

CO-OPERATIVES IN ONTARIO

GUIDE TO SETTING UP A CO-OPERATIVE

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This guide covers the basic steps to start a co-operative. It's aimed at groups starting either co-op businesses or non-profit co-ops.

The *Guide to Setting up a Co-operative* contains general information about the *Co-operative Corporations Act* and basic financial matters. It is only an aid and should not replace reading the Act itself or consulting a lawyer or accountant.

(Ce document est disponible en français)
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CONTENTS

| | |
|---|-----------|
| WHAT CO-OPERATIVES CAN DO FOR YOU AND YOUR COMMUNITY | 1 |
| PLANNING YOUR CO-OPERATIVE | 3 |
| Marketing | 3 |
| Facilities, Equipment, and Operating Expenses..... | 3 |
| Staff and Management | 4 |
| Financing..... | 4 |
| FINANCING YOUR CO-OP | 6 |
| Equity Financing | 6 |
| Other Ways to Raise Equity | 8 |
| Advantages of Equity Financing | 9 |
| Debt Financing..... | 9 |
| Member Loans | 9 |
| Other Loans..... | 9 |
| Debentures | 10 |
| Use of Surplus..... | 10 |
| A Tax Note..... | 10 |
| ORGANIZING YOUR CO-OP | 12 |
| Members | 12 |
| Directors and Officers..... | 12 |
| Standard of Care | 12 |
| Liability of Directors and Officers | 12 |
| Insuring Directors and Officers..... | 13 |
| Should Your Co-op Establish Classes of Membership? | 13 |
| Should Your Co-op Establish Member Groups? | 13 |
| Does Your Co-op Need to Use Delegates? | 14 |
| Should Your Co-op be a Multi-stakeholder Co-op? | 14 |
| Does Your Co-op Need to Hire Managers? | 15 |
| INCORPORATING YOUR CO-OP | 16 |
| The Incorporation Process | 16 |
| GETTING YOUR CO-OP GOING..... | 18 |
| Drafting Your Co-op's By-laws | 18 |
| The First Members' Meeting..... | 18 |
| Raising Money | 18 |
| MORE QUESTIONS?..... | 20 |
| APPENDIX A: Co-operative Organizations..... | 21 |
| APPENDIX B: Publications Ontario and Small Business Self-Help Offices..... | 24 |

WHAT CO-OPERATIVES CAN DO FOR YOU AND YOUR COMMUNITY

For many years, Ontarians have used co-operatives as a way of combining their energy, skills, and resources to reach shared goals and fulfil common needs. People form co-ops to:

- Lower the cost of business supplies and consumer goods. Because business service co-ops and consumer supply co-ops buy in bulk, members benefit from lower costs on everything from food to fertilizers.
- Start their own businesses and create their own jobs. Worker co-ops are enterprises owned and operated by their employees. Worker co-ops can be formed for any business purpose, from carpentry to film production.
- Get better prices for products and services. By forming marketing or producer co-ops, people can earn more from their products and services by selling directly to the public. These co-ops also help producers lower their marketing and distribution costs.
- Obtain convenient, reasonably priced child care. Child care co-ops give parents an important role in shaping the care of their children.
- Find affordable housing and have a chance to help make the decisions about the upkeep of their homes.
- The co-operative way of doing business and providing products and services is guided by some basic principles:
- ***Open, Voluntary Membership:*** Anyone who can use a co-op's services and is willing to accept the responsibilities of membership may apply to become a member.
- ***Democratic Control:*** Members have an equal voice in running their co-op. Each member has one vote, no matter how much he or she has invested, and only members can vote.
- ***Distribution of Surplus to Members:*** After co-ops have paid their operating expenses and set aside a reserve, most of the surplus or profit is distributed to members based on the volume and type of business they have done with their co-op. Money distributed this way is called a patronage return. Co-ops may also pay patronage returns to non-members at the same or lower rate as members.
- ***Limited Return on Capital:*** Since the main purpose of co-ops is to provide goods, services or jobs for their members, people do not generally invest in co-ops for speculative purposes. By law, co-op shares may appreciate in value only to a limited extent.

