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REPORT TO
THE CONGRESS OF THE UNITED STATES

AUDIT OF
VIRGIN ISLANDS CORPORATION
FISCAL YEAR 1964



BY
THE COMPTROLLER GENERAL
OF THE UNITED STATES

MAY 1965

74-1513/087863



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114822

MAY 12 1965

To the President of the Senate and the
Speaker of the House of Representatives

The General Accounting Office has made an audit of the Virgin Islands Corporation for the fiscal year ended June 30, 1964, and is reporting on the results of such audit pursuant to the provisions of section 106 of the Government Corporation Control Act (31 U.S.C. 851).

The Virgin Islands Corporation incurred a loss of about \$371,000 from its sugar operations in fiscal year 1964. Similar losses in recent years have been reimbursed by authority of the Congress from internal revenue collections--on articles produced in the Virgin Islands and transported to the United States--which would otherwise be transferable to the Government of the Virgin Islands as Federal grants. Such congressional action was apparently based on belief by the Congress that the revenues of the insular government were adequate to meet the Corporation's losses from sugar operations.

In view of the prior congressional action and the continued substantial increase in insular government revenues, the Congress may wish to consider reimbursing the Corporation, from internal revenue collections otherwise transferable to the insular government, for the fiscal year 1964 sugar operation loss. Reimbursement of the Corporation's loss in this manner would restore that portion of the Federal Government's equity in the Corporation which has been reduced by the amount of the loss.

The President of the Corporation is planning to use funds, derived from the management of certain naval properties for the Department of the Navy and aggregating about \$257,000 at June 30, 1964, to make extensive improvements and repairs to these properties. In view of the pending transfer of the properties to the Government of the Virgin Islands, we are recommending that the President of the Virgin Islands Corporation authorize only those expenditures of

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Federal funds which are required for normal operation and maintenance of the properties.

We are expressing the opinion that the financial statements of the Virgin Islands Corporation included in this report present fairly the financial position of the Corporation at June 30, 1964, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

Copies of this report are being sent to the President of the United States and to the members of the Board of Directors and the President of the Virgin Islands Corporation.

A handwritten signature in cursive script, appearing to read "Roger Campbell".

Comptroller General
of the United States

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REPORT ON AUDIT
OF
VIRGIN ISLANDS CORPORATION
FISCAL YEAR 1964

INTRODUCTION

The General Accounting Office has made an audit of the VIRGIN ISLANDS CORPORATION for the fiscal year ended June 30, 1964, pursuant to the Government Corporation Control Act (31 U.S.C. 841). The scope of the audit work performed and our opinion on the financial statements of the Corporation appears on page 11 of this report.

BACKGROUND

The Virgin Islands Corporation is a wholly owned Government corporation created by the Virgin Islands Corporation Act of June 30, 1949 (63 Stat. 350; 48 U.S.C. 1407), as successor to the Virgin Islands Company incorporated in 1934. The Corporation is chartered through June 30, 1969, unless sooner dissolved by act of the Congress. The President of the United States has designated the Secretary of the Interior as his representative to exercise general direction over the Corporation. Management of the Corporation is vested in a 7-member Board of Directors with the Secretary of the Interior as Chairman. The principal officials responsible for affairs of the Corporation are listed in the appendix of this report.

The Corporation's principal revenue-producing programs in fiscal year 1964 were the growing of sugarcane and the manufacture of raw sugar on the Island of St. Croix and the generation and distribution of electric power throughout the Virgin Islands. A salt water distillation plan designed to produce 275,000 gallons of

water a day is electrically and hydraulically integrated with the electric facilities of the St. Thomas power plant. Miscellaneous revenue-producing programs of the Corporation during fiscal year 1964 included the administration of an agricultural loan program, providing housing for employees and others on the Island of St. Croix, and the management of a small livestock herd which was disposed of during October 1963.

The Corporation has taken action to terminate its principal and most of its miscellaneous revenue-producing programs. Sugar operations were discontinued effective August 3, 1964, when the sugar mill and most of the sugar lands were transferred, under an interim agreement, to a private corporation which is committed to purchase the property when the property boundaries can be determined and title to the property can be passed. The electric power and salt water distillation facilities have been declared as excess by the Corporation for transfer at fair market value to the Government of the Virgin Islands. Miscellaneous programs which have been terminated include the Corporation's agricultural loan and livestock development programs.

During fiscal year 1964 the Corporation took action to dispose of 2,352 acres of land and related facilities which included the properties transferred to a private corporation. The Corporation estimates that a profit of about \$1 million will be realized from the disposal. (See exhibit on page 33 and note 3 on page 29.)

Formal disclosure of the plans to terminate all the Corporation's programs was made in the Budget of the United States Government for the fiscal year ending June 30, 1966. The budget disclosed that the Corporation's principal programs would be terminated during 1965 and the remaining programs during 1966.

During fiscal year 1964, the Corporation incurred a net loss of \$371,488 from its sugar operations compared with a net profit of \$97,725 in the preceding fiscal year. The change from a profit to a loss position was caused primarily by a decline in the market price for the raw sugar produced. The June 30, 1964, inventory was valued at a price of 6.2245 cents a pound compared with the average sales price of 7.19 cents a pound for the previous year's inventory. Our comments with respect to the need to consider reimbursement to the Corporation for the loss incurred from the sugar operations are presented starting on page 5.

