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REPORT TO
THE CONGRESS OF THE UNITED STATES



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AUDIT OF
VIRGIN ISLANDS CORPORATION
FISCAL YEAR 1963



BY
THE COMPTROLLER GENERAL
OF THE UNITED STATES

APRIL 1964

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

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APR 16 1964

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

Our report on the audit of the Virgin Islands Corporation for fiscal year 1963 includes comments on plans to transfer the Corporation's electric power and salt water distillation facilities to the Government of the Virgin Islands at a price based on the facilities' appraised value, rather than on their fair market value as determined by competitive bidding processes. The facilities had a book value of \$7.6 million at June 30, 1963, and were declared excess by the Board of Directors in August 1963. This action was a first step in disposing of the facilities to the Government of the Virgin Islands under the statutory authority vested in the Administrator of General Services to negotiate transfers of surplus Federal property to States, territories, and possessions in return for the fair market value thereof. The proposed transfer is expected to occur about July 1, 1964.

We believe that the Board should have offered to sell the facilities to the highest responsible bidder under provisions of the Virgin Islands Corporation Act, as amended. That act authorizes the Government of the Virgin Islands to acquire corporate assets offered for public sale by matching the highest responsible bid therefor. Had such action been taken, the fair market value of the facilities could have been determined by competitive bidding processes and it would have been possible to compare the financial terms offered by responsible private enterprisers with the 20-year payment terms proposed by the Chairman of the Board.

The Board voted in August 1963 to purchase a new generating unit estimated to cost about \$600,000 and to expand the Corporation's salt water distillation facilities at an estimated cost of \$200,000. Inasmuch as the Board had voted to transfer the power and water facilities to the Government of the Virgin Islands, we believe that the insular government should have been called on to finance these expenditures.

Other comments in this report deal principally with (1) our recommendation to the Corporation that it return to the Treasury certain excess funds totaling about \$120,000 as of June 30, 1963, (2) changes in the status of certain Navy-owned properties managed by the Corporation, and (3) the termination of the Corporation's sugar operations scheduled by the Board of Directors to occur on or about June 30, 1966. It is not practicable to evaluate the effects of the latter action on the value of the Corporation's assets devoted to sugar operations.

The Corporation in its financial statements for the fiscal year ended June 30, 1963, reported that its net income from all revenue-producing activities totaled \$247,000, compared with a net loss of \$446,000 in the prior fiscal year. No provision was made, however, for writing down to net salvage value the capital costs associated with a 570-kilowatt diesel generating unit, installed at the St. Thomas power division, which became inoperable in March 1963 and which had a book value of \$61,000 at June 30, 1963. If the undepreciated costs of the unit had been written off in fiscal year 1963, in accordance with generally accepted accounting principles and the Corporation's established accounting policies, net income from power operations would have been reduced by about \$61,000 less the unit's salvage value.

In our report we express the opinion that, subject to the effect of the situations with respect to sugar and power operations, the accompanying financial statements of the Virgin Islands Corporation present fairly its position at June 30, 1963, and the results of its operations and the sources and application of its funds for the year then ended.

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.



Comptroller General
of the United States

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REPORT ON AUDIT
OF
VIRGIN ISLANDS CORPORATION
FISCAL YEAR 1963

INTRODUCTION

The General Accounting Office has made an audit of the VIRGIN ISLANDS CORPORATION for the fiscal year ended June 30, 1963, 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 appear on pages 28 and 29 of this report.

The Virgin Islands Corporation, a wholly owned Government corporation, was 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's principal office is located on the island of St. Croix in the Virgin Islands of the United States. 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.

The Corporation's principal revenue-producing activities are the growing of sugarcane and manufacturing of raw sugar on the island of St. Croix and the generating and distributing of electric power throughout the Virgin Islands. The Corporation also operates a salt water distillation plant located on the island of St. Thomas; the net potable water production is sold to the Government of the

Virgin Islands under a long-term contract. Miscellaneous revenue-producing activities of the Corporation include the administration of an agricultural and industrial loan program, the management of a small livestock herd, and the providing of housing for employees and others on the island of St. Croix.