- ***Co-operative Education:*** Co-ops are committed to educating their members and the general public about the co-operative way of delivering products and services and doing business.
- ***Co-operation among Co-operatives:*** To encourage the growth of co-ops, co-operatives and co-op organizations actively develop local, provincial, national, and international networks.

Because of their commitment to democratic control and sharing of surplus among members, co-ops can make a unique contribution to local economies. Since only members can vote, control of co-ops rests in the hands of people who use them. Co-ops also help keep money at work in the local economy because the surplus they earn goes mainly to members living in the community, rather than distant investors.

PLANNING YOUR CO-OPERATIVE

No matter what kind of co-op your group is starting, a solid business plan will help you reach your goals. Working on a plan is an opportunity for your group to think carefully about the most efficient way in which your co-op can produce and deliver its products and services.

If your co-op is going to need the support of investors, creditors, or government officials, a detailed business plan will help establish its credibility. Potential backers will want a clear picture of your co-op's operations and straightforward answers to questions about, for example, its financial position. A carefully prepared plan will help your co-op give accurate answers to such questions.

This section deals with some basic issues your co-op will need to tackle.

Marketing

Who will buy your co-op's products or use its services? To answer this question, you will have to research your market and decide how to attract that market's interest. More specifically:

- What products or services is your co-op's market now buying or using? This will tell you who your co-op's major competition is. Knowing your competitors will help your co-op develop distinct products and services.
- How can your co-op improve on the products or services already available? This is your co-op's competitive advantage. For example, your co-op may be able to offer the same products at a better price, different or improved products, or faster, more helpful service.
- What is the size, site, and potential growth of the market for your co-op's goods or services? Is the market seasonal? Can your co-op's members or customers find substitutes? Can you identify new trends in your co-op's market? This will help your co-op tailor its products and services to its market.
- How can your co-op increase demand for its products and services? The amount and kind of advertising your co-op needs to do will depend on its products or services and how much money your co-op can afford to spend. Co-operative businesses usually have advertising budgets for such things as brochures and newspaper ads. Non-profit child care co-ops, on the other hand, often work with schools and community organizations to advertise their services.

Facilities, Equipment, and Operating Expenses

What does your co-op need to produce its goods and services? Your business plan should describe each step in its operations and identify the resources needed to carry them out. For example:

- What land, buildings, and equipment will your co-op need? Is your co-op planning to buy or lease? At what cost?
- If renovations or alterations must be made to your co-op's premises, what will they cost?
- What are the projected bills for electricity, water, heat, etc.?
- What supplies will your co-op need? What do you estimate they will cost?

Staff and Management

Will your co-op need to hire management and staff? Many co-ops require members to put in some volunteer time each month. If running your co-op requires special skills or if its members don't have enough time to volunteer, your co-op will likely need to hire some full- or part-time staff.

In smaller co-ops, the board of directors may be able to manage the co-op and supervise staff. Larger co-ops usually hire professional management to oversee day-to-day operations and staff.

If your co-op needs to hire management and staff, what sort of positions will it need to fill? It is useful to draw up a chart of these positions and their responsibilities.

Financing

The financial part of your co-op's business plan estimates the amount of money needed to operate. Most of the figures you need to make these estimates are in the other parts of your co-op's plan. To get a complete financial picture of your co-op, it is useful to do these projections:

- ***Income projections*** show your co-op's annual revenues and expenses. For example, the income projections for a computer repair co-op will list revenues such as earnings from selling repair services, and expenses such as the cost of spare parts and wages. The difference between revenues and expenses is gross income.
- ***Cash flow projections*** show how much your co-op expects to receive (cash in) and pay out (cash out) each month. The difference between these two amounts is your co-op's monthly surplus or deficit. Cash flow projections are needed to show the expenses your co-op will have to cover and to suggest what your co-op can afford to

do over the next year or so.

- Your co-op's estimated ***balance sheet*** lists its assets and liabilities. Assets are what your co-op owns, such as its building, equipment, inventory, and cash. Liabilities are what your co-op owes. For example, a loan taken out to finance your co-op's operations is one of its liabilities, as are any unpaid taxes.