The Corporation realized a net profit of \$448,837 from its electric power operations during fiscal year 1964 compared with a net profit of \$197,708 in fiscal year 1963. The improved earnings are largely attributable to a 22.2 percent increase in revenues compared with a 11.7 percent increase in total expenses.

Since July 1, 1954, the Corporation, through its Development Department, has managed for the Department of the Navy the properties formerly known as the Naval Submarine Base and the Marine Corps Air Facility on the Island of St. Thomas. The management of the naval properties has been independent of the Corporation's revenue-producing programs, and the income and expenditures related to these properties are not included in the Corporation's financial statements accompanying this report. Revenues from these properties totaled \$435,624 in fiscal year 1964. The revenues derived from operation of the naval properties are used solely for the operation and rehabilitation of the properties. The Corporation has proposed extensive improvements and repairs to these properties, which are excess to the Navy's needs and are scheduled to be transferred to the Government of the Virgin Islands, as discussed on page 8.

STATUS OF RECOMMENDATION IN PREVIOUS REPORT

In our fiscal year 1963 report, we recommended to the President of the Virgin Islands Corporation that excess funds totaling about \$120,000 be returned to the United States Treasury. These funds consisted of (1) about \$89,000 comprising depreciation charges against, and net income from operation of, the Corporation's salt water distillation facilities and (2) about \$31,000 representing unexpended grant funds provided to the Corporation for a water and soil conservation program and a forestry program. The two grant programs were terminated on June 30, 1962.

During August 1964, the Corporation returned the unexpended grant funds to the United States Treasury for deposit to miscellaneous receipts. In addition, the Department of the Interior, in a letter to the Bureau of the Budget dated June 4, 1964, stated that it intended to return the \$89,000 to the United States Treasury as soon as the impending sale of the salt water distillation facilities to the Government of the Virgin Islands is completed. In view of (1) the return of the unexpended grant funds to the United States Treasury and (2) the Department's statement that the \$89,000 would be returned to the United States Treasury upon completion of the sale of the salt water distillation facilities, we are not repeating the recommendation included in our previous audit report.

FINDINGS AND RECOMMENDATIONS

NEED TO CONSIDER REIMBURSEMENT OF LOSS FROM SUGAR OPERATIONS

The Congress may wish to consider reimbursing the Corporation for its fiscal year 1964 sugar operation loss which amounted to \$371,488, in view of reimbursements of similar losses in recent years from internal revenue collections otherwise transferable to the insular government as Federal grants. Reimbursement of the Corporation's losses in this manner would restore that portion of the Federal Government's equity in the Corporation which has been reduced by the amount of the loss.

On the basis that the Corporation was organized to promote the economic growth of the Islands by providing employment and assisting in industrial development, we recommended in prior audit reports on the Virgin Islands Corporation that the Congress consider financing the Corporation's operating losses from internal revenue collections otherwise appropriated as Federal grants to the insular government under section 28(b) of the Revised Organic Act of the Virgin Islands (26 U.S.C. 7652(b)). Since the primary beneficiaries of the Corporation's programs were the residents of the Virgin Islands and since Federal grants from internal revenue collections provided the insular government with the ability to finance the Corporation's losses, we concluded that the insular government should logically assume responsibility for the Corporation's losses.

The Congress adopted our recommendation by providing in the Department of the Interior and Related Agencies Appropriation Act, 1962 (75 Stat. 246), that funds for reimbursement of operating losses of the Corporation incurred during fiscal year 1960 and for

the financing of the Corporation's fiscal year 1962 non-revenue-producing programs were to be derived from internal revenue collections otherwise transferable as Federal grants to the insular government. This procedure was again followed by the Congress in its enactment of the Supplemental Appropriation Act, 1963 (77 Stat. 20), in which reimbursement of the Corporation's fiscal years 1961 and 1962 sugar operation losses was authorized.

In commenting on the Department of the Interior and Related Agencies Appropriation Bill, 1962, the Committee on Appropriations, House of Representatives, included the following statement in House Report 233, dated April 14, 1961:

"As the Islands have a population of only 32,000, it is believed that the Local Government should now be in a position, with revenues exceeding \$16,000,000, to participate in the financing of the operating losses and other expenditures of the Virgin Islands Corporation."

During fiscal year 1964 the revenues of the insular government increased to about \$25 million, thereby increasing the ability of the insular government to participate in financing the Corporation's losses.

In its comments, the Department of the Interior stated that consistent application of our recommendation would require giving the Government of the Virgin Islands the profit from the Corporation's sale of electric power during fiscal year 1964 since our recommendation is based on reasoning that the insular government should assume responsibility for the Corporation's losses. Because the losses arose from an activity benefiting residents of the Virgin Islands and in view of the insular government's increased ability to finance activities benefiting residents of the Virgin Islands, we believe that the reimbursement of the Corporation for

such losses from internal revenue collections otherwise transferable to the insular government as Federal grants should be considered. Reimbursement of the Corporation's sugar operating loss in this manner would restore that portion of the Federal Government's equity in the Corporation which has been reduced by the amount of the sugar operating loss.

It also should be noted that treatment of the Corporation's profits and losses in the manner suggested by the Department would not be consistent with prior congressional action which approved reimbursement of the Corporation's sugar operation loss in full for fiscal year 1962 without deducting the profit from the sale of electric power realized in the same year.

