

**REPORT TO  
THE CONGRESS OF THE UNITED STATES**

**AUDIT OF  
VIRGIN ISLANDS CORPORATION  
FISCAL YEAR 1960**



**BY  
THE COMPTROLLER GENERAL OF THE UNITED STATES  
FEBRUARY 1961**



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON 25

FEB 28 1961

B-114822

Honorable Sam Rayburn  
Speaker of the House of Representatives

Dear Mr. Speaker:

Herewith is our report on the audit of the Virgin Islands Corporation for the fiscal year ended June 30, 1960.

The report contains a matter for consideration by the Congress relative to financing of needed expansion of power and water supplies and of deficit-incurring sugar operations of the Virgin Islands Corporation. The future financial requirements for these purposes have not been precisely determined, but indications are that the requirements will be substantial. In view of the significant increases in revenues of the Government of the Virgin Islands, question arises as to the necessity for continued Federal financing of these programs. Accordingly, we are suggesting that the Congress (1) have the Department of the Interior project financial requirements of the Corporation's activities over the next decade and (2) examine into alternate sources of financing, including sale of corporate assets, and review the role of the insular government in the management and financing of present corporate activities.

As the result of inadequate cash balances, the Corporation in fiscal year 1960, as in fiscal year 1959, had to sell its sugar production before the period when sugar prices usually are more favorable and potential revenues were decreased by about \$18,700. The Corporation received cash advances on the sales, pending future delivery of the sugar and settlement under the sales contract, at interest rates in excess of the rates charged by the United States Treasury. As a result, interest expense was increased by about \$3,800. Further Treasury borrowings were not possible because the Corporation had exhausted its revolving fund borrowing authority.

The report also contains our comments on the initial phases of engineering and construction by the Corporation of salt water distillation facilities on the island of St. Thomas and on the transfer and

B-114822

conveyance to the Corporation of Navy-owned power generating facilities located at the Marine Corps Air Facility and Naval Submarine Base at St. Thomas under authority of Public Law 85-913, approved September 2, 1958.

Our review disclosed certain improvements in accounting and administrative procedures, and we have expressed the opinion that the financial statements of the Corporation present fairly its position at June 30, 1960, and the results of its operations for the year then ended in conformity with generally accepted accounting principles applied, with certain exceptions as a result of changes in the accounting and in financial statement presentation, on a basis consistent with that of the preceding year.

This report is also being sent today to the President of the Senate. Copies are being sent to the President of the United States and to the Directors and President of the Virgin Islands Corporation.

Sincerely yours,



Comptroller General  
of the United States

Enclosure

## C o n t e n t s

	<u>Page</u>
GENERAL COMMENTS	1
SUMMARY OF PRINCIPAL FINDING OF CURRENT AUDIT	4
Need for review by the Congress of objectives for financing activities of the Corporation	4
STATUS OF PRINCIPAL FINDINGS AND RECOMMENDATIONS IN PRIOR REPORT	7
Need for long-range planning for adequate electric power	7
Inadequate cash balances resulted in uneconomical financing in fiscal years 1959 and 1960	8
Need for adequate internal review	9
NEED FOR REVIEW BY THE CONGRESS OF OBJECTIVES FOR FINANCING ACTIVITIES OF THE CORPORATION	12
Industrial and commercial developments in the Islands	14
Construction of residential properties in the Islands	19
Funds generated from the activities of the Corporation	20
Growth of revenues of Virgin Islands Government	22
Projected financial requirements of Corporation for next decade	28
Prior proposal on financing and management of Corporation	31
Potential sale of the Corporation or disposition of its assets	33
Matter for consideration by the Congress	35
FINANCING OF CORPORATE ACTIVITIES	38
Source and application of funds	38
Status of revolving fund	39
Inadequate cash balances resulted in uneconomical financing in fiscal years 1959 and 1960	40
ACTIVITIES	44
Sugar operations	45
Power operations	50
Transfer of Navy power generating facilities to Corporation	52
Need for long-range planning for adequate electric power	53
Salt water distillation facilities	57
Operation of the loan program	59
Miscellaneous activities	60
Water and soil conservation program	60
Forestry program	61
Livestock development program	62
Development department	63
SCOPE OF AUDIT	67

OPINION OF FINANCIAL STATEMENTS

Page

68

FINANCIAL STATEMENTS

Schedule

Statement of assets and liabilities, June 30, 1960 and 1959	1	72
Income and deficit statement for the fiscal years ended June 30, 1960 and 1959	2	73
Statement of sugar operations for the fiscal years ended June 30, 1960 and 1959	3	74
Statement of income and deficit on sugarcane growing for the fiscal years ended June 30, 1960 and 1959	4	75
Statement of cost of sugar produced for the fiscal years ended June 30, 1960 and 1959	5	76
Statement of power operations for the fiscal years ended June 30, 1960 and 1959	6	77
Statement of income and expenses of miscellaneous activities for the fiscal years ended June 30, 1960 and 1959	7	78
Schedule of expense allocations for the fiscal year ended June 30, 1960	8	79
Notes to financial statements		80

REPORT ON AUDIT

OF

VIRGIN ISLANDS CORPORATION

FISCAL YEAR 1960

The General Accounting Office has made an audit of the VIRGIN ISLANDS CORPORATION for the fiscal year ended June 30, 1960, pursuant to the Government Corporation Control Act (31 U.S.C. 841). The scope of the audit is explained on page 67 of this report.

GENERAL COMMENTS

The Virgin Islands Corporation is a wholly owned Government corporation, created by the Virgin Islands Corporation Act of June 30, 1949 (48 U.S.C. 1407), as successor to the Virgin Islands Company incorporated in 1934. The Corporation is to have succession until June 30, 1969, unless sooner dissolved by act of the Congress. Pursuant to the act, the President of the United States designated the Secretary of the Interior as his representative to exercise general direction over the Corporation.

The major revenue-producing activities during the fiscal year 1960 continued to be the growing of sugarcane and the manufacturing of raw sugar, the generation and distribution of electric power, the management of Navy properties, and the operation of a loan program. The Corporation was also engaged in non-revenue-producing activities designed to promote, through economic development, the general welfare of the inhabitants of the Virgin Islands.

The management of the Corporation is vested in a 7-member board of directors. At June 30, 1960, the board consisted of the

Secretary of the Interior, the Secretary of Agriculture, the Administrator of the Small Business Administration, the Governor of the Virgin Islands, and 3 businessmen who are appointed by the President of the United States for terms of 6 years. The directors receive no salaries for their services on the board. The members of the Board of Directors at June 30, 1960, were:

Fred A. Seaton	Secretary of the Interior
Ezra T. Benson	Secretary of Agriculture
Philip McCallum	Administrator, Small Business Administration
John D. Merwin	Governor of the Virgin Islands
D. Victor Bornn	Businessman (term expires June 30, 1961)
Archer A. Claytor	Businessman (term expires June 30, 1963)
Ward M. Canaday	Businessman (term expires June 30, 1965)

Activities of the Corporation, administered through the principal office located on St. Croix, Virgin Islands, provided employment for about 1,025 employees during the peak season. These employees included about 450 British West Indian workers imported during the harvesting season for cutting cane. The number of appointed personnel (annual salary) at June 30, 1960, was 148 compared with 136 at June 30, 1959.

The net loss from revenue-producing activities, including profit of \$122,728 from sale of real property, was \$539,293 for fiscal year 1960 compared with a net loss of \$238,347 for fiscal year 1959. The principal factor contributing to the change in operating results for fiscal year 1960 was the decrease in amount of sugar produced by about one half of that produced in fiscal year 1959, thus increasing the loss on sugar operations for fiscal year 1960 by about \$500,000. This increased loss on sugar operations

was offset in part by a reduction of loss from power operations from about \$107,000 for fiscal year 1959 to about \$6,000 for fiscal year 1960, primarily as a result of increased sales of power on St. Thomas. A further analysis of the results of revenue-producing activities appears on pages 44 to 62.

In a report to the President of the Corporation, we are commenting on and making recommendations for the correction of certain deficiencies and weaknesses in records, practices, and procedures observed during the audit. These matters include correction of the method of distributing overhead expenses which resulted in underbilling of costs to owners of farms managed by the Corporation, the need to obtain a lease agreement and collect rental for use by private individuals of a Navy-owned golf course managed by the Corporation, discontinuance of service to power consumers delinquent in payment of their bills, deficiencies in procedures for selling minor items of surplus property, and a need for providing improved accounting control over inventories of the Development Department.

SUMMARY OF PRINCIPAL FINDING OF CURRENT AUDIT

NEED FOR REVIEW BY THE CONGRESS OF OBJECTIVES  
FOR FINANCING ACTIVITIES OF THE CORPORATION

Significant growth in commercial activity in the Virgin Islands has generated a need for substantial expansion of existing electric power and water supply services to meet the increasing requirements of the Islands. Power and water supply activities, and a sugar-producing activity which usually incurs an annual loss, are operations of the Virgin Islands Corporation and, as such, are financed by the Federal Government. The capital investment needed to expand power and water supplies to meet indicated requirements over the next decade has not been precisely determined but has been estimated to be in the range of \$10 million to \$20 million. In view of this indicated substantial Federal capital investment and in consideration of the significant growth in revenues of the insular government, from about \$8 million in fiscal year 1954 to about \$17 million in fiscal year 1960, question arises as to whether the Federal Government should continue to finance expansion of the Island's power and water supplies and the expected continuing deficits of its sugar operations.

The Board of Directors of the Corporation under section 1(a) of the act of September 2, 1958 (48 U.S.C. 1407c (a)), which extended the life of the Corporation to June 30, 1969, is authorized to sell the corporate assets, either to the insular government or to private enterprise in whole or in part, if such a sale in the board's opinion will effectively serve the economic development of the Islands. During the past 2 years, the Board of Directors at several of its meetings has discussed the possible sale of the

Corporation and its assets either in whole or in part. It is the consensus of the board that every effort should be made to dispose of the Corporation's assets, preferably as a package. No plan for separate disposal of the corporate assets has been formulated.

During the last year, a vigorous interest has been indicated by several private groups to buy the Corporation's power facilities and it is evident that these facilities would be readily salable if offered exclusive of the other corporate assets. The board's position that the Corporation preferably be sold in its entirety prolongs Federal operation of the Corporation and may not lead to eventual sale. Also, we understand that, in the event a buyer for the Corporation is found, the Government of the Virgin Islands will oppose sale of the Corporation's land to private interests.

We state in this report that we believe that the Congress should require the Department of the Interior to determine more precisely the financial requirements over the next 10 years for the expansion of power and water supplies and for the sugar-producing program. We also state that the Congress ought to examine into the alternate sources of financing as well as the role of the insular government in the management and financing of the present activities of the Corporation. The Congress may wish to consider sale of the Corporation's assets related to power and water supply operations to a private enterpriser and transfer the remainder of the corporate activities to the insular government or may wish to transfer financing of the Corporation to the insular government and transfer the management either concurrently with the transfer of

the financing or at a predetermined future date. In the event of transfer of administration of corporate assets to the insular government, we believe it prudent to provide management and financial controls within the Department of the Interior during a transition period to insure an appropriate administration of the assets by the insular government.

For further comments, see pages 12 to 37 of this report.

## STATUS OF PRINCIPAL FINDINGS AND RECOMMENDATIONS

### IN PRIOR REPORT

Several significant matters requiring corrective action were included in our report for the fiscal year 1959.<sup>1</sup> These findings and recommendations, and their current status, are summarized below.

#### NEED FOR LONG-RANGE PLANNING FOR ADEQUATE ELECTRIC POWER

In our fiscal year 1959 report to the Congress on the Virgin Islands Corporation, we stated that during recent years the electric power needs of the island of St. Thomas had not been adequately met by the Corporation. Also, because of the continuing growth in electric power requirements, we stated that new power generating facilities were needed for the economic development of the Islands. In addition, we noted that the lack of adequate generating facilities in the past had resulted in deferral of needed maintenance. Accordingly, we recommended that the Corporation prepare a plan for periodic additions to the electric power generating facilities at St. Thomas based on indicated present and future needs as forecast by the Corporation's consulting engineer.

During fiscal year 1960, and early 1961, the Corporation has estimated the electric power needs of the Virgin Islands through 1966 and has made preliminary estimates of the costs of expanding facilities to meet these needs. On the basis of these planning

---

<sup>1</sup>Report to the Congress, dated January 15, 1960, on the Virgin Islands Corporation, fiscal year 1959 (B-114822).

studies, indications are that required investments will be substantial. However, we believe that estimates of generating capacity and more precisely determined estimates of cost thereof, over a 10-year period, are now needed as an aid in deciding the appropriate means for financing future expansion of the power facilities of the Virgin Islands. So that information may be provided bearing on the decision as to the nature of future financing to be employed for expansion of power facilities of the Virgin Islands, we are suggesting on page 35 that the Congress require that the Department of the Interior prepare a plan for the next decade which will set out capacities and estimated costs of anticipated expansion of the electric power systems.

Additional comments on this matter appear on pages 53 to 56.

INADEQUATE CASH BALANCES  
RESULTED IN UNECONOMICAL FINANCING  
IN FISCAL YEARS 1959 AND 1960

In our fiscal year 1959 report to the Congress, we stated that the Corporation, in order to continue operations during the fiscal year 1959, had to obtain financing at commercial interest rates and had to sell a portion of its raw sugar from the 1959 crop before a period when raw sugar prices usually were more favorable. This action, which was occasioned by a need for operating cash, cost the Corporation a minimum of \$26,000 in fiscal year 1959. In addition, the Corporation withheld payment of \$172,943 due the United States Treasury for interest on investment at the close of fiscal year 1959.

The Corporation in fiscal year 1960 again had to obtain financing at commercial interest rates and had to sell its raw sugar

from the 1960 crop before a period when raw sugar prices usually are more favorable. This action cost the Corporation a minimum of \$22,500 in fiscal year 1960. In addition, the Corporation withheld payment of \$396,392 due the United States Treasury for interest on investment for fiscal years 1959 and 1960 until July 18, 1960, when the fiscal year 1961 appropriation became available.

So that the Virgin Islands Corporation may carry on its operations more efficiently and economically, we recommended that the Corporation and the Department of the Interior make a budget request during fiscal year 1960 for an additional substantial appropriation to the Corporation in an amount sufficient to permit the Corporation to borrow from the United States Treasury the funds needed to finance its revenue-producing operations.

