



Patronage Program

MEMBERSHIP MATTERS

The Association is a cooperative and one of the most important financial benefits of doing business with a cooperative is that, as a customer, you are also a member/owner. This entitles you to share in the Association's profits through patronage dividends declared by the Association's Board of Directors. Also, as a cooperative, the Association does not operate for the benefit of outside stockholders and does not pay dividends to investors, thus ensuring that any undistributed profits remain invested in serving our mission.

Under Section 735 of the Association's ByLaws, the Board is authorized to pass resolutions legally obligating the Association to distribute its patronage earnings in the form of patronage dividends. Your Board of Directors has adopted a patronage program which provides a dividend for a portion of the Association's net earnings to customers on a patronage basis, effectively reducing the cost of doing business with the Association. Along with our competitive rates, terms, service and agricultural expertise, our patronage program provides an exclusive financial benefit for our customers. The more business you do with us, the more patronage will benefit you.

Under the program, the Association will make an annual distribution of patronage from prior year's consolidated net earnings as computed under generally accepted accounting principles. The amount distributed to eligible customers ("patrons") will be the amount of net earnings above what the Board of Directors determines is an appropriate addition to the Association's permanent capital base. Accordingly, the amount distributed from year to year will fluctuate depending on level of earnings and the Association's need to build capital for, among other things, capitalizing future growth, cushioning against a downturn in credit quality and meeting the requirements of our federal regulator. On an annual basis, the Board of Directors will review the Patronage Program and may make modifications to the program consistent with the Association's ByLaws and cooperative principles.

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This flyer is provided to familiarize members with patronage dividends and the benefits of belonging to the Association. All matters pertaining to patronage dividends and Association equities are determined by the Association's Bylaws. Please refer to the bylaws and your tax advisor for additional information.



Patronage Program *(continued)*

FREQUENTLY ASKED QUESTIONS (FAQ'S)

What is a patronage dividend?

The Association, like other lenders, offers competitive rates and terms, which typically results in a profit. A patronage dividend is a way of distributing the Association's profits to its members. The amount of patronage allocated to a member is based on a measure of each patron's relative contribution to the Association's consolidated patronage net earnings. Specifically, the distribution for a year is allocated to our members based on each borrower's average loan/ lease size for the year relative to all loans/leases that contributed to patronage net earnings for the year. Thus, in general, the more you borrow, the greater your share of the patronage dividend.

How is the amount of patronage determined?

The obligation to pay patronage is established by the Association's Bylaws and Board resolutions. Pursuant to these governing documents, our Association's Board of Directors determines the overall amount of patronage and form of patronage. These determinations are based on the Association's profits and capital needs. As a regulated financial institution, the Association must build and maintain adequate capital to ensure we have the financial strength to continue serving our market. Distributions are made only if capital requirements are achieved.

Importantly, patronage dividends for a year may be paid only from that year's net earnings from business done with or for patrons. Earnings from other sources will not be available for distribution as a patronage dividend and will be added to the Association's retained earnings.

What makes me eligible to receive a patronage dividend?

To be an eligible patron for a particular year, you must have been member, had a loan/lease outstanding during the year and must have contributed to the Association's interest income as reflected on its financial records prepared in accordance with generally accepted accounting principles. If your loan/ lease was charged off (in part or whole), foreclosed or formally restructured, you will not be eligible to receive a patronage dividend. In addition, if your loan/lease is placed in nonaccrual status, you may not be eligible for patronage with respect to that loan because the loan/lease did not contribute to the Association's income for the year. The Association may also make certain loans on a non-patronage basis; those borrowers will not be entitled to share in a patronage dividend.

When will the patronage dividend be paid?

The patronage dividend for each year is expected to be paid in the spring of the following year and, in no event, later than September 15.

What forms of patronage may be declared?

Patronage dividends may be paid in cash/ check, written notices of allocation (called "allocated surplus"), or a combination of the two. Allocated surplus is an equity account representing a patron's share of undistributed patronage earnings. Allocated surplus may be qualified or nonqualified, with differing tax consequences as described below.

When the Board of Directors declares a patronage dividend, it will determine whether it will issue allocated surplus. If the Board of Directors approves the issuance of allocated surplus, it may implement a

plan to revolve (distribute) such allocated surplus periodically over a number of years (an evolvment cycle). Alternatively, the Board of Directors may decide to retain such allocated surplus indefinitely, in which case the allocated surplus would represent a patron's right to share in assets upon a liquidation of the Association.

Under certain circumstances, in lieu of issuing a patronage check to a patron, the Association may apply the amount of the patronage dividend against the patron's loan/lease balance.

Is a patronage dividend taxable?

In general, a cash patronage dividend will be taxable to you in the year in which received. The receipt of qualified allocated surplus is taxable to the patron in the year in which the written notice is received, whereas nonqualified allocated surplus is not taxable unless and until the written notice is redeemed for cash. In January of each year we will send to each patron a Form 1099-PATR reporting the taxable patronage dividends paid to the patron during the preceding year. Under certain circumstances, taxes may be withheld from your patronage dividend. You should consult your tax advisor if you have any questions on the tax treatment of the receipt of patronage dividends.

How does patronage benefit the Association?

We expect that a patronage program will strengthen our relationship with customers and further invest them in our mission of providing affordable and reliable credit and related services to the agricultural and rural communities we serve. Also, given the deductibility of patronage dividends, a patronage program is a tax effective way of providing value to members.