The balance sheet is a snapshot of your co-op's overall financial position. Investors and creditors use balance sheets to help them assess the risk of investing in, or lending to, your co-op.

To work out a balance sheet for your co-op, you need to know how it will be financed. The following section outlines the different ways of financing your co-op and suggests what methods may make the most sense for your co-op.

You might also want to check with your public library or local bookstores for other step-by-step guides on preparing plans for businesses and non-profit corporations.

FINANCING YOUR CO-OP

Your co-op's business plan shows how much money it needs to operate and sets out how these funds will be used (buildings, equipment, advertising, wages). How will your co-op raise that money?

If your co-op needs to buy fixed assets such as land, buildings, or machinery, it will likely turn to **equity financing** to pay for at least part of these. Equity is raised by selling shares to members or other investors. People who buy your co-op's shares are part owners of the co-op. The advantage of equity financing is that your co-op is not legally required to pay a return or dividend on its shares. Co-ops pay dividends only when they have earned enough profit to justify them.

If your co-op needs to cover operating expenses such as the cost of supplies and inventory, then **debt financing** (borrowing) is probably the best way to get these funds. If your co-op's fixed assets are financed through equity, you can use these assets as security or collateral for the money you need to borrow. If the co-op's assets are themselves financed through debt, it will normally be difficult to borrow more funds.

The way your co-op plans to finance operations determines how it should be incorporated. If your co-op needs to raise equity, it must incorporate as a co-op **with share capital**. Incorporating with share capital gives your co-op a lot of financial flexibility. Your co-op may issue a wide variety of shares, borrow money, and charge membership fees. Co-op businesses are usually incorporated with share capital.

If your co-op does not need to raise equity, it should incorporate as a co-op **without share capital**. Co-ops incorporated this way may finance operations by borrowing and charging membership fees. Non-profit co-ops must be incorporated without share capital.

Although co-op businesses may incorporate without share capital, they have fewer financing options than co-ops incorporated with share capital. This can cause major problems when co-op businesses incorporated without share capital want to expand.

Before deciding how your co-op should be incorporated, think about its future financing needs. For example, if expanding your co-op is a long-term objective and this expansion is likely to require the purchase of land, buildings, or machinery, it would be better to incorporate with share capital.

The rest of this section describes equity and debt financing in more detail.

Equity Financing

If your co-op is planning to raise equity, it may issue two basic kinds of shares, *membership shares* and *preference shares*.

Both types of shares are *par value* shares. This means that when your co-op redeems or buys back its shares from members or other investors, the amount they receive for each share is equal to the amount they paid for the share. If it is necessary for their financial well-being, co-ops may redeem shares at below par value.

To help protect investors against inflation, your co-op may choose to pay an extra amount or *premium* for preference shares they redeem. The maximum premium that may be paid is the greatest of 10% per year and the annual increase in the Consumer Price Index. Paying a premium will help ensure that the value of your co-op's shares keeps pace with inflation. Paying premiums also means that your co-op will have less equity, so striking a balance is important.

Your co-op may pay investors a return on its membership and preference shares. This return is called a *dividend*. The maximum dividend any co-op may pay on membership shares is capped at two percent above the prime rate of any financial institution (credit union, bank, trust company) named in the co-op's by-laws. There is no cap on the dividend that may be paid on preference shares unless your co-op chooses to have one.

When leaving a co-op, members are generally entitled to receive the par value of their shares plus any premium on preference shares and any dividends that have been declared but not paid.

Co-ops may issue a class of preference shares that they are not required to redeem (non-retractable preference shares). Holders of these shares are free to sell or transfer them to whomever they wish at a price determined by the buyers and sellers themselves. Although issuing non-retractable preference shares gives co-ops an attractive method of building a permanent capital base, it may be harder for co-ops to sell these shares to investors because there is no established market on which they may be bought and sold.

If all the equity your co-op needs can be raised from members alone, it might be enough for your co-op to issue only membership shares. If this is your co-op's situation, you may only need to require members to buy a minimum number of membership shares as a condition of membership.

