



Thrive Consultancy Inc.

Benefit Corporation



Cooperative Business Incorporation: How to Become a Worker-Owned Cooperative in Arizona



City of Phoenix

September 14th, 2022 | Scottsdale, Arizona

Sustainable Food Economy Lab

ASU School of Sustainability
Arizona State University

Land Acknowledgement



Workshop Agenda

1. Introduction
2. Cooperative Business Model Basics
3. Arizona Cooperative Incorporation with the ACC
4. Q&A Session 1
5. Articles of Incorporation & Bylaws
6. Panel of Cooperative Entrepreneurs
7. Q&A Session 2
8. Conclusion



About Thrive Consultancy Inc.

Thrive Consultancy Inc. is a **benefit corporation** that works with entrepreneurs and small businesses to become **economically viable** while **empowering people** and **protecting the planet**.



Thrive Workshops and Programs



**Sustainable Cooperative
Food Business Training
Programs**

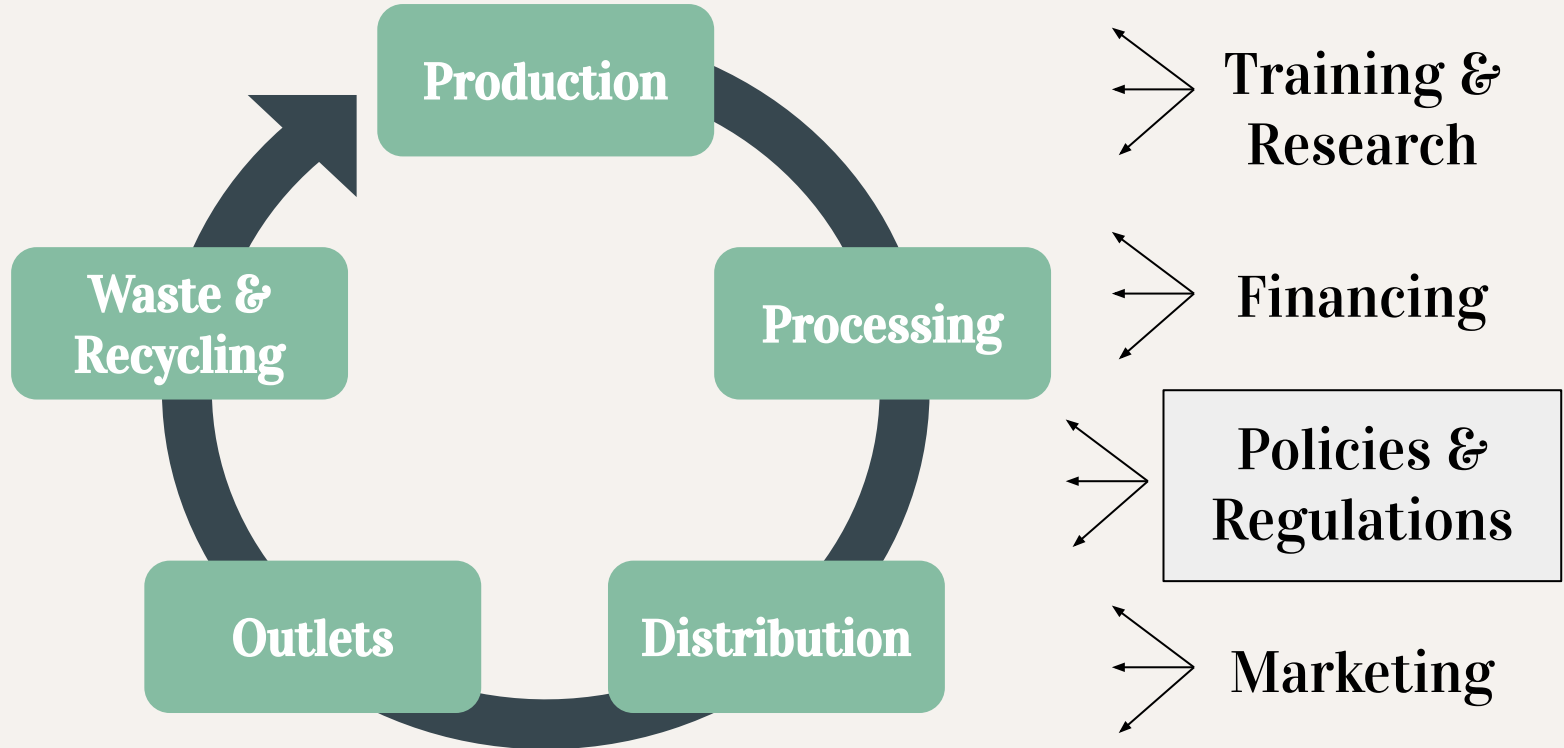


**Cooperative Business
Support**

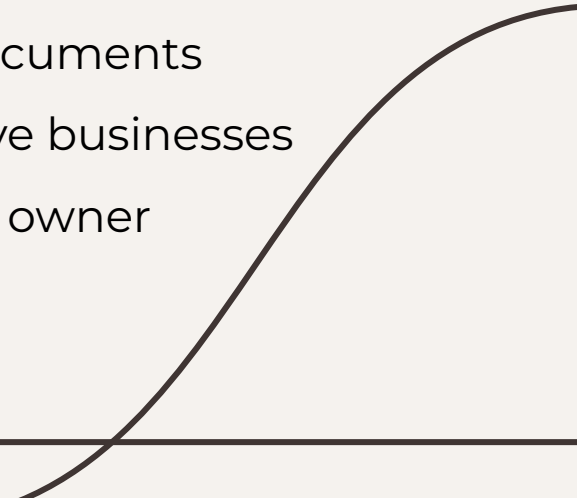


**Ecosystem Development
Workshops**

Sustainable Economies

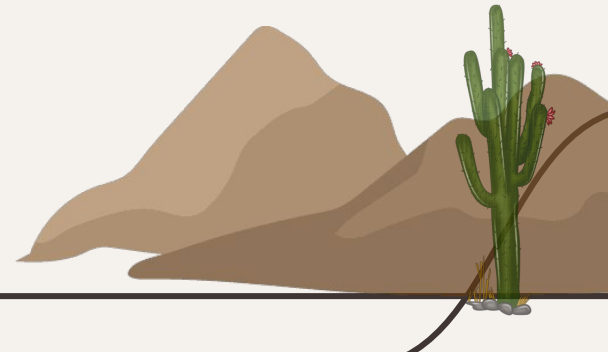


Workshop Objectives

- Understand the basics of the cooperative business model
 - Understand the Arizona cooperative incorporation requirements
 - Understand the key features and decisions that go into composing cooperative legal incorporation documents
 - Be able to identify at least two local cooperative businesses
 - Understand some of the cooperative business owner narrative and experience
- 

Cooperative Business Model Basics

With Hanna Layton at Thrive Consultancy Inc.



What is a Cooperative Business?



Co-Ownership

It is a business that is democratically owned and operated by its members.



Shared Benefit

Members benefit from the cooperative based on their labor contribution or based on their use of the co-op.

7

7 Principles

All cooperatives adhere to the 7 Cooperative Principles.



Democratic Control

Members democratically control their cooperative by exercising the voting rights that come with membership.