Matter for consideration by the Congress

In view of the prior congressional action and the continued substantial increase in insular government revenues, the Congress may wish to consider reimbursing the Corporation--from internal revenue collections otherwise transferable to the insular government as Federal grants--for its fiscal year 1964 sugar operation loss.

PROPOSED EXPENDITURES FOR EXTENSIVE IMPROVEMENTS
AND REPAIRS OF NAVAL PROPERTIES ARE UNWARRANTED

The President of the Corporation is planning to make expenditures, from accumulated Federal funds of about \$257,000, for extensive improvements and repairs of naval properties which we believe are unwarranted because action has been taken to transfer the properties to the insular government.

The Department of the Navy plans to declare the properties on St. Thomas, formerly known as the Naval Submarine Base and the Marine Corps Air Facility, as excess to its needs; and the insular government has indicated its intention to acquire the properties. That part of the former Marine Corps Air Facility which is used for airport purposes is scheduled to be transferred to the insular government at no cost under the Federal Airport Act (49 U.S.C. 1115), and it is anticipated that the remaining naval property will be transferred to the insular government at its fair market value under the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 484).

We were informed by the President of the Corporation that the cash balance of \$256,827, accumulated through June 30, 1964, from management of the naval properties, would be used during fiscal 1965 to erect additional booths and make substantial repairs inside the airport terminal, to completely relocate and renovate the airport taxicab facilities, to renovate other buildings at the airport, and to construct an aviation parts repair shop and an airport gasoline facility. These proposed expenditures would substantially expand existing airport service facilities and would be in addition to expenditures for the normal operation and maintenance of the properties. The Corporation's President also stated that the 61 small dwelling units and the buildings occupied by commercial

firms, which are located on the property, are in need of extensive repairs.

In its comments, the Department of the Interior advised us of its understanding that it is the purpose and policy of the Congress to assist in the development of civil aviation because it is of national as well as local benefit and stated that as long as the airport is a responsibility of the Corporation it should be maintained in condition suitable for use. We recognize that the airport property, which is scheduled to be transferred to the insular government, at no cost, should be maintained in condition suitable for use. However, action was taken in October 1964 by the Government of the Virgin Islands to provide for the construction of a new and larger airport at another location on St. Thomas.

In announcing the plans for construction of a new airport, the Governor of the Virgin Islands stated that the critical need for a new airport was emphasized by the Federal Aviation Agency which, for several years, has refused to participate in the costs of any improvements or extensions of the present airport runway because the approach clearances at the east end are blocked and the side clearances along the runway cannot be improved to conform to the Federal Aviation Agency standards. Under the circumstances, we question the advisability of further expenditure of Federal funds to improve the facility as proposed by the President of the Corporation. In our opinion the extensive repairs, renovation of buildings, relocation of airport taxicab facilities, and establishment of an aviation parts repair shop and an airport gasoline facility should be the responsibility of the insular government.

The Department also advised us that neglect of maintenance of the remaining naval property, which is to be transferred to the Government of the Virgin Islands at its fair market value, could

seriously decrease the property value and that all expenditures to maintain or improve the property would probably be recovered in the sale or transfer price. Although improvements in the property to be transferred to the insular government at its fair market value may enhance its value, we believe that Federal expenditures should be limited to those needed for normal operation and maintenance of the property because there is no assurance that the fair market value of the property will increase by the amount expended for improvements. Also, there is no assurance that the Government of the Virgin Islands will continue using the facilities in the same manner as the Corporation.

Recommendation to the President
of the Virgin Islands Corporation

In view of the pending transfer of the naval properties on the Island of St. Thomas to the insular government, we recommend that the President of the Virgin Islands Corporation authorize only those expenditures of Federal funds which are required for normal operation and maintenance of the properties.

SCOPE OF AUDIT

Our audit of the Virgin Islands Corporation for fiscal year 1964 included a review of applicable legislation, 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 accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary, except that we did not observe the physical inventory and confirm accounts receivables at June 30, 1964. However, we satisfied ourselves as to the fairness of the physical inventory and the accounts receivables at June 30, 1964, by other auditing procedures.

OPINION ON THE FINANCIAL STATEMENTS

In our opinion the accompanying financial statements of the Virgin Islands Corporation present fairly the financial position of the Corporation at June 30, 1964, and the results of its operations and the sources and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year and with applicable Federal laws.

FINANCIAL STATEMENTS

V I R G I N I S L A N D S C O R P O R A T I O N

[A Corporation wholly owned by the United States of America]

STATEMENT OF ASSETS AND LIABILITIES--JUNE 30, 1964 AND 1963 (note 1)