The Corporation requested and received in fiscal year 1961 appropriations of \$2,538,000 to the revolving fund and \$561,000 in the form of a grant to cover prior years' unreimbursed losses. Thus, in fiscal year 1961 the critical cash position of the Corporation that existed during fiscal years 1959 and 1960 should be eliminated. Also, in order to provide sufficient operating funds to finance the sugar crop, the Board of Directors of the Corporation approved a budget request for an appropriation in fiscal year 1962 of \$750,000 from the revolving fund.

Additional comments on this matter appear on pages 40 to 43.

#### NEED FOR ADEQUATE INTERNAL REVIEW

In our fiscal year 1959 report, we stated that the Corporation's internal auditor had not devoted a sufficient amount of time to Corporation internal audit work. The internal auditor had

been assigned to corporate budgetary, fiscal, and miscellaneous matters, and to duties performed for the Department of the Interior, so that the actual time spent by the internal auditor on internal audit work for the Corporation aggregated about 6 months during fiscal year 1959. Accordingly, we recommended that the Corporation make every effort to allow the internal auditor full-time pursuit of duties related to internal auditing of the Corporation.

On February 7, 1960, the internal auditor was appointed Comptroller of the Corporation, and the position of internal auditor for the Corporation remained vacant as of the end of fiscal year 1960. The new Comptroller has assumed responsibility for internal audit in addition to his responsibility as the Comptroller.

The President of the Corporation advised the Board of Directors in a meeting on March 14, 1960, that one of the primary purposes of having an internal auditor was to reduce the work of the General Accounting Office in its audits and thereby lessen the cost to the Corporation and that this result had not been obtained. The President also advised the board that, since the position of internal auditor is now vacant and that there is no one on his staff qualified for the position, it would be necessary to recruit from outside the Islands for a successor. The President further advised the board that in his opinion the Corporation had not received the expected benefit from having an internal auditor and that the Comptroller could well assume the responsibilities of the internal auditor. At this meeting the board unanimously approved a motion that for the time being the President utilize the Comptroller in performing the internal audit duties and reliance be placed on the General Accounting Office for the annual audits.

During our audit for fiscal year 1960, we observed certain improvements in accounting and administrative procedures which we believe are attributable to the internal reviews being made by the new Comptroller.

In view of the approval by the board for the existing arrangement and the improvement in internal reviews by the Comptroller noted during our audit for fiscal year 1960, we are not repeating in this report our recommendation in the prior report that an internal auditor pursue duties related to internal auditing of the Corporation on a full-time basis. However, this matter will be given further consideration in future audits.

NEED FOR REVIEW BY THE CONGRESS OF OBJECTIVES  
FOR FINANCING ACTIVITIES OF THE CORPORATION

Commercial activity, principally in the promotion of tourism through the building of hotels, guesthouses and housing projects, and related businesses, has had significant growth in the Virgin Islands during recent years. In addition, large numbers of residences have been built in the Islands for vacation and permanent residence. Industrial activities, however, do not appear to have shared this increase in growth.

The increased commercial and residential activities in the Islands have taxed the existing capacities of power and water supply to the utmost, and further growth in these activities will be related in large part to the further expansion of the power and water supply facilities. Construction and operation of power and water supply facilities in the Islands has been one of the activities of the Virgin Islands Corporation. The Corporation has also for a number of years been the principal grower of sugarcane and has been the only manufacturer of raw sugar in the Islands. The sugar operations have been marginal and in most years have resulted in operating losses. In addition, the Corporation also engages in certain non-revenue-producing activities designed to promote economic development of the Islands. The deficits in the revenue-producing activities and the costs of nonrevenue activities have been financed by the Federal Government. The cost of additional power and water supply facilities to meet the growth needs of the Islands for the next decade has not been precisely determined, but Federal financing has been authorized to construct

the facilities that are expected to meet the power and water supply demands through 1964.

In view of the growth in revenues of the Virgin Islands Government as a result of the heightened visitor and residential and related business activities in the Islands and the expected further growth of these revenues, the Congress may want to review whether the Government of the Virgin Islands shall be called upon to finance the deficits of the Corporation's operations and to help or participate in the financing of the expansion of the power and water supply facilities. As an alternative, in view of the interests expressed by private enterprises in acquiring the operations of the Corporation, or some of them, and the insular government's interest in acquiring the Corporation's land, the Congress may want to review whether the Corporation's assets should be sold in whole or in part so as to relieve the Federal Government of the responsibility for the future financing of the expansion and deficits of the revenue-producing activities. In the event that sale of the Corporation's assets related to the power and water distillation systems is determined to be appropriate, the Congress may want to consider whether the Government of the Virgin Islands should take over operation of the Corporation's sugar-producing facilities and lands and the non-revenue-producing soil and water conservation and forestry programs. If sugar operations are transferred to the insular government, it may decide to phase out sugar production and replan use of the sugar lands. In the event that sale of the sugar-producing assets and lands, as well as water and power systems, is feasible and appropriate, the Congress would

have for consideration transfer of the non-revenue-producing soil and water conservation and forestry programs to the insular government. The non-revenue-producing programs seem to belong logically with the Virgin Islands Government.

#### INDUSTRIAL AND COMMERCIAL DEVELOPMENTS IN THE ISLANDS

Commercial activities, principally in the promotion of tourism through the building of hotels, guesthouses and housing projects, and related businesses, in the Virgin Islands have increased significantly in the last decade, and indications are that further increases in these activities may reasonably be expected. Industrial activities, however, do not appear to have shared this increase in growth. Shortages of power, water, and labor have had a deterring effect on expansion of industrial activities.

As the principal grower of sugarcane and the only manufacturer of raw sugar in the Islands, the Virgin Islands Corporation is the Islands' largest employer exclusive of the insular government. During the peak season, the Corporation employs about 1,025, but nearly half of these employees are British West Indian workers imported during the harvesting season for cutting cane, for planting and cultivating cane, and for labor work around the factory. At June 30, 1960, the Corporation had 705 annual salary and per diem personnel, of which about 431 were engaged principally in sugar operations and the balance of 274 were engaged principally in power operations and operations other than sugar. Also, there are 214 private sugarcane growers on St. Croix. In 1960 these private sugarcane growers, operating farms ranging in size from

several acres to 285 acres, harvested about 2,400 acres of sugarcane and delivered about 31,500 tons of sugarcane to the Corporation's sugar mill. Five of the larger sugarcane growers produced over one half of the private growers' 1960 production. Growing of cane on these privately owned lands provides employment, part of which is seasonal and part time, for about 400 to 600 people. The sugar operations of the Corporation during the last decade were profitable only in fiscal year 1957 when a profit of slightly more than \$380,000 was recorded before allocation of general and administrative expenses and interest on the Federal investment. Accumulated net loss to the Corporation on sugar operations from July 1, 1949, to June 30, 1960, was \$1,146,547, before allocation of administrative and general expenses and interest on the Federal investment. Accordingly, the sugar operations are marginal and actually provide full-time employment for a relatively limited number of the 32,000 residents of the Virgin Islands.

As a by-product of the manufacture of raw sugar from sugarcane, molasses is produced which is an ingredient in the production of rum. Two rum distilleries are located on St. Croix, and most of the molasses derived from the sugar operations of the Corporation is divided 70 percent to the A. H. Riise Chemical and Distillers Corporation and 30 percent to the St. Croix Sugar Cane Industries, Inc. We understand that the quantities of molasses supplied by the Corporation do not meet the requirements of these two distilleries and molasses is imported from other sugar-producing areas. The full-time employment of Virgin Islanders on St. Croix by the two rum distilling companies numbers about 60 people.

Continuation of the rum industry in the Virgin Islands is of primary concern to the insular government because of the dependence of the insular government on internal revenue collections on rum produced in the Virgin Islands and paid over as Federal matching grants. Under existing law, revenues derived from taxes imposed by the internal revenue laws in the United States on articles produced in the Virgin Islands, equivalent to the local revenue collections certified by the Government Comptroller, are transferred to the Government of the Virgin Islands. The revenues are dependent largely upon the quantity of rum manufactured in the Islands and exported to the United States.

Complete year-to-year employment statistics for other industrial enterprises in the Virgin Islands were not available to us. However, a report for fiscal year 1959 issued by the insular government's Department of Agriculture and Labor showed that employment was about 2,350 in the construction industry, about 1,650 in hotels and guesthouses, about 920 in wholesaling and retailing, and about 710 in transportation (airlines, trucking, and shipping).

During the last 10 years, the construction of tourist facilities in the Virgin Islands has been substantial and, subject to the expansion of power and water supply, indications are that tourist facilities will continue to expand significantly in the future. In fiscal year 1960, the Government of the Virgin Islands, pursuant to section 8(b) of the Revised Organic Act of the Virgin Islands (48 U.S.C. 1574(b)), enacted laws authorizing three promotional groups to construct in the Virgin Islands three hotels with related apartments, stores, offices, garages, and commercial space.

The costs of constructing these hotels and related facilities are to be financed by tax-free revenue bonds totaling \$9,000,000 issued on behalf of the Government of the Virgin Islands. Later, the Governor proposed legislation to establish a Virgin Islands Economic Development Company to issue the bonds, make loans, and hold title to the hotels. The proposal was introduced in the Fourth Special Session of the Third Legislature in November 1960. The legislation was not enacted in November 1960 but was referred by the local legislature to the Committee of the Whole for hearings in January 1961.

In 1950 the Virgin Islands provided facilities for about 700 visitors, and by 1960 these facilities have been expanded to take care of about 2,800 visitors. In 1950 the estimated number of visitors to the Islands was 26,500, spending an estimated \$1,800,000, and in 1960 the number of visitors had reached an estimated 204,000, spending an estimated \$24,800,000. In 1950, 15 cruise ships with 7,692 cruise passengers stopped at the Virgin Islands, and in 1960 the number of ships had increased to 126 with 49,088 cruise passengers.

The Virgin Islands legislature has enacted certain measures designed to foster economic development of the Islands. The purpose cited for these measures was to encourage the establishment of new businesses and industries, to attract investment capital in order to further the economic development of the Islands, and to promote tourism and the building of additional hotels, and guesthouses and housing projects. The legislation provided that persons, firms and corporations that operate new businesses, hotels,

guesthouses, apartments, or housing projects, as defined in the act, shall (1) be exempt from property taxes, certain trade and excise taxes, license fees--except liquor and automobile license fees--and gross receipts taxes and (2) be entitled to receive certain nontaxable subsidies. The authority of the Government of the Virgin Islands to grant tax relief to certain parties in the Virgin Islands was considered by the Congress during the Eighty-sixth session, and Public Law 86-779 (74 Stat. 998) was enacted on September 14, 1960, defining the extent to which corporations and individuals may have their tax liability reduced by grants, subsidies, or other similar payments.

In addition to the granting of tax exemption, the existing law provides for the payment of nontaxable subsidies by the Government of the Virgin Islands for 10 years plus certain possible extensions in the following amounts:

1. An amount equal to 75 percent of the income tax paid into the Treasury of the Virgin Islands except that income tax paid on income derived from sources within the States of the United States is not subject to refund.
2. An amount equal to 100 percent of the import duties and other taxes on raw material brought into the Virgin Islands for processing, actually paid into the Treasury of the Virgin Islands.
3. An amount equal to 50 percent of the income tax paid into the Treasury of the Virgin Islands on income derived by stockholders or partners of corporations and firms qualifying under the act.

## CONSTRUCTION OF RESIDENTIAL PROPERTIES IN THE ISLANDS

Building permits issued in the Virgin Islands in 1950 numbered about 165 and those issued in 1960 numbered 588, most of which were issued for construction of residential properties on building sites of about an acre or less. The value of this construction had increased from about \$675,000 in 1950 to \$7,500,000 in 1960. It is estimated that about 1,250 homes have been built on St. Thomas and St. John in the last 10 years, most of which were built in the more recent years and on building sites costing as much as \$10,000 an acre.

Development of residential site subdivisions began generally on St. Thomas about 4 years ago, and at that time the average price was about \$3,000 for a 1-acre building site. Following this first subdivision, development of 7 or 8 more residential subdivisions has been undertaken and prices for 1-acre building sites have increased on St. Thomas to generally \$5,000 to \$10,000 an acre. Similar sites on St. John are said to be priced slightly lower. A typical site in the \$5,000 to \$10,000 an acre price range will have a view of the sea through about 180 degrees or less, will be high enough to be cooled by the trade winds, and will be located on or close to an access road.

Certain choice ridge-top sites not located in the subdivisions have sold at prices higher than the average subdivision prices. These sites are located on the highest elevations, have the coolest temperatures, and have a full-circle view of the surrounding seas and islands.

As a condition to purchase in most of the residential subdivisions, the purchasers agree that house construction will comply with a stated minimum size and certain other specifications. Typical houses constructed on these sites are in the \$30,000 to \$40,000 price class and are built for continental Americans. In addition, there is currently under construction in each of the cities of Charlotte Amalie, St. Thomas, and Christiansted, St. Croix, a sizable housing project featuring lower cost homes.

FUNDS GENERATED FROM THE ACTIVITIES  
OF THE CORPORATION

Under the Virgin Islands Corporation Act (48 U.S.C. 1407(e)), a revolving fund not to exceed \$11 million is authorized for the Corporation's use in performance of its functions. The total appropriations made to the revolving fund from the inception of the Corporation to June 30, 1960, amounted to \$6,513,000 and for fiscal year 1961 the Corporation requested and received from the Congress an appropriation to the revolving fund of \$2,538,000, making a total appropriation to date of \$9,051,000. Withdrawals from the revolving fund, less funds returned to June 30, 1960, totaled \$6,513,000.

Other funds are made available to the Corporation from the United States Treasury by appropriations in the form of grants to reimburse the Corporation for the losses incurred on the revenue-producing activities and for the conduct of non-revenue-producing activities. Through June 30, 1960, reimbursements for losses of the Corporation have been made totaling \$3,056,769 and for fiscal year 1961 the Corporation requested and received an appropriation

of \$561,000 for reimbursement of losses for the fiscal years 1958 and 1959, making a total of \$3,617,769 for such appropriations. Expenditures of non-revenue-producing activities through June 30, 1960, totaled \$1,186,055.