Co-ops that issue shares must issue membership shares. Membership shares may be held only by members. Because of this, co-ops restrict how members may transfer ownership of their membership shares. If co-ops do allow transfer of membership shares, the approval of the board of directors is required. This feature of membership shares may affect how attractive they are to member investors.

Your co-op might consider also issuing preference shares if there are members or other

community investors who would be willing to invest more of their savings in a less risky kind of share.

Preference shares may be held by members or other investors and may be more attractive because:

- Co-ops generally require dividends to be paid on preference shares before they are paid on membership shares. This feature may encourage members to invest more of their savings and be of interest to other investors as well. Co-ops that offer a good dividend on their preference shares and establish a record of paying this dividend will find it easier to attract investment in the future.
- When a co-op is dissolved or wound up, preference shareholders generally rank ahead of holders of membership shares in their claim on the co-op's assets, but behind creditors and debenture holders. This means that investing in preference shares is less risky than investing in membership shares, but more risky than lending money to a co-op or investing in its debentures.

Your co-op might also consider giving its preference shares more features to attract investors. For example, your co-op could:

- Require that dividends be declared and paid on preference shares before patronage returns are paid. This would help assure your co-op's preference shareholders that the co-op is committed to paying dividends. Your co-op will likely have to balance paying dividends with paying patronage returns.
- Give preference shares the right to a *cumulative dividend*. If at any time your co-op is unable to pay dividends, the unpaid dividends accumulate as money owed to shareholders.
- A cumulative dividend will likely increase your co-op's liabilities. Before deciding to attach this feature to preference shares, your co-op should carefully think about whether it is possible to raise the equity it needs without such a feature.
- Allow preference shareholders to transfer their shares freely. This lets preference shareholders sell their shares to other investors. Since preference shareholders may receive important information about your co-op, you might want to keep this information from your co-op's competitors. To protect the confidentiality of your co-op's affairs, you might want to reserve the right to buy back preference shares from shareholders planning to transfer them.

Other Ways to Raise Equity

Your co-op can also require members to use some or all of their patronage returns to buy more shares. By doing so, your co-op can ensure that its equity grows each year, provided of course that your co-op has earned enough to pay patronage returns in the first place.

Another way for your co-op to use its own earnings to increase its equity is to pay out dividends in the form of shares rather than cash. Dividends paid out in the form of shares are called *stock dividends*. Stock dividends allow your co-op to pay dividends and add to its equity capital at the same time. Members may find stock dividends more appealing than other investors.

Advantages of Equity Financing

Equity financing gives your co-op flexibility. For example:

- If your co-op raises enough equity to buy significant assets, it may use these assets to borrow more funds. In this way, your co-op's equity can be used to attract more financing.
- Although it is wise to establish a record of paying dividends on preference shares, your co-op (like other corporations) is not legally required to do so. Whether your co-op pays dividends depends on its earnings. By contrast, creditors have the right to sue your co-op for missed interest or principal payments on loans. If your co-op has some difficult times when it is short of cash, it will have more flexibility with a strong equity base.

Debt Financing

If your co-op will need to borrow money, it may do so in three ways.

Member Loans

If your co-op will not be issuing shares, at least some of its financing will likely be in the form of member loans. Member loans are loans required as a condition of membership in a co-op. Co-ops issuing shares may also require member loans.

Like dividends on membership shares, the maximum rate of interest co-ops may pay on member loans is capped at two percent above the prime lending rate of any financial institution (credit union, bank, trust company) named in the co-op's by-laws. Co-ops must repay member loans, together with any accrued interest, when the member leaves the co-op.

Your co-op may also require members to lend it some or all of their patronage returns. Patronage returns loaned back to your co-op are called *patronage loans*. By requiring members to make patronage loans, your co-op can use its own earnings for debt financing. The maximum rate of

interest your co-op may pay on patronage loans is the same as on member loans.

