

Navigating the Kansas Cooperative Societies Act

There are two primary cooperative statutes in Kansas: (1) K.S.A. 17-15 Cooperative Societies Act and (2) K.S.A. 17-16 Cooperative Marketing Act.^{1,2} While the Cooperative Marketing Act focuses on agricultural cooperatives, the Cooperative Societies Act is more generalized to other sectors.

This fact sheet provides a brief overview of the cooperative business model and walks through various sections of the Kansas Cooperative Societies Act.

What are cooperatives?

A cooperative (aka “co-op”) is a business that is owned and democratically controlled by the members who use its services. Every member owns a piece of the co-op since they share in both the business risks and the business profits. It is up to each co-op to determine the level of financial participation that is required to establish membership status. Members democratically control their co-op by exercising the voting rights that come with membership, typically the “one person, one vote” rule. A cooperative’s profits are typically distributed back to members as a patronage refund that is proportionate to each member’s use of the co-op.^{3,4}

Cooperatives and rural grocery stores

In recent years, more and more rural communities have turned to alternative and community-supported grocery ownership models to maintain food access and retain these critical businesses.⁵ Some of these creative solutions have included municipally-owned stores, school-owned stores, nonprofits, various forms of public-private partnerships, and cooperative stores. The cooperative ownership model allows community members to collectively own the business together. This means local ownership, democratic control, and profits returned to owners or reinvested back into the business. The cooperative model is one option communities and grocers can consider to meet their needs.⁶

Cooperative Terminology

<i>Term</i>	<i>Definition</i>
Capital stock	The amount of common and preferred stock that a company is authorized to issue.
Common stock	A security that represents ownership in a cooperative and confers to the owner the right to vote. In a liquidation, common stockholders receive whatever assets remain after creditors, bondholders, and preferred stockholders are paid.
Preferred stock	A security that has characteristics of both bonds and common stock which enhances its appeal to certain investors. Preferred stockholders have a higher claim on dividends than common stockholders, usually have no or limited voting rights in corporate governance, and in the event of a liquidation, preferred stockholders’ claim on assets is greater than common stockholders but less than bondholders.
Patronage refund	Net earnings that are distributed to cooperative members based on how much business they conducted with the cooperative.

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An Overview of K.S.A. 17-15

The cooperative must have at least 20 incorporators, all of whom must be Kansas citizens. A cooperative distributes its net profits to members as a fixed amount per stock and as a prorated amount based on use of the business. These businesses must be named accordingly: “The [Name of Choice] [Association, Company, Corporation, Exchange, Society, or Union]” (Section 01 and Section 15).

Regarding stock, no matter whether a shareholder purchased one or more shares, each member has only one vote. No shareholder may own more than 5% total capital stock in the cooperative, and cooperatives themselves cannot own more than 5% of total capital stock in another cooperative (Section 02). In a manner different from the 5% minimum, no one person may own or have interest in more than 10% capital stock in any cooperative (Section 11).

Articles of incorporation must be filed with Kansas Office of the Secretary of State (Section 06) and must include the following: name of corporation, names of the forming members, purpose of organization, principal place of business, amount of capital stock, number of shares, number of directors, names of directors elected for first term, and the expected duration of corporation (no greater than 50 years). The corporation must execute and file the articles of incorporation with the Kansas Secretary of State (SoS) (Section 07) and pay the \$20 filing fee, if they are indeed a for-profit business that acts on a cooperative basis (Section 08). For a cooperative to open, they must file with the SoS a sworn statement saying they will be able to pay for at least 20% of the capital stock in cash that they currently have on hand (Section 09). Only once a cooperative meets these stipulations are they permitted to do business.

The cooperative must maintain on their board at least five members (“directors”), with annually elected officers of four positions: president, vice president, secretary, and treasurer (though the latter two may be combined into one position) (Section 10). Bylaws must include the duties of directors and officers, how the cooperative will distribute profits, and how one becomes a member (Section 12).

Businesses must file a report to the SoS and pay an annual filing fee per tax period plus any additional fees (Section 13). When most stockholders choose the cooperative model and follow the statute rules, they benefit fully from its provisions (Section 14). Every cooperative corporation organized and incorporated under these statutes will have its listed rights, privileges, and powers (Section 03). Dissolving the cooperative requires a vote that includes at least $\frac{3}{4}$ of the members, in person or by proxy (Section 18). The general business code applies to whatever this code does not cover (Section 20).

Note: Sections 04, 05, 16, 17, and 19 are specific to telephone cooperatives, and they do not apply to other business types. The 17-15 statute was adopted in 1913 and amended in 1923. It was initially drafted with language from other U.S. telephone cooperatives, crucial to the economic development of rural areas. Over 100 years later, the suite of corporations incorporated as a cooperative society has shifted away from primarily telephone companies.

REFERENCES

1. Kansas State Legislature (2022). “Cooperative Societies.” 17.15 K.S.A. § 01-20.
2. Kansas State Legislature (2022). “Cooperative Marketing.” 17.16 K.S.A. § 01-43.
3. Frederick, Donald A. (2005). *Co-ops 101*. USDA Rural Development. <https://www.rd.usda.gov/files/cir55.pdf>
4. University of Wisconsin-Madison Center for Cooperatives (2019). *Cooperatives in Wisconsin: The Power of Cooperative Action*. University of Wisconsin-Madison. https://resources.uwcc.wisc.edu/About%20Co-ops/Cooperatives_in_Wisconsin_FINAL_small.pdf
5. Rural Grocery Initiative (2021). “Benefits of Hometown Grocery Stores.” Kansas State University Research and Extension. <https://www.ruralgrocery.org/learn/publications/guides/Hometown-Grocery-Factsheet.pdf>.
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Written by Jacob Miller-Klugesherz. Published November 2023.

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