7 Cooperative Principles



Voluntary and
Open Membership



Democratic
Member Control



Members' Economic
Participation



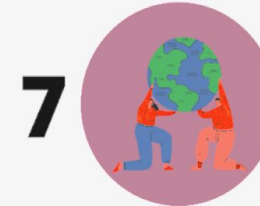
Autonomy &
Independence



Education, Training,
& Information



Cooperation Among
Cooperatives

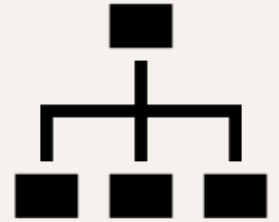


Concern for
Community

Cooperative vs. Traditional Business



Cooperative Businesses	Traditional Businesses
Exist to meet member's needs (as defined by the members)	Exist to maximize shareholders' wealth
Limited return on capital	Unlimited return on capital
Accountable to all members	Accountable to majority stakeholders
One member - one vote	Vote based on shares held
Board represents members	Board represents shareholders
Limited liability	Limited liability
Operates in a variety of sectors	Operates in a variety of sectors



Types of Cooperative Business



Producer

Owned by producers of similar types of goods or services for combined greater purchasing power.



Consumer

Owned by the people that buy their products and services.



Worker

Owned by their workers who make business decisions, and share in the profit and risk of the business.



Purchasing

A cooperative that provides its members with financial services at the lowest cost and highest return.



Multi-Stakeholder

Also known as a hybrid model, this type of cooperative joins multiple cooperative types and tiers of membership in one.

Cooperative Practices



Community Support

Community Supported
Agriculture (CSA)

Community Supported
Entrepreneurship (CSX)



Co-Ownership

Employee-Owned
Enterprises &
Cooperatives

Employee Stock
Ownership Plans (ESOPs)

Examples of Cooperatives



Worker



Multistakeholder



Producer

While cooperatives have existed in Arizona prior, the State of Arizona adopted an expanded statute for Cooperative Corporations in 2014 and later amended this in 2016. Since then, Arizona witnessed its first **for-profit cooperative incorporation** under the newly amended statute in 2021, and the cooperative ecosystem in the state is in development.