A S S E T S

	<u>1964</u>	<u>1963</u>
CASH IN U.S. TREASURY AND ON HAND	\$ 277,910	\$ 769,204
ACCOUNTS RECEIVABLE:		
General, less estimated uncollectibles of \$17,411 and \$16,402, respectively	638,284	598,432
Due from sugar broker for sale of sugar production	-	2,219,453
SHORT TERM LOANS RECEIVABLE	-	1,859
ANTICIPATED INCOME FROM UNSOLD PORTION OF PRODUCTION (note 2):		
Sugar	1,901,960	9,060
Molasses	67,958	110,814
ACCRUED ELECTRIC REVENUE	129,090	95,268
INVENTORIES OF COMMODITIES, SUPPLIES AND MATERIALS (note 3):		
Sugarcane	42,600	87,482
Materials and supplies at average cost	1,165,921	1,150,109
DEFERRED CHARGES AND OTHER ASSETS	<u>1,094</u>	<u>718</u>
Total current assets	<u>4,224,817</u>	<u>5,042,399</u>
LAND, STRUCTURES AND EQUIPMENT (schedule 9) (notes 3 and 4):		
Land and buildings	1,379,189	1,363,054
Machinery and equipment	3,358,332	3,367,014
Electric plant	8,974,375	8,022,351
Furniture and fixtures	114,351	113,993
Livestock	2,301	11,652
Salt water distillation plant	<u>1,014,782</u>	<u>1,002,682</u>
	14,843,330	13,880,746
Less accumulated depreciation	<u>4,204,629</u>	<u>3,707,306</u>
Total land, structures, and equipment less depreciation	<u>10,638,701</u>	<u>10,173,440</u>
LONG TERM RECEIVABLES	<u>220,223</u>	<u>267,152</u>
Total assets	\$15,083,741	\$15,482,991

The notes on pages 29 and 30 are an integral part of this statement.

L I A B I L I T I E S

	<u>1964</u>	<u>1963</u>
ACCOUNTS PAYABLE	\$ 363,461	\$ 340,407
ACCRUED LIABILITIES:		
Salaries and wages	28,687	30,840
Accrued leave	141,457	136,911
Due private growers for sugarcane and molasses	27,497	38,339
Sugar selling expenses	205,048	160,785
Accrued taxes	36,310	34,393
Materials and supplies not invoiced	116,190	91,914
Accrued interest, U.S. Treasury (note 5)	358,154	355,331
Withholdings from contractors	54,636	-
Other	73,681	49,486
INTEREST-BEARING ADVANCE FROM SUGAR BROKER	-	620,000
TRUST AND DEPOSIT LIABILITIES	<u>190,686</u>	<u>159,645</u>
Total current liabilities	<u>1,595,807</u>	<u>2,018,051</u>
INVESTMENT OF THE U.S. GOVERNMENT:		
Interest-bearing investment:		
Advance from revolving fund	10,132,000	10,132,000
Borrowings from the U.S. Treasury	1,225,000	1,225,000
Transfers from the Department of Interior and predecessor corporation	938,436	938,436
Transfer from the Department of the Navy	300,883	300,883
Materials and equipment transferred from other agencies	<u>51,068</u>	<u>51,068</u>
Total interest-bearing investment	<u>12,647,387</u>	<u>12,647,387</u>
Non-interest bearing investment:		
Grant for repayment of predecessor corporation's notes payable to U.S. Treasury at June 30, 1949	750,000	750,000
Unexpended grants for non-revenue-producing activities	-	31,175
Grants for reimbursement of losses from revenue-producing activities (note 6)	<u>4,426,970</u>	<u>4,426,970</u>
Total non-interest-bearing investment	<u>5,176,970</u>	<u>5,208,145</u>
Gross investment of the U.S. Government	17,824,357	17,855,532
Less accumulated deficit from revenue-producing activities (schedule 2) (note 7)	<u>4,336,423</u>	<u>4,390,592</u>
Net investment of the U.S. Government	<u>13,487,934</u>	<u>13,464,940</u>
Total liabilities and investment of the U.S. Government	<u>\$15,083,741</u>	<u>\$15,482,991</u>

SCHEDULE 2

V I R G I N I S L A N D S C O R P O R A T I O N

INCOME AND DEFICIT STATEMENT

FOR THE FISCAL YEARS ENDED JUNE 30, 1964 AND 1963 (note 1)

	<u>1964</u>	<u>1963</u>
INCOME OR LOSS (-) FROM OPERATIONS:		
Sugar operations (schedule 3)	\$ -371,488	\$ 97,725
Miscellaneous activities (schedule 8)	-52,781	-48,942
Power operations (schedule 6)	448,837	197,708
Water distillation (schedule 7)	<u>20,984</u>	<u>26,991</u>
Net income from operations	45,552	273,482
NONOPERATING INCOME OR EXPENSES (-):		
Sale of land	-	53
Property transfers	<u>-</u>	<u>-26,423</u>
NET INCOME FOR THE YEAR	45,552	247,112
ADJUSTMENTS APPLICABLE TO PRIOR YEARS' OPERATIONS	8,617	-16,363
CUMULATIVE DEFICIT (-) FROM REVENUE-PRODUCING ACTIVITIES AT BEGINNING OF YEAR	<u>-4,390,592</u>	<u>-4,621,341</u>
CUMULATIVE DEFICIT (-) FROM REVENUE-PRODUCING ACTIVITIES AT END OF YEAR (schedule 1)	<u>-\$4,336,423</u>	<u>-\$4,390,592</u>

The notes on pages 29 and 30 are an integral part of this statement.