Other Loans

If your co-op needs more money than it can borrow in the form of member loans, it may borrow from members, non-members, and financial institutions at the going market rate. Your co-op's ability to get more loans and the interest rate it has to pay on these loans depends on how good a risk lender believes your co-op to be. If your co-op has few assets or its assets are financed by borrowed funds, it will likely have a hard time borrowing more money and have to pay higher rates of interest.

Debentures

If your co-op needs to borrow large amounts of money, it may consider issuing debentures. Specific assets are usually used as security by co-ops issuing debentures. If your co-op has fixed assets financed by equity, such as real estate and buildings, it may be able use these to attract investment in its debentures. Co-ops may issue many kinds of debentures, but usually they promise to make regular interest payments and to pay off the principal on a certain date. If your co-op fails to make these payments, debenture holders have the right to sue your co-op. There is no cap on the rate of return your co-op may offer investors on its debentures, although you will need to decide how much the co-op can afford.

Use of Surplus

Your co-op's surplus is what is left of its earnings after paying operating expenses, such as electricity and interest on loans. How your co-op uses its surplus has important effects on its overall financing.

Your co-op will likely need to keep part of its surplus in the form of *retained earnings* or reserves. Retained earnings are needed to finance, for example, any expansion in operations or replacement of worn-out machinery. Before deciding how your co-op will distribute its earnings to members and shareholders, you should determine the amount of retained earnings your co-op needs.

Co-ops have traditionally distributed most of their surplus to members as patronage returns. If your co-op plans to attract large amounts of equity by convincing investors it intends to pay dividends on its shares, it will have to balance this commitment with members' desire for patronage returns.

A Tax Note

Different ways of distributing surplus have tax implications for your co-op as well as its members and investors.

- Patronage returns are paid out of your co-op's pre-tax income and are recorded as an expense. Paying patronage returns lowers the amount of tax your co-op may have to pay.
- Patronage returns paid by worker co-ops and some kinds of non-consumer co-ops are taxed as income earned by the member. For example:
 - In a worker co-op, both wages and patronage returns are paid out of the co-op's pre-tax income. Like wages, therefore, patronage returns are taxed in the hands of the recipient.
 - Farmers are allowed to deduct the cost of supplies as a business expense. Patronage returns paid by a farm supply co-op lower the cost of these supplies. To ensure that only actual expenses are declared, farmers are required to report patronage returns as earned income.
- Dividends on shares are paid out of your co-op's after-tax income.
- Your co-op's shareholders may claim the federal tax credit for dividends paid by your co-op.

Please ask your accountant for more information about these points.

ORGANIZING YOUR CO-OP

How your co-op is organized will depend on its size, purpose, and the nature of its membership. A well-organized co-op will run more efficiently and make it easier for members to participate. This section describes the roles played by members, directors, officers, and managers. It also outlines some of the basic ways in which co-operatives can be organized to suit different types of members.

Members

The foundation of your co-op is its members. Co-ops may include both individuals (16 years of age or older) and corporations as members. Each member of your co-op has one vote at members' meetings. Through these meetings, the membership makes key decisions, such as electing your co-op's directors, approving the issue of new types of shares, and changing membership fees.

Directors and Officers

Your co-op will need a *board of directors* elected by its members to run the co-op in the members' best interests. Directors approve new members, budgets, important contracts, and plans for expansion. They are also responsible for deciding whether to issue shares and declare dividends.

Directors must be members of the co-op, at least 18 years old, and may not be undischarged bankrupts. Co-ops need to have at least three directors at all times, but you may need more depending on how big the co-op is or how complex its business is.

Officers are elected or appointed by your co-op's board of directors. Examples of officers are the chair of the board, president, secretary, treasurer and, in larger co-ops, the general manager. Officers are employees of your co-op; they oversee its operations and hire and supervise managers, if any.

Except for the president and chair of the board, your co-op's officers don't have to be directors or members. In most co-ops, officers are chosen from among the directors.

Standard of Care

Directors and officers may be personally responsible for the actions of your co-op. By law, they must "act honestly, in good faith, and in the best interests of the co-op". Directors and officers are also legally required to take a reasonable amount of care when dealing with the co-op's affairs.