**Cooperative Statute: Cooperative Marketing
Associations, Ariz. Rev. Stat. §§10-2001 to 10-2026
(2019)**

Cooperative Incorporation in Arizona

With the Arizona Corporation Commission (ACC)



ARIZONA CORPORATION COMMISSION

CORPORATIONS DIVISION

Tanya M. Gibson, Director
Joey Ordonez, Assistant Director



Corporations Division at a Glance

Organizational Chart:

- ❖ Division Director
- ❖ Assistant Director
- ❖ Administrative Specialists
- ❖ Section Supervisors
- ❖ Section Staff Members (50+)
- ❖ Offices in Tucson and Phoenix

Sections:

- ❖ Initial Processing
- ❖ Examination
- ❖ Same Day/Next Day Services
- ❖ Records
- ❖ Customer Contact Center
- ❖ Call Center

General Information about the Division

Total Number of Active Entities:

- ❖ Active Corporations: 578,370
- ❖ Active Limited Liability Companies: 1,321,231

Online vs Paper Filings

- ❖ Percentage of Online Filings: 84%
- ❖ Percentage of Paper Filings: 16%

Total Number of Filings Received in FY 22:

- ❖ 505,783 filings
- ❖ Average Number of Days to Process Expedited Filings: 1-3
- ❖ Average Number of Days to Process Regular Filings: 14-16

Call Center:

- ❖ Yearly Calls Received: 137,718
- ❖ Yearly Calls Received: 117,203
- ❖ Average Wait Time: 6 minutes (6:04)

FOR-PROFIT COOPERATIVES IN ARIZONA

A Summary and Guide

Cooperatives Provided for by Statute

Arizona Revised Statutes provides for the formation of 3 types of cooperatives:

- ❖ Cooperative Marketing Associations (A.R.S. §10-2001, et seq)
- ❖ Electric Cooperative Nonprofit Membership Corporations (A.R.S. §10-2051, et seq)
- ❖ Nonprofit Electric Generation and Transmission Cooperative (A.R.S. §10-2121, et seq)

****Only the Cooperative Marketing Associations can be for-profit****

General Corporation Requirements

Cooperatives are governed by general corporation laws (Title 10 of the Arizona Revised Statutes).

Here are some general requirements:

FOR-PROFIT CORPORATIONS:

- Must file an annual report
- Must include number of authorized shares and type
- A Certificate of Disclosure must be filed with the Articles of Incorporation
- Must have at least one Director to form; when first annual report is due, must include at least one officer

NON-PROFIT CORPORATIONS:

- Are not required to file annual report

Ecorp Limitations

- Articles of Incorporation, for-profit, require a corporation identifier, even for a cooperative
- Cooperatives can have members, however, eCorp (online) does not allow for a “member” by title for any corporation
- Cooperative Marketing Association is not an entity type in eCorp
- Currently, when incorporating a Cooperative Marketing Association, you must file by paper.

Cooperative Marketing Association Requirements

A.R.S. §10-2001, et seq, provides the requirements of being a Cooperative Marketing Association.

- ✓ Must be a corporation

Formation requirements

- ✓ Stock is optional
- ✓ Common (voting, dividends change)
- ✓ Preferred (no voting, dividends set)
- ✓ 5 or more persons engaged in production of products or services.
- ✓ 5 or more small businesses, individuals or entities engaged in the marketing and distribution of manufactured goods for import or export.
- ✓ Can make profit

Articles of Incorporation must include:

- ✓ Name
- ✓ Purpose
- ✓ Principal business address
- ✓ Term
- ✓ At least 5 directors and their term
- ✓ Whether it will be for-profit or non-profit
- ✓ If for profit, and will have capital stock, number of shares authorized (so stock is optional)
- ✓ Amendments, if any, shall be filed

Cooperative Marketing Association Requirements (cont')

Board of Directors

- ✓ Shall have president, 1 or more vice president(s), secretary and treasurer can be combined.

Annual Report (whether a for-profit or a non-profit)

- ✓ Shall make one and include (1) number of members (2) membership fees received (3) total expense of operations (4) indebtedness/liabilities and (5) balance sheet.

Restructuring

- ✓ Can merge, convert, domesticate, divide or participate in interest exchange.