Funds are also available to the Corporation in the form of borrowings from the United States Treasury for construction of salt water distillation facilities. Through June 30, 1960, the Corporation had borrowed \$33,900 from the United States Treasury for this purpose. For fiscal year 1961, the Corporation requested and received an authorization under the Department of the Interior and Related Agencies Appropriation Act, 1961 (74 Stat. 119), to borrow not to exceed \$1,100,000 for the construction of salt water distillation facilities in St. Thomas, Virgin Islands, as authorized by the Virgin Islands Corporation Act (48 U.S.C. 1407c (p)).

Deficits from revenue-producing operations through June 30, 1960, totaled \$4,030,118 and are represented by the following:

Sugar operations		-	\$1,146,547
Power operations			1,130,295
Miscellaneous activities			<u>215,761</u>
Net income from operations before administrative and general expenses and interest on the Federal investment			199,509
Less:			
Administrative expenses	\$1,537,071		
General expenses	1,578,194		
Interest on the Federal investment	<u>1,290,522</u>		<u>4,405,787</u>
Net losses on operations			4,206,278
Nonoperating income			<u>259,015</u>
Loss on operations since inception of Corporation on July 1, 1949			3,947,263
Deficit from predecessor Corporation at June 30, 1949			<u>82,855</u>
Deficit of Corporation at June 30, 1960			<u>\$4,030,118</u>

The foregoing comments and the tabulation disclose that the activities of the Corporation do not generate funds for the expansion of its facilities. Since inception of the Corporation in 1949 as successor to the Virgin Islands Company, the Corporation's operations have resulted in losses which have required the appropriation of funds by the Congress for reimbursement of losses in its revenue-producing activities and for the conduct of its non-revenue-producing activities.

In recent years the Corporation has been plagued by inadequate cash balances and, in order to continue operations, has obtained financing at commercial interest rates and has sold a portion of its raw sugar at a time when raw sugar prices usually were not more favorable.

#### GROWTH OF REVENUES OF VIRGIN ISLANDS GOVERNMENT

During fiscal year 1954 and prior years, the activities of the Government of the Virgin Islands were financed with local revenues and with funds appropriated by the Federal Government to cover the expenses of central administration and with Federal grants to cover estimated deficits in the operations of the municipalities. In addition, Federal funds for public works projects in the Virgin Islands were made available through appropriations to the Office of Territories, Department of the Interior, and grants-in-aid funds were allotted to the Government of the Virgin Islands from various Federal agencies for social welfare and other programs.

Section 28(b) of the Revised Organic Act of the Virgin Islands (68 Stat. 508) (26 U.S.C. 7652(b)) provided a source of

funds intended to replace appropriations by the Congress to cover municipal deficits and to finance public works projects. The appropriations for certain central administration expenses were continued because the act specifically provided that the salaries, per diem, and travel allowances of members of the legislature and the salaries of the Governor, the Government Secretary, and the members of their immediate staffs were to be paid by the Government of the United States. The new act provided that there shall be transferred and paid over to the Government of the Virgin Islands, from the taxes imposed by and collected under the internal revenue laws of the United States on articles produced in the Virgin Islands and transported to the United States, a sum equal to the total amount of the revenue collected by the Government of the Virgin Islands to the extent of available internal revenue tax collections, during each year beginning with the fiscal year ended June 30, 1954. The money so transferred is available for expenditure as the legislature determines, subject to the approval of the President or his representative. In addition to the increased revenue under the new plan for Federal contributions from internal revenue collections, the Government of the Virgin Islands realized increased revenues from the change made by the Revised Organic Act whereby inhabitants of the Virgin Islands paid into the treasury of the Virgin Islands taxes on income derived from all sources both within and outside the Virgin Islands. Previously only that portion of the tax on income derived within the Islands was paid into the Virgin Islands treasury. Proceeds of customs duties, of any taxes levied by the Congress on the inhabitants of the

Virgin Islands, and all quarantine, passport, immigration, and naturalization fees collected in the Virgin Islands, less the cost of collection, are available for expenditure by the Virgin Islands Government.

The act provides that the Secretary of the Treasury shall determine the amount of taxes collected on articles (mainly alcoholic beverages) produced in the Virgin Islands and transported to the United States. From this amount and limited to the total tax collections, a sum equal to the total amount of the local revenues collected in the Virgin Islands will be paid over to the Government of the Virgin Islands by the United States. For this purpose the Government Comptroller is required by law to certify the net amount of insular government revenues collected during each fiscal year. This certification forms the basis for the Federal grants to the insular government under section 28 of the Revised Organic Act. The following schedule shows the net amount of revenues collected by the insular government and certified by the Government Comptroller as the basis for matching Federal grants since the effective date of the Revised Organic Act; the related matching funds paid by the Federal Government from internal revenue collections on goods imported from the Virgin Islands; and other Federal grants, appropriations, and miscellaneous local revenues not eligible for matching purposes.

<u>Fiscal year</u>	<u>Total</u>	<u>Net revenues certified by Government Comptroller</u>	<u>Matching funds (note a)</u>	<u>Other funds (note b)</u>
1954	\$ 8,214,176	\$2,026,208	\$ -	\$6,187,968
1955	8,508,989	2,309,003	3,899,200	2,300,786
1956	9,188,940	2,469,426	4,354,336	2,365,178
1957	9,219,169	3,379,133	2,469,426	3,370,610
1958	10,003,798	3,872,865	3,379,133	2,751,800
1959	11,517,579	4,917,952	3,872,865	2,726,762
1960	17,367,039	7,532,162	4,917,952	4,916,925 <sup>c</sup>

<sup>a</sup>Federal matching funds are paid over to the insular government in the fiscal year succeeding the certification prepared by the Government Comptroller. The entire internal revenue collections for fiscal years 1954 and 1955 were paid over to the insular government in fiscal years 1955 and 1956, respectively, pursuant to section 28(b) of the Revised Organic Act.

<sup>b</sup>Includes Federal grants-in-aid; Federal appropriations for salaries and certain expenses of the Governor's office and the legislature and expenses of the Office of the Government Comptroller for fiscal year 1960; certain general fund revenues not available for matching purposes, such as hospital collections and water bill receipts, enterprise and revolving fund revenues, trust and legacy fund revenues, and other miscellaneous nongeneral fund revenues.

<sup>c</sup>Preliminary--subject to possible adjustment.

The indications are that the sustained growth in revenues of the Government of the Virgin Islands from 1954 through 1960 will continue in the future. For fiscal year 1961, the insular government has estimated that the general and matching fund revenues alone will amount to about \$15 million, representing an increase of about 18 percent over these revenues for fiscal year 1960. Estimates of other 1961 revenues were not available.

Although a substantial and significant increase has occurred during the last few years in building residential and tourist properties, there has been very limited increase in real estate taxes

assessed by the Virgin Islands Government. The records on taxable real property in the Virgin Islands have not been adequate, and it has not been possible to determine whether all proper real estate taxes accruing to the government have been collected. On April 23, 1959, a contract with a firm of management consultants was negotiated for a survey of real property assessment administration in the Virgin Islands, and on June 26, 1959, a second contract, revised somewhat in September 1959, was negotiated with the consultants which provided for detailed development and installation of a real property assessment system as recommended in the survey report. These consultants provide professional services for the planning, development, and execution of the program whereby the employees of the Virgin Islands Government perform most of the detail work, such as drafting, field surveys, collection of data regarding building and land values, and computations. The detailed services provided by the consultants included the development of a system for preparation of tax maps, the development and writing of detailed assessment procedures and instructions, the design of office forms and institution of records procedures, and the reappraisal of field and office operations. This program was started on September 15, 1959, and was expected to be completed in about 18 months. We have been advised by the Department of the Interior that action has been taken to maintain over-all administrative control of the program and that a target completion date had been established as March 31, 1961. This action should assist the insular government in installing an adequate real property assessment system and with its completion should result in substantial

increased real estate tax collections. Assessed valuations currently being revised by the reassessment group are expected to increase from a total of about \$30 million to more than \$50 million. At current tax rates of 1-1/4 percent, annual revenues from real property taxes, on the basis of the revised assessed valuations, would increase by more than \$250,000.

The sustained growth in revenue has been achieved despite the continued existence of serious deficiencies in the over-all administration of the revenue laws and in operation of revenue-producing activities. The Government Comptroller and the General Accounting Office have reported upon many of the deficiencies in the administration of the revenue laws and in the collection of amounts due to the government, but the improvement to date in over-all administration has relatively been not significant.

PROJECTED FINANCIAL REQUIREMENTS  
OF CORPORATION FOR NEXT DECADE

The Virgin Islands Corporation is the sole producer and distributor of electric power in the Virgin Islands, and the existing facilities have not kept pace with the needs of the residents and visitors to the Islands for a dependable and reliable power supply. The service has been described as being unreliable with frequent outages for maintenance work and repairs. The Department of the Interior and Related Agencies Appropriation Act, 1961, provided \$2,240,000 for the expansion of power and related distribution facilities to relieve the serious shortage of firm power on the Islands. This appropriation is to be used to acquire and install 2,500 kilowatts of steam power at St. Thomas at an estimated cost of \$1,240,000 and a new 2,500-kilowatt diesel engine in the St. Croix power plant at an estimated cost of \$500,000. The appropriation also provides for construction of distribution lines on the three islands at an estimated cost of \$300,000 and \$200,000 for the increased costs of installing a 2,500-kilowatt diesel engine on St. Thomas in fiscal year 1960. We understand that appropriations of \$2,450,000 are to be requested for fiscal year 1962 for expansion of power facilities, including the purchase and installation in 1963 of a 5,000-kilowatt steam turbine in St. Croix. Based on reports by power consultants to the Corporation, the installation of these facilities will not meet all the requirements for an adequate and reliable power supply in the Islands during the next decade, as it is expected that additional facilities at costs not fully determined will be required to meet these needs.

from 1965 through 1969. The Corporation is requesting that its revolving fund borrowing authority be raised to \$20 million. If approved, the revolving fund of \$20 million would provide about \$8 million for expansion of power facilities during the period 1965 through 1969.

In addition, the consultants believe that a capacity reserve over and above the reserve for emergencies and equipment overhaul is needed to avoid unreliable power service and to insure that growth demands will be met.

The Islands also suffer from a deficient water supply which has, in the past, necessitated rationing of potable water. In recent years, it has been necessary to obtain water for St. Thomas from Puerto Rico at a relatively high cost and it has been stated that the water shortages on St. Thomas in particular have held up expansion in the tourist industry. The Corporation has authority to undertake the construction of a salt water distillation plant on St. Thomas, and in the Department of the Interior and Related Agencies Appropriation Act, 1961 (74 Stat. 119), the Corporation was authorized to borrow not to exceed \$1,100,000 from the Treasury of the United States for construction of salt water distillation facilities in St. Thomas, Virgin Islands, as authorized by the Virgin Islands Corporation Act (48 U.S.C. 1407c (p)). The Virgin Islands Government has contracted with the Corporation to purchase the water produced at a price which will include all costs of construction, operation, and maintenance, including depreciation and interest on investment, and the government will be responsible for the retail distribution of the water produced from this

water system. These facilities are expected to distill 275,000 gallons of potable water a day, but we have been informed that additional facilities will be required on both St. Thomas and St. Croix ultimately for the expansion of the tourist facilities on these islands and until the water supply facilities are obtained interested parties may not undertake to develop additional visitor facilities. The estimated cost for the additional water supply facilities has not been determined, but indications are that investment of several million dollars eventually will be needed.

In addition to the generation and distribution of electric power, revenue-producing activities of the Corporation are the growing of sugarcane and the manufacturing of raw sugar, the management of Navy properties, and the operation of a loan program. During the last 11 years the sugar operations have resulted in an accumulated loss of \$1,146,547 before allocation of administrative and general expenses and interest on the Federal investment, an average of about \$100,000 a year, and this record is not expected to change in the future and therefore will require appropriations, as in the past, as reimbursement to the Corporation for its losses on these operations. The Corporation is also engaged in certain non-revenue-producing activities designed to promote through economic development the general welfare of inhabitants of the Virgin Islands, and these activities in the past have required appropriations on the average of about \$111,000 a year.

Based on the foregoing information, financial requirements of the Corporation for the next decade, if the existing activities

remain unchanged, are not fully determined but are known to be substantial.

PRIOR PROPOSAL ON FINANCING AND MANAGEMENT  
OF CORPORATION

In our annual audit reports to the Congress on the Virgin Islands Corporation and the Government of the Virgin Islands for the fiscal years 1954 through 1958, we included proposals for consideration by the Congress for transferring the financing and ultimately the management of the Virgin Islands Corporation to the Government of the Virgin Islands when the latter had demonstrated its ability to satisfactorily assume this responsibility. The purpose of this transfer would be to divest the Federal Government of a responsibility which appears to belong more logically to the Government of the Virgin Islands, since both the insular government and the Corporation had similar objectives, functions, and responsibilities. We stated that the transfer of management of the Corporation to the Government of the Virgin Islands should await a demonstration of the insular government's ability to satisfactorily fulfill its present responsibility but that any necessary financing of the Corporation in the interim could be supplied from Federal grants made available to the Government of the Virgin Islands under section 28(b) of the Revised Organic Act of the Virgin Islands (68 Stat. 508) (26 U.S.C. 7652 (b)).

The Revised Organic Act of the Virgin Islands approved July 22, 1954 (48 U.S.C. 1541), reorganized the entire governmental structure and related functions and responsibilities of the Government of the Virgin Islands. Prior to the passage of the

Revised Organic Act, funds were appropriated by the Congress for various activities in the Islands. The Virgin Islands received Federal appropriations to finance (1) the municipal deficits, (2) the central administration and municipalities, (3) specific public works projects, (4) various grants-in-aid for social welfare and other programs, (5) the revolving fund of the Corporation for working capital purposes and equipment purchases, (6) the annual net losses of the Corporation, and (7) various grants for the economic development of the Islands. The revised act terminated appropriations by the Congress to cover deficits in the operation of municipal governments and the cost of central administration except for the salaries of the Governor and the Government Secretary and their immediate staffs; the salaries and expenses of the United States Attorney and his staff; and the salaries, per diem, and travel allowances of the members of the legislature. The Revised Organic Act of the Virgin Islands increased substantially the annual Federal contributions to the insular government. Matching fund contributions as provided for in section 28 of the act were intended to serve as an incentive to the insular government to raise as much revenue as possible locally. We stated in our reports that these contributions would increase as more revenue was raised by the insular government.