Liability of Directors and Officers

Directors and officers may be personally liable for any illegal acts they authorize. For example:

- Directors who declare and pay dividends in a way prohibited by the *Co-operative Corporations Act* are liable to your co-op for the amount declared and paid.
- Directors who employ staff, despite knowing your co-op cannot meet its payroll obligations, are liable for up to six months' wages of all affected employees.
- Directors and officers are liable to your co-op for any losses on loans prohibited by the *Co-operative Corporations Act*.
- Directors and officers who authorize acts which violate environmental protection legislation may face fines and/or criminal prosecution.

Insuring Directors and Officers

Your co-op may buy insurance to cover the liability of directors and officers who are sued for actions taken in the course of their duties. This insurance does not protect directors and officers who have authorized illegal acts or have failed to meet the standard of care described above.

Should Your Co-op Establish Classes of Membership?

If your co-op's members have different interests in the co-op, you might consider creating different classes of membership. By doing this, your co-op can have different membership conditions for different kinds of members. For example, in a marketing co-op some members might supply the co-op with peaches while other members might supply grapes. By creating classes of membership, your co-op could require the peach and grape producers to supply different amounts of their product as a condition of their membership in the co-op. By doing this, your membership conditions can be tailored to the type of business different members do with the co-op.

Your co-op could also have different membership terms for classes of members. For example, if selling grapes is more profitable than selling peaches, a co-op could pay patronage returns to grape producers at a higher rate than peach producers. In this way, co-ops can pay patronage returns based on the type of business members do with it.

Should Your Co-op Establish Member Groups?

If your co-op has members living in different regions or with different interests in the co-op, you may create different groups of members. For example, if your building supply co-op has members whose main interest is in lumber and other members whose main interest is in bricks,

you may create member groups for each common interest. The members of each group may vote for directors based on the number of members in the group and/or the amount of business each group does with the co-op.

In this example, say the group supplying lumber accounted for 60% of the business of the co-op, while the group supplying bricks accounted for the rest. If this co-op chose to have directors elected on the basis of volume of business, then the group supplying lumber would elect 60% of the directors, no matter how many members were in that group. Each member of a group would still have only one vote. Dividing members into groups lets control of your co-op reflect the different contributions made by groups of members. The way member groups are defined and the number of directors they may elect must be approved by the membership.

Does Your Co-op Need to Use Delegates?

If your members are spread out over large areas or are too many to gather in one place easily, your co-op might consider using delegates. Your members would elect delegates who would, in turn, elect directors and do other things members normally do at members' meetings. To select delegates, members must first be divided into member groups. These groups may be based on geography or on common interest. The number of delegates for each member group may be based on the number of members in each group or on the volume of business done with the co-op by each group.

If the member electing delegates is itself a co-op, then delegates may be elected or appointed on the basis of the number of members in the member co-op or the volume of business done by the member co-op with the co-op, or both.

Should Your Co-op be a Multi-stakeholder Co-op?

If your members have different interests in the co-op, but need a more formal arrangement than that which is made possible by establishing member groups, you may want to consider incorporating as a multi-stakeholder co-operative. In a multi-stakeholder co-op, control is shared among two or more stakeholder groups. Each stakeholder group elects its own directors, and it is up to the stakeholder groups to agree on how many directors each group elects. The amount invested by members of a stakeholder group may not be the sole basis used to determine the number of directors that group elects.

Compared to a co-op with member groups, the multi-stakeholder co-op is a more formal type of co-op because changes to the articles of incorporation or by-laws have to be approved by each stakeholder group. In a co-op with member groups, these kinds of changes have to be approved only by members generally.

A multi-stakeholder co-op gives members who have different interests or stakes in the co-op a way of working together. For example, if the business of your co-op is to make and market lumber products, you might have three stakeholder groups: loggers, sawmill workers, and sales

people. Each brings different skills to the co-op and has a different interest in it. The loggers supply the co-op; the sawmill workers make marketable lumber products; and the sales staff sell them. Because each stakeholder group shares in the control of a multi-stakeholder co-op, the interests of each stakeholder group can be reflected in the way the co-op is run.