VIRGIN ISLANDS CORPORATION

STATEMENT OF SUGAR OPERATIONS

FOR THE FISCAL YEARS ENDED JUNE 30, 1964 AND 1963

	<u>1964</u>	<u>1963</u>
SALES:		
Sugar	\$1,901,982	\$2,240,383
Molasses	<u>103,824</u>	<u>147,300</u>
Total	2,005,806	2,387,683
COST OF SUGAR SOLD:		
Cost of sugar produced (schedule 5)	\$2,465,709	\$2,597,562
Shipping and selling expenses:		
Sugar	206,037	160,785
Molasses	<u>484</u>	<u>249</u>
Total	<u>2,672,230</u>	<u>2,758,596</u>
OPERATING LOSS, SUGAR MILLING	-666,424	-370,913
Operating profit and sub- sidy, cane growing (schedule 4)	<u>294,936</u>	<u>468,638</u>
OPERATING PROFIT OR LOSS (-) FOR THE YEAR (schedule 2)	<u>\$ -371,488</u>	\$ 97,725

SCHEDULE 4

V I R G I N I S L A N D S C O R P O R A T I O N

STATEMENT OF INCOME AND DEFICIT ON SUGARCANE GROWING

FOR THE FISCAL YEARS ENDED JUNE 30, 1964 AND 1963

	<u>1964</u>	<u>1963</u>
CANE GROWN (market value) (note a)	\$961,204	\$1,098,639
GROWING COSTS:		
Materials	\$ 74,764	\$ 93,043
Labor and equipment	388,911	363,177
Overhead	205,915	163,741
Allocated expenses (schedule 10):		
Depreciation	36,030	43,114
General expenses	22,573	30,161
Administrative expenses	25,034	23,861
Interest on investment	<u>33,650</u>	<u>33,383</u>
Total growing costs	<u>786,877</u>	<u>750,480</u>
OPERATING PROFIT CANE GROWING	174,327	348,159
Amount receivable from Commodity Stabilization Service under the Sugar Act of 1948 (subsidy)	<u>120,609</u>	<u>120,479</u>
OPERATING PROFIT AND SUBSIDY (schedule 3)	<u>\$294,936</u>	<u>\$ 468,638</u>

^aThe 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, 1964 AND 1963

	<u>1964</u>	<u>1963</u>
COST OF SUGAR PRODUCED:		
Materials:		
Market value of sugarcane grown (schedule 4)	\$ 961,204	\$1,098,639
Cost of sugarcane purchased	<u>379,167</u>	<u>431,127</u>
Total materials	1,340,371	1,529,766
LABOR AND OVERHEAD:		
Transportation of cane to mill	\$ 70,426	\$ 69,115
Weighing and discharging cane	60,284	54,907
Grinding	19,544	20,941
Other processing operations	46,489	46,494
Supplies (fuel oil, lubricants, and chemicals)	95,015	117,370
Power, light and water, and steam plant furnaces	62,858	65,878
Superintendence and general overhead	52,345	60,251
Repairs to factory	300,192	184,959
Other	<u>32,065</u>	<u>33,008</u>
Total labor and overhead	739,218	652,923
ALLOCATED EXPENSES (schedule 10):		
Depreciation	144,419	153,703
Administrative expenses	68,435	72,550
General expenses	59,139	62,390
Interest on investment	<u>114,127</u>	<u>126,230</u>
Total allocated expenses	<u>386,120</u>	<u>414,873</u>
Total cost of sugar pro- duced (schedule 3) (note a)	<u>\$2,465,709</u>	<u>\$2,597,562</u>

^aIncludes profit in 1963 and 1964 on sugarcane growing. (See schedule 4.)

SCHEDULE 6

VIRGIN ISLANDS CORPORATION

STATEMENT OF POWER OPERATIONS

FOR THE FISCAL YEARS ENDED JUNE 30, 1964 AND 1963

	1964			1963		
	<u>Total</u>	<u>St. Thomas</u>	<u>St. Croix</u>	<u>Total</u>	<u>St. Thomas</u>	<u>St. Croix</u>
REVENUES:						
Electric sales	\$2,580,219	\$1,591,446	\$ 988,773	\$2,129,656	\$1,332,310	\$797,346
Other income	<u>70,954</u>	<u>48,474</u>	<u>22,480</u>	<u>39,913</u>	<u>28,905</u>	<u>11,008</u>
Total revenues	<u>2,651,173</u>	<u>1,639,920</u>	<u>1,011,253</u>	<u>2,169,569</u>	<u>1,361,215</u>	<u>808,354</u>
OPERATING EXPENSES:						
Production:						
Generation	631,275	371,675	259,600	608,144	362,334	245,810
Maintenance	448,310	368,175	80,135	397,615	315,036	82,579
Distribution	214,438	120,097	94,341	248,652	124,698	123,954
Administrative expenses allocated (schedule 10)	57,843	35,998	21,845	54,457	32,950	21,507
Other administrative and general expenses	319,820	192,394	127,426	243,073	132,179	110,894
Depreciation	<u>301,382</u>	<u>192,874</u>	<u>108,508</u>	<u>265,560</u>	<u>170,056</u>	<u>95,504</u>
Total operating expenses	<u>1,973,068</u>	<u>1,281,213</u>	<u>691,855</u>	<u>1,817,501</u>	<u>1,137,253</u>	<u>680,248</u>
OPERATING INCOME FOR THE YEAR	678,105	358,707	319,398	352,068	223,962	128,106
INTEREST ON INVESTMENT	-229,268	-146,378	-82,890	-211,848	-131,120	-80,728
OTHER:						
Net proceeds from settlement of claim	<u>-</u>	<u>-</u>	<u>-</u>	<u>57,488</u>	<u>57,488</u>	<u>-</u>
NET INCOME FOR THE YEAR (schedule 2)	<u>\$ 448,837</u>	<u>\$ 212,329</u>	<u>\$ 236,508</u>	<u>\$ 197,708</u>	<u>\$ 150,330</u>	<u>\$ 47,378</u>