The Corporation also manages the properties formerly known as the Naval Submarine Base and the Marine Corps Air Facility on the island of St. Thomas. Private interests have developed 4 hotels and 2 guesthouses on the properties; there are also 8 large houses which are rented to key employees of the Federal and insular governments, 61 small dwelling units, the St. Thomas airport terminal, and various buildings rented to light industries and local businesses. The funds derived from the properties are required to be kept apart from the funds derived from the Corporation's revenue-producing activities and therefore are not included in the Corporation's financial statements. These revenues, which totaled \$424,000 in fiscal year 1963, are available only to finance operation and rehabilitation of the properties.

Management of the Corporation is vested in a 7-member Board of Directors with the Secretary of the Interior as Chairman. Members of the Board and other policy-making officials responsible for activities of the Corporation during fiscal year 1963 are listed in the appendix of this report.

During May 1963--the peak of cane harvesting operations--about 1,150 workers were employed by the Corporation, including 640 workers from the British West Indies mostly engaged for cutting cane and for work in the sugar mill.

The Corporation reported that in fiscal year 1963 its net income from revenue-producing activities totaled \$247,000, compared

with a net loss of \$446,000 in the preceding fiscal year. The improved earnings are largely attributable to increased production of sugarcane, as a result of more favorably distributed rainfall, and higher market prices for the raw sugar produced.

The Corporation reported that power operations resulted in a net income of \$198,000 for fiscal year 1963, compared with \$24,000 for fiscal year 1962. In our opinion, however, as explained on page 19, the Corporation has overstated its net income from power operations for fiscal year 1963 by not writing off an inoperative 570-kilowatt diesel generating unit carried on its books at a value of \$61,000.

PRINCIPAL COMMENTS

POWER AND WATER FACILITIES TO BE DISPOSED OF
TO THE GOVERNMENT OF THE VIRGIN ISLANDS
WITHOUT COMPETITIVE BIDDING

In August 1963 the Board of Directors voted to declare excess the Corporation's electric power and salt water distillation facilities which at June 30, 1963, had a book value of \$7.6 million. This action was the first step in disposing of the facilities to the Government of the Virgin Islands under statutory authority vested in the Administrator of General Services by the Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 484(e)). That act permits the Administrator to transfer surplus Federal property to States, territories, and possessions on a negotiated basis, in return for the fair market value thereof. Consulting engineers were to appraise the facilities as part of the process of establishing their negotiated fair market value, and the proposed transfer is now expected to occur on or about July 1, 1964.

We believe that, as an alternative to these disposal actions, the Board should have offered to sell the facilities under provisions of the Virgin Island Corporation Act, as amended (48 U.S.C. 1407c(a)). That act authorizes the Government of the Virgin Islands to acquire corporate assets offered for public sale by matching the highest responsible bid therefor. Had such action been taken by the Board the fair market value of the facilities could have been established by competitive bidding processes rather than by the techniques of appraisal and negotiation which, no matter how well performed, usually are not as desirable. Also, it would have been possible to compare the financial terms offered by

responsible private enterprisers with the 20-year payment terms proposed by the Chairman of the Board.

Demand for electric power in the Virgin Islands has increased significantly in recent years, and the estimated capital requirements for meeting the Islands' expanding power loads through 1971 range up to \$20.5 million. These requirements were discussed in our report to the Congress dated May 17, 1963, on the audit of the Virgin Islands Corporation for the fiscal year ended June 30, 1962.

In our May 17, 1963, report we pointed out that offering to sell the Corporation's power and water facilities to a responsible private enterpriser seemed to present the best prospects for adequate financing and management of the Islands' expanding power needs. Such action would not have foreclosed a transfer of the properties to the Government of the Virgin Islands for, under the provisions of the Virgin Islands Corporation Act, the insular government can acquire any corporate assets offered for sale by the Corporation's Board of Directors by matching the highest responsible bid therefor. The Department of the Interior, which sought continued Federal appropriations to finance expansion of the Corporation's power and water facilities, proposed as an alternative that the facilities be transferred at fair market value to the insular government. The Department expressed the belief that the decision as to whether the Virgin Islands power facilities should be operated by the local government, an authority, a cooperative, or a privately held corporation should be made by the Virgin Islanders themselves, after the facilities were transferred to the local government.

The Board voted to declare the facilities excess in August 1963, after it became evident that the Congress would no longer

provide the funds necessary to expand the Islands' power facilities. Subsequently, the Corporation formally advised the General Services Administration, in October 1963, that the power and water facilities were excess. The Secretary of the Interior, acting in his capacity as Chairman of the Board of Directors, urged the Administrator of General Services to grant the Government of the Virgin Islands favorable financial terms. To this end the Secretary suggested arranging a down payment of not more than 10 percent of the selling price, a payout period of at least 20 years, and a rate of interest on the unpaid balance not to exceed the rate of interest paid by the Federal Government.

