CHIPPEWA VALLEY AGRAFUELS COOPERATIVE
FACT SHEET

What is CVAC?
CVAC is a Minnesota cooperative that owns the ethanol plant in Benson, Minnesota. As a cooperative, CVAC distributes its income on the basis of patronage rather than on the basis of shares owned. CVAC shareholders, however, patronize CVAC by delivering corn (either directly or through a pool) in proportion to shares owned. At the discretion of the board of directors, CVAC's taxable income may be passed through to its shareholders on the basis of patronage, who in turn report their share of the taxable income on their individual tax returns.

Who owns CVAC?
There are over 900 shareholders of the Chippewa Valley Agrafuels Cooperative. They are made up of area producers, other cooperatives, and local investors who market corn through CVAC.

Who governs CVAC?
CVAC is governed by a 9-member board of directors elected by shareholders from three different districts.

How do I purchase shares in the Cooperative?
CVAC shares can be purchased from any shareholder who is willing to sell their shares. CVAC will assist the buyer and seller with the transfer of shares but cannot become involved in negotiating a price. All share transfers must be approved by the CVAC board of directors and transferred through the CVAC office. A transfer of partnership units in CVEC will accompany the purchase of CVAC shares at the time of transfer.

How does the income from a partnership differ from the income from a Cooperative?
- Partnership income is reported on a K-1 whereas Cooperative income is reported on a 1099DIV.
- Cooperative income is subject to self-employment tax whereas partnership income for partners who are not active in the business is not.
- The small producer ethanol tax credit can be passed through to the partners of a partnership.
- A partnership is not a taxable entity whereas a Cooperative can have taxable income.

When purchasing shares, what are my rights and obligations?
- When purchasing shares, the buyer is purchasing the right/obligation to deliver corn to the cooperative.
- The buyer receives all rights to undistributed dividends on both allocated or unallocated income from current and prior years.
- The buyer obtains the corresponding partnership units in CVEC and all related equity.
- The buyer will receive all future cash distributions.
- The buyer and seller will split any taxable income allocation for the year of on a pro-rata basis for the fiscal year on the shares.

When is patronage dividends made to its shareholders?
Patronage dividends allocating CVAC's income to its shareholders are made to shareholders on a patronage basis, based on bushels delivered. At the discretion of the board of directors, up to 100% of the patronage dividend can be made in the form of cash (vs. a patron's credit or equity). The board of directors has determined that it will declare patronage dividends only in the months of April and November. A cash distribution may be declared in September of 2002 before new Units become effective.

Can cash dividends be forecast on shares being transferred during the year?
The CVAC office will report current YTD income per share to potential buyers or sellers, but will not make projections on year-end income or the future decisions of the CVAC board of directors regarding cash dividends or CVAC. The reporting of current YTD income is not a guarantee of final year-end book or taxable income per share or the declaration of cash dividends by the CVAC board of directors.

What is CVEC, LLLP

Chippewa Valley Ethanol Company, LLLP (CVEC) is a Minnesota limited partnership that operates the ethanol plant in Benson, MN, through a facility lease with CVEC (the fee title owner of the ethanol plant.) As a "limited liability" limited partnership, the liability of the general partner of the CVEC is limited under state law in the same way that the liability of CVEC's limited partners is limited. As a limited partnership, CVEC is treated as a partnership for federal and state tax purposes.

Who Owns CVEC?

The shareholders of Chippewa Valley Agrafuels Cooperative (CVAC) own 95% of CVEC as limited partners, on a one share per one partnership unit basis. The remaining 5% of CVEC is owned by CVAC itself, as the general partner.

Who Governs CVEC?

As a limited partnership, CVEC is governed by CVAC, its general partner, acting through and under the direction of the 9-member board of directors of CVAC.

How do I purchase partnership units of CVEC?

CVEC partnership units cannot be purchased without the purchase of CVAC shares. A transfer of partnership units will accompany the purchase of CVAC shares at the time of transfer.

How does the income from a partnership differ from the income from a Cooperative?

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- A partnership is not a taxable entity whereas a Cooperative can have taxable income.

When purchasing shares in CVAC, what are my rights and obligations in the partnership?

- When purchasing shares in CVAC, the buyer will receive the equity in the partnership represented by the partnership units transferred at the time of transfer.
- The buyer will receive all cash distributions made following the time of transfer with respect to the partnership units transferred (even those distributions relating to pre-transfer periods.)
- The buyer and seller will split the reported income with respect to the partnership units transferred on a pro-rata basis for the fiscal year (September 30 year end) in which month the transfer occurred.

Will I be assured of a cash payment from CVEC to offset the taxable income I have to report?

It is the current policy of the CVAC board of directors as general partner of CVEC to declare cash distributions in the months of April and November so that checks can be sent in a timely manner to offset any tax liability of CVEC's partners. The IRS requires the allocation of year end taxable income from a partnership, but there is no requirements of a cash distribution to accompany the allocation. Notwithstanding current policy, cash distributions from CVEC will be made at the discretion of the CVAC Board of Directors as general partner and will depend on profits, cash available, capital plans and the fiscal policy of CVEC.