



Gary Hanson, Chairman
Chris Nelson, Vice Chairman
Kristie Fiegen, Commissioner

South Dakota

PUBLIC UTILITIES COMMISSION

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

(605) 773-3201

Consumer Hotline
1-800-332-1782

Email
puc@state.sd.us

August 5, 2019

Patricia Van Gerpen
Executive Director
SD Public Utilities Commission
500 E. Capitol Ave.
Pierre, SD 57501

RE: GW19-002, *In re High Country Mercantile, Inc.*

Ms. Van Gerpen,

Attached for filing, please find the financial statements and compilations for High Country Mercantile, Inc. (HCM). Pursuant to SDCL 49-45-14, all of these documents are provided under confidential seal.

Pursuant to the Notice sent by the Commission, the Commission is scheduled to make a determination on Staff's request for an injunction on August 7, 2019. Since the time of the Staff's request, HCM submitted its application for a grain buyer license. If the Commission determines the application is sufficient, the issue of the injunction is moot. However, Staff noted some issues with the financials that are of concern.

Pursuant to ARSD 20:10:12:15, "at a minimum, for a class B license the applicant's balance sheet must show a positive net worth." HCM has a year end of December 31. The 2018 year end financial statement prepared by an outside certified public accountant show a net worth of [REDACTED], as well as negative working capital. While this appears to be a drastic improvement from December 31, 2017, it does not meet the minimum requirements of the administrative rule. In addition, the CPA noted in his disclosure that he is not independent with respect to HCM. Depending on his relationship to the company, this may be contrary to ARSD 20:10:12:14.

When HCM submitted its application, they included an unaudited internal 6-month financial for the period ending June 30, 2019. Because it is an internal financial, it does not meet the requirements of ARSD 20:10:12:14. This statement does show a positive net worth.

Finally, the financials provided by HCM were compiled on a tax basis, rather than using generally accepted accounting principles (GAAP). While the administrative rule only mandates use of GAAP for Class A licenses, the use of the tax based accounting can lead to an incomplete picture of a company's financial position. It is unclear whether the balance sheets utilized a cash or accrual basis, which could make a difference in the outcome. More importantly, when a company does balance sheets for tax purposes, the depreciation is treated differently than if the balance sheet was prepared using GAAP standards. In this case, the depreciation is material with respect to the total net income. The company is in the best position to explain any effect switching to GAAP might have on the balance sheet.

Staff's concern with respect to this company is elevated because the company is located in Wyoming and has no assets in South Dakota. Therefore, unlike companies located in South Dakota, if an insolvency were to occur, receivership would not be a viable option. Further, the State of Wyoming only licenses grain warehouses, thus there is not another regulatory entity monitoring HCM's financial status.

Because of the negative net worth on the December 31, 2018 year end financial statement, as well as the other issues discussed above, Staff did not issue a license to HCM. However, if the Commission determines a license should be issued, Staff will issue the license and withdraw its request for an injunction.

The following documents are attached to this letter:

- Attachment 1, License Application
- Attachment 2, June Financial
- Attachment 3, Year End Financial
- Attachment 4, Ratios Compiled by Staff
- Attachment 5, Raw Data Compiled by Staff

Sincerely,



Kristen N. Edwards
Staff Attorney