In its comments dated February 6, 1964, the Department of the Interior advised us that the power and water systems were being appraised at considerable expense by a competent private engineering firm engaged by the General Services Administration. According to the Department, the engineering firm was instructed to appraise the power and water facilities at the value the Department could reasonably expect to obtain if the facilities were in fact advertised.

Our position that plans to dispose of the Corporation's power and water facilities should have been predicated on a public sale was based on the belief that an appraisal to determine the fair market value of property disposed of by the Government, no matter how competently performed, is usually appropriate only in the absence of effective competition as to price. Moreover, the Department advanced no reason as to why it was necessary to determine the fair market value of the Corporation's power and water facilities through an appraisal, at considerable expense, when the insular government by statute may acquire any of the Corporation's assets offered at public sale by matching the highest responsible bid therefor.

ADDITIONAL EXPENDITURES TO EXPAND
THE POWER AND WATER FACILITIES
AUTHORIZED BY THE BOARD OF DIRECTORS

During consideration of the Supplemental Appropriation Act, 1963, approved May 17, 1963, the Congress rejected the Corporation's request for an appropriation of \$3.35 million to expand its power facilities, including \$600,000 for a new 3,000-kilowatt diesel generating unit for the island of St. Croix. Subsequently, on July 3, 1963, the Department of the Interior advised the Governor of the Virgin Islands that it would be necessary for the insular government to finance immediate expansion of the Corporation's power facilities. The Department proposed to reserve for this purpose \$1 million of the internal revenue collections on products of the Virgin Islands imported into the United States; such collections are paid to the insular government as an annual grant pursuant to section 28(b) of the Revised Organic Act of the Virgin Islands, as amended (26 U.S.C. 7652(b)). The \$1 million was expected to cover the costs of (1) purchasing a 3,000-kilowatt diesel generating unit for the island of St. Croix and (2) preparing plans and specifications for a 5,000-kilowatt steam generating unit for the island of St. Thomas.

The Department's proposal, however, was not implemented after the President of the Corporation announced that substantial earnings had been realized from fiscal year 1963 operations. Instead, the Board of Directors voted to spend about \$600,000 of corporate funds to acquire the 3,000-kilowatt diesel generating unit for St. Croix; this action was taken at the same meeting at which it was decided to declare the power and water facilities excess. In addition, the Board authorized the expansion of salt water distillation facilities at an estimated cost of \$200,000, an amount

earlier provided for this purpose by the Supplemental Appropriation Act, 1963, approved May 17, 1963.

Inasmuch as the Board voted to declare the power and water facilities excess, as part of the process of transferring them to the Government of the Virgin Islands, we believe that the Board should have called on the insular government to finance the acquisition of a new generating unit for St. Croix and the expansion of the St. Thomas salt water distillation facilities.

In its comments on February 6, 1964, the Department of the Interior advised us that purchase of the generating unit had to be made promptly in the summer of 1963 and could not wait until the expected transfer of the power system to the local government in the spring or summer of 1964. The Department also pointed out that the Corporation still has the complete utility responsibility for the Virgin Islands and, in the interim pending transfer, should meet this responsibility to the best of its ability. The Department further stated that sale of the power system to the insular government remained a proposal, one which the Department hoped and expected to execute but still an event not absolutely certain to occur. The Department believed that it was not reasonable to expect a prospective buyer to begin to improve property before he is certain he will be the new owner. Favorable expected earnings for fiscal year 1964 were also cited as playing a part in the decision to proceed to order the new equipment, since the prospect of such earnings showed that the Corporation could fulfill its clear obligation to this extent.

For the following reasons we question the soundness of the position taken by the Department of the Interior on this matter:

1. It does not seem appropriate for the Board of Directors to authorize expenditures totaling about \$600,000 for the

purchase of a new generating unit after the Congress denied the Corporation an appropriation for this purpose.

2. The decision to spend corporate funds for a new generating unit will reduce the amount of funds which the Corporation could reasonably be expected to return to the Treasury in the period immediately following disposal of the power facilities.
3. The parties could have agreed that any funds contributed to the Corporation by the insular government to expand the power facilities would be returned in the event of their sale to a responsible private enterpriser.