The charter of the Virgin Islands Corporation was extended by 10 years until June 30, 1969, unless sooner dissolved by act of the Congress, by an amendment to the Virgin Islands Corporation Act (48 U.S.C. 1407c (a)). The suggestions contained in our reports for fiscal years 1954 through 1958 relating to transferring the

financing and ultimately the management of the Corporation to the Government of the Virgin Islands were not made a part of the legislation which extended the corporate charter of the Corporation, and accordingly the matter was not repeated in our audit report to the Congress covering fiscal year 1959.

Although the act of September 2, 1958, extends the life of the Corporation to June 30, 1969, section 1 (a) of the act authorizes the Board of Directors to dispose of the corporate assets. The board may sell the assets, in whole or in part, if such a sale in the board's opinion will effectively serve the economic development of the Islands. The act provides also that the Government of the Virgin Islands shall be given the right to purchase corporate property offered for sale at a price not greater than that offered by the highest responsible bidder.

POTENTIAL SALE OF THE CORPORATION  
OR DISPOSITION OF ITS ASSETS

During the past 2 years the Board of Directors at several of its meetings has discussed the possible sale of the Corporation and its assets either in whole or in part. It is the consensus of the board that every effort should be made to dispose of the Corporation's assets, preferably as a package. No plan for separate disposal of the corporate assets has been formulated.

During the last year, a vigorous interest has been indicated by several private groups to buy the Corporation's electric power generating facilities and it is evident that these facilities would be readily salable if offered exclusively of other corporate assets. We were informed that the board had not offered the profitable power facilities for sale separately because it believed

that sale of the assets of the unprofitable sugar operations and assets of the other operations of the Corporation would then become more difficult.

Some initial interest has been expressed by private groups in purchase of corporate assets other than the power generating facilities. This interest seems to have stemmed at least in part from such factors as the position of the board that the assets of the Corporation be sold as a package, the hope of obtaining sugar quotas which could be transferred to other areas, and a belief that sugar operations could be made profitable through irrigation of the sugar lands. After inquiry and investigation, the interested groups did not make offers.

The board's position that the Corporation be sold in its entirety prolongs Federal operation of the Corporation and may not lead to eventual sale. Also, we understand that, in the event a buyer for the Corporation is found, the Government of the Virgin Islands will oppose sale of the Corporation's lands to private interests.

The Corporation owns about 3,700 acres of land which is recorded on its books and in the financial statements accompanying this report at an average amount of about \$40 an acre. Information available indicates that the average current value of the land might vary from \$500 to \$1,000 an acre up to several thousand dollars an acre for land well suited to residential development.

The Government of the Virgin Islands is interested in acquiring the corporate lands and possibly the facilities of the sugar operations. We have been advised that the Government, if in

control of the land, would seek to develop a plan for use of the land which would entail phasing out the sugar operations. Phasing out the sugar operations would require a period estimated to be about 3 to 5 years in order to allow the absorbing of sugar growers and employees and other sugar operation employees into other means of livelihood.

As previously noted, there has been a lively interest by private enterprisers in the purchase of the power facilities of the Corporation. Also, there is the strong possibility that private groups could be interested in the sea water distillation facilities currently being constructed for the Corporation. There is developing a tie-in between power and water supply. Both the distillation process of desalting sea water and the planned gradual conversion to steam power for the Islands employ heat. The distillation plant now authorized and being constructed will provide electric power as well as potable water.

MATTER FOR CONSIDERATION BY THE CONGRESS

Continued Federal holding of the Virgin Islands Corporation will require Federal financing of expansion of power and water systems at an eventual cost variously estimated at \$10 million to \$20 million over the next 10 years and, in addition, the financing of the annual sugar operating deficits and costs of operating the non-revenue-producing programs, some of which appear to belong more logically to the Government of the Virgin Islands. We believe that the Congress should require the Department of the Interior to project the financial requirements over the next 10 years for the expansion of power and water supply facilities in the

Islands and in the economic development programs now carried on by the Corporation, including the growing of sugarcane and the manufacture of raw sugar. The increase in power consumption in the Islands has been described as phenomenal, and an assured water supply is essential to accelerate the development of visitor facilities. The capacities to meet the demand for power and water over the next decade should be defined more specifically, and the financial requirements to meet these objectives ought to be determined.

We believe also that the Congress ought to examine into the alternate sources of financing to meet the financial requirements for the expansion of power and water supplies as well as the role of the Government of the Virgin Islands in the management and financing of the present activities of the Corporation. Among the matters that may be considered by the Congress in this connection are:

1. The sale of the Corporation's assets related to the revenue-producing programs (power, water, and sugar operations) and the transfer of the non-revenue-producing conservation and forestry programs to the Government of the Virgin Islands with or without grants-in-aid from the Federal Government during a transition period.
2. The sale of the assets related to the power and water supply operations to a private enterpriser and transfer of the remainder of the activities of the Corporation to the Government of the Virgin Islands over a period of 4 or 5 years with the Federal Government and/or the Virgin Islands Government underwriting the losses that may be incurred during the period.
3. The transfer of the financing of the Corporation to the Virgin Islands Government and transfer of the management either concurrently with the transfer of the financing or at a predetermined future date.

We recognize the complicated land-use problems and the possible economic impact related to the changes involved in financing

and management of the Corporation's activities. For the purpose of comprehensively examining alternate proposals for changes in the financing and management of these activities, a study group within the Executive Department could be requested by the Congress with a view to formulating and recommending to the Congress a preferred plan.

In view of the continued deficiencies in the financial administration of the Government of the Virgin Islands, we believe that, if the Corporation or the corporate assets are transferred to the insular government, management and financial controls should be established within the Department of the Interior during a transition period to insure that the assets are used effectively to promote the economic development of the Islands.

## FINANCING OF CORPORATE ACTIVITIES

### SOURCE AND APPLICATION OF FUNDS

The funds provided to finance the Corporation's activities during fiscal year 1960 and their respective disposition are summarized:

Source of funds:		
Revenue from sugar operations		\$ 684,423
"      "      power      "		1,103,054
"      "      miscellaneous activities		<u>92,957</u>
Total revenues from operations		<u>1,880,434</u>
Grants provided in Department of the Interior Appropriation Act:		
For water and soil conservation		100,000
For forestry program		<u>30,000</u>
Total grants		<u>130,000</u>
Other sources:		
Borrowings from U.S. Treasury		33,900
Reduction in outstanding long-term receivables		21,564
"      "      "      loans		17,221
Sale of land and buildings:		
Selling price	\$139,148	
Less payments in long-term notes	<u>104,244</u>	
Cash payment and short-term notes received		34,904
Property obtained from other agencies without cost		<u>5,367</u>
Total other sources		<u>112,956</u>
Total funds provided		<u>2,123,390</u>
Application of funds:		
Operating expenses of sugar operations		1,320,183
"      "      "      power      "		1,109,090
"      "      "      miscellaneous activities		<u>129,602</u>
Total operating expenses		2,558,875
Less noncash expense (depreciation charges)		<u>359,060</u>
Funds applied to operating expenses		<u>2,199,815</u>
Net additions to fixed assets		651,882
Expenditures for non-revenue-producing activities:		
Water and soil conservation		90,442
Forestry program		<u>29,948</u>
Total funds applied		<u>2,972,087</u>
Difference representing decrease in working capital		<u>\$ 848,697</u>

## STATUS OF REVOLVING FUND

The Virgin Islands Corporation Act (48 U.S.C. 1407e) authorized appropriations not to exceed \$11,000,000 to establish a revolving fund in the United States Treasury for the Corporation's use in the performance of its functions. Other funds are made available to the Corporation from the Treasury through appropriations in the form of grants for expenditure on non-revenue-producing activities and to reimburse the Corporation for losses incurred on revenue-producing activities. Funds are also available in the form of borrowings from the Treasury for construction of salt water distillation facilities.

The total appropriations made to the revolving fund from the inception of the Corporation to June 30, 1960, amounted to \$6,513,000. No appropriations were made to the revolving fund during fiscal year 1960. Withdrawals from the revolving fund, less funds returned, totaled \$6,513,000 at June 30, 1960, leaving no balance. No appropriation was requested for fiscal year 1960 to cover prior-year losses. Losses in excess of appropriations amounted to \$351,201 at June 30, 1959, and \$890,494 at June 30, 1960. For fiscal year 1961, the Corporation requested and received an appropriation of \$561,000 to cover unreimbursed losses

for the fiscal years 1958 and 1959<sup>(1)</sup> and an advance of \$2,538,000 to the revolving fund.

The Corporation is required by law (48 U.S.C. 1407f(b)) to pay interest to the United States Treasury on withdrawals from the revolving fund and on the value of properties and other net assets transferred to the Corporation from its predecessor at June 30, 1949. The Corporation is required also to pay interest to the United States Treasury on the appraised value of property and assets transferred to the Corporation from the Federal Government without cost or for consideration clearly not commensurate with the value received. Interest accrued for fiscal year 1960, including interest on unpaid interest for fiscal year 1959, was \$223,455 at the rate of 2-7/8 percent compared with an accrual of \$172,943 at the rate of 2-1/2 percent for fiscal year 1959.

INADEQUATE CASH BALANCES  
RESULTED IN UNECONOMICAL FINANCING  
IN FISCAL YEARS 1959 AND 1960

In our fiscal year 1959 report to the Congress, we stated that the Corporation, in order to continue operations during fiscal

---

<sup>1</sup>The Corporation requested in its fiscal year 1961 budget justification \$561,000 to cover unreimbursed losses. This amount is \$209,799 in excess of actual unreimbursed losses of \$351,201 through fiscal year 1959. The excess reimbursement resulted from the Corporation's not taking into consideration the status of unreimbursed losses when a change in the method of reimbursement of losses occurred. Through fiscal year 1959, appropriations for reimbursement of losses were based on budget estimates. Pursuant to the Virgin Islands Corporation Act, as amended (48 U.S.C. 1407g), reimbursements for losses are now based on actual losses incurred. Part of the excess recovery will be offset in fiscal year 1962 because we understand that only \$400,000 will be requested for fiscal year 1962 for recovery of fiscal year 1960 losses, whereas actual losses for fiscal year 1960 were \$539,293.

year 1959, had to obtain financing at commercial interest rates and had to sell a portion of its raw sugar from the 1959 crop before a period when raw sugar prices usually are more favorable. These actions, which were occasioned by a need for operating cash, cost the Corporation a minimum of \$26,000 in 1959. Other results of the Corporation's weak financial position included delays of 2 to 4 months in payment of some of its liabilities, the largest one of which was \$172,943 due the Treasury at June 30, 1959, for interest on investment for fiscal year 1959. We indicated also that the cash position of the Corporation would continue to be critical during fiscal year 1960.

So that the Virgin Islands Corporation may carry on its operations efficiently and economically, and so that the necessity of selling its sugar crop before the time when sugar prices are more favorable may be avoided, we recommended that the Corporation and the Department of the Interior make a budget request during fiscal year 1960 for an additional substantial appropriation to the Corporation's revolving fund in an amount sufficient to permit the Corporation to borrow from the Treasury the funds needed to finance its revenue-producing operations.

The Corporation requested and received under the Department of the Interior and Related Agencies Appropriation Act, 1961 (74 Stat. 119), appropriations of \$2,538,000 to the revolving fund and of \$561,000 in the form of a grant to cover prior years' unreimbursed losses. Thus, in fiscal year 1961 the critical cash position of the Corporation that existed during fiscal years 1959 and 1960 should be eliminated. Also, in order to provide sufficient

operating funds to finance the sugar crop, the Board of Directors of the Corporation approved a budget request for an appropriation in fiscal year 1962 of \$750,000 from the revolving fund.

In fiscal year 1960, the Corporation again had to obtain financing at commercial interest rates and had to sell its raw sugar from the 1960 crop before a period when raw sugar prices usually were more favorable. Also, the Corporation withheld payment during fiscal year 1960 of \$172,943 due the United States Treasury at the close of fiscal year 1959 as interest on investment, and, during fiscal year 1960, additional interest of \$223,449 accumulated and was due the Treasury of the United States at the close of the year. In addition to interest on investment for fiscal year 1960, the amount of \$223,449 included interest on unpaid interest of \$4,972 for fiscal year 1959. All the above interest was paid by the Corporation to the Treasury on July 18, 1960, when the fiscal year 1961 appropriation became available for expenditure.

On March 7, 1960, the Corporation sold 5,000 tons of its raw sugar from the 1960 crop to its sugar broker, Farr, Whitlock & Co., for \$126 a ton. In March 1960, the Corporation received on this sale two advances totaling \$500,000. On May 3, 1960, an additional 1,700 tons of raw sugar, the estimated remaining portion of the 1960 crop, was sold by the Corporation to its broker for \$128.40 a ton, and on May 9, 1960, the Corporation received on this sale an advance of \$175,000. Interest on the advances of \$675,000 accumulated at the rate of 5-1/4 percent, the rate charged Farr, Whitlock & Co., by The Chase Manhattan Bank until the advances were repaid on July 12, 1960. In addition to the interest on the advances at

5-1/4 percent, the Corporation held this sugar in its own warehouse and accumulated insurance costs until it was shipped in September 1960.

The Corporation normally sells its sugar during July to early September, a period when sugar prices frequently are favorable. Had the Corporation sold its 6,700 tons of sugar between the period August 1 to August 30, 1960, at which time the average price per ton of raw sugar was \$129.40, instead of 5,000 tons at \$126 a ton in March and 1,700 tons at \$128.40 a ton in May, the Corporation would have increased its sugar revenues by about \$18,700. The 5-1/4 percent commercial interest rate on \$675,000 compared with the United States Treasury's rate of 2-7/8 percent for fiscal year 1960 resulted in added interest expense of about \$3,800 for fiscal year 1960. Applicable Treasury rates for fiscal year 1961 will in all likelihood remain lower than commercial rates, thus continuing the period of added interest cost in fiscal year 1961 until July 12, 1960, when the \$675,000 advance was repaid. Also, additional interest expense during fiscal year 1960 of about \$3,300 was incurred on advances of \$850,000 obtained in May, July, and August of 1959 from the Corporation's sugar broker on 1959 sugar crop. The advances were repaid on September 30, 1959, and interest at a rate of 4-3/4 percent was paid compared with United States Treasury rates in fiscal year 1960 of 2-7/8 percent.