A Few More Points About Cooperative Marketing Associations

Powers of Association (A.R.S. § 10-2005)

- ✓ Cooperative Marketing Associations may engage in many activities including, but not limited to:
 - ❖ Manufacturing
 - ❖ Marketing
 - ❖ Harvesting
 - ❖ Processing
 - ❖ Storing
 - ❖ Handling or utilization of products or services
 - ❖ And many others

By-laws (A.R.S. § 10-2006)

- ✓ Each association shall adopt bylaws.
- ✓ Although the association is required to adopt bylaws, those bylaws are not recorded by the Arizona Corporation Commission.

Questions?

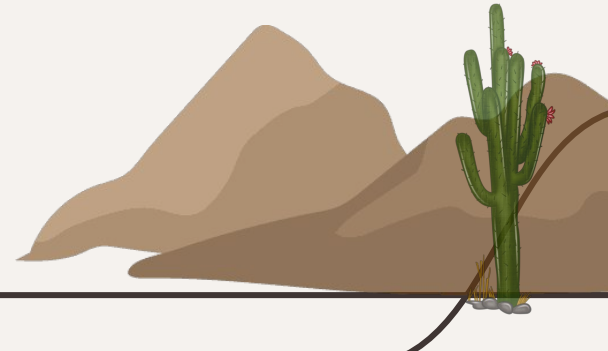


Thank you!

- Tanya M. Gibson, Director
 - tgibson@azcc.gov
 - 602-542-0776
- Joey Ordonez, Assistant Director
 - jordonez@azcc.gov
 - 602-542-0787
- Corporations Division Contact Information
 - Website: www.azcc.gov
 - Call Center: 602-542-3026
 - General Questions: Answers@azcc.gov
 - Address: 1300 West Washington Street, Phoenix, AZ 85007

Foundational Cooperative Incorporation Documents

With Huda Khalife at Thrive Consultancy Inc.



State Business Incorporation Process

The state incorporating governing entity in the state of Arizona is the Arizona Corporation Commission (ACC). As per the ACC website, the Steps to Starting a Business in Arizona include:

- 1. Choose a unique business name**
- 2. Create your business entity**
Choose entity type and submit Articles of Incorporation
- 3. Contact the Arizona Department of Revenue & Internal Revenue Service**
for TPT Tax information, and an EIN or tax identification number
- 4. Check City and County Licensing and Financing Requirements**
and open a business bank account

As of now, there is no information, forms, or online filing process available for the cooperative incorporation process through the ACC website, but we hope that this will be available in the future.



Cooperative Incorporation Process

Steps Before Cooperative Incorporation:

- 1. Choose a unique business name**
Consider adding the terms Cooperative and Incorporated or Inc. to indicate the type of business entity
- 2. Identify the initial 5 worker-owners** (at minimum)
- 3. Decide on membership shares** (if applicable)
- 4. Prepare Cooperative Bylaws**
- 5. Prepare a Membership Agreement for prospective members**
- 6. Determine necessary licensing, permitting, and insurance**
You can use online resources or call local agents to get more information on these
- 7. Prepare and file Articles of Incorporation with the ACC**



Source: [Think Outside the Boss: How to Create a Worker-Owned Cooperative](#)

Cooperative Incorporation Process

Steps After Cooperative Incorporation:

- 1. Hold the first Board of Directors meeting**
During which you adopt the bylaws, appoint officers, engage in business planning, etc.
- 2. Obtain an Employer Identification Number (EIN)**
Also known as a Federal Tax Identification Number
- 3. Open a bank account for the cooperative**
- 4. Obtain necessary licensing, permitting, and insurance**
- 5. Obtain an accountant or bookkeeper for finance management**
- 6. Maintain and regularly update membership records**
Including names and addresses
- 7. Implement an operational and management system**
Including designating committees for daily business operations



Source: [Think Outside the Boss: How to Create a Worker-Owned Cooperative](#)

Foundational Cooperative Incorporation Documents



Articles of Incorporation

Establishes the cooperative corporation as a unique entity in the eyes of the state.



Bylaws

The rules governing the procedures of a Cooperative.



Articles of Incorporation

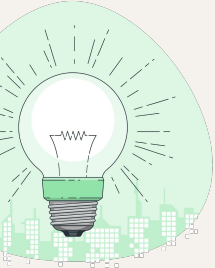
Purpose

This document **establishes the cooperative as a corporation or a unique entity** in the eyes of the state upon submission to the ACC.

Directors are liable for any misalignment with these articles, and any amendments must be filed with the ACC.



Articles of Incorporation



Key Terminology

Statutory Agent

The state's official contact for all business legal documents and official communications. This can be one of the member-owners, or a third-party agent.

Incorporator

Often an owner, the person responsible for registering the corporation with the state and filing the Articles of Incorporation.