Further, we noted that the insular government has acted to expand the power facilities even though their transfer from the Corporation has not yet been consummated. The Governor of the Virgin Islands stated on January 13, 1964, that he had invited four major manufacturers to submit proposals for a 7,500-kilowatt steam generating plant for St. Thomas and that he was preparing to award a contract for such a plant. The Governor stated also that delivery could be made 1 year after the date a contract is signed. In addition, it was announced in October 1963 that \$1.5 million of the internal revenue collections available for expenditure by the Government of the Virgin Islands in fiscal year 1964, subject to approval by the Department of the Interior, had been reserved for financing acquisition and immediate expansion of the Corporation's power system. Accordingly, we believe that the Board should have called on the insular government to finance expansion of the facilities scheduled for transfer to it.

TERMINATION OF SUGAR OPERATIONS

The Corporation is the largest grower of sugarcane on the island of St. Croix, where it also owns and operates the only sugar mill. The Corporation grows cane on about 2,600 acres of land, of which about 800 acres are leased, and purchases all the cane

produced by the island's private growers. The harvested cane is milled into raw sugar which the Corporation ships to the continental United States and sells for its own account.

In fiscal year 1963 the Corporation produced 15,354 tons of raw sugar and realized a net income from sugar operations of \$97,725, compared with a sugar production of 10,371 tons and a net loss of \$433,689 in fiscal year 1962. In most prior years the Corporation's sugar operations resulted in substantial losses; the Supplemental Appropriation Act, 1963, approved May 17, 1963, provided the Corporation with \$480,000 as reimbursement for the losses incurred in fiscal years 1961 and 1962. The Congress, however, directed that the \$480,000 be derived from the internal revenue collections on products of the Virgin Islands imported into the United States which by law are otherwise payable to the insular government.

In recent years the impact of the Corporation's sugar operations on the overall economy of the island of St. Croix has declined. The number of private cane growers who depend on the Corporation to purchase their cane dropped from 155 in fiscal year 1962 to 128 in fiscal year 1963. Further, relatively little cane was grown by most of the private growers. The Corporation produced 107,136 tons of cane in fiscal year 1963, while the three largest private growers together produced 18,905 tons and the remaining private growers produced a total of 25,159 tons. Also, during the peak harvesting season only about 180 Virgin Islanders were employed in the Corporation's sugar operations, while 640 laborers from the British West Indies were engaged to cut cane and to work in the mill.

In May 1963 the Board of Directors voted to terminate the Corporation's sugar operations on or about June 30, 1966. Earlier, in September 1962, notice had been given by the Board that it would not guarantee continued operation of the sugar mill beyond the 1963 grinding season. At that time the Board had offered to sell as one parcel 1,700 acres of the Corporation's lands devoted mostly to the production of sugarcane. This offer was announced after a continental United States firm sought to acquire about 2,500 acres of the Corporation's lands for the establishment of an orange-growing industry on St. Croix, in combination with a similar venture in Panama. The four responsive bids received for the 1,700 acre parcel, ranging from \$525,000 to \$1,071,000, were rejected by the Board in May 1963, and it was decided instead to pursue extensive studies of alternate land uses.

A March 29, 1963 study prepared for the Board of Directors by the Department of Agriculture recommended disapproval of the proposal to grow oranges on St. Croix. The reasons cited in the study included (1) physical difficulties in the production of oranges, (2) adverse effects on the small sugarcane growers, and (3) doubtful future market prospects for orange concentrate.

The orange-growing interests offered to lease the 1,700 acres of land previously offered for sale by the Corporation, but after extended negotiations the lease proposal was withdrawn.

CHANGE IN STATUS OF NAVY PROPERTIES

From July 1, 1954, to August 15, 1963, the Corporation, on behalf of the Department of the Interior, managed the properties on the island of St. Thomas formerly known as the Naval Submarine Base and the Marine Corps Air Facility. These properties had been declared excess by the Department of the Navy on May 29, 1963, and on

August 15, 1963, the Navy terminated the revocable permit issued to the Department of the Interior under which the responsibility to manage the properties was delegated to the Corporation. The Corporation, however, continued to manage most of the properties under a new Department of the Navy license.

During the period of these administrative changes the General Services Administration was notified that the Corporation desired to acquire at no cost the 198-acre Submarine Base, considered to be worth several million dollars, for the purpose of developing an industrial park on St. Thomas. This proposal subsequently was dropped. Action was also taken by the Department of the Interior to have a portion of the 276-acre Air Facility site transferred to the Government of the Virgin Islands and the remainder to the newly established College of the Virgin Islands.