V I R G I N I S L A N D S C O R P O R A T I O N

STATEMENT OF SALT WATER DISTILLATION OPERATIONS

FOR THE FISCAL YEARS ENDED JUNE 30, 1964 AND 1963 (note 4)

	<u>1964</u>	<u>1963</u>
REVENUES:		
Water deliveries to Government of the Virgin Islands	<u>\$294,785</u>	<u>\$267,508</u>
OPERATING EXPENSES:		
Production expense:		
Steam expense (allocated)	101,938	102,064
Electric power (allocated)	46,877	28,244
Station labor	17,697	19,844
Maintenance	41,536	9,949
Other	4,538	2,677
Administrative expenses allocated	3,336	3,203
Depreciation	<u>32,000</u>	<u>32,249</u>
Total operating expenses	247,922	198,230
INTEREST ON INVESTMENT	<u>26,820</u>	<u>25,678</u>
TOTAL OPERATING EXPENSES AND INTEREST	274,742	223,908
Less water deliveries for station use	<u>941</u>	<u>15,754</u>
NET OPERATING EXPENSES AND INTEREST	273,801	208,154
EXPENSES DEFERRED FOR RECOVERY IN FISCAL YEAR 1963	<u>-</u>	<u>32,363</u>
NET COSTS RECOVERED	<u>273,801</u>	<u>240,517</u>
NET INCOME	<u>\$ 20,984</u>	<u>\$ 26,991</u>

The notes on pages 29 and 30 are an integral part of this statement.

V I R G I N I S L A N D S C O R P O R A T I O N

STATEMENT OF INCOME AND EXPENSES OF MISCELLANEOUS ACTIVITIES

FOR THE FISCAL YEARS ENDED JUNE 30, 1964 AND 1963

		1964	
	<u>Income</u>	Cost and ex- penses (includes allocated admin- istrative and general expenses, depreciation and <u>interest</u>)	Net income or loss (-) (<u>schedule 2</u>)
RENTALS:			
Tractors and other equipment	\$23,295	\$ 29,620	\$-6,325
Leases:			
Houses occupied by officers and supervisory employees	3,618	22,647	-19,029
Villages occupied by fac- tory and field laborers	14,458	50,633	-36,175
Commercial, industrial and other	<u>3,512</u>	<u>778</u>	<u>2,734</u>
Total	<u>44,883</u>	<u>103,678</u>	<u>-58,795</u>
SALES:			
Storeroom supplies, seed, and other	13,720	15,717	-1,997
Livestock	14,059	13,348	711
Vegetables	<u>438</u>	<u>1,903</u>	<u>-1,465</u>
Total	<u>28,217</u>	<u>30,968</u>	<u>-2,751</u>
OTHER INCOME AND EXPENSES:			
Loan program	141	107	34
Interest on long-term accounts	<u>9,687</u>	<u>-</u>	<u>9,687</u>
Total	<u>9,828</u>	<u>107</u>	<u>9,721</u>
ADJUSTMENT TO PRIOR YEARS' INCOME (net)	<u>-</u>	<u>956</u>	<u>-956</u>
TOTAL MISCELLANEOUS ACTIVITIES	<u>\$82,928</u>	<u>\$135,709</u>	<u>-\$52,781</u>
SALE OF SURPLUS PROPERTY	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

1963		
<u>Income</u>	Cost and ex- penses (includes allocated admin- istrative and general expenses, depreciation and interest)	Net income or loss (-) (<u>schedule 2</u>)
\$17,731	\$ 16,924	\$ 807
3,849	34,125	-30,276
13,954	59,917	-45,963
<u>4,415</u>	<u>616</u>	<u>3,799</u>
<u>39,949</u>	<u>111,582</u>	<u>-71,633</u>
36,801	19,299	17,502
7,328	10,219	-2,891
<u>141</u>	<u>1,846</u>	<u>-1,705</u>
<u>44,270</u>	<u>31,364</u>	<u>12,906</u>
1,828	1,368	460
<u>11,200</u>	<u>-</u>	<u>11,200</u>
<u>13,028</u>	<u>1,368</u>	<u>11,660</u>
<u>-</u>	<u>1,875</u>	<u>-1,875</u>
<u>\$97,247</u>	<u>\$146,189</u>	<u>-\$48,942</u>
<u>\$ 6,477</u>	<u>\$ 6,424</u>	<u>\$ 53</u>

V I R G I N I S L A N D S C O R P O R A T I O N

SCHEDULE OF LAND, STRUCTURES, AND EQUIPMENT

AT JUNE 30, 1964 AND 1963

		1964	
	<u>Total</u>	<u>Less</u>	<u>Net book</u>
	<u>investment</u>	<u>accumulated</u>	<u>value</u>
		<u>depreciation</u>	
SUGAR AND GENERAL OPERATIONS:			
Land and buildings	\$ 1,379,189	\$ 583,383	\$ 795,806
Machinery and equipment	3,358,332	1,773,127	1,585,205
Furniture and fixtures	114,351	77,072	37,279
Livestock	<u>2,301</u>	<u>1,950</u>	<u>351</u>
Total	<u>4,854,173</u>	<u>2,435,532</u>	<u>2,418,641</u>
 ELECTRIC PLANT AND WATER DISTILLATION FACILITIES:			
St. Croix power division	3,500,061	686,897	2,813,164
St. Thomas power division:			
Electric plant	5,474,314)		
Salt water distillation facilities	1,014,782)	1,082,200	5,406,896
Total	<u>9,989,157</u>	<u>1,769,097</u>	<u>8,220,060</u>
 TOTAL LAND, STRUCTURES AND EQUIPMENT	 <u>\$14,843,330</u>	 <u>\$4,204,629</u>	 <u>\$10,638,701</u>