Dissolution

The legal closing down of the business and the dismissal of the cooperative member-ownership.

Indemnification

To compensate for harm or loss, or to protect against legal liability.

Stock

The capital of the business, a portion (or "share" of which gives shareholders certain rights.

Share

One of the equal parts of a company's capital, or stock, often held alongside others and generally entitling one to one vote in the business.

Articles of Incorporation

Sections

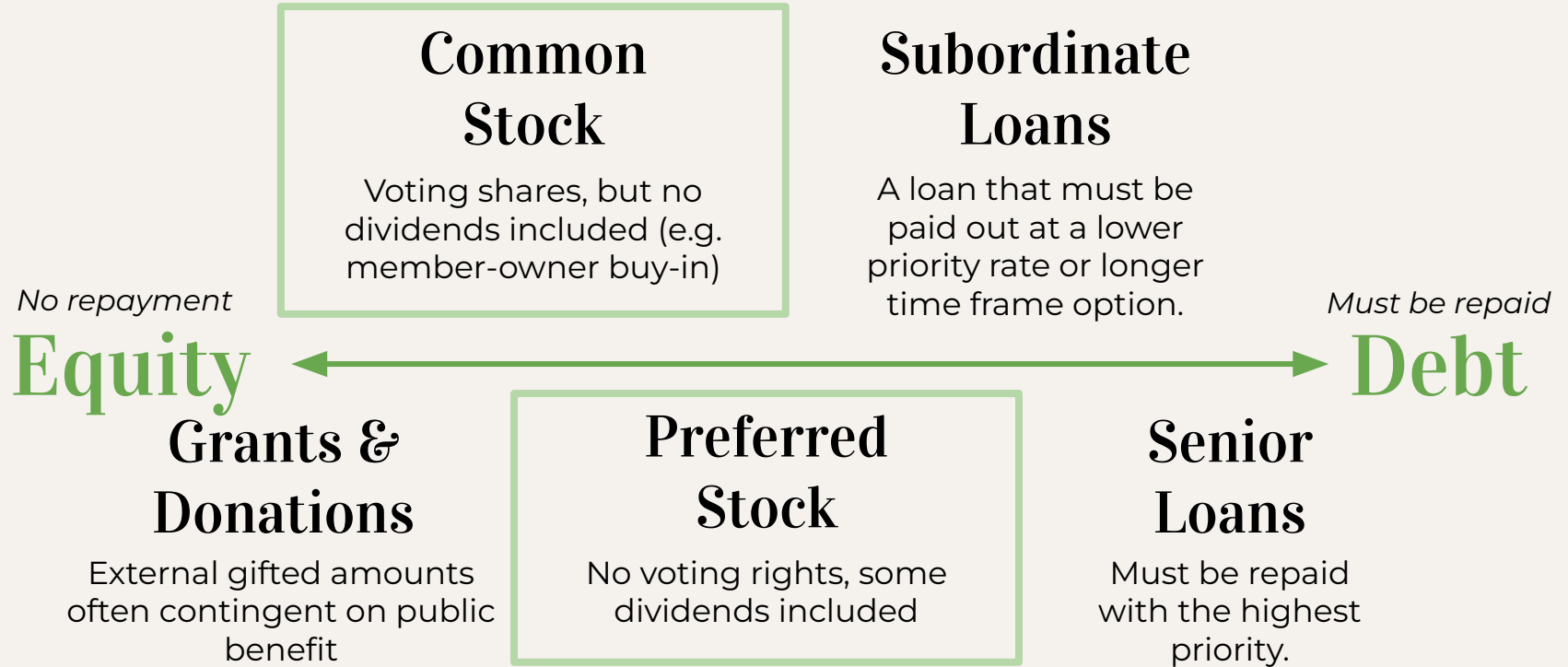
This document must include:

- Name of the cooperative
- Principal place of business
- Purposes
- Duration of the cooperative (usually perpetual)
- Directors (at least 5), their responsibilities and their terms
- Names, addresses, and signatures of the incorporators
- Name and address of Statutory Agent
- Indication of non-profit or for-profit delineation
- If a for-profit, and if stock will be issued, indication of number of shares

This document must also be accompanied by a completed (1) Statutory Agent form and (2) Certificate of Disclosure.



Cooperative Capital Sources Defined



Example Articles of Incorporation

ARTICLES OF INCORPORATION

OF

FOOD FOREST COOPERATIVE

The undersigned, has this day executed the following for the purpose of forming a for-profit cooperative association under the laws of the State of Arizona, and for that purpose does hereby adopt the following Articles of Incorporation.

1. Name. The name of this cooperative association (hereinafter “*Association*”) is “**Food Forest Cooperative.**”
2. Duration. The period of duration of the Association shall be perpetual.
3. Principal Place of Business. The principal office for the transaction of business of the Association is located at 1200 W Vineyard Rd., Phoenix, AZ 85041.

Articles of Incorporation

A Few Key Decision Making Questions

1. What is the name of the Cooperative?
2. Where is the main place of business?
3. Who will be your statutory agent?
4. What is the number of directors that you would like to have on the Board of Directors?
5. Who will be on the initial Board of Directors? (Provide names and addresses.)
6. Who will be your incorporator(s)? (Provide name(s) and address(es).)



Bylaws

Purpose

Bylaws provide a detailed plan of **how the cooperative should function, how its internal operations should be run, and what its structure is.**

It states how the cooperative will conduct business and must be consistent with state statutes and the Articles of Incorporation.



Bylaws

Key Terminology: Membership & Directorship

Member

Depending on the type of cooperative, there are different tiers for membership. Generally, members co-own, or have a share of the business. They also have a say in how the business is run.

Board of Directors

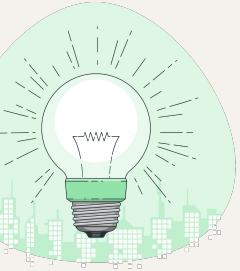
The elected body that makes regular decisions for the business and reports out to the membership. It is often made up of 5-7 people. For smaller memberships, oftentimes all members are also board directors until expansion to a larger number.

Initial Capital Contribution

This is the monetary “buy-in” that is provided in exchange for cooperative membership and a share in the business..

Candidacy Period

A requirement to becoming a member-owner, it is the period during which a candidate’s performance is observed, often around 6 months.



Bylaws

Key Terminology: Voting

Quorum

A quorum is the minimum number (or percentage) of members required to be present at any given meeting in order for the decisions made during that meeting to be valid.



Cumulative Voting

A type of voting for directors that allows one shareholder to apply all of their votes (i.e. proportional to the number of directors) to a single director candidate. This type of voting is not valid in a Cooperative.

Proxy Voting

A voting system in which a ballot is cast by someone on behalf of another. This type of voting is not valid in a Cooperative.

Bylaws

Key Terminology: Finances

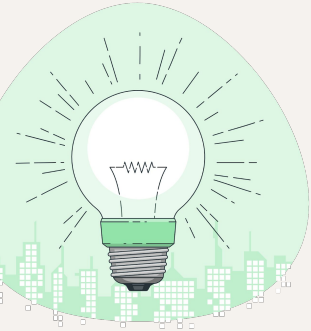
Equity Equity represents the total assets of a company, of which members own shares through buy-in.

Patronage Dividends A portion of cooperative profits paid out to its member-owners. In a worker cooperative, this is provided based on a worker-owners number of hours worked in the past year.

Surplus While it is often used to refer to profits, surplus refers specifically to the net income generated by members, or worker-owners.

Profit Profit refers to the net income generated by non-members.

Surplus and profit in a cooperative are often allocated towards: the Cooperative, internal capital accounts (i.e. growing equity pertaining to each worker-owner), and patronage dividends.



Bylaws

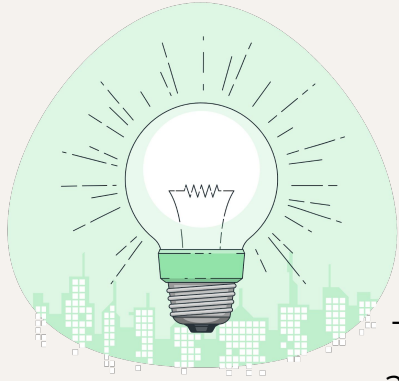
Key Terminology: Finances

Liquidation

The selling or distributing of a cooperatives assets to claimants as a result of dissolution.

Reserve

A savings account or liquid asset set aside to cover unforeseen costs, losses or contingencies.



Bylaws

Articles

Bylaws for Worker-Owner Cooperatives may *typically* include the following general Articles, which are further subdivided into explanatory sections.