The Submarine Base properties, which the Corporation sought to acquire, include a hotel, two piers, and a number of buildings mostly rented to the insular government and to local businesses. The Air Facility properties, which the Department of the Interior has urged be transferred to the Government of the Virgin Islands and the College of the Virgin Islands, include 3 hotels and 2 guesthouses, 8 large houses rented to key employees of the Federal and insular governments, 61 small dwelling units (of which 10 units, but not the underlying land, have been transferred to the Federal Aviation Agency), the St. Thomas airport terminal, a public beach, a golf course, the 125-acre tract of land on which the College of the Virgin Islands is situated, and various buildings rented to local businesses and light industries.

The funds derived from the properties are available only to finance their operation and rehabilitation. Accordingly, these

funds are not included in the Corporation's financial statements accompanying this report. As shown below, revenues and expenses of the Corporation's Development Department, which manages these properties, totaled \$433,602 and \$352,103, respectively, in fiscal year 1963, compared with revenues and expenses of \$364,384 and \$404,130, respectively in fiscal year 1962.

	<u>Fiscal year</u>	
	<u>1963</u>	<u>1962</u>
Income:		
Rentals	\$266,319	\$198,324
Fees and concessions	119,956	116,093
Sales of potable water	20,039	22,054
Other	<u>27,288</u>	<u>27,913</u>
Total income	<u>433,602</u>	<u>364,384</u>
Expenses:		
Salaries and wages	207,284	191,615
Materials and supplies	85,277	147,125
Machinery and equipment	12,552	9,399
Allocation of Corporation's administrative expenses	17,874	22,202
Electricity, general overhead, and other	<u>29,116</u>	<u>33,789</u>
Total expenses	<u>352,103</u>	<u>404,130</u>
Net income or loss (-) for the year	81,499	-39,746
Add beginning surplus	<u>-5,540</u>	<u>34,206</u>
Ending surplus or deficit (-) at June 30	<u>\$ 75,959</u>	<u>\$ -5,540</u>

Prior to 1961 the Department of the Interior had entered into various instruments, called lease agreements, by which it rented out portions of the properties on a long-term basis. The long-term occupants were advised by the Department on August 15, 1963, that their instruments had expired because the Navy had canceled the basic permit under which the Department of the Interior managed the

properties. The occupants were offered sub-licenses granting them continued use of the properties for the rentals specified in their canceled instruments; however, the sub-licenses offered to them were subject to cancellation on notice of 30 days. Although the canceled instruments were called lease agreements, and had been approved by the Secretary of the Interior, the Department since 1961 has taken the position that it had no authority to enter into leases of the properties. The Subcommittee on Territories and Insular Affairs of the Senate Committee on Interior and Insular Affairs held hearings on this matter in October 1963. At these hearings the Department indicated that it would be appropriate for the Federal Government to enter into new arrangements with most of the long-term occupants of the properties whose lease agreements were considered invalid, on substantially the same terms as had been provided in the instruments canceled on August 15, 1963.

The Department of the Interior advised us that in December 1963 it was decided that the Corporation would no longer seek to acquire the Submarine Base properties. Thus, it would seem appropriate to dispose of the properties, which appear to have a high sales value, and to terminate in the near future the Corporation's responsibility for their day-to-day operation.

FINANCING OF CORPORATE ACTIVITIES

FUNDS AVAILABLE FOR USE BY THE CORPORATION

The Congress has authorized appropriations for activities of the Virgin Islands Corporation, including (1) monies from a \$15 million revolving fund in the United States Treasury, (2) grants to cover losses on revenue-producing activities, and (3) grants to finance non-revenue-producing activities. Also, the Corporation is authorized to borrow not more than \$2 million from the Treasury of the United States, within such amounts as may be approved in appropriation acts, for constructing, operating, and maintaining salt water distillation facilities on the island of St. Thomas.

