium diesel.
- **In the past five years, we've returned \$15 million in total patronage to CHS Marshall members.**

### Your patronage check is part of a record return

Farmers, ranchers and local cooperatives across the United States recently shared an estimated \$519 million cash distribution from CHS Inc. The distribution ranks among the largest in CHS history and extends a five-year record of significant cash returns to owners.

2016 cash returns to owners demonstrates the CHS commitment to maintaining a strong financial foundation, providing economic returns to its owners and continuing to invest in the company's future.

The ability of our owners, who are also our customers, to directly share in the financial success of CHS is a unique benefit of a cooperative business. And, this cash return is added value that enables farmers, ranchers and member cooperatives to invest in their own futures and in the communities where they live.

The 2016 cash return to owners is based on CHS net income of \$781 million for the fiscal year ending Aug. 31, 2015. Between fiscal 2012 and 2016 (based on fiscal 2011-2015 earnings), CHS has distributed a total of \$2.7 billion in cash, a \$544 million annual average.

The distribution to about 1,100 member cooperatives and approximately 50,000 individual members and others consists of patronage paid on business conducted with CHS in fiscal 2015. During fiscal 2016, CHS will also redeem previously earned equity to eligible member cooperatives and individual members, as well as pay quarterly dividends on its five classes of CHS preferred stock. ▶