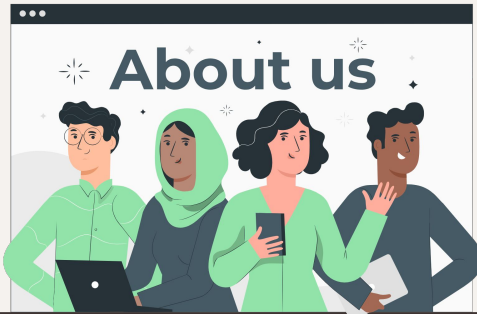
1. Organization
2. Membership
3. Meetings
4. Board of Directors
5. Officers of the Board
6. Dividends and Equity Capital
7. Dissolution and Liquidation
8. Amendments to bylaws



Bylaws

Article 1: Organization

- General information
 - Values
- Commitment to 7 cooperative principles
 - And more



Article 2: Membership

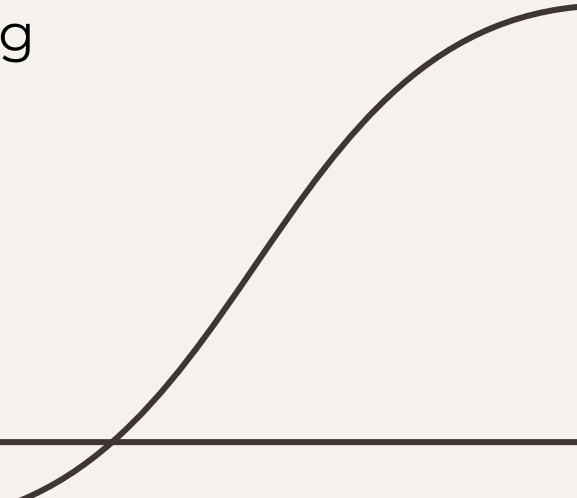
- Eligibility and nondiscrimination
- Membership classes
 - Requirements
 - Voting Rights
 - And more



Bylaws

Article 3: Meetings

- Annual meeting
- Petition for special meeting
- Meeting notices
 - Voting rules
 - Quorum
 - And more



Bylaws

Article 4: Board of Directors

- Qualifications
 - Duties
- Election process
 - Terms
 - Removal
- Subcommittees
 - And more



Article 5: Officers of the Board

- Duties
- Terms
- Annual election process
 - And more



Article 6: Dividends & Equity Capital

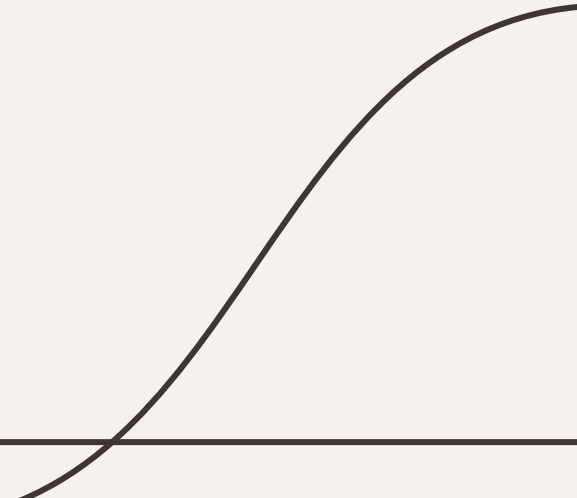


Allocations and distribution of profits

- Reserves
- Payment upon Membership Termination
 - Allocation of losses
 - Dividends and stock
 - And more

Article 7: Dissolution and Liquidation

In case of dissolution, how to
manage assets



Article 8: Amendments to Bylaws

How, when, and by whom
amendments are initiated and
passed



Bylaws

Example

Article 2: Membership

2.1 Classes of Members. The Cooperative shall have one class of Members.

2.2 Becoming a Member. To become a Member of this Cooperative, a person must:

- a. Be a resident of Arizona;
- b. Pay an Initial Capital Contribution; the amount of the Initial Capital Contribution will be determined by the Board of Directors;
- c. Work for the Cooperative for 650 hours or six months, whichever period is longer; this period of time is called the “Candidacy Period;”
- d. Be approved by the existing Members, by means of the process described in Section 2.3; and
- e. Receive a copy of the Cooperative's Disclosure Statement, Bylaws, and a receipt for payment of the Initial Capital Contribution.

2.3 Acceptance of Members. The application review and approval process for a Prospective Member is as follows:

Article 1: Organization

Article 2: Membership

Article 3: Member Meetings and Decision Making

Article 4: Director Meetings

Article 5. Decision-Making Process

Article 6. Officers

Article 7: Member Dividends and Equity Capital

Article 8: Dissolution and Liquidation

Article 9: Amendments to Bylaws



Bylaws

A Few Key Decision Making Questions

1. What is the type of Cooperative that you choose to operate by? What are the classes of members in your Cooperative?
2. What is the desired Candidacy Period for onboarding member-owners?
3. What is the fiscal year of the Cooperative?
4. What is the desired voting structure? Unanimous or Majority, and in the latter case what is the majority? (e.g. 75%?)
5. What will constitute a quorum at a worker-owner meeting? (e.g. A majority of 75%.)
6. Will all members be automatically elected to the Board of Directors, or would you like to account for the possibility of expansion to the point of needing an elected Board of Directors for the worker owners?
7. What will the principal officers of the Cooperative consist of? (e.g. President, Vice President, Secretary, Treasurer.) What are their terms?
8. Would you like to include laws governing the creation of committees?



Note that it is best to frame minor decisions that are subject to frequent change in the Articles of Incorporation and Bylaws as generally as possible, while focusing on formalizing the more foundational cooperative decisions, so as to leave the decision making capacity to the Board of Directors and member-owners should any changes need to be made to these documents prior to the annual meeting.

When Writing Articles of Incorporation & Bylaws



Process of Submitting the Articles of Incorporation to the Arizona Corporation Commission

Once the articles have been prepared and reviewed by the organizations founding members and attorney, they are ready to be submitted to the ACC for review.

Currently the ACC requires Cooperative Corporation Articles to be mailed in, turned in via Fax, or delivered in-person. (E-corp option exists with limitations).

The ACC will review the submitted articles and compare it to the legal requirements as outlined in the statute.

The articles will either be accepted or returned to the incorporators for edits.



Resources

Worker Coop Incorporation Document Examples:

- Food Forest Cooperative Articles of Incorporation
- Food Forest Cooperative Bylaws

Multi-Stakeholder Coop Incorporation Document Examples:

- Phoenix Food Coop Articles of Incorporation
- Phoenix Food Coop Bylaws

Key Incorporation Terminology Sheet

Workshop Note Sheet



A warm thank you to the **Phoenix Food Coop** and the **Food Forest Cooperative** for their generosity and commitment to uplifting other players in the cooperative business economy through knowledge and resource sharing.

Panel of Cooperative Business Owners

Ian O'Grady

The Phoenix Food Coop



Maria Parra Cano

The Food Forest Cooperative



Q & A

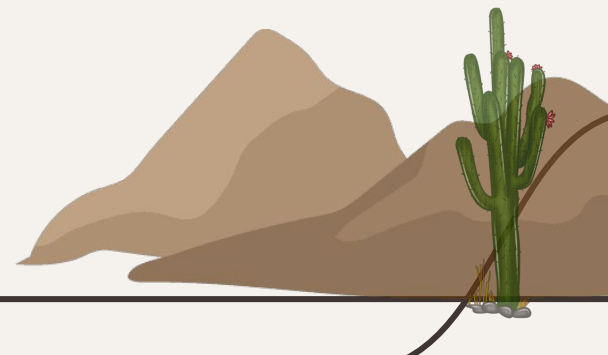
With **Ian O'Grady**, Phoenix Food Coop

And **Maria Parra Cano**, Food Forest Cooperative



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Benefit Corporation

Conclusion



Workshop Objectives Review

- Understand the basics of the cooperative business model
- Understand the Arizona cooperative incorporation requirements
- Understand the key features and decisions that go into composing cooperative legal incorporation documents
- Be able to identify at least two local cooperative businesses
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Upcoming Thrive Workshops and Programs



Sustainable Cooperative Food Business Training Programs (Eng/Spn)

Spring: February-April

Summer: June-August



Cooperative Business Support

Ongoing support for program graduates

Support of new and transitioning
businesses



Ecosystem Development Workshops

Sept 28: Community Wealth
Building Workshop

Previous Workshops: Thrive Consultancy Inc. on Youtube



Building a Cooperative Food Economy in Arizona



Financing Cooperative Businesses

Special Thanks



A special thank you to:

Maddie Mercer

Ian O'grady

Maria Parra Cano

Joey Ordonez

Tanya Gibson

The Documovil Team

And to the catering team at
Green New American

List of References

- <https://www.azcc.gov/corporations/ten-steps-to-starting-a-business-in-az>
- https://d3n8a8pro7vhmx.cloudfront.net/theselc/pages/146/attachments/original/1417036445/TOT_B5_Manual_FINAL.pdf?1417036445
- <https://www.dmlp.org/legal-guide/cooperative-corporation>
- <https://about.kaiserpermanente.org/community-health/news/employee-owned-businesses-foster-healthier-local-economies>
 - <https://cdi.coop/profit-sharing-in-worker-coops/>
 - <https://uwcc.wisc.edu/about-co-ops/types-of-co-ops/>
 - <https://www.youtube.com/watch?v=bcz5pO2JdoQ&t=1s>

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Thrive Consultancy Inc.
Benefit Corporation

Thank you!

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Thrive Consultancy Inc.

Benefit Corporation