At June 30, 1963, the cumulative net appropriations and approved borrowings provided to the Corporation totaled \$17,463,970, of which \$17,263,970 had been withdrawn from the United States Treasury, as shown below:

	Fiscal year <u>1963</u>	Cumulative through June 30, <u>1963</u>	Withdrawn through June 30, <u>1963</u>	<u>Balance</u>
Appropriations:				
Revolving fund	\$200,000	\$10,132,000	\$10,132,000	\$ -
Grants for losses on revenue-producing activities	480,000	4,426,970	4,426,970	-
Grants for non- revenue-producing activities	<u>-</u>	<u>1,480,000</u>	<u>1,480,000</u>	<u>-</u>
	680,000	16,038,970	16,038,970	-
Approval to borrow from U.S. Treasury, for salt water distilla- tion facilities	<u>200,000</u>	<u>1,425,000</u>	<u>1,225,000</u>	<u>200,000</u>
Total	<u>\$880,000</u>	<u>\$17,463,970</u>	<u>\$17,263,970</u>	<u>\$200,000</u>

The amounts requested by the Corporation for fiscal year 1963 and the amounts provided by the Congress are compared below:

	Department of the Interior and Related Agencies Appropriation Act, 1963, approved August 9, 1962		Supplemental Appropriation Act, 1963, approved May 17, 1963	
	<u>Requested</u>	<u>Provided</u>	<u>Requested</u>	<u>Provided</u>
Revolving fund:				
Expansion of power facilities and mi- nor capital im- provements	\$3,300,000	\$200,000	\$3,350,000	\$ -
Grants for non-revenue- producing activities	40,000	-	-	-
Grants to restore impair- ment of capital from sugar losses	145,000	-	480,000	480,000
Borrowing authority, for salt water distilla- tion facilities	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>200,000</u>
Total	<u>\$3,485,000</u>	<u>\$200,000</u>	<u>\$4,030,000</u>	<u>\$680,000</u>

The \$680,000 appropriated to the Corporation in the Supplemental Appropriation Act, 1963 (77 Stat. 20) included \$480,000 to reimburse the Corporation for its losses from sugar operations in fiscal years 1961 and 1962.

The Corporation augmented its working capital by a sale in February 1963 of about 5,600 tons of raw sugar for future delivery. Through this sale the Corporation secured a cash advance of \$620,000 on May 10, 1963, paying interest thereon at the rate of 4-3/4 percent per annum. The raw sugar securing the advance was shipped to the continental United States on July 19, 1963, and the advance was liquidated on August 5, 1963. Interest charges on the

advance totaled \$7,117, of which \$4,254 was charged as an expense of fiscal year 1963 operations.

EXCESS FUNDS AVAILABLE FOR
RETURN TO THE UNITED STATES TREASURY

As of June 30, 1963, the Corporation had on hand excess funds totaling about \$120,000 which in our opinion should be paid to the United States Treasury. These funds consisted of (1) about \$89,000 comprising depreciation charges against, and net income from operation of, the St. Thomas 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 programs had been terminated effective June 30, 1962.

We were advised on February 6, 1964, that the Department of the Interior agrees that the \$31,000 representing unexpended grant funds for the water and soil conservation program and the forestry program should be returned to the United States Treasury. The Department stated, however, that the funds available from operation of the salt water distillation facilities would be used to finance improvements and corrections in the distillation plant and that the Congress had indicated its desire to expand this operation by authorizing an increase in the plant's capacity.

Construction of the salt water distillation facilities was financed pursuant to section 4 of the Virgin Islands Corporation Act, as amended (48 U.S.C. 1407c(p)), which authorizes the Corporation to borrow \$2 million from the public debt receipts of the United States Treasury, within such amounts as may be approved in appropriation acts, to construct and operate salt water distillation facilities on the island of St. Thomas. In the course of obtaining

funds under this authority, the Corporation has issued 20-year notes to the Treasury on which it pays interest at rates averaging 3.9 percent per annum. The notes are redeemable in whole or in part at the Corporation's option.

The Corporation's borrowing authority was increased \$200,000 by the Supplemental Appropriation Act, 1963, approved May 17, 1963. The Corporation had requested this increase to finance expansion of the water distillation facilities, and in August 1963 the Board of Directors voted to proceed with a \$200,000 expansion program. Firm plans and specifications for the work had not been prepared by the Corporation, however, and it subsequently became evident, on the basis of fiscal year 1963 financial results, that the Corporation had accumulated funds totaling \$89,000 from operation of the facilities. These funds, consisting of net income from the facilities and depreciation charges, were excess to the Corporation's needs on the basis of its expansion program submitted to the Congress and approved by the Board. Accordingly, we believe that the \$89,000 should be paid to the United States Treasury. Such action would reduce the Corporation's long-term notes, totaling \$1,225,000 at June 30, 1963, issued to finance construction of the facilities.