## ACTIVITIES

The major revenue-producing activities of the Virgin Islands Corporation during fiscal year 1960 were the growing of sugarcane, the operation of the only raw sugar mill in the Virgin Islands, and the generation and marketing of electric power. Results of operations for these and miscellaneous activities for fiscal years 1960 and 1959 are summarized below. Presentations in greater detail follow in the operations sections and in the income and deficit statement and related schedules.

	<u>1960</u>	<u>1959</u>
Sugarcane growing	-\$208,472	\$ 86,459
Sugar milling operations	-427,288	-217,526
Power operations	-6,036	-106,832
Miscellaneous activities	-20,225	-448
Sales of real property	<u>122,728</u>	<u>-</u>
Net loss	<u>\$539,293</u>	<u>\$238,347</u>

In addition to its revenue-producing activities, the Corporation carries out, with Federal grants, water and soil conservation and forestry activities intended to promote the economic development of the Islands. Appropriations for these activities in fiscal year 1960 totaled \$130,000. During the fiscal year the Corporation also was engaged in engineering and design work for construction of a salt water distillation plant.

The Corporation also has been given responsibility for the management of certain Navy-owned properties on the island of St. Thomas. These properties consist of housing projects, airport facilities, hotels, piers, a beach club, a golf course, water systems, and other miscellaneous facilities and are administered by

the Corporation's Development Department. Comments on the fiscal results of managing these activities are presented on pages 63 to 66.

### SUGAR OPERATIONS

The major activity of the Corporation is the growing of sugarcane and the operation of a raw-sugar mill. Pertinent data on sugar operations for fiscal years 1960 and 1959 are summarized:

	<u>1960</u>	<u>1959</u>	<u>Increase or decrease (-)</u>
Gross sales of sugar and molasses	\$ 892,895	\$1,610,340	-\$717,445
Payments due under the Sugar Act of 1948	<u>62,017</u>	<u>84,008</u>	<u>-21,991</u>
Total revenues	954,912	1,694,348	-739,436
Less shipping and selling expenses	<u>85,678</u>	<u>155,017</u>	<u>-69,339</u>
Total revenues, less shipping and selling expenses	869,234	1,539,331	-670,097
Total operating costs and expenses	<u>1,504,994</u>	<u>1,670,398</u>	<u>-165,404</u>
Net loss from sugar operations	\$ <u>635,760</u>	\$ <u>131,067</u>	-\$ <u>504,693</u>
Tons of sugarcane grown	39,614	68,753	-29,139
Tons of sugarcane purchased	<u>31,463</u>	<u>47,695</u>	<u>-16,232</u>
Total used in production of sugar	<u>71,077</u>	<u>116,448</u>	<u>-45,371</u>
Tons of sugar produced:			
From Corporation sugarcane	3,747.8	7,242.3	-3,494.5
From purchased sugarcane	<u>3,044.2</u>	<u>4,876.9</u>	<u>-1,832.7</u>
Total sugar produced	<u>6,792.0</u>	<u>12,119.2</u>	<u>-5,327.2</u>
Revenue per ton of sugar sold	\$ 140.59	\$ 139.80	\$ .79
Cost of sugar sold per ton	<u>234.19</u>	<u>150.61</u>	<u>83.58</u>
Loss per ton of sugar sold	\$ <u>93.60</u>	\$ <u>10.81</u>	\$ <u>82.79</u>
Cost of sugarcane per ton:			
Grown	\$ 13.67	\$ 7.66	\$ 6.01
Purchased	\$ 7.00	\$ 7.43	\$ -.43
Sugarcane yield--tons per acre of cane grown	19.44	31.41	-11.97
Sugarcane yield--pounds of sugar per ton of sugarcane	194.11	212.49	-18.38
Tons of sugar per acre	.1.83	3.31	-1.48

Revenue from sales of sugar and molasses decreased \$717,445 in fiscal year 1960. Of this amount, revenue from sugar sales decreased \$670,270 as a result of a 5,327-ton decrease in sugar production. The loss of revenue as a result of decreased sugar production was partially offset by an increase in the average sales price of sugar from \$127.44 in 1959 to \$128.70 in 1960. See page 40 for discussion of a reduction in revenue because of early sale of the 1960 crop in order to obtain urgently needed financing. The \$21,991 decrease in payment due from the Department of Agriculture under the Sugar Act of 1948 (7 U.S.C. 1100) is attributable to the decrease in production of raw sugar from Corporation-grown sugarcane.

Revenue from production of molasses decreased by \$47,175. This decrease resulted primarily from decreased production of 294,482 gallons of molasses and a decrease in sales price of molasses from 10.5 cents a gallon in fiscal year 1959 to 7 cents a gallon in fiscal year 1960. The price of 7 cents a gallon for the 1960 crop production was negotiated by the Corporation with the local rum distillers. However, this price agreement has been breached by the principal purchaser who has refused to take delivery of molasses and to pay 7 cents a gallon for about 100,000 gallons of 1960 molasses delivered to him before June 1960. The Corporation has since taken the matter to court and the case was pending at the conclusion of our field work in November 1960. By letter dated December 27, 1960, the President of the Corporation advised us that the lawsuit which was brought against the purchaser had been withdrawn because the purchaser had agreed to take

delivery of the molasses at a price of 7 cents a gallon and that his share of the molasses from the 1960 crop had been delivered.

This purchaser has refused to pay for molasses delivered to him from April 1959 to December 1959, stating that in normal business practice the term "molasses" under the contract would imply molasses having a sugar content of not less than 52 percent and that the molasses received by him was not of the quality contracted for. Laboratory analysis of samples of molasses taken from the 1959 crop production indicated that the molasses was of high quality and had a sugar content in excess of 52 percent. The Corporation has taken the matter to court and the case was pending at the conclusion of our field work in November 1960.

The price that the Corporation pays for sugarcane is determined by formulas established by the United States Department of Agriculture. These formulas establish the rate to be paid to the grower for sugarcane and allocate to the growers as well as to the processor a share of the returns from molasses sales. The Corporation purchased for processing about 31,463 tons of sugarcane at \$7 a ton in 1960 compared with 47,695 tons at \$7.43 in 1959.

The cost of sugarcane grown consists of costs incurred by the Corporation for planting, cultivating, and harvesting the sugarcane produced on land owned or leased by the Corporation. These costs increased from \$7.66 a ton in 1959 to \$13.67 a ton in 1960 because of the smaller volume of cane produced.

The Corporation's shipping and selling expenses decreased by \$69,339 because of the smaller quantity of raw sugar produced, shipped, and sold.

Operating costs and expenses of sugar operations decreased \$165,404 in 1960. The principal factor tending to decrease operating costs and expenses was the reduced production of sugarcane which required only 77 days to be processed compared with 93 days to process the 1959 sugarcane production.

Sugarcane yield decreased 11.97 tons an acre in 1960, and the amount of sugar produced decreased 1.48 tons an acre. The decrease in sugar produced in 1960 was attributable generally to the decreased and poorly distributed rainfall during the growing season. In calendar year 1959, the main part of the growing season for the 1960 crop, there were 33.21 inches of rainfall compared with 44.99 inches of rainfall in calendar year 1958, the main part of the growing season for the 1959 crop.

The sugar factory utilizes four mills in its grinding operations. On January 31, 1959, a steam reciprocal engine that powers one of the mills flew apart and was completely destroyed. The disintegration of this engine was attributable to metal fatigue inasmuch as the engine had been installed in the factory in 1906.

On March 23, 1959, the Corporation purchased a new mill and turbine to replace the one destroyed and a new turbine to power a mill which had been rebuilt in 1953. The installation of the turbines and the sugar mill was completed in January 1960 at a total cost of about \$367,000.

Upon completion of the installation of these units, three of the four mills in the factory have been renewed and modernized. We have been advised by Corporation officials that a fourth mill is not in good condition and that replacement or renewal of this

mill also is needed. The President's request for inclusion of an amount of \$250,000 in the fiscal year 1962 budget estimates for possible replacement of the remaining mill and turbine in the event of emergency caused by breakdown of the mill beyond repair was not approved by the Board of Directors in May 1960.

In fiscal year 1959 the Corporation installed a limited sugarcane washing system at the Bethlehem factory and constructed an impoundment for the collection of water to supply the system. The total installed cost of the washing system, including the impoundment, is about \$45,000. Because of the limited supply of water, the Corporation primarily limits use of the system to washing extremely muddy sugarcane caused by heavy rain during the sugarcane cutting season.

## POWER OPERATIONS

The Corporation generates and markets the electrical energy for the Virgin Islands. Power is generated by two diesel internal combustion plants consisting of eight generating units located on the island of St. Thomas and six generating units located on the island of St. Croix. The Corporation furnishes electric energy to the island of St. John by means of an underwater transmission cable from St. Thomas.

Pertinent statistics on power operations for the fiscal years 1960 and 1959 are summarized:

	<u>1960</u>			<u>1959 total</u>
	<u>St. Thomas (note a)</u>	<u>St. Croix</u>	<u>Total</u>	
Revenue from power operations	\$681,723	\$421,331	\$1,103,054	\$ 919,427
Total operating expenses and interest of power operations	<u>690,610</u>	<u>418,480</u>	<u>1,109,090</u>	<u>1,026,259</u>
Net income (-loss) from power operations	\$ <u>-8,887</u>	\$ <u>2,851</u>	\$ <u>-6,036</u>	\$ <u>-106,832</u>
Generating capacity (kilowatts)	<u>7,104</u>	<u>3,626</u>	<u>10,730</u>	<u>7,230</u>
Thousands of kilowatt-hours generated	19,295	11,144	30,439	25,935
Thousands of kilowatt-hours sold	17,409	8,944	26,353	21,661
Generated power lost (in percent)	9.8	19.7	13.4	16.5 <sup>b</sup>
Revenue per thousand kilowatt-hours sold	\$ 39.16	\$ 47.11	\$ 41.86	\$ 42.45 <sup>b</sup>
Expenses per thousand kilowatt-hours sold	\$ <u>39.67</u>	\$ <u>46.79</u>	\$ <u>42.09</u>	\$ <u>47.38<sup>b</sup></u>
Number of consumers:				
Residential	4,298	3,249	7,547	7,394
Commercial and industrial	<u>802</u>	<u>784</u>	<u>1,586</u>	<u>1,454</u>
Total	<u>5,100</u>	<u>4,033</u>	<u>9,133</u>	<u>8,848</u>
Miles of distribution line energized	<u>234</u>	<u>278</u>	<u>512</u>	<u>488</u>

<sup>a</sup>Effective October 5, 1959, the Corporation commenced recording charges for depreciation and interest on investment on power generating facilities transferred and conveyed to the Corporation from the Navy under provision of section 7 of the act of September 2, 1958 (72 Stat. 1760). Charges of \$16,663 for depreciation and \$6,358 for interest on investment on the facilities transferred were made during the fiscal year.

<sup>b</sup>Combined average.

The net loss from power operations on St. Thomas decreased from \$119,071 for fiscal year 1959 to \$8,887 for fiscal year 1960, a decrease of \$110,184. Power revenues on St. Thomas increased by 20.3 percent in fiscal year 1960 while operating costs and interest expense increased by 7 percent. The increased revenues result primarily from an increase of 21.78 percent in kilowatt-hours sold.

The net income from power operations on St. Croix decreased from \$12,239 in fiscal year 1959 to \$2,851 in fiscal year 1960. This decrease in net income is attributable to increases in operating expenses and interest of 22.92 percent while power revenues increased 19.8 percent.

Kilowatt-hours of energy sold on St. Croix during fiscal year 1960 increased 21.42 percent over fiscal year 1959 while the energy sold on St. Thomas during the fiscal year increased 21.78 percent. The increases in energy sold were made possible by the addition of a 1,000 kw. generator to the St. Croix plant and by the addition of a 2,500 kw. generator to the St. Thomas plant. During a period when the new 2,500 kw. generator at the St. Thomas plant was out of service because of major mechanical breakdowns, the Corporation rented from the Department of the Navy on a temporary basis two portable 500 kw. generators.

During fiscal year 1960, revenue from sales of energy increased in approximately the same ratio as the increase in kilowatt-hours of energy sold. The last rate revisions, effective July 1, 1955, resulted in rate decreases for electric power consumers on both St. Thomas and St. Croix. Existing electric rates for St. Croix are higher than those in effect for St. Thomas.

Transfer of Navy power generating facilities  
to Corporation

As authorized and directed by section 7(a) of the act of September 2, 1958 (72 Stat. 1760), the Secretary of the Navy on October 5, 1959, transferred and conveyed to the Corporation without reimbursement power generating facilities located at the Marine Corps Air Facility and Naval Submarine Base, St. Thomas, Virgin Islands, together with related land, buildings, structures, facilities, distribution lines, fuel tanks, and equipment. These facilities have been used since December 1, 1952, by the Power Department at St. Thomas under an operating lease agreement with the Department of the Navy.

Original cost of the property transferred, most of which was constructed in 1943, is \$1,341,995 based on Department of the Navy records. The property was appraised at \$300,883 by a consulting engineer retained by the Corporation, with the reduction from original cost represented by \$664,614 for obsolescence and the elimination of the cost of national defense features and by \$376,498 for accumulated depreciation to October 1959. The appraised value of the properties transferred was approved by the Bureau of the Budget on August 3, 1960, and the interest-bearing investment of the United States in the Corporation was increased by \$300,883 as of October 5, 1959.

As a result of the official transfer of the properties, the expenses of the St. Thomas Power Department in fiscal year 1960 were increased by \$16,663 for depreciation and by \$6,358 for interest on investment.

Need for long-range planning  
for adequate electric power

In our fiscal year 1959 report to the Congress on the Virgin Islands Corporation, we stated that the electric power needs of the island of St. Thomas had not been adequately met by the Corporation during recent years. Also, because of the continuing growth in electric power requirements, we stated that new power generating facilities were needed for the economic development of the Islands. In addition, we noted that the lack of adequate generating facilities in the past had resulted in deferral of needed maintenance. Accordingly, we recommended that the Corporation prepare a plan for periodic additions to the electric power generating facilities at St. Thomas based on indicated present and future needs as forecast by the Corporation's consulting engineer.

Early in fiscal year 1960 the Corporation added a 2,500-kilowatt diesel generator to the St. Thomas power system. The generator has not operated satisfactorily and has been out of service frequently since installation. To November 1960 the manufacturer has been unable to obtain continued rated capacity from the unit and, accordingly, the unit has not yet been accepted. On a number of occasions the unit has been under repair and modification by the manufacturer in efforts to obtain rated capacity. The Corporation has notified the manufacturer that it is being held fully responsible for expenses and damages which have been incurred by the Corporation as the result of the defects in the unit.