Does Your Co-op Need to Hire Managers?

Smaller co-ops are usually managed by their members and directors. However, if the members and directors do not have the needed managerial skills, even small co-ops may have to hire a manager.

In larger co-ops or in co-ops needing specialized management skills, the directors often hire professional general managers to oversee day-to-day operations, as well as hire and supervise staff.

Non-profit housing co-ops almost always hire full-time co-ordinators to manage day-to-day operations. Co-ordinators are usually responsible for such things as property management, accounting, and working with co-operative sector organizations and the Ministry of Housing.

General Managers, housing co-ordinators, and other senior officers of a co-op are directed by and report to the board of directors.

***For Your Information:** Our guide to **Legal Requirements** contains more information on the legal rights and responsibilities of members, directors, and shareholders*

INCORPORATING YOUR CO-OP

When your group has completed a business plan for your co-op and decided how it will be financed, it is time to think about incorporating your co-op. This offers important benefits to people working together for a common purpose, such as:

Limited liability

As with other corporations, the members and shareholders of your co-op are not personally liable for its debts. Members and shareholders risk losing only what they lend to, or invest in, your co-op.

More financing options

Incorporating a co-op business, such as a worker co-op, gives you more ways to finance it. Your co-op can raise equity by selling shares to members and non-members. For investors, buying shares in your co-op corporation may be less risky than investing in a partnership because your co-op offers the protection of limited liability.

Your co-op will also have more options for borrowing money. For example, your co-op may be able to borrow by issuing debentures as well as borrowing from financial institutions.

Ability to gain non-profit status

Non-profit co-ops, like other non-profit corporations, generally do not have to pay corporate income tax. Some government programs require your co-op to have non-profit status, such as non-profit housing and child care programs. You can get more information about gaining non-profit status for your co-op from Revenue Canada and the ministry responsible for the program in which you are interested.

The Incorporation Process

To incorporate your co-operative, you complete a set of forms called ***articles of incorporation*** and send them for approval to the Licensing and Market Conduct Branch section of the Financial Services Commission of Ontario. These forms must be filled out in accordance with the *Co-operative Corporations Act*.

Articles of incorporation are filled out by your co-op's incorporators. The minimum number of incorporators is five. Individuals who are at least 18 years of age and corporations (including other co-ops) may be incorporators.

Worker co-ops may be incorporated by a minimum of three people who are at least 18 years old. Corporations may not incorporate worker co-ops.

If your co-op plans to issue shares, you will fill out articles of incorporation for co-ops ***with share capital***. If your co-op does not plan to issue shares, you will fill out articles of incorporation for co-ops ***without share capital***.

In its articles of incorporation, your co-op provides basic information about itself. For example, your co-op must:

- State its full legal name and head office address.
- Provide the names and addresses of its first directors.
- Provide details of its financing. If your co-op is incorporating with share capital, the incorporators will describe types of shares and their features. If your co-op is incorporating without share capital, the incorporators will state the amount of the minimum member loan or membership fee, if any.
- State whether it will have different classes of membership.
- State whether it is a multi-stakeholder co-op.

GETTING YOUR CO-OP GOING

As soon as your co-op has been incorporated, several key things have to be done to get it up and running. These include:

Drafting Your Co-op's By-laws

During incorporation or soon after, your co-op's first directors will draft your co-op's by-laws. By-laws are the rules about how your co-op will run. These rules cover things like how members are admitted, how members' and directors' meetings are held, how delegates are chosen, and how your co-op distributes its surplus.

Before a rule becomes a by-law of your co-op, it must be passed by a majority vote of the directors at a board meeting and confirmed by at least two-thirds of the members voting at a members' meeting.

Unless required by a government program in which your co-op is taking part, your co-op does not have to file its by-laws with any government office.

The First Members' Meeting

Your co-op's first members' meeting may be either a general meeting or an annual meeting. Several important things happen at the first members' meeting. For example, members elect directors, approve by-laws, and appoint auditors.

If your co-op's first members' meeting is a general meeting, members must appoint an auditor. Any other business about your co-op may be conducted at general meetings, as long as the directors give members advance notice of the purpose of the meetings.

Your co-op's first annual meeting must be held within 18 months of incorporation. At annual meetings, members may discuss and act on any issue related to their co-op. Directors, officers, and auditors also report on your co-op's operations, policies, and financial situation. Other business may also be conducted at annual meetings, such as elections of directors, appointments of auditors, and approvals of new by-laws.

Raising Money

Before your co-op can raise either debt or equity financing, it may need to file an *offering statement* with the Financial Services Commission of Ontario. Offering statements contain information that members and other investors need to know before deciding to invest in your co-op's securities (shares, member loans, and debentures). If your co-op has to file an offering statement, the offering statement should describe your co-op's business and how the funds raised by selling securities will be used.

Generally, your co-op must file an offering statement if it has more than 35 security holders or if the sale of securities will increase the number of security holders to more than 35. Even co-ops with more than 35 security holders are not required to file offering statements if they are only planning to:

- Issue membership shares or member loans as a condition of membership, and
 - The value of the securities issued to any one member does not exceed \$1,000 per year,
 - The total amount of membership shares and member loans held by any member does not exceed \$10,000;
- Issue new shares or member loans to members by using patronage returns owed to members;
- Issue new shares by using dividends owed to shareholders.

MORE QUESTIONS?

If you have any questions about anything in this guide or other questions about co-ops, please contact Licensing and Market Conduct Division at the address and number given on the front page.

You might also want to contact one of the co-operative organizations listed in Appendix A. These organizations can give you more information about co-ops and may be able to give start-up help. They may also be able to provide information regarding offering statements.

APPENDIX A: Co-operative Organizations

These organizations can give you more specialized information about starting up your co-op.

The **Ontario Co-operative Association** (On Coop) is an association of English-speaking co-ops and credit unions. The On Coop supports co-op development through education and leadership training programs. Youth education and training is a priority. The On Coop also plays a co-ordinating role in the co-op sector's relations with government.

The On Coop has a wide range of educational materials, including videos, magazines, and books.

450 Speedvale Avenue, Suite 101
Guelph ON N1H 7Y6
Phone : (519)763-8271
Fax : (519)763-7239
Toll free: 1-888-745-5521
Website: www.ontario.coop

The **Conseil de la coopération de l'Ontario** is an association of francophone co-ops and caisses populaires. The CCO provides co-op development information and assistance. The CCO also plays an important role in relations between francophone co-ops and government.

435, boul St-Laurent, Suite 201
Ottawa ON K1K 2Z8
Phone: (613)745-8619
Fax: (613)745-4649
Toll free: 1-866-290-1168
Website: www.cco.coop/fr/
Email: info@cco.coop

The **Co-operative Housing Federation of Toronto** member federations and resource groups can help you start, build, and run your housing co-op.

Co-operative Housing Federation of Toronto also operates a bookstore where you can find plain-language materials on operating a non-profit housing co-op.

658 Danforth Avenue, Suite 306
Toronto ON M4J 5B9
Phone: (416)465-8688
Fax: (416)465-8337
Website: www.coophousing.coop
Email: info@coophousing.com

The **Organization for Parent Participation in Childcare and Education Ontario** has information on how to start and run a non-profit child care co-op. This organization can also provide you with information on obtaining a licence for your child care co-op and funding from the Ministry of Community and Social Services.

1571 Sandhurst Circle
Box 63512
Toronto ON M1V 1V0
Toll free: 1-888-745-5521
Email: info@oppceo.org

The **Ontario Federation of Food Co-operatives and Clubs** (the Ontario Natural Foods Co-op) is a distributor to its members and can help you evaluate how a food co-op may meet your needs.

5685 McLaughling Road
Mississauga ON L5R 3K5
Phone: (905)507-2021
Website: www.onfc.ca

APPENDIX B: Publications Ontario and Small Business Self-Help Offices

www.ontariocanada.com has information on small and medium enterprises that could guide you on many aspects on how to start a business.

The Co-operative Corporations Act, is available from the internet at www.e-laws.gov.on.ca