Recommendation to the
President of the Corporation

We recommend that the \$89,000 of excess funds derived from sales of potable water through June 30, 1963, and the \$31,000 of unexpended grant funds provided for the now-terminated water and soil conservation program and forestry program be paid to the United States Treasury.

OTHER ACTIVITIES

POWER OPERATIONS

The Corporation is the sole supplier of electric power in the Virgin Islands. At June 30, 1963, a 3,125-kilowatt steam turbine unit and seven diesel generating units with a combined capacity of 12,425 kilowatts were in operation at the St. Thomas power division. Eight diesel generating units with a combined capacity of 6,842 kilowatts were installed at the St. Croix power division. The island of St. John is supplied with electric power by means of an underwater transmission cable from St. Thomas.

Costs associated with an inoperable generating unit improperly excluded from the computation of net income from power operations

In its financial statements the Corporation reported that its net income from power operations for fiscal year 1963 totaled \$197,708. No provision was made, however, for writing down to net salvage value the capital costs associated with a 570-kilowatt diesel generating unit, installed at the St. Thomas power division, that became inoperable in March 1963. On the Corporation's books this unit, purchased in January 1958 and consistently depreciated on the basis of an estimated service life of 33 years, had a residual value of \$60,571 at June 30, 1963. Before the financial statements were issued, the Corporation's power consultant and other responsible technical personnel recommended that the unit not be repaired and the consultant recommended also that the unit be declared surplus and disposed of. When it was found that such action would substantially reduce the net income from power operations for fiscal year 1963, the President of the Corporation turned down the consultant's recommendation. It was proposed instead that the unit be repaired, at an estimated cost of about \$15,000, and moved

to the St. Thomas airfield as a replacement for a standby 234-kilowatt generating unit located there. The standby unit, which had a lower book value, was then to be retired. The power consultant subsequently disagreed with this proposal and again recommended that the 570-kilowatt unit be declared surplus and disposed of. In view of the judgment expressed by responsible technical personnel, we are of the opinion that an appropriate charge for the unit should have been included in the Corporation's income and expense accounts for fiscal year 1963.

The 570-kilowatt unit had been in service in the continental United States about a year when it was purchased by the Corporation in January 1958. At that time there was an urgent need for the unit which later proved to be unreliable, requiring frequent and costly repairs. In March 1963 the unit became inoperable as the result of a blower failure and a cracked liner. The plant maintenance engineer, the power division manager, and the Corporation's power consultant all advised that, in view of its past history, the unit not be repaired. The consultant pointed out that the unit could be loaded up to only 300 kilowatts, and we noted that in fiscal year 1963 its generation totaled only 58 thousand kilowatt-hours, compared with 41.5 million kilowatt-hours representing the total generation for the St. Thomas power division. The power consultant also advised that it was planned to install higher voltage transformers at the power plant and that after this work was performed it would be impossible to feed power from the unit into the division's distribution system.

If the undepreciated costs of the unit had been written off in fiscal year 1963, in accordance with generally accepted accounting principles and the Corporation's established accounting policies,

net income from power operations for fiscal year 1963 would have been reduced by \$60,571 less an amount, not yet determined, representing the unit's net salvage value.

Financial and operating data

The financial results of power operations and the related operating statistics as reported by the Corporation for fiscal years 1963 and 1962 are summarized below.

	1963			1962 total
	St. Thomas	St. Croix	Total	
Financial results:				
Revenue from power operations	\$1,361,215	\$808,354	\$2,169,569	\$1,728,826
Less expenses and other deductions, net	<u>1,210,885</u>	<u>760,976</u>	<u>1,971,861</u>	<u>1,704,661</u>
Net income from power operations	<u>\$ 150,330</u>	<u>\$ 47,378</u>	<u>\$ 197,708</u>	<u>\$ 24,165</u>
Statistics:				
Generating capacity (kilowatts)	12,425	6,842	19,267	14,621
Kilowatt-hours sold (in thousands)	30,870	17,644	48,514	39,748
Revenue per thousand kilowatt-hours sold	\$44.09	\$45.81	\$44.72	\$43.49
Expenses per thousand kilowatt-hours sold	<u>\$39.23</u>	<u>\$43.13</u>	<u>\$40.65</u>	<u>\$42.89</u>
Number of consumers:				
Residential	5,447	4,109	9,556	8,771
Commercial and industrial	<u>1,030</u>	<u>979</u>	<u>2,009</u>	<u>1,853</u>
Total	<u>6,477</u>	<u>5,088</u>	<u>11,565</u>	<u>10,624</u>
Miles of distribution line energized	<u>320</u>	<u>278</u>	<u>598</u>	<u>566</u>

Operating revenues for fiscal year 1963, totaling \$2,169,569, increased 25 percent over those for the prior year largely because of an increase of 22 percent in generation sold. Interest totaling \$211,488 on the Federal investment was charged to power operations for fiscal year 1963.

