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## STAFF MEMORANDUM REGARDING ROSLYN ELEVATOR

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**TO:** COMMISSIONERS AND ADVISORS  
**FROM:** GRAIN WAREHOUSE PROGRAM STAFF  
**RE:** GW22-002, In re Roslyn Elevator, Roslyn, SD  
**DATE:** February 9, 2022

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Commission Staff (Staff) submits this Memorandum to provide further explanation regarding the licensing and financial status of Roslyn Elevator), located in Roslyn, South Dakota.

Roslyn has been a licensed grain buyer and grain warehouse in South Dakota since at least 2004 and in that time has been compliant with state laws and regulations. Roslyn's licensing records show no violations with state law and Staff has no record of Roslyn being out of compliance with financial requirements in the past. Roslyn has also worked closely with Staff and has been extremely transparent about its financial status. Roslyn Elevator is also a long-standing grain buyer and warehouse with fixed facilities and assets in Roslyn, South Dakota. This is the only elevator in an extremely rural, agriculture rich area and serves an important role to the community.

Through regular inspections of Roslyn, Staff has been aware of Roslyn's financial position. In general, Roslyn has carried an extremely low amount of long-term debt. However, Roslyn has also maintained a large amount of voluntary credit contracts and deferred payment contracts on its books, a number of which have been rolled or delayed for many years. This is not unusual for grain buyers because many producers prefer delayed pricing or deferred payment contracts. However, because the VCS contracts can be priced and collected at any time, they must be reported as current liabilities based on the market value of the commodity of the full contract amount. This, coupled with the volatile commodity prices in the past couple of years resulted in a fairly substantial change in Roslyn's working capital and net worth. Roslyn has also maintained a large line of credit for operating costs. This item also appears as short-term debt and so appears as a current liability. Together, these items unfortunately put Roslyn into a negative working capital position, which concerned Staff and predicated Staff's close financial monitoring as well as suggesting Roslyn work to clear current debts and look to restructure current liabilities into long-term financing.

Roslyn has been very receptive to Staff's recommendations and began implementing a plan developed in conjunction with Staff. Roslyn did take significant steps to reduce the VCS contracts and deferred payment contracts on its books which reduced current liabilities in the past few months. Staff believes that through implementing this plan, Roslyn would have come back into financial compliance in coming months if producers holding VCS contracts priced their grain.

However, on January 10, 2022, Staff became aware that Roslyn's bank had modified its revolving credit agreement note with Roslyn to specify an end date of March 31, 2022. This revolving credit agreement was significant and had been available to cover any payments on VCS contracts or deferred contracts that was priced or came due. As Staff understands, the revision to the note's due date not only removed any amount of previously available credit from Roslyn's use, it may also require Roslyn to pay the total amount owned on the note by March 31, 2022.

Roslyn has been proactive in seeking out other possible financial opportunities that could provide some relief to Roslyn's current situation. Roslyn has been open and transparent with Staff and has indicated a willingness to work through the situation with Staff in order to ensure Roslyn is able continue operating in the future and able to cover all liabilities, especially paying producers when contracts are priced or come due. Staff is comfortable that a positive resolution to the current financial situation is likely, though dependent on whether Roslyn is able to secure new financing and transition its current debt to long-term debt. If Roslyn is able to find a new payment arrangement with the current bank, or is able to secure alternative financing, the financial outlook of Roslyn is actually fairly positive and Staff is hopeful that Roslyn can come back into compliance.

But for the revision to the bank note end date, Staff's preferred course of action would have been to continue working with Roslyn informally as Roslyn continued to implement a plan of action to rectify the financial situation. Unfortunately, the revision to the bank note put a new hurdle into the plan of action. With this change, Staff believes more formal action is necessary, not because Staff believe a failure is unavoidable, but because Staff believes that with a pause in licensing and close Staff involvement and assistance, Roslyn may be able to work through this situation and come to a positive resolution for all those involved.

Suspending Roslyn's grain buyer license will provide assurance that Roslyn will not enter into additional grain transactions that will add liabilities or negatively impact Roslyn's current financial position or change the position of producers who currently hold contracts with Roslyn. Staff does recommend that Roslyn be permitted to purchase grain for the purpose of blending and to fulfill any outstanding delivery contracts through cash only purchases. Staff believes that permitting Roslyn to engage in these transactions with Staff approval will actually improve Roslyn's financial situation. Staff conferred with Roslyn about this prior to filing the complaint and Roslyn agreed to a series of reporting conditions if the Commission would adopt Staff's recommendation. Roslyn has already began reporting to Staff in accordance with the terms of that agreement and Staff is confident Roslyn will adhere to that agreement.

Roslyn has indicated they will request a hearing on the suspension, and Staff supports that request. SDCL 49-45-16 provides that "within fifteen days the grain buyer may request a hearing pursuant to chapter 1-26 to determine if the license should be revoked. If no request is made within fifteen days, the commission shall revoke the license." Staff's interpretation of this statute would allow the Commission to suspend the license, and with Roslyn's request for a hearing there would not be an automatic revocation of the license at 15 days. Instead, Staff believes the Commission can schedule a hearing, potentially beyond 15 days and allow Staff and Roslyn to continue working to resolve this matter. Since



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