The Department of the Interior and Related Agencies Appropriation Act, 1961, provided an appropriation of \$1,240,000 to the

Corporation for the acquisition and installation of a steam turbine generating unit which will supply 2,500 kilowatts of power to the power system on St. Thomas. The Corporation expects the new generating unit to be in operation by late 1961.

During fiscal year 1960 the Corporation engaged an additional consultant who has made a study to determine the electric power needs for the Virgin Islands. The consultant has reported that indicated power load growth rate for the St. Thomas-St. John system is 20 percent a year and the rate for the St. Croix system is 18 percent a year or higher and that, on the basis of indicated load growth, the power generating facilities of both systems will have to be expanded greatly to meet future load requirements. The consultant's report contained a plan for adding generating facilities to meet estimated power demands on both systems through 1966. This plan was later revised slightly during conferences between the consultant and the President of the Corporation.

To implement the plan for the St. Croix system, the Corporation's Board of Directors, at its meeting on September 27, 1960, gave the President approval to purchase two diesel generating units of 2,500 and 1,000 kilowatt capacities for which the Corporation has funds available. The board also approved the President's recommendation that a request be made to the Congress for \$2,250,000 in fiscal year 1962 from which can be financed the construction of a 5,000-kilowatt steam turbine for the St. Croix system in 1962 and 1963.

With the addition of the two diesel generating units to the power system for St. Croix, the Corporation believes that the

immediate power demands on this system can be met. Should the Congress grant the funds which we understand the Corporation will request for fiscal year 1962 to build the 5,000-kilowatt steam turbine for the St. Croix system, the Corporation believes that the estimated power demands through 1963 can be met. The plan submitted by the consultant contemplates also an additional 5,000-kilowatt steam turbine to be added to the St. Croix system in 1964 to meet the estimated power demands through 1966. The preliminary cost estimate for this unit is \$1,425,000.

With respect to the St. Thomas-St. John system, the consultant recommended that the Corporation purchase and install in 1960 a 1,136-kilowatt diesel generating unit at St. Thomas at an estimated cost of about \$112,000 to provide a better power supply until the 2,500-kilowatt steam unit is completed in late 1961. The consultant recommended also that one 5,000-kilowatt steam turbine be added to the system in 1961 and another in 1963 to meet the estimated power demands through 1966. The preliminary cost estimate for the two steam turbines is \$1,610,000 each, with boiler capacities appropriate for sea water distillation. The cost of water distillation facilities was not included in the estimate. We understand that the Corporation has not taken action on the consultant's recommendation that a 1,136-kilowatt diesel generating unit be added to the power generating facilities at St. Thomas in 1960 to provide a better power supply for current needs nor does it expect to make a request for funds in fiscal year 1962 for further expansion of the St. Thomas system to meet the demands for future needs which have been estimated through 1966.

While forward planning of anticipated generating capacity needs and related costs has been accomplished during fiscal year 1960, the plans do not extend beyond 1966 and certain of the cost estimates are of a preliminary nature. Because of the indicated significant investment in power generating facilities needed to provide adequate electric power for the future, we believe that the units and capacities likely to be needed and the related costs of construction and installation, including all appurtenant plant, transmission, and distribution facilities, should be determined over a 10-year period. On page 35 of this report, we are suggesting that the Congress require the Department of the Interior to project financial requirements over the next 10 years for expansion of power facilities and for other activities presently conducted by the Corporation.

## SALT WATER DISTILLATION FACILITIES

The Virgin Islands Corporation Act, as amended (48 U.S.C. 1407c(o)), authorizes the Corporation to construct, operate, and maintain salt water distillation facilities in St. Thomas, Virgin Islands. The facilities are to be used to supply potable water for sale to the Government of the Virgin Islands and to persons purchasing directly from the Corporation. The act authorizes the Corporation to borrow, as may be approved in appropriation acts, up to \$2,000,000 from the Treasury of the United States (48 U.S.C. 1407c(p)). To obtain funds from the Treasury of the United States, the Corporation may issue its notes, debentures, bonds, or other obligations to the Secretary of the Treasury. These obligations must be repaid, within a period not to exceed 20 years, from the revenues received from the sale of water. Interest rates on the Corporation's obligations are to be determined by the Secretary of the Treasury who will take into consideration the current average market yields on outstanding marketable obligations of the United States having comparable maturities.

Borrowings of \$125,000 for engineering and design and \$1,100,000 for construction of the salt water distillation facilities were authorized in the Second Supplemental Appropriation Act of 1959, approved May 20, 1959, and Department of the Interior and Related Agencies Appropriation Act, 1961, approved May 13, 1960, respectively. To June 30, 1960, the Corporation had notes outstanding to the United States Treasury of \$33,900. These notes bear interest at rates of 4.125 percent to 4.5 percent. Interest

paid to the United States Treasury in fiscal year 1960 on these notes was \$696.

When constructed, the salt water distillation facilities will produce 275,000 gallons of potable water a day and will be operated in combination with a steam turbine power generating unit having a capacity of 3,125 kilowatts which will supply 2,500 kilowatts of power to the electric power system of the Corporation of St. Thomas. The distillation facilities will utilize a multistage flash distillation process to convert sea water to potable water. The Corporation estimates that the cost of water produced will not exceed \$1.75 a thousand gallons when the plant operates at a capacity of 8,400 hours a year. Contracts were in force at the end of the fiscal year with an engineering firm who is providing architectural and engineering services for \$135,500 plus \$2,000 a month for each engineer engaged in start-up services, with a firm for manufacture of the distillation facilities for \$211,000, and with a firm for manufacture of the steam turbine generating unit for \$278,000.

As required by the Virgin Islands Corporation Act (48 U.S.C. 1407c(o)) as a precedent to executing a contract for constructing the distillation facilities, the Virgin Islands Government, on January 16, 1959, contracted with the Corporation to purchase a minimum quantity of water (100,000 gallons a day) at a price to be established by the Corporation to be calculated to cover all costs of construction, operation, and maintenance, including depreciation and interest on the Corporation's indebtedness in the facilities.

For our comments on possible alternate means of financing salt water distillation facilities, see section beginning on page 12.

OPERATION OF THE LOAN PROGRAM

The Corporation operates a loan program to provide credit facilities to promote the economic development of the Virgin Islands when such facilities are unavailable from other governmental or private sources. The Corporation's policy before December 1959 was to grant loans for agricultural, livestock, commercial, and industrial purposes. Because of expanded commercial banking facilities in the Islands and increased availability of private capital for economic development of the Islands, the Corporation, on December 11, 1959, modified its loan policy so as to continue the granting of loans only to the producers of sugarcane and livestock. The Corporation, by law (48 U.S.C. 1407b(g)), may not have loans outstanding in excess of \$5,000,000. The loan activity during fiscal year 1960 is shown in the following table:

<u>Type</u>	<u>June 30, 1959</u>		<u>Transactions</u>		<u>June 30, 1960</u>	
	<u>Number</u> <u>out-</u> <u>standing</u>	<u>Amount</u>	<u>New</u> <u>loans</u>	<u>Repay-</u> <u>ments</u>	<u>Number</u> <u>out-</u> <u>standing</u>	<u>Amount</u>
Agricultural	8	\$ 2,692	\$2,869	\$ 3,378	8	\$ 2,183
Commercial	6	83,371	4,000	6,616	5	80,755
Industrial	<u>1</u>	<u>70,833</u>	<u>-</u>	<u>10,000</u>	<u>1</u>	<u>60,833</u>
	<u>15</u>	<u>\$155,896</u>	<u>\$6,869</u>	<u>\$19,994</u>	<u>14</u>	<u>\$143,771</u>

These loans bear interest at the rate of 5 percent, with the exception of a commercial loan to St. Croix Museum, Inc., which bears interest at 3 percent. The interest income from the above loans for the fiscal year totaled \$7,604.

Ten agricultural loans were made and one commercial loan was increased during the fiscal year. Full repayments were made on ten agricultural loans, four of which were made during fiscal year 1960. One commercial loan made in a prior fiscal year was repaid.

#### MISCELLANEOUS ACTIVITIES

##### Water and soil conservation program

Title III of the Department of the Interior and Related Agencies Appropriation Act, 1960 (73 Stat. 107), included a grant of \$100,000 to the Corporation for water and soil conservation. Appropriations for this purpose since inception of the program in fiscal year 1952 totaled \$940,000, and the unexpended balance at June 30, 1960, amounted to \$32,887. During the fiscal year 1960 the program consisted principally of the construction of small dams on St. Thomas and St. Croix, increasing the impounding capacity of existing dams, and maintenance of dams and spillways. The land-clearing portion of the program was discontinued as of July 1, 1959, because all the land clearing which had been planned, comprising about 6,000 acres, was then completed. The dam construction program is designed to conserve the limited and erratic rainfall, with the objective of raising the general water table in the Islands. The activities are carried out in cooperation with the Soil Conservation Service, Department of Agricultural

Expenditures for the program activities, including purchases of equipment used under the program, are summarized:

	Fiscal year <u>1960</u>	Cumulative to <u>June 30, 1960</u>
Dam construction and maintenance	\$75,922	\$558,966
Land clearance and other activity	14,520	245,610
Equipment	<u>-</u>	<u>102,537</u>
	<u>\$90,442</u>	<u>\$907,113</u>

A total of six earthen dams were completed during the year-- three on St. Croix and three on St. Thomas. Also, the impounding capacities of two dams on St. Croix belonging to the Corporation were increased. The total number of dams constructed under the program is 116, and the estimated impounding capacity of the dams is about 696 million gallons of water.

Since 1953, about 6,000 acres of land have been cleared by the Corporation under the land-clearing program. The owners of the cleared land have agreed to use it for agricultural and live-stock purposes and maintain it free of brush for 5 years. Penalties are provided for noncompliance with the agreement.

#### Forestry program

The forestry program in cooperation with the Forest Service, Department of Agriculture, was continued during fiscal year 1960. The Corporation received a grant of \$30,000 which was included in title III of the Department of the Interior and Related Agencies Appropriation Act, 1960 (73 Stat. 107). Cumulative expenditures for this program to June 30, 1960, were \$184,022. At June 30, 1960, the total unexpended grant for forestry amounted to \$978.

The chief activity of the forestry program is the planting of trees which will have future commercial value on otherwise nonproductive land and which will also aid in the conservation of soil

and water. About 12,300 mahogany seedlings and 2,500 teak seedlings were planted under the program during the fiscal year 1960.

Other activities include the timber stand improvement program which consists of removing overmature timber, undesirable species, and immature, defective, or crowded timber. The forestry operation manages a small sawmill which provides the means of utilizing available local timber. A wood preservation plant was in operation during the fiscal year for treatment of mahogany thinnings for use as fence posts. A nursery is maintained to provide the mahogany seedlings, while teak seedlings are brought from Puerto Rico. Research and experimentation in other species of trees and utilization of forest products are also part of the activity. Forestry activities initiated on the island of St. John in fiscal year 1959 were continued during fiscal year 1960. Forestry is still in the planning stage for the island of St. Thomas.

#### Livestock development program

The livestock development program was continued during fiscal year 1960 in cooperation with the United States Department of Agriculture Experiment Station. The Corporation reported that it had 102 cattle at June 30, 1960, compared with 83 at June 30, 1959. The increase in the herd is accounted for by the birth of 32 animals, the death of 3, and the sale of 10. The purpose of the program is to improve the privately owned herds of cattle on the Islands.

Income for fiscal year 1960 was \$2,944 and expenses were \$8,303, resulting in a net loss of \$5,359. Since 1953 the cumulative costs of the program have exceeded cumulative income by \$45,832.

## DEVELOPMENT DEPARTMENT

Since July 1, 1954, pursuant to a revocable permit received from the Secretary of the Interior, the Corporation has had the responsibility for managing the installations formerly known as the Marine Corps Air Facility and Naval Submarine Base at St. Thomas. The installations were obtained by the Department of the Interior under a revocable permit from the Navy Department dated January 1, 1948. These facilities were operated from January 1, 1948, to July 1, 1954, by the Municipality of St. Thomas and St. John under arrangements which were later ratified by a lease agreement between the municipality and the Secretary of the Interior on March 25, 1950, and supplemented on October 8, 1951.

The properties comprise about 85 housing units leased to Federal and insular government employees and other private individuals, 6 hotels, 1 guesthouse, 4 piers, a beach club, a golf course and clubhouse, about 35 additional buildings, 3 water systems, transportation equipment, and other miscellaneous units.

Effective June 5, 1959, the Government of the Virgin Islands, pursuant to a revocable permit received from the Secretary of the Interior, which amended the Corporation's revocable permit to manage certain airport facilities, was granted the right to occupy, use, and operate portions of the airport terminal, the airport runway, and certain related facilities. The Corporation continues to manage these facilities on behalf of the Government of the Virgin Islands.

Power generating facilities together with related land, buildings, structures, facilities, distribution lines, fuel tanks, and

equipment used by the Corporation since December 1952 were transferred and conveyed to the Corporation on October 5, 1959, pursuant to section 7 of the act of September 2, 1958 (72 Stat. 1760).

A portion of the Corporation's administrative expense is charged to the Development Department to compensate the Corporation for the time the President and Comptroller devoted to administering the Development Department. There is also a charge for the bookkeeping services provided by the Corporation. At June 30, 1960, the Development Department employed 101 persons, 19 of whom were hired temporarily to repair flood damage.

We were informed by the President of the Corporation that it is the policy of the Corporation to operate the Development Department as a nonprofit organization and any surplus which may be accumulated will be used for maintenance and rehabilitation of Development Department property.