In September 1962 a 2,216-kilowatt diesel generating unit was installed at the St. Croix power division, increasing the division's firm power (total installed capacity less capacity of the largest available unit) to 4,626 kilowatts. The firm power available, however, was only 276 kilowatts more than the division's peak load of 4,350 kilowatts recorded in March 1963--a margin of only 6 percent. By comparison, peak loads increased an average of 18 percent each year in the 5-year period ended June 30, 1963.

A 3,000-kilowatt diesel generating unit was installed at the St. Thomas power division in May 1963, increasing that division's total installed capacity to 12,425 kilowatts and its firm power to 9,300 kilowatts. The division's peak load climbed to 7,000 kilowatts in March 1963, and the annual increase in peak loads in the 5-year period ended June 30, 1963, averaged 19 percent.

As shown in schedule 9, page 39, the Federal investment in the Corporation's electric plant and salt water distillation facilities at June 30, 1963, totaled \$9,025,033 and the net book value of the facilities was \$7,583,078. The salt water distillation facilities are electrically and hydraulically integrated with the electrical facilities of the St. Thomas power division.

Delay in payment of bills by the
Government of the Virgin Islands

At June 30, 1963, the Corporation's accounts receivable for power services totaled \$282,525. Of this amount, \$87,220 was owed to the Corporation by the Government of the Virgin Islands,

including \$15,555 outstanding for more than 3 months, \$12,250 for more than 6 months, and \$11,872 for over a year.

The delay in obtaining payment of bills rendered to the insular government was reported to the Board of Directors by the President of the Corporation in February 1963. At that time the insular government owed \$148,091, and the Governor of the Virgin Islands indicated that the delay in payment was caused by the installation of a new accounting system on July 1, 1962. The Governor expected all accounts to be current in a few days or weeks. Nonpayment of bills by the insular government, however, continued to be a problem, and in August 1963, when the insular Government owed the Corporation \$146,635, the matter was again called to the Governor's attention.

The Governor ordered an immediate speedup in payments to the Corporation. Corrective action was slow, however, because of continuing difficulties with the new accounting system and the failure of the various departments and agencies to clear bills for payment by the Department of Finance. The Department of Finance reported that on August 15, 1963, it had on hand bills totaling only about \$78,000, for which payments totaling about \$68,000 were subsequently processed through September 18, 1963.

The Department of the Interior advised us on February 6, 1964, that the Governor of the Virgin Islands and the President of the Corporation were working out procedures to insure prompt payments by the local government.

SALT WATER DISTILLATION OPERATIONS

In February 1962 the Corporation placed in service salt water distillation facilities designed to produce, in combination with a steam turbine generating unit, 275,000 gallons of potable water a day. The capital costs of constructing the salt water distillation facilities, the 3,125-kilowatt steam turbine generating unit, and a joint-use boiler totaled \$2,083,156 of which \$1,002,682 was allocated to distillation operations. The distillation facilities produced about 310,000 gallons of water a day during the 339 days that the facilities were in operation during fiscal year 1963.

Pertinent data on salt water distillation operations follow.

	<u>Fiscal year</u>	
	<u>1963</u>	<u>1962</u>
Financial results:		
Revenues	\$267,508	\$46,743
Costs	<u>240,517^a</u>	<u>46,743</u>
Net income	\$ <u>26,991</u>	\$ <u>-</u>
Statistics:		
Gallons of water produced (in thousands)	105,048	32,927
Gallons of water sold (in thousands)	98,198	26,710

^aIncludes costs of \$32,363 deferred at June 30, 1962, for recovery in fiscal year 1963.

On January 16, 1959, the Government of the Virgin Islands contracted to purchase for 20 years the net potable water produced by the facilities and to pay all production costs as established by the Corