

Table of Contents

Phase 2	BUSINESS STRUCTURES.....	2
Module 2.1	Types of Business Structures	2
	SOLE PROPRIETORSHIP.....	2
	PARTNERSHIP	2
	CORPORATIONS	3
	COOPERATIVES	4
	COMPARATIVE SUMMARY OF ORGANIZATION STRUCTURES	6
	ADVANTAGES AND DISADVANTAGES OF EACH TYPE OF BUSINESS STRUCTURE	7
	VARIOUS KINDS OF COOPERATIVES	9
Module 2.2:	Legislative Matters, Provincial Cooperative Incorporation	11
	PROVINCIAL LEGISLATION INCORPORATION.....	11
	REGISTERED OFFICE RECORDS	11
	CORPORATE FINANCE: SOURCES OF CAPITAL FUNDING	11
	DIRECTORS	13
	BY-LAWS.....	14
	MEMBERSHIP	14
	FINANCIAL DISCLOSURE	15
Module 2 – Exercises	17

Phase 2 BUSINESS STRUCTURES

Module 2.1 Types of Business Structures

Business structures may take various forms that are rooted in purpose, ownership, control and income tax implications. Size and the number of investors may also be a factor. These structures include proprietorship, partnership, corporation and cooperative.

SOLE PROPRIETORSHIP

Proprietorships are generally referred to as sole proprietorships, because the business (assets, liabilities and all of the risks) belong to one individual. The owner provides the capital to start the business and may perform any normal business transactions, albeit with personal liability and personal responsibility. The basics include registration of a business name, opening business accounts and acquiring any licenses or permits required. Because the entrepreneur is the sole decision maker, the nature of the business is much more flexible than other structures.

In a proprietorship, all of the risk is carried by the owner, but the decision to assume that risk provides for quick decisions and agility that would not be possible with other organization structures.

Purpose

Proprietorships can engage in virtually any type of enterprise. They can be large, with many employees, or they can be a one person/owner/employee business. Business income, net of expenses, is treated as personal income for the owner and as such, business income is taxed at personal income tax rates, which are often much higher than corporate income taxes.

Organization

The proprietor has complete control over the business, types of business, whether the business continues or ceases, business purchases, sales and so on. *The proprietor is also personally liable for any indebtedness of the business venture or unlimited liability.* This means that assets that a proprietor has outside of the business would still be at risk in the event of business failures, even if the assets were owned before starting the business.

PARTNERSHIP

A partnership is very similar to a proprietorship, except that there are two or more owners. There are two basic varieties of partnership, generally referred to here as a partnership and limited partnership, which is a variation to the basic partnership.

Partnerships are generally guided operationally by a partnership agreement, which defines how the venture will operate (i.e. managed), how decisions will be made and how profits and losses will be treated. This agreement may also define how a partner can exit the partnership.

In a general partnership, all of the partners are personally liable for the venture's liabilities. While the partnership agreement cannot change the liability, it can outline how partners could recover funds from each other.

A limited partnership provides for one or some of the partners to limit their liabilities to the amount of the capital they have invested into the partnership. This is helpful when an entrepreneur is seeking capital from someone who, while willing to invest, does not want to be involved in the day to day business decisions.

Purpose

Partnerships, like proprietorships, can engage in virtually any type of enterprise. They can be large enterprises with many employees. Business income, net of expenses, is treated as direct income for the owner and taxed at personal income tax rates.

Organization

Whether assigned by way of a partnership agreement or not, the general partner or partners have complete control over the business, types of business, whether the business continues or ceases, and purchases, sales and so on. They decide when to change or wind down the partnership. The structure is similar to a proprietorship.

CORPORATIONS

Corporations are legally created "persons" that can perform business transactions in the same manner as an individual or partnership. Corporations have been referred to as a "creature of the law". They are a legal entity, with ownership defined under a share pre-determined structure. While most corporations have multiple shareholders, there are provisions for sole corporations as well. Whereas proprietorships and partnerships require unlimited liability, a corporation separates corporate assets from personal or shareholder assets.

Corporations are subject to special legislation and generally require legal assistance to establish and to operate.

Purpose

A corporation can exist to provide virtually any service, and the sole corporate purpose is to provide benefit (monetary or other) to shareholders.

Profits may be distributed in the form of share dividends and increased equity which should theoretically increase the value of the shares. In the broadest terms, there are private corporations and public corporations. The corporate entity and its functioning are described in "Articles of Incorporation" and Bylaws created for each corporation. Normally these are prepared and registered with legal assistance.

Not for Profit corporations are formed for non-commercial purposes with the express intention to not make personal profits. Any profits that are generated are used to further the goal or undertakings of the non profit organization or donated to another non-profit organization. Profits cannot be used by the individuals of the corporation for their own personal financial gain.

Ownership and Control

Private

Private corporations have ownership that is clearly identified and limited. Shares are privately traded. Examples of simple corporations include individuals, partners or groups (related or unrelated). Control is defined in the Articles of Incorporation and

Bylaws, described in detail in a later section. In some private corporations, decisions are not necessarily based on ownership. A shareholder may, by choice, be excluded from corporate business decisions. Decision making and accountability are clearly defined in the Bylaws.

Public

Public corporations have ownership that is traded on a public stock exchange. Ownership belongs to any individual or entity that owns shares in the organization. Ownership can change whenever the trading markets are open and, for the most part, as long as there is a buyer and a seller, ownership changes.

COOPERATIVES

Broadly defined, "A cooperative is an organization owned by the members who use its services. Cooperatives can provide virtually any product or service, and can be either a non-profit or for-profit enterprise." (Canadian Cooperative Association).

Cooperatives have a clear set of values, principles and guidelines that outline the manner in which they operate. The values include self-help, democracy, equality, equity and solidarity. The international cooperative principles are as follows:

- Voluntary and Open Membership
- Democratic Member Control
- Member Economic Participation
- Autonomy and Independence
- Education, Training and Information
- Cooperation among Cooperatives
- Concern for the Community

The International Cooperative Alliance provides a slightly different definition. "A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise."

One of the reasons that cooperatives have been so successful globally is the fact that their creation is generally rooted in a common need. For example, credit unions were created because individuals did not have access to credit. Cooperatives allow individuals to accomplish – together – what none of the participants could have achieved alone.

Cooperatives can have open membership or what is called a "closed bond" membership. Closed bond means that membership is open to a defined group of individuals. A Hog Marketing cooperative for example may define hog producers as its field of membership. Such definition would exclude non-producers from membership but would still allow any producer to become a member. Having closed bond membership may be an attractive feature for some ventures, particularly in the developmental stages. All cooperatives must be incorporated.

Incorporated cooperatives with share offering will have a requirement for members to purchase a membership shares. Their membership provides membership in the cooperative and voting rights in the election of the board of directors and a voice in the affairs of the cooperative.

Cooperatives can also be created without shares, in these circumstances, members do not purchase a share in the cooperative, but pay a membership fee, sometimes including an annual fee, or provide a member loan to the cooperative. This must be defined in the cooperative's by-laws.

Cooperatives in this vein are categorized as Agriculture, Cattle Feeders, Community Service, Communications & Transportation, Consumers (retail), Daycare, Employment, Farmers Markets, Fishing, Housing, Marketing, Recreational and Utility.

If any restriction is placed on the business the cooperative will conduct, it must be stipulated in the Articles.

Purpose

While cooperatives can provide virtually any service from funerals to birthing centers, and everything in between, the purpose of a cooperative is linked to the common needs of its members. All cooperatives have their origins in some form of mutual self-help, whereby there is a direct benefit in sharing a service or activity. The purpose of a cooperative is to provide benefits to its owners (who are also the consumers). Financial rewards are generally based on member participation, often referred to as 'patronage', but may in some cases also be linked to ownership.

Ownership and Control

All cooperatives are structured in a manner whereby the members (the people who benefit from its activities) own and control the organization. The most unique attribute of a cooperative is that, unlike any other structure, the customers are the owners. Cooperatives work for the good and fulfillment of all members. In some models, producers or employees are the member-owners. These cooperatives still work for the benefit of the members.

COMPARATIVE SUMMARY OF ORGANIZATION STRUCTURES

Organization Structure	Number of Owners and Owner's Ease of Start-up	Investor Liability	Equity Capital Sources	Firm Life and Liquidity of Ownership
Proprietor-ship	One owner; little time and low legal costs	Unlimited	Owner	Life determined by the owner; often difficult to transfer ownership
General partnership	Two or more owners; moderate time and legal costs	Unlimited	Partners, families and friends	Life determined by partners; often difficult to transfer ownership
Limited partnership	One or more general partners and one or more limited partners	Limited partners' liability limited to their investments	General and limited partners	Life determined by general partner; often difficult to transfer ownership
Corporation	One or more owners, with no limit; long start-up time and high legal costs	Limited to shareholders' investments	Venture investors and common shareholders	Unlimited life; usually easy to transfer ownership
Non-profit Corporation	One or more owners, with no limit; more expensive to incorporate and operate.	Individuals involved in the corporation are not normally responsible for the legal and financial obligations of the corporation.	Investors and common shareholders	Unlimited life; usually easy to transfer ownership
Cooperative	Member-owners	Limited liability	Member-owners	Unlimited life
Non share Capital Cooperative	Member-owners	Limited to membership amount. Directors can be liable.	Member-owners	Unlimited life

ADVANTAGES AND DISADVANTAGES OF EACH TYPE OF BUSINESS STRUCTURE

PROPRIETORSHIP	
<p>Advantages:</p> <ul style="list-style-type: none"> • Lower levels of regulation, resulting in simpler start-up • Low start-up costs, relative to other forms of business organization • Simple organizational structure • Typically a lower requirement for working capital • Owner has direct control over decision making • Business property belongs to owners • Owner receives all the profits 	<p>Disadvantages:</p> <ul style="list-style-type: none"> • Unlimited liability, meaning that personal assets that are used to secure any loans could be seized if debt is not repaid • Difficulty raising larger amounts of capital (i.e. Level of financing is not more than what the owner can personally secure) • Business continuance can be limited in the absence of owner
<p>Proprietorship Tax Considerations File income tax as an individual. Personal tax rates, based on income, apply. Depending on how well your business performs, a proprietorship could be a tax advantage if your business loses money and you have other income. You can deduct its losses from your other income. If your profits are low, the proprietorship pays a lower tax rate.</p>	
GENERAL PARTNERSHIPS	
<p>Advantages</p> <ul style="list-style-type: none"> • Minimal regulation allows for lower start-up costs • Relatively easy business formation • Broader management base • Greater access to financing due to combined resources • Greater growth potential than for a proprietorship (because of increased access to financing as well as more management being available to initiate growth) • All general partners have equal authority; equal share of the business assets and; equal share of the profits 	<p>Disadvantages</p> <ul style="list-style-type: none"> • Unlimited liability for all activities of the partnership. The partners are liable for other partners. • Difficult to find suitable partners • Decision making is shared (Could be considered an advantage or a disadvantage) • Raising additional capital for growth may be difficult, unless more partners are acquired • Business continuance can be limited in the absence of partners • The partnership dissolves if one of the partners dies (even if there are multiple partners) • Possibility of conflict between partners
LIMITED PARTNERSHIPS	
<p>Advantages</p> <ul style="list-style-type: none"> • Limited liability for the limited partners • Easier to obtain investors if partners are limited in liability 	<p>Disadvantages</p> <ul style="list-style-type: none"> • Only the general partners have decision making authority • Increased effort and cost in creating formal agreements to address changing ownership • Possibility of conflict between partners
<p>Partnership Tax Considerations File income tax as individuals. Personal tax rates, based on income, apply. Taxes apply in the same manner as the proprietorship structure.</p>	
CORPORATIONS	
<p>Advantages</p> <ul style="list-style-type: none"> • Limited liability • Business entity is separate from the owners/shareholders • Ownership is transferable • Easier to raise capital 	<p>Disadvantages</p> <ul style="list-style-type: none"> • Highly regulated • Expensive and complex to establish and operate • Extensive record keeping required to address regulations

<ul style="list-style-type: none"> • Increased ability to specialize in management roles • Possible tax advantage because corporate rates are not as high as individual rates • Continuous existence, despite presence or absence of owners/shareholders 	<ul style="list-style-type: none"> • Possibility to develop conflict between shareholders and executives
---	---

Corporate Tax Considerations
Income tax is filed as a separate entity. Rates are based on annual taxable corporate income. Seek professional advice to find tax savings.

COOPERATIVES

<p>Advantages</p> <ul style="list-style-type: none"> • Members are the owners • Members are the consumers (and sometimes, members are the employees) • Entity is separate from the owners • Ownership is transferable • Easier to raise capital • Possible tax advantages as corporate rates lower than personal rates • Cooperatives benefit the members both from a consumer perspective and an owner perspective • Democratic control • Surplus earnings can be distributed to members, proportional according to their use • Limited liability, like a corporation • Continuous existence, despite presence or absence of owners/shareholders 	<p>Disadvantages</p> <ul style="list-style-type: none"> • Possibility of conflict developing between members • Longer decision making process • Member participation is required for success • Less incentive for members to reinvest profits to the business or to provide additional capital • Highly regulated • Expensive and complex to establish and operate • Extensive record keeping (patronage)
---	---

Cooperative Tax Considerations
Cooperatives usually become incorporated and are subject to corporate taxation.

VARIOUS KINDS OF COOPERATIVES

Cooperatives play a very significant role in all parts of the Canadian economy. Cooperatives can be placed in four major categories:

- Financial Cooperatives
- Marketing Cooperatives
- Consumer Cooperatives
- Community Service Cooperatives
- Workers' Cooperatives
- Housing Cooperatives
- New Generation Cooperatives

Financial Cooperatives

Financial cooperatives provide various types of financial services to their members. They include Credit Unions, Caisse Populaires, trust companies and cooperative insurance companies.

Marketing Cooperatives

Marketing cooperatives, also known as producer cooperatives, are organized by producers of commodities to sell and/or distribute their products at the best rate.

The most common examples of marketing cooperatives include cooperatives such as wheat pools of western Canada, pork producer marketing cooperatives, dairy producer cooperatives and artists' cooperatives.

Consumer Cooperatives

The most common type of supply cooperative is the retail cooperative outlet, also known as consumer and retailing cooperatives. Examples of supply cooperatives include buying clubs, direct charge cooperatives, and large wholesale suppliers such as Federated Cooperatives Limited, United Cooperatives of Ontario and Co-op Atlantic.

Supply Cooperatives bring consumers and producers together to satisfy the needs of each. The general purpose of supply cooperatives is to make various kinds of merchandise available to members and sometimes to allow smaller producers better access to markets.

Community Service Cooperatives

Service Cooperatives are organized to make specific services available to members at the lowest possible cost. The most common examples of service cooperatives include community halls, day care, housing, car-share, funeral and health care cooperatives. Service cooperatives are usually organized in response to specific needs.

Workers' Cooperatives

Another type of cooperative is the worker owned co-op. This co-op is any type of business that could either be set up from scratch by the employee-owners or purchased by the employees from an owner that wants to exit the business.

The objective of a workers' cooperative is to provide employment to its members, who are also the owners. Members provide the capital to finance the business, each sharing the costs and risks of ownership.

Housing Cooperatives

The objective of a housing cooperative is to provide housing to its members. As is the case with other cooperatives, it is owned and controlled by its member residents, who elect a board of directors to represent them. Under Manitoba legislation, housing cooperatives fall under two categories: not-for-profit and others.

This legislation puts certain limitations on not-for-profit housing cooperatives. For instance, they are precluded from selling investment shares and are required to carry on business without the purpose of gain for their members.

New Generation Cooperatives

New Generation Cooperatives (NGCs) represent an emerging trend in agriculture, forestry, fishing and other industries that are supplied by producers. These are distinct types of cooperatives formed to enable members to process raw commodities. As a result, members not only receive market prices for their produce, they also gain the opportunity to profit from processing and marketing these value-added products.

It is primarily the financial structure and membership requirements that distinguish NGCs from the more traditional cooperatives. Typically, higher equity investments are required by members in order to establish a processing plant.

Module 2.2: Legislative Matters, Provincial Cooperative Incorporation

PROVINCIAL LEGISLATION INCORPORATION

Cooperative organizations initiated in Manitoba are governed under provincial legislation by the Cooperatives Act. The Act defines the rules, regulations and requirements under which the cooperative operates within the Province of Manitoba. The Act is administered by Manitoba Agriculture, Food & Rural Initiatives (MAFRI).

Incorporation of a cooperative under the Province of Manitoba Cooperatives Act stipulates that the following is required:

1. Three (3) or more individuals or two (2) or more corporate entities to act as incorporators.
2. Approval of the registered corporate name of the cooperative by the Registrar.
3. Completion of reservation of the registered name with the Companies Office.
4. Location of the registered office of the cooperative.
 - Preparation of Articles of Incorporation:
5. Preparation of By-laws of the corporation:

REGISTERED OFFICE RECORDS

A cooperative registered in Manitoba must have a registered physical office address, as outlined in the instructions to fill out the articles of incorporation, identified in its Articles of Incorporation. The cooperative must maintain, at its registered office, specified corporate records as follows:

- a) Articles of Incorporation.
- b) By-laws.
- c) The minutes of meetings and resolutions of its members and shareholders;
- d) A register of the corporation's current and former directors, listing their names, addresses, occupations and the dates of their directorship(s).
- e) An alphabetical register listing its members and their last known addresses.
- f) The number of membership shares, investment shares and other securities, if applicable, held by each member.
- g) The cooperative's accounting records.

CORPORATE FINANCE: SOURCES OF CAPITAL FUNDING

The members and shareholders of the cooperative have the right to be provided with a copy of the articles and by-laws and amendments of the cooperative upon request.

Returns

The cooperative is required to prepare an annual return in a format approved by the Registrar by a date specified by the Registrar.

Sources of capital funding

The cooperative must identify what sources of capital are available and the requisites of each. The cooperative would then ascertain what level of funds could be raised under each option and decide what capital source(s) to engage.

Capital sources include:

Capital sources include:

- Membership fees.
- Membership or Common shares.
- Investment shares.
- Special Investment shares.
- Securities, including bonds and debentures.
- Debt capital (loans, mortgages, lines of credit, loans from members).

If a cooperative does not have share capital, it may issue a certificate of membership to members who have paid a membership fee.

Membership or Common Shares

Membership or common shares are shares issued by the cooperative that generally have a requirement, as defined in the cooperative's Articles of Incorporation and By-laws, for the purchase of a specified amount or number in order to hold membership in the cooperative.

Investment Shares

Investment shares will provide the shareholder with the opportunity to purchase investment shares with special preferences, rights, conditions and restrictions.

Special Investment Shares

Special investment shares may be provided for in the articles, to be issued only to members of the cooperative.

Securities

Capital may also be raised through the sale of other securities such as bonds or debentures. These instruments may be sold to members or non-members.

Debt Capital

Utilization of debt capital would include loans, mortgages or lines of credit from a financial institution. It could also involve a requirement for members to lend money to the cooperative as a member or shareholder loan.

Surpluses

The cooperative's by-laws will set out the parameters for payment of surpluses, interest or dividends to its members based on the results of the cooperative's performance.

Investment registry, communication, certificates

If the following conditions apply, an Offering Statement must be submitted to the Financial Institutions Regulation Branch (FIRB):

- the par value of the membership share or security is over \$1,000.
- the amount of the member loan to the cooperative is an aggregate of over \$1,000.

Under these conditions, no shares or investment instruments can be issued until FIRB approves the Offering Statement request and issues the cooperative an official receipt.

The Cooperatives Act stipulates that a cooperative's corporate finance system for raising capital must outline the rules and regulations surrounding ownership of membership shares and investments in the cooperative.

Membership Shares and transfers

A cooperative can issue a share certificate to its members showing the number of shares held.

Security or Investment Shares

A security or investment share is a negotiable instrument issued by the cooperative that can be categorized into different classes or series of shares in the cooperative.

The security or investment share can be issued in two forms:

1. Registered form.
2. Bearer form.

DIRECTORS

The directors of the cooperative are elected by the members of the cooperative. They are charged with managing the operations and affairs of the cooperative and provide leadership for the cooperative to continue as a going concern.

The by laws of the cooperative provide the framework for the cooperative's governance and how it will conduct its affairs as summarized in the "Incorporation"



The directors will execute their responsibilities by overseeing the management of the operations of the cooperative. These responsibilities will include:

- Managing the business and affairs of the cooperative to protect the interests of the membership.
- Develop policies and procedures for conducting the operations for the management, committees and members.
- Ensure financial record keeping, membership lists, minutes and all other records are maintained as required to meet regulatory standards.
- Ensure training is provided for directors and new directors.
- Develop and maintain a human resource policy to ensure the hiring of competent management and staff.
- Provide information and leadership to management and members.
- Monitor the performance of management and committees.
- Ensure new members are provided with information on their rights and responsibilities.
- Approve new membership applications.
- Approve the withdrawal or termination of memberships.

section above.

The Cooperatives Act requires a cooperative to have a minimum of three (3) directors. However, the cooperative's Articles of Incorporation may set its own minimum above the three.

Qualifications:

- Must be an individual.
- Must be 18 years or older.
- Of sound mind.
- Is not a bankrupt.
- Must be members of the cooperative or representatives of its members that are entities.

- Where shareholders of a cooperative have the right to elect directors, they may elect no more than 20% of the directorships as specified in the Articles of Incorporation.
- Additional qualifications may be specified in the cooperative's by-laws.
- The directors shall not be full time officers or employees of the cooperative, unless it is a worker cooperative.
- A majority of the directors must be Canadian residents.
- The cooperative may stipulate additional qualifications or dis-qualifications for a director in its by-laws provided they do not contravene applicable laws with respect to human rights.

Elections

Terms may be staggered to come up for renewal in different years to allow continuity in experience and leadership from the directors.

Meetings

Unless specified by the articles or by-laws, the directors may provide such notice and choose the location of their meetings as they see fit.

BY-LAWS

The members of a cooperative may, by resolution passed by its members at an annual meeting or special meeting of its members, enact, amend, replace or repeal by-laws of the cooperative, provided they comply with the Cooperatives Act and articles of the cooperative and the law.

The directors of the cooperative, by resolution, may enact or amend a by-law, unless specifically prohibited by the by-laws and unless it is contrary to a by-law enacted by the members.

A member of a cooperative is also entitled to make a proposal to enact, amend, repeal or replace a by-law.

If a proposal is put forward to enact, amend, repeal, replace or confirm a by-law at a meeting of its members, written notice of the proposal must be sent to each member with the notice of meeting. The members may approve, deny or amend proposal. The by-law becomes effective the day it is passed, or the date specified in the by-law.

If the by-law is not passed by the members, with or without amendments, the by-law or amendment is repealed as of the day of the members meeting.

MEMBERSHIP

Members of a cooperative must ensure that the cooperative operates as a healthy, strong and vibrant organization. Membership in a cooperative is governed by its by-laws.

Member Meetings

Member meetings will be held at a location as specified by the cooperative's by-laws, within Manitoba. If a location is not specified, it may be held at a location as designated by the directors.

Notice of Meeting and Record Day

The notice to be provided of a cooperative's members or shareholders meeting is governed by its by-laws which will stipulate an advice being issued of not less than twenty-one (21) days, or more than fifty (50) days before the meeting. The notice will be issued to:

- Each member or shareholder entitled to vote at the meeting.
- Each director.
- The cooperative's auditor.

The notice will contain the details of the business to be transacted at the meeting and copies of any special resolutions to be dealt with at the meeting.

Quorum

Unless specified by the by-laws, a quorum at a members or shareholders meeting will be 50% of the members or shareholders eligible to vote at the meeting.

Voting and Proxy Voting

If two (2) or more persons jointly hold a membership in the cooperative, either one may vote at a meeting. If all or both are present at a meeting, their vote will constitute one (1) vote.

Unless otherwise stipulated in the by-laws, voting at a meeting may be conducted by:

- A show of hands.
- By secret ballot.
- By mail ballot.

A copy of all resolutions signed by the members or shareholders will be kept with the minutes of the meetings of the cooperative.

FINANCIAL DISCLOSURE

After termination of their membership, a person cannot become a member of the cooperative unless passed by special resolution at a meeting of the membership.

A member may withdraw from a cooperative subject to the by-laws.

Financial Statement

The financial statements of the cooperative required by the Cooperatives Act, the report of the auditor if required, and consolidated financial statements if the cooperative holds a subsidiary, must be prepared in accordance with the generally accepted accounting principles as recommended in the Canadian Institute of Chartered Accountants Handbook.

At the annual general meeting of the members of the cooperative, the directors will provide the members, a copy of the annual financial statements of the cooperative.

Auditor:

An auditor must maintain independence of the cooperative and therefore must not:

- Be a business partner, director, officer or employee of the cooperative or any of its subsidiaries.
- Own or control, directly or indirectly, a material interest in the securities of the cooperative or its subsidiaries.

- Have been a receiver, receiver-manager, liquidator or trustee in bankruptcy of the cooperative or its subsidiaries within the last two years.

Audit Committee

A cooperative is entitled to establish an audit committee made up of no fewer than three (3) directors, the majority of whom are not officers of the cooperative or affiliates. The provision for an audit committee and its terms of reference should be included in the cooperative's by-laws.

Module 2 – Exercises

1. Identify the common legal forms of organizations used by small business and describe the principal characteristics of each.
 - a. **Sole Proprietorship** – owner receives all profit, bears all losses. Owner is solely responsible for debt.
 - b. **Partnership** – has a broader management base. In a partnership the possibility of conflict between the partners exists.
 - c. **Corporations** – are attractive because of possible tax advantages and limited liability. They are, however, more expensive and complex to establish and operate.

2. Identify factors to consider in choosing among primary legal forms of organization.

The key factors in choosing among different legal forms are organizational requirements and costs, liability of the owners, continuity of the business, transferability of ownership, management control, attractiveness for raising capital and income taxes.

3. What are the key difference between a general cooperative and new generation cooperative?
 - The financial structure and membership requirements of a new generation cooperative set it apart from a general cooperative
4. List the sources of capital funding that are available to a cooperative.
 - a. Membership fees
 - b. Membership or common shares
 - c. Investment shares
 - d. Special investment shares
 - e. Securities
 - f. Debt capital