The Corporation maintains the accounts of the Development Department at its general offices at St. Croix. The Corporation records in the accounts certain accruals of income, expense, receivables, and payables. The records maintained by the Corporation show that the results of operations for fiscal year 1960 were as follows:

	<u>Fiscal year ended June 30</u>	
	<u>1960</u>	<u>1959</u>
Income:		
Rentals:		
Housing	\$ 59,815	\$ 59,520
Commercial leases	97,380	83,939
Other	<u>-</u>	<u>1,831</u>
	157,195	145,290
Fees and concessions income	76,862	64,542
Sales of potable water	11,220	12,940
Other	<u>48,495</u>	<u>47,510</u>
Total income	<u>\$293,772</u>	<u>\$270,282</u>
Expenses:		
Salaries and wages	\$149,101	\$133,283
Materials and supplies	81,706	65,552
Machinery and equipment	17,281	2,208
Allocation of Corporation's administrative expenses	22,527	18,326
Electricity, general over- head, and other	<u>20,034</u>	<u>18,018</u>
Total expenses	<u>\$290,649</u>	<u>\$237,387</u>
Net profit for the year	\$ 3,123	\$ 32,895
Add beginning surplus (-deficit)	<u>29,707</u>	<u>-3,188</u>
Ending surplus at June 30	<u>\$ 32,830</u>	<u>\$ 29,707</u>

A condensed statement of assets and liabilities at June 30, 1960, follows:

Assets:	
Cash	\$32,051
Accounts receivable	26,734
Materials and supplies in transit	2,178
Deferred charges	<u>2,554</u>
Total assets	<u>\$63,517</u>
Liabilities and net worth:	
Accounts payable	\$11,099
Accrued liabilities	15,269
Trust and deposit liabilities	4,319
Surplus at June 30, 1960	<u>32,830</u>
Total liabilities and net worth	<u>\$63,517</u>

The above statement does not include the Navy Department facilities in the custody of the Development Department which were recorded by the Navy Department at a cost of about \$10,700,000. The Corporation has not recorded in the accounts the value of the buildings, machinery, and other assets in its custody, whether obtained from the Navy Department or acquired during the Corporation's operation of the facilities or the investment of the United States Government in the facilities. Purchases of machinery and equipment used in the maintenance and rehabilitation of the Navy-owned property are charged to expense instead of being recorded as assets.

Our review of the Development Department was limited to certain documents and accounting records and did not include a review of operations of the Department. Certain deficiencies in the accounting records disclosed by the review are included in our report to the President of the Corporation.

## SCOPE OF AUDIT

Our audit of the Virgin Islands Corporation for the fiscal year 1960 included a review of applicable legislation, a review of management controls, reviews of selected activities, and an examination of financial statements. Our examination of the financial statements was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in view of the internal controls afforded by the accounting system and internal review program of the Corporation. The audit was conducted at St. Croix and St. Thomas, Virgin Islands.

## OPINION OF FINANCIAL STATEMENTS

The financial statements for the fiscal year 1960 in this report are identical with the statements published in the Virgin Islands Corporation's annual financial report.

The following changes in accounting, which we approve, have been reflected in the operations statements for fiscal year 1960 and in the comparative statement of assets and liabilities for both fiscal years 1959 and 1960.

1. In fiscal year 1959, charges for depreciation expense were allocated to sugar milling, sugarcane growing, and certain miscellaneous activities on the basis of direct operating costs. In fiscal year 1960, the Corporation, wherever possible, identified the use of fixed assets to specific operations, and charges for depreciation expense, accordingly, were made to the applicable operation using the fixed assets. Depreciation expense applicable to fixed assets unidentified to specific operations has been charged to sugar operations and miscellaneous activities on the basis of direct operating costs. This change in method of charging depreciation expense increased depreciation expense charges to sugar milling by about \$15,000 and correspondingly decreased charges to sugarcane growing by about \$14,000 and to miscellaneous activities by about \$1,000 in fiscal year 1960 compared with fiscal year 1959.

2. In the fiscal year 1959 statement of assets and liabilities, "Donated surplus" of \$22,911 was classified as part of the "Non-interest-bearing investment." At June 30, 1960, the book value of "Donated surplus" was \$28,278. In the accompanying

comparative statement of assets and liabilities, "Donated surplus" for fiscal years 1959 and 1960 has been classified as part of the "Interest-bearing investment." (See notes 6 and 8 on pp. 82 and 83.)

3. In compliance with the provisions of section 7(b) of the act of September 2, 1958 (72 Stat. 1761), the Corporation on October 5, 1959, recorded in its accounting records, at a value of \$300,883, power generating facilities transferred and conveyed to the Corporation from the Department of the Navy which have been used by the Corporation since December 1, 1952. For the fiscal year 1960 financial statements, interest amounting to \$6,358 and depreciation expense amounting to \$16,663 applicable to the property transferred for the period October 5, 1959, to June 30, 1960, have been charged to power operations and the value of the property transferred has been recorded in "Electric plant" and "Interest-bearing investment." The financial statements for the fiscal year 1959 do not show the use by the Corporation of these properties. (See pp. 52 and 77.)

4. In fiscal year 1959 the value of sugar sold by the Corporation to its sugar broker was shown on the statement of assets and liabilities as "ANTICIPATED INCOME FROM UNSOLD PORTION OF PRODUCTION." For fiscal year 1960 the value of sugar sold by the Corporation to its sugar broker for fiscal years 1959 and 1960 has been reclassified and shown under accounts receivable as "Due from sugar broker for sale of sugar production."

5. Erroneous classifications of assets and liabilities made in 1959 which resulted in overstatement of deferred charges and

corresponding understatement of materials and supplies inventories by about \$55,000 and which resulted in minor overstatements and understatements of current liabilities at June 30, 1959, have been corrected in fiscal year 1960. Practices which did not provide an acceptable inventory of materials and supplies shown on the books at June 30, 1959, at \$147,770 were corrected during fiscal year 1960.

6. The Corporation has shown for the first time, in the statement of assets and liabilities, assets purchased from grant funds appropriated for water and soil conservation and forestry program activities. Investment in these assets at June 30, 1960 and 1959, was \$106,112 and \$117,186, respectively.

In our opinion the accompanying financial statements present fairly the financial position of the Virgin Islands Corporation at June 30, 1960, and the results of its operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except as described in the above paragraphs, and with applicable Federal laws.

**FINANCIAL STATEMENTS**

**VIRGIN ISLANDS CORPORATION**  
(A WHOLLY OWNED FEDERAL GOVERNMENT CORPORATION)

STATEMENT OF ASSETS AND LIABILITIES--JUNE 30, 1960 AND 1959 (note 1)

ASSETS		<u>1960</u>	<u>1959</u>	LIABILITIES		<u>1960</u>	<u>1959</u>
CASH IN U.S. TREASURY AND ON HAND	\$	43,479	\$ 48,439	ACCOUNTS PAYABLE	\$	291,102	\$ 296,557
ACCOUNTS RECEIVABLE (note 2):				ACCRUED LIABILITIES:			
General, less estimated uncollectibles of				Salaries and wages		16,736	24,617
\$2,125 and \$1,805, respectively		351,585	292,156	Annual leave		62,912	64,255
Due from sugar broker for sale of sugar production		884,213	1,544,010	Due private growers for sugarcane and molasses		17,702	37,453
LOANS RECEIVABLE:				Anticipated selling expenses on sugar (note 2)		86,287	155,017
Commercial and industrial		21,401	16,851	Accrued taxes		24,570	24,557
Agricultural		2,183	2,692	Materials and supplies not invoiced		75,996	109,558
ANTICIPATED INCOME FROM UNSOLD PORTION OF MOLASSES PRODUCTION (note 3)		12,542	34,658	Accrued interest, U.S. Treasury (note 6)		396,392	172,942
				Other		79,501	68,055
ACCRUED ELECTRIC REVENUE		32,313	39,422	TRUST AND DEPOSIT LIABILITIES		64,577	54,594
INVENTORIES OF COMMODITIES, SUPPLIES, AND MATERIALS:				INTEREST-BEARING ADVANCE FROM SUGAR BROKER (note 2)		675,000	600,000
Sugarcane (note 4)		144,946	159,922	DEFERRED CREDIT		1,500	6,500
Materials and supplies at average cost		841,260	867,024				
Vegetables		1,057	508	Total current liabilities		<u>1,792,275</u>	<u>1,614,105</u>
DEFERRED CHARGES		880	704	INVESTMENT OF THE U.S. GOVERNMENT:			
Total current assets		<u>2,335,859</u>	<u>3,006,386</u>	Interest-bearing investment:			
LAND, STRUCTURES, AND EQUIPMENT (note 5):				Advances from revolving fund		6,513,000	6,513,000
Land and buildings		1,352,216	1,351,615	Borrowings from the U.S. Treasury		33,900	-
Machinery and equipment		3,263,108	2,994,430	Transfers from the Department of the Interior and predecessor corporation (note 7)		938,436	938,629
Electric plant		4,382,878	3,794,890	Transfer from the U.S. Navy Department (note 5)		300,883	-
Furniture and fixtures		83,707	78,436	Donated surplus (note 8)		<u>28,278</u>	<u>22,911</u>
Livestock		10,375	9,975	Total interest-bearing investment		<u>7,814,497</u>	<u>7,474,540</u>
Salt water distillation		38,565	-	Non-interest-bearing investment:			
		9,130,849	8,229,346	Grants for revenue-producing activities:			
Less accumulated depreciation		<u>2,525,120</u>	<u>2,217,129</u>	For repayment of predecessor corporation's notes payable to the U.S. Treasury at June 30, 1949		750,000	750,000
Machinery and equipment for non-revenue-producing activities		<u>106,112</u>	<u>117,186</u>	For reimbursement of losses (note 10)		3,056,769	3,056,769
Total land, structures, and equipment less depreciation		6,711,841	6,129,403	Expended from grants for non-revenue-producing activities for purchase of fixed assets (note 5)		106,112	117,186
LONG-TERM ACCOUNTS RECEIVABLE		355,593	272,913	Unexpended grants for non-revenue-producing activities (note 9)		<u>33,945</u>	<u>24,335</u>
				Total non-interest-bearing investment		<u>3,946,826</u>	<u>3,948,290</u>
LONG-TERM LOANS RECEIVABLE		<u>120,187</u>	<u>137,408</u>	Less deficit incurred in revenue-producing activities:			
				Deficit, prior years		3,490,825	3,252,478
Total assets		<u>\$9,523,480</u>	<u>\$9,546,110</u>	Net loss for fiscal year		<u>539,293</u>	<u>238,347</u>
				Balance at end of fiscal year (note 10)		<u>4,030,118</u>	<u>3,490,825</u>
				Net investment of U.S. Government		<u>7,731,205</u>	<u>7,932,005</u>
				Total liabilities and investment of the U.S. Government		<u>\$9,523,480</u>	<u>\$9,546,110</u>

The notes on pages 80 to 84 are an integral part of this statement.

## VIRGIN ISLANDS CORPORATION

## INCOME AND DEFICIT STATEMENT

FOR THE FISCAL YEARS ENDED JUNE 30, 1960 AND 1959 (note 1)

	<u>1960</u>	<u>1959</u>
OPERATING LOSS:		
Sugar operations (schedule 3)	\$ 635,760	\$ 131,067
Power operations (schedule 6)	6,036	106,832
Miscellaneous activities (schedule 7)	<u>20,225</u>	<u>448</u>
Net loss from operations	662,021	238,347
NONOPERATING INCOME:		
Sale of buildings	<u>122,728</u>	<u>-</u>
Net loss for the year	539,293	238,347
CUMULATIVE DEFICIT INCURRED IN REVENUE- PRODUCING ACTIVITIES AT BEGINNING OF YEAR	<u>3,490,825</u>	<u>3,252,478</u>
CUMULATIVE DEFICIT INCURRED IN REVENUE- PRODUCING ACTIVITIES AT END OF YEAR (schedule 1)	<u>\$4,030,118</u>	<u>\$3,490,825</u>

The notes on pages 80 to 84 are an integral part of this statement.

## VIRGIN ISLANDS CORPORATION

## STATEMENT OF SUGAR OPERATIONS

FOR THE FISCAL YEARS ENDED JUNE 30, 1960 AND 1959

	<u>1960</u>	<u>1959</u>
SALES:		
Sugar	\$ 874,155	\$1,544,425
Molasses	<u>18,740</u>	<u>65,915</u>
Total	892,895	1,610,340
COST OF SUGAR SOLD:		
Cost of sugar produced (schedule 5)	\$1,234,505	\$1,672,849
Shipping and selling expenses:		
Sugar	85,402	155,017
Molasses	<u>276</u>	<u>-</u>
Total	<u>1,320,183</u>	<u>1,827,866</u>
OPERATING LOSS, SUGAR MILLING	427,288	217,526
Operating profit (-loss) and subsidy, cane growing (schedule 4)	<u>-208,472</u>	<u>86,459</u>
OPERATING LOSS FOR THE YEAR (schedule 2)	<u>\$ 635,760</u>	<u>\$ 131,067</u>

## VIRGIN ISLANDS CORPORATION

## STATEMENT OF INCOME AND DEFICIT ON SUGARCANE GROWING

FOR THE FISCAL YEARS ENDED JUNE 30, 1960 AND 1959

	<u>1960</u>	<u>1959</u>
CANE GROWN (market value) (note a)	\$271,189	\$529,182
GROWING COSTS:		
Materials	\$ 13,157	\$ 32,684
Labor and equipment	137,264	197,363
Overhead	101,389	106,779
Allocated expenses (schedule 8):		
Depreciation	44,707	43,434
General expenses	28,287	28,051
Administrative expenses	27,240	34,246
Interest on investment	<u>43,140</u>	<u>24,645</u>
Total	395,184	467,202
Add prior year costs included in inventory of sugarcane under cultivation	157,827	76,542
Less cost of growing and cutting seed cane transferred to inventory of sugarcane under cultivation	<u>-11,333</u>	<u>-17,013</u>
Total growing costs	<u>541,678</u>	<u>526,731</u>
OPERATING PROFIT (-LOSS), CANE GROWING	-270,489	2,451
Amount receivable from Commodity Stabilization Service under the Sugar Act of 1948 (subsidy), also from the local government	<u>62,017</u>	<u>84,008</u>
OPERATING PROFIT (-LOSS) AND SUBSIDY (schedule 3)	<u>-\$208,472</u>	<u>\$ 86,459</u>

<sup>a</sup>The value of cane grown by the Corporation is based on the ton price of sugarcane established pursuant to criteria developed by the Department of Agriculture. This ton price is the same as that paid by the Corporation to private cane growers on St. Croix for cane of the same quality.

