

Core Functions and Processes of Co-operative Governance

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A cooperative is a business which is owned and democratically controlled by its members for the purpose of providing goods and services to members and patrons. Cooperative ownership influences purpose, control structure and business practices, and makes cooperatives significantly different from sole proprietorships, partnerships and investor-owned corporations. Consequently, cooperatives are governed by separate legislation. Cooperative legislation, be it federal or provincial, sets out rules and guidelines on the corporate governance of cooperatives. The purpose of the cooperative statute is to protect the interests of members and also to provide a basic legal framework within which cooperatives can organize and operate.

The goal of this document is to review the core operating functions necessary to maintain a cooperative governance structure, and to provide guidance in complying with cooperative legislation and regulations. This document has been prepared to give general guidance to directors, officers and managers of cooperatives, and should be used with the applicable cooperative statute (the Act) and regulations, and appropriate legal, technical, and managerial advice and support.

General Requirements

Meetings

Membership Meetings

A cooperative must hold its **first general membership meeting** within a few months of incorporation, as provided in the *Act*. All members are entitled to attend and vote at this meeting and subsequent annual or special general membership meetings. Business at the first general membership meeting includes the election of directors and as necessary, the adoption of by-laws and the appointment of an auditor.

A cooperative must hold an **annual general meeting** each year within the period following its fiscal year end as specified in the *Act*. In general, this period is between four to six months. The agenda includes:

- Minutes of the previous annual meeting;
- Reports by the president, treasurer, manager and committees;
- Auditor's report;
- Consideration of financial statements;
- Election of directors;
- Appointment of auditors;
- Any other business that the board or membership want to raise.

Subject to the *Act*, the directors may, at any time, call **other general membership** meetings. The directors may also call a **special meeting** of members. Subject to the *Act*, a special meeting must be held on receipt of a written request which specifies the purpose of the meeting and is signed by members.

Board of Director Meetings

As soon as possible after incorporation, the first directors should hold an **interim board meeting** to discuss day-to-day operating policies, appoint officers, establish banking and financial arrangements, etc.

Regular board meetings are normally held on an established schedule, often monthly, with pre-determined dates. Subject to the *Act*, the president or at least two directors may call a special meeting of directors at any time.

Committees

When the amount of work required to direct the affairs of a cooperative grows beyond what the board of directors can handle, the board or members may appoint committees to which tasks can be assigned. There are two types of committees: standing and special. Standing committees function more or less on a permanent basis to handle ongoing requirements. Examples include administration, finance and member relations committees. Special or ad hoc committees are normally appointed on a short-term basis to study unique issues or items of business, report findings, make recommendations to the board on actions to be taken, and/or to implement board decisions. Numbers and types of committees can vary from cooperative to cooperative.

Notices and Quorum

A cooperative must provide a period of notice and means of giving notice of membership meetings so each member/shareholder or delegate has reasonable opportunity to attend the meeting and exercise his or her right to vote. For example, cooperatives with small memberships may notify members by telephone or hand delivery. Most cooperatives establish that notice for all general meetings must be given no fewer than 10 days in advance, and also require that notice be mailed to all members entitled to attend, or inserted in at least two issues of a newspaper circulated in the area served by the cooperative, and posted in a place that is prominent and accessible to members. The notice of any special meeting is required to specify the reason the meeting is being called.

Requirements for meeting location, notice and timing for board meetings are determined by boards or set out in the by-laws of individual cooperatives.

Waiver of a notice to a membership or board meeting may be allowed, subject to the *Act*.

A **quorum** is the fixed minimum attendance necessary for the transaction of business at a meeting. A quorum for meetings of the board of directors is a majority of directors. The by-laws of a cooperative provides for quorum at membership meetings, subject to the *Act*.

Cooperative Documents and Record Keeping

A cooperative is required to prepare and maintain certain organizational records at its registered office. This includes the incorporating documents, by-laws, amendments, and other corporate documents. The minutes of all meetings of the membership, directors and committees should also be kept at this location. Members, their agents and their legal representatives are entitled to

examine all of these records and documents with the exception of the minutes of meetings of the board of directors and committees.

Any change of address to the registered office should be communicated to the authority administering the *Act*. If the registered office is named in the by-laws, the by-laws must also be amended.

Incorporating documents

Depending on the applicable cooperative statute (the *Act*), the document which creates the cooperative is either referred to as articles, memorandum, or letters of incorporation. The document sets out a cooperative's legal name, financial structure, purpose or objectives, and any restrictions on business. The articles, memorandum, or letters of incorporation may only be amended by a special resolution which requires a majority determined by the *Act*, usually at least two-thirds or three-fourths of the votes cast at a general membership meeting. Members must receive adequate notice, usually not fewer than 10 days' notice, of the intention to propose the special resolution at such a meeting. Proposals to amend the articles, memorandum, or letters of incorporation may be presented by the board or by any member of the cooperative. Amendments must be filed with the authority administering the *Act*, together with the prescribed fee, if any.

By-laws

By-laws set out the basic rules and guidelines, not inconsistent with the *Act*, under which a cooperative is governed and operated. Members may at any annual or special meeting called for this purpose, make, amend, repeal, replace any by-laws, and if the *Act* provides so, confirm by-laws already adopted by the board of directors. The *Act* requires that members receive notice of intention of the proposed action. In some cases, the *Act* requires a special majority vote and filing with and/or approval of the government authority administering the *Act*. In some cases, by-laws come into effect at the time of the approval by government, as specified in the *Act*. Some fees may apply.

Minutes

Minutes are the permanent record of the decisions made at meetings of a cooperative. Cooperatives are required to maintain minutes of all membership, board and committee meetings. Minutes should reflect decisions, not opinions, and be written so that an absent member reading them can have a clear understanding of the business conducted at the meeting. The secretary or secretary/treasurer is normally responsible for recording and maintaining minutes of all meetings.

The following guidelines suggest a format which will aid the secretary in preparing the minutes:

Introduction:

- The type of meeting (board, special, annual, etc.);
- The name of the cooperative;
- The date, time and location of the meeting;
- For board and committee meetings, the names of members present and absent;
- If the president and/or secretary was absent, the substitute's name; and
- Any comments or actions arising out of the minutes of the last meeting.

Body:

- The agenda and items of business therein. The agenda can then be attached to the minutes to form a complete package.
- All motions except the ones which were withdrawn. When recording a motion, include the exact wording of the motion as adopted or otherwise disposed of; the disposition of the motion, and any primary or secondary amendments; and the name of the person making the motion.
- All points of order and appeals, whether sustained or lost, and reasons given by the chair for rulings.

Conclusion:

- The time of adjournment; and
- The date and time of the next meeting.

Minutes should be signed by the secretary or the person who took the minutes, and the chairperson.

Subject to *common law* or the *Act*, when a director is not present at a meeting of directors or a committee of directors at which a vote on a resolution is taken, the absent director is considered to have cast an affirmative vote and consented to the resolution unless, after becoming aware of the proceedings, the director delivers or sends by registered mail a written dissent to the registered office of the cooperative. The secretary, on receiving the written dissent, shall certify the day, time and place it is received and keep it with the minutes of the meeting at which the resolution was passed.

Other Documents

Other documents that should be retained at the registered office include a register of directors setting out the names, addresses and occupations of all persons who are or have been directors of the cooperative and the dates on which each person became and ceased to be a director; a register of members stating their names arranged in alphabetical or numeric order and their latest address known to the cooperative; and a register of shareholders with their names arranged in alphabetical or numeric order, the number and type of shares held, and their latest address known to the cooperative. In addition, all documents issued to the cooperative by the authority administering the *Act* (approvals, certificates, etc.) should be retained at the registered office.

Financial Requirements, Records and Reporting

To maintain a successful business operation, a cooperative must maintain accurate and timely records of its financial operations, monitor and evaluate its past performance, and develop and implement budgets. A cooperative must comply with all financial requirements set out in the *Act*. Financial statements for the fiscal year just ended are presented at each annual meeting.

Financial Records

These include records of all revenues and expenditures, cash flow, and capital purchases. These records should support the preparation of monthly financial statements which should include comparisons to budget projections for review by the board.

Budgets

A budget is a financial planning and management document that projects future financial requirements and performance of a cooperative. Normally, cooperatives prepare three types of budgets: operating, cash, and capital.

Operating budgets are usually developed for each fiscal year, and project revenue, expenditures and savings or losses. To obtain maximum benefit from an operating budget, cooperative boards and management should compare actual income and expense statements against budgeted projections on a regular basis throughout the year. When actual results fall short of projections, corrective action should be taken.

Cash budgets predict monthly bank balances using estimated receipts and disbursements. This is important because the timing of revenues and expenses do not always coincide, and cash budgets provide a basis for identifying borrowing requirements or opportunities for investing short-term surpluses of operating capital.

Capital budgets are developed to support long-term planning and management of a cooperative. These budgets address the cooperative's requirements for land, buildings, equipment and other capital purchases, and should include an assessment of costs and benefits of all proposed capital expenditures together with an analysis of alternate investments or strategies.

Potential sources of capital include retained savings, additional member equity, member loans, sale of securities, and other forms of financing.

Financial Reporting

Appointment of an Auditor

At the first general meeting of a cooperative and at each succeeding annual meeting, members must appoint, by ordinary resolution, an auditor who is independent of the cooperative and is a member of a recognized accounting professional association. A vacancy in the position of auditor may be filled by the board until the next annual general meeting. In some cases, the Act may require cooperatives to have an audit committee. In some cases, members may resolve, subject to the *Act*, not to appoint an auditor.

The Audit and Audit Report

After the fiscal year-end of a cooperative and before its annual meeting, the auditor or auditors must examine the accounting procedures and financial records relating to the cooperative's activities. This is to justify that in their opinion the financial statements present fairly the financial position of the cooperative and the results of its operations and the changes in its financial position in accordance with generally accepted accounting principles.

Annual Return

Subject to the *Act*, each year, cooperatives are required to file an annual return, which generally includes the names of the directors, officers, auditor and other information. The annual return is generally sent to the authority administering the *Act*. In some cases, the *Act* requires that the financial statements also be filed. Filing fees may apply.

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