<u>1963</u>		
<u>Total</u> <u>investment</u>	<u>Less</u> <u>accumulated</u> <u>depreciation</u>	<u>Net book</u> <u>value</u>
\$ 1,363,054	\$ 548,636	\$ 814,418
3,367,014	1,648,802	1,718,212
113,993	65,513	48,480
<u>11,652</u>	<u>2,400</u>	<u>9,252</u>
<u>4,855,713</u>	<u>2,265,351</u>	<u>2,590,362</u>
2,925,297	578,389	2,346,908
5,097,054)		
1,002,682)	<u>863,566</u>	<u>5,236,170</u>
<u>9,025,033</u>	<u>1,441,955</u>	<u>7,583,078</u>
<u>\$13,880,746</u>	<u>\$3,707,306</u>	<u>\$10,173,440</u>

V I R G I N I S L A N D S C O R P O R A T I O N

SCHEDULE OF EXPENSE ALLOCATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 1964

	Depreciation			Interest on investment		
	Allo- cated	Direct	Total	Allo- cated	Direct	Total
SUGAR MILLING OPERATIONS (schedule 5)	\$ 9,383	\$135,036	\$144,419	\$114,127	\$ -	\$114,127
SUGARCANE GROWING OPERATIONS (schedule 4)	2,767	33,263	36,030	33,650	-	33,650
POWER OPERATIONS (schedule 6)	-	301,382	301,382	-	229,268	229,268
SALT WATER DISTILLATION (schedule 7)	-	32,000	32,000	-	26,820	26,820
MISCELLANEOUS ACTIVITIES (schedule 8)	403	15,814	16,217	4,901	95	4,996
DEVELOPMENT DEPARTMENT	-	-	-	-	-	-
Total	<u>\$12,553</u>	<u>\$517,495</u>	<u>\$530,048</u>	<u>\$152,678</u>	<u>\$256,183</u>	<u>\$408,861</u>

The notes on pages 29 and 30 are an integral part of this statement.

<u>Allo-</u> <u>cated</u>	<u>General expenses</u>		Adminis- trative expenses allocated (note 8)
	<u>Direct</u>	<u>Total</u>	
\$10,516	\$48,623	\$59,139	\$ 68,435
6,443	16,130	22,573	25,034
-	-	-	57,843
-	-	-	3,336
452	3,802	4,254	11,833
-	-	-	<u>18,697</u>
<u>\$17,411</u>	<u>\$68,555</u>	<u>\$85,966</u>	<u>\$185,178</u>

SCHEDULE 11

VIRGIN ISLANDS CORPORATION

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 1964

	Sugar operations, miscellaneous activities, and other general <u>operations</u>	Power and salt water distillation <u>operations</u>	<u>Total</u>
SOURCE OF FUNDS:			
Net funds from operations:			
Operating revenues	\$2,209,343	\$2,945,958	\$5,155,301
Less operating expenses	<u>2,633,612</u>	<u>2,476,137</u>	<u>5,109,749</u>
Net income from operations	-424,269	469,821	45,552
Add current year's depreciation charges	<u>196,666</u>	<u>333,382</u>	<u>530,048</u>
Net funds from operations and current year's depreciation	-227,603	803,203	575,600
Funds from other sources:			
Repayments of long-term receivables	46,929	-	46,929
Adjustment applicable to prior years	<u>8,617</u>	<u>-</u>	<u>8,617</u>
Net funds provided	\$ <u>-172,057</u>	\$ <u>803,203</u>	\$ <u>631,146</u>
APPLICATION OF NET FUNDS PROVIDED:			
Additions to fixed assets, net	\$ 24,944	\$ 970,365	\$ 995,309
Capital transfer, return to the Treasury of unexpended grants for non-revenue producing activities	<u>31,175</u>	<u>-</u>	<u>31,175</u>
Net funds applied	56,119	970,365	1,026,484
DIFFERENCE REPRESENTING DECREASE IN WORKING CAPITAL	<u>-228,176</u>	<u>-167,162</u>	<u>-395,338</u>
Total funds applied and change in working capital	\$ <u>-172,057</u>	\$ <u>803,203</u>	\$ <u>631,146</u>

