Capitol Office
(605) 773-3201

Grain Warehouse
(605) 773-5280

Consumer Hotline
1-800-332-1782

Email
puc@state.sd.us

South Dakota

PUBLIC UTILITIES COMMISSION

500 East Capitol Avenue
Pierre, South Dakota 57501-5070
www.puc.sd.gov

August 16, 2017

Ralph Marquardt, President
Marquardt Companies
PO Box 1040
Yankton, SD 57078

Dear Mr. Marquardt:

This letter is a follow-up to conversations I have recently had with Dave Husby regarding the equity position of Upper Midwest Grain Elevators (UMGE). As you know, in order to be licensed as a class A grain buyer in South Dakota, the law requires the licensed entity to maintain a positive working capital position and a minimum of $100,000 dollars in equity. State law also requires the management of a licensed entity to report noncompliance with any of the financial licensing criteria as soon as it is discovered.

On Aug. 8, 2017 in the course of a regular inspection, PUC Inspector Justin Blaise obtained a copy of UMGE's June 30, 2017 financial statements. The balance sheet showed owner equity at [redacted] which is a significant deviation from the licensing requirements. It is also important to note that this was the financial position of UMGE prior to the beginning of the current licensing period. Had our office been aware of this, it likely would have prevented UMGE from receiving a grain buyer license for the period beginning July 1, 2017. It also casts doubt on the reliability of the numbers provided as part of the renewal process. The fact that this was discovered as part of a routine inspection rather than having it reported by management may be construed as a violation of SDCL 49-45-25 which is a class1 misdemeanor or class6 felony if a producer suffers a loss as a result.

I have been working with Mr. Husby, and he has indicated that this equity deficiency will be corrected by reclassifying approximately [redacted] that is currently due to a stockholder as additional paid capital. This must be done very quickly and an updated balance sheet prepared by your accountant must be provided along with a letter confirming that this action brings the balance sheet in to compliance with the state's licensing requirements.

If this issue is not corrected by Aug. 29, 2017, PUC staff may open a docket. Please contact me with any questions.

Sincerely,

Jim Mehlhaff
Grain Warehouse Director

cc: Dave Husby