## VIRGIN ISLANDS CORPORATION

STATEMENT OF COST OF SUGAR PRODUCED  
FOR THE FISCAL YEARS ENDED JUNE 30, 1960 AND 1959

	<u>1960</u>	<u>1959</u>
<b>COST OF SUGAR PRODUCED:</b>		
Materials:		
Value of sugarcane grown (schedule 4)	\$ 271,189	\$ 529,182
Cost of sugarcane pur- chased	<u>220,229</u>	<u>354,141</u>
Total materials	491,418	883,323
Labor and overhead:		
Transportation of cane to mill	\$ 30,670	\$ 53,024
Weighing and discharging cane	22,463	30,600
Grinding	7,949	21,158
Other processing opera- tions	19,616	26,044
Supplies (fuel oil, lubri- cants, and chemicals)	40,117	46,179
Power, light and water, and steam plant furnaces	16,706	19,000
Superintendence and gen- eral overhead	25,571	30,019
Repairs to factory	172,744	150,670
Other	<u>12,254</u>	<u>16,249</u>
Total labor and over- head	348,090	392,943
Allocated expenses (sched- ule 8):		
Depreciation	151,564	156,849
Administrative expenses	54,228	63,422
General expenses	88,998	87,309
Interest on investment	<u>100,207</u>	<u>89,003</u>
Total allocated ex- penses	<u>394,997</u>	<u>396,583</u>
Total cost of sugar produced (sched- ule 3) (note a)	<u>\$1,234,505</u>	<u>\$1,672,849</u>

<sup>a</sup> Includes loss in 1960 and profits in 1959 on sugarcane growing. (See schedule 4.)

VIRGIN ISLANDS CORPORATION

STATEMENT OF POWER OPERATIONS

FOR THE FISCAL YEARS ENDED JUNE 30, 1960 AND 1959

	1960			1959		
	<u>Total</u>	<u>St. Thomas</u>	<u>St. Croix</u>	<u>Total</u>	<u>St. Thomas (note a)</u>	<u>St. Croix</u>
<b>REVENUES:</b>						
Electric sales	\$1,082,718	\$671,101	\$411,617	\$907,165	\$562,915	\$344,250
Other income	<u>20,336</u>	<u>10,622</u>	<u>9,714</u>	<u>12,262</u>	<u>3,817</u>	<u>8,445</u>
Total revenues	<u>1,103,054</u>	<u>681,723</u>	<u>421,331</u>	<u>919,427</u>	<u>566,732</u>	<u>352,695</u>
<b>OPERATING EXPENSES:</b>						
Production:						
Generation	425,570	274,017	151,553	352,964	215,783	137,181
Maintenance	184,456	126,515	57,941	237,389	197,230	40,159
Distribution	73,224	45,573	27,651	71,413	56,292	15,121
Property written off	11,938	-	11,938	40,522	40,522	-
Administrative expenses allocated (schedule 8)	54,571	32,452	22,119	43,827	28,961	14,866
Other administrative and general expenses	140,192	82,224	57,968	118,421	65,051	53,370
Depreciation	<u>132,151</u>	<u>79,736</u>	<u>52,415</u>	<u>105,739</u>	<u>57,280</u>	<u>48,459</u>
Total operating expenses	<u>1,022,102</u>	<u>640,517</u>	<u>381,585</u>	<u>970,275</u>	<u>661,119</u>	<u>309,156</u>
<b>OPERATING INCOME (-LOSS) FOR THE YEAR</b>						
Interest on investment	80,952	41,206	39,746	-50,848	-94,387	43,539
	<u>86,988</u>	<u>50,093</u>	<u>36,895</u>	<u>55,984</u>	<u>24,684</u>	<u>31,300</u>
<b>NET INCOME (-LOSS) FOR THE YEAR</b>						
(schedule 2)	<u>\$ -6,036</u>	<u>\$ -8,887</u>	<u>\$ 2,851</u>	<u>-\$106,832</u>	<u>-\$119,071</u>	<u>\$ 12,239</u>

<sup>a</sup> Expenses do not include any charges for depreciation or interest on facilities transferred from the Navy.

VIRGIN ISLANDS CORPORATION

STATEMENT OF INCOME AND EXPENSES OF MISCELLANEOUS ACTIVITIES

FOR THE FISCAL YEARS ENDED JUNE 30, 1960 AND 1959

	<u>1960</u>			<u>1959</u>		
	<u>Income</u>	<u>Cost and ex- penses (in- cludes allo- cated admin- istrative and general ex- penses, de- preciation, and interest)</u>	<u>Net income or loss (-) (sched- ule 2)</u>	<u>Income</u>	<u>Cost and ex- penses (in- cludes allo- cated admin- istrative and general ex- penses, de- preciation, and interest)</u>	<u>Net income or loss (-) (sched- ule 2)</u>
<b>RENTALS:</b>						
Tractors and other equipment	\$ 15,605	\$ 20,275	\$ -4,670	\$ 20,552	\$ 14,621	\$ 5,931
Leases:						
Houses occupied by officers and supervisory employees	3,400	16,347	-12,947	2,878	14,179	-11,301
Villages occupied by factory and field laborers	7,046	43,177	-36,131	7,049	39,126	-32,077
Commercial and industrial and other Government agencies	<u>3,941</u>	<u>1,701</u>	<u>2,240</u>	<u>3,952</u>	<u>922</u>	<u>3,030</u>
Total	<u>29,992</u>	<u>81,500</u>	<u>-51,508</u>	<u>34,431</u>	<u>68,848</u>	<u>-34,417</u>
<b>SALES:</b>						
Storeroom supplies, seed and other	21,848	17,376	4,472	27,782	31,811	-4,029
Livestock	2,944	8,303	-5,359	1,451	3,002	-1,551
Vegetables	<u>1,240</u>	<u>797</u>	<u>443</u>	<u>787</u>	<u>556</u>	<u>231</u>
Total	<u>26,032</u>	<u>26,476</u>	<u>-444</u>	<u>30,020</u>	<u>35,369</u>	<u>-5,349</u>
<b>OTHER INCOME AND EXPENSES:</b>						
Loan program	7,604	5,206	2,398	8,322	4,161	4,161
Interest on long-term accounts	<u>10,961</u>	<u>-</u>	<u>10,961</u>	<u>9,597</u>	<u>-</u>	<u>9,597</u>
Total	<u>18,565</u>	<u>5,206</u>	<u>13,359</u>	<u>17,919</u>	<u>4,161</u>	<u>13,758</u>
ADJUSTMENT TO PRIOR YEARS' INCOME (net)	<u>18,368</u>	<u>-</u>	<u>18,368</u>	<u>25,560</u>	<u>-</u>	<u>25,560</u>
Total miscellaneous activities	<u>\$ 92,957</u>	<u>\$ 113,182</u>	<u>\$ -20,225</u>	<u>\$ 107,930</u>	<u>\$ 108,378</u>	<u>\$ -148</u>
SALE OF SURPLUS PROPERTY	<u>\$ 139,148</u>	<u>\$ 16,420</u>	<u>\$ 122,728</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

VIRGIN ISLANDS CORPORATION

SCHEDULE OF EXPENSE ALLOCATIONS  
FOR THE FISCAL YEAR ENDED JUNE 30, 1960

	<u>Depreciation</u>			<u>Interest on the investment</u>			<u>General expenses</u>			<u>Administrative expenses (all allocated) (note 11)</u>
	<u>Allocated</u>	<u>Direct</u>	<u>Total</u>	<u>Allocated</u>	<u>Direct</u>	<u>Total</u>	<u>Allocated</u>	<u>Direct</u>	<u>Total</u>	
SUGAR MILLING OPERATIONS (schedule 5)	\$11,738	\$139,826	\$151,564	\$100,207	\$ -	\$100,207	\$21,775	\$67,223	\$ 88,998	\$ 54,228
SUGARCANE GROWING OPERATIONS (schedule 4)	5,054	39,653	44,707	43,140	-	43,140	9,376	18,911	28,287	27,240
POWER OPERATIONS (schedule 6)	-	132,151	132,151	-	86,988	86,988	-	-	-	54,571
MISCELLANEOUS ACTIVITIES (schedule 7)	696	29,942	30,638	5,926	4,372	10,298	1,291	4,863	6,154	11,287
DEVELOPMENT DEPARTMENT	-	-	-	-	-	-	-	-	-	22,527
Total	<u>\$17,488</u>	<u>\$341,572</u>	<u>\$359,060</u>	<u>\$149,273</u>	<u>\$91,360</u>	<u>\$240,633</u>	<u>\$32,442</u>	<u>\$90,997</u>	<u>\$123,439</u>	<u>\$169,853</u>

The notes on pages 80 to 84 are an integral part of this statement.

## NOTES TO FINANCIAL STATEMENTS

1. The statements of assets and liabilities (schedule 1) and the income and deficit statement (schedule 2) do not include the activities of the Development Department. These activities are accounted for separately by the Corporation, and the revenues are used solely for the operation and rehabilitation of certain Navy Department facilities in the custody of the Corporation. (See pp. 63 to 66.)

The income and deficit statement does not include the water and soil conservation and forestry activities of the Corporation which are predominantly non-revenue-producing in character. The expenditures for these activities are charged against congressional grants for these purposes. (See pp. 60 to 62.)

2. Accounts receivable included sugar benefit payments of \$55,517 and \$84,008 at June 30, 1960 and 1959, respectively, due from the Commodity Stabilization Service, Department of Agriculture, under the Sugar Act of 1948 (7 U.S.C. 1100). The benefit payments are made at rates specified in the act for each ton of raw sugar produced from sugarcane grown by the Corporation during the crop year. The payment is contingent upon the Corporation's meeting specified conditions, including the payment of wages to persons employed in the production, cultivation, or harvesting of sugarcane at rates not less than those that may be determined by the Secretary of Agriculture to be fair and reasonable. It also includes \$5,000 due from the Virgin Islands Government, as authorized by law for the promotion and encouragement of sugarcane growing in the Virgin Islands.

The accounts receivable due from sugar broker in the amounts of \$884,213 and \$1,544,010 represent firm sales prices for the entire quantity of sugar on hand at the end of the respective fiscal years (1960 and 1959). These sugars were actually sold but undelivered and advanced payments of \$675,000 and \$600,000 were received against these sales with interest charges of 5-1/4 percent and 4-3/4 percent respectively. The anticipated expenses of \$86,287 and \$155,017 represent estimated expenses to be incurred after the end of the fiscal years, applicable to the respective years.

3. Under the crop-year basis of accounting, all income, operating costs, and expenses applicable to the year's crop are considered earned or incurred during the fiscal year. Anticipated revenues of \$12,542 and \$34,658 represent estimated sales price of that part of the molasses production unsold at the end of fiscal years 1960 and 1959.

4. The inventories of sugarcane under cultivation amounting to \$144,946 at June 30, 1960, and \$159,922 at June 30, 1959, represent the actual cost accumulated to the end of the respective fiscal years for preparing, planting, and cultivating the crop of the succeeding years.

5. Land, buildings, and machinery and equipment include property transferred from the Department of the Interior and from the Virgin Islands Company on July 1, 1949. These properties were transferred at cost less accumulated depreciation.

The production plant used by the Power Department at St. Thomas includes the Navy facilities valued at \$300,883 which were transferred to the Corporation on October 5, 1959, as directed by section 7 of the act of September 2, 1959 (72 Stat. 1760). The appraised values of the properties were approved by the Bureau of the Budget on August 3, 1960. (See p. 52.)

Assets purchased from grant funds appropriation for soil and water conservation and forestry program activities are shown with other fixed assets and the value included as non-interest-bearing investment.

Livestock consists of cattle under the livestock development program, \$5,895, and work horses, \$4,480.

6. The Corporation is required by law (48 U.S.C. 1407f(b)) to pay interest to the United States Treasury on withdrawals from the revolving fund and on the values of properties and other net assets transferred to the Corporation from its predecessor at June 30, 1949. The Corporation is required also to pay interest to the United States Treasury on the appraised value of property and assets transferred to the Corporation from the Federal Government without cost or for consideration clearly not commensurate with value received. The amount due the Treasury at June 30, 1960, was \$396,392. This represents the accumulated amounts due for fiscal years 1960 and 1959, based on Treasury interest rates of 2-7/8 percent and 2-1/2 percent for the respective years. The entire amount was paid on July 18, 1960. No interest has been accrued on the value of property received from other Federal agencies without

cost, recorded in donated surplus at a fair value of \$28,278.

(See note 8.)

7. Transfers of \$938,436 represent the property and other assets transferred to, less the liabilities assumed by, the Corporation at June 30, 1949, adjusted by \$10,670 in fiscal year 1953 to eliminate duplications in the original listing of property transferred and by \$7,709 in fiscal year 1956 and \$193 in 1960 for the book value of certain properties transferred to the Department of Agriculture and the Government of the Virgin Islands in accordance with the act of July 28, 1955 (69 Stat. 391), and the act of August 21, 1958 (72 Stat. 707).

8. Donated surplus of \$28,278 represents the value of materials, supplies, and equipment transferred to the Corporation by other Government agencies without expenditure of Corporation funds. The value of these properties transferred has not been approved by the Director of the Bureau of the Budget as required by the Virgin Islands Corporation Act (48 U.S.C. 1407f(b)).

9. Unexpended grants for non-revenue-producing activities represent the difference between total appropriations of \$1,220,000 and \$1,186,055 expended to June 30, 1960, for non-revenue-producing activities. Appropriations to June 30, 1960, consisted of \$940,000 for water and soil conservation, \$95,000 for tourist development, and \$185,000 for a forestry program. Expenditures for these programs to June 30, 1960, amount to \$907,113, \$94,920, and \$184,022 respectively.

10. Grants for reimbursement of losses represent amounts appropriated to partially cover the operating losses in revenue-producing activities of prior years. At June 30, 1960, reimbursements of \$3,056,769 received to cover operating losses since July 1, 1949, were \$890,494 less than the actual cumulative losses of \$3,947,263 sustained by the Virgin Islands Corporation. An accumulative deficit at July 1, 1949, of \$82,855 is applicable to the power operations of the predecessor corporation.

Deficit incurred in revenue-producing activities	\$4,030,118
Less deficit at July 1, 1949, applicable to predecessor corporation	<u>82,855</u>
Deficit of Virgin Islands Corporation	3,947,263
Grants for reimbursement of losses	<u>3,056,769</u>
Excess of losses over reimbursements	<u>\$ 890,494</u>

11. Administrative expenses of \$169,853 are subject to the limitation of \$172,000 established by the Department of the Interior and Related Agencies Appropriation Act, 1960.