

## Proposed Client/ABC talking points

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### How we're set up

1. Client and ABC are separate legal entities. Each is a nonprofit corporation with its own board of directors.
2. Client is a charitable organization that is tax-exempt under Section 501(c)(3) of the tax code.
3. ABC is an agricultural organization that is tax-exempt under a different section of the tax code, Section 501(c)(5), and, as such, is subject to different tax rules.

### How we share resources

1. For efficiency and mission reasons, ABC and Client share resources and collaborate in a variety of ways.
2. ABC gives a wide range of support to Client, including providing facilities and administrative services at cost, and providing in-kind support. In addition, several ABC officers participate on FA's board of directors.
3. Under the resource sharing arrangement, Client management and staff are technically on ABC's payroll, and ABC financial, HR, IT and other corporate staff provide administrative support to Client.
4. There is a formal legal contract between ABC and FA that sets out the resource sharing arrangement, including how ABC charges and Client pays for the facilities and services provided by ABC.

### How the law applies

1. The IRS and California rules relating to charitable organizations such as Client are very stringent.
2. Under those laws, Client must operate exclusively for public benefit, and not for the benefit of its directors or other persons with substantial influence over Client, such as ABC.
3. In addition, in limited cases, one corporation may be held responsible for the liabilities of another (related) corporation. The key to avoiding that result is making sure the separateness of the entities is reflected in their dealings, operations, and communications.

### What this means on the ground

1. Client should maintain clearly separate and distinct programs.
2. Client should use prominent branded signage at all external events, including events associated with ABC markets.
3. ABC and Client may refer to each other on their websites and other external communications but should make clear that they are separate organizations.
4. To the extent ABC engages in lobbying or other political activity, it should be clearly attributable to ABC and not tied or imputed to Client.
5. Client and ABC must manage their relationship carefully because of ABC's close involvement with Client. The financial terms must be fair and reasonable to Client, and Client must receive fair value in return for its payments.
6. To that end, ABC can support Client through at-cost services and in-kind support, but, as a charity, Client cannot provide unpaid services or support to ABC.
7. Internally, ABC materials should refer to Client as a partner or sister organization, not as a division of or unit within ABC.
8. ABC and Client staff who do work for both organizations should maintain precise time records in order to permit accurate allocation of costs attributable to Client.
9. ABC and Client should hold separate board meetings, maintain separate board minutes, and otherwise attend carefully to corporate formalities.
10. Adherence to these principles is critical for Client to maintain its tax-exemption, which is essential to its success and sustainability.
11. Adherence to these principles is essential to reduce the risk of one entity being held responsible for the liabilities of the other entity.