NOTES TO FINANCIAL STATEMENTS

1. The statement of assets and liabilities (schedule 1) and the income and deficit statement (schedule 2) do not include activities of the Development Department, which are accounted for separately by the Corporation. Since July 1, 1954, the Corporation has managed the former Marine Corps Air Facility and the Naval Submarine Base on the Island of St. Thomas, and the income derived therefrom is used solely for the operation and rehabilitation of the facilities.
2. Under the crop-year basis of accounting, all income, operating costs, and expenses applicable to each year's crop are considered earned or incurred during the fiscal year whether or not any portion of the crop is processed or sold after the end of the fiscal year. Consequently, the anticipated income of \$1,901,960 and \$9,060 from sugar and \$67,958 and \$110,814 from molasses represents the estimated sales value of these commodities at June 30, 1964 and 1963, respectively.
3. On May 16, 1964, the Board of Directors advertised 18 parcels of land totaling nearly 2,352 acres and the sugar mill thereon for sale to the highest bidder. The bids were awarded to the five highest bidders for a total sales price of \$3,761,886. The inventory of materials and supplies carried on the Corporation's records for use of the sugar operations amounted to \$496,989 on June 30, 1964. These materials and supplies were included in the sale of the sugar mill and were transferred to the buyer on August 3, 1964.
4. On January 16, 1959, the Government of the Virgin Islands agreed to purchase for 20 years the net potable water produced by the Corporation's salt water distillation facilities and to pay all production costs, including depreciation, interest, and a reasonable rate of return on the investment. The billings for water deliveries resulted in a net income of \$20,984 (schedule 7) representing a return of 2.1 percent on the Corporation's investment. The average interest charges on funds borrowed from the United States Treasury to construct the facilities is 3.9 percent. Consequently, the Corporation realized an overall return of 6 percent on its investment.

5. The Corporation is required by law to pay interest to the United States Treasury on (1) withdrawals from its revolving fund in the United States Treasury, (2) its borrowings totaling \$1,225,000 authorized for the construction of salt water distillation facilities on the Island of St. Thomas, and (3) the value of properties and other net assets transferred to the Corporation from its predecessor at June 30, 1949. The Corporation is also required to pay interest to the United States Treasury on the appraised value of assets transferred from other Federal agencies without cost or for consideration clearly not commensurate with value received. The amounts due the Treasury at June 30, 1964 and 1963, were \$358,154 and \$355,331, respectively.
6. Federal grants totaling \$4,426,970 have been provided to the Corporation for reimbursement of operating losses from prior years' revenue-producing activities. The grants included \$1,019,000 appropriated from the net internal revenue collections on products of the Virgin Islands imported into the United States; these collections were otherwise payable to the Government of the Virgin Islands, pursuant to section 28(b) of the Revised Organic Act of the Virgin Islands (26 U.S.C. 7652(b)).
7. The accumulated deficit of \$4,336,423 at June 30, 1964, includes losses totaling \$82,855 applicable to its predecessor Corporation.
8. Administrative expenses of \$185,178 are subject to the limitation of \$186,000 established by the Department of the Interior and Related Agencies Appropriation Act, 1964 (77 Stat. 1141).

EXHIBIT

V I R G I N I S L A N D S C O R P O R A T I O N

SCHEDULE OF ESTIMATED PROFIT ON PENDING SALE
 OF 2,352 ACRES OF LAND AND IMPROVEMENTS THEREON
 AS OF AUGUST 3, 1964

REVENUE:

Sales price	\$3,761,886
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NET BOOK VALUE AT 7-31-64:

Land	\$ 85,570
Land improvements	8,174
Buildings	516,960
Machinery and equipment	1,568,067
Furniture and fixtures	25,049
Livestock	346
Sugarcane in fields	61,209
Materials and supplies	<u>495,293</u>

2,760,668

ESTIMATED NET INCOME

\$1,001,218

APPENDIX

PRINCIPAL OFFICIALS RESPONSIBLE FOR AFFAIRS
OF THE VIRGIN ISLANDS CORPORATION

The management of the Corporation is vested in a 7-member Board of Directors and is under the general direction of the Secretary of the Interior. The Board of Directors consists of three businessmen, who are appointed for terms of 6 years by the President of the United States, and four Federal officials. Members of the Board and other policy-making officials responsible for activities of the Corporation during fiscal year 1964 and the subsequent period are as follows:

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
Board of Directors:		
Secretary of the Interior:		
Stewart L. Udall (Chairman)	Jan. 21, 1961	Present
Secretary of Agriculture:		
Orville L. Freeman	Jan. 21, 1961	Present
Administrator, Small Business Administration:		
Eugene P. Foley	Aug. 7, 1963	Present
John E. Horne	Jan. 21, 1961	Aug. 6, 1963
Governor of the Virgin Islands:		
Ralph M. Paiewonsky	Apr. 5, 1961	Present
Businessmen:		
Ward M. Canaday	June 30, 1949	Present
Robert F. Dwyer	Oct. 7, 1963	Present
Neil C. Hurley, Jr.	Apr. 27, 1964	Feb. 10, 1965
Other Policy-Making Officials:		
Assistant Secretary of the Interior--Public Land Management:		
John A. Carver, Jr.	Jan. 30, 1961	Dec. 29, 1964

PRINCIPAL OFFICIALS RESPONSIBLE FOR AFFAIRS
OF THE VIRGIN ISLANDS CORPORATION (continued)

	Tenure of office	
	From	To
Other Policy-Making Officials (continued):		
Assistant Secretary of the Interior for Administration:		
D. Otis Beasley	Sept. 1, 1952	Present
Director, Office of Territories, Department of the Interior:		
Ruth G. Van Cleve	Apr. 10, 1964	Present
Richard F. Taitano	Mar. 6, 1961	Apr. 9, 1964
President, Virgin Islands Corporation:		
Robert P. Cramer	Nov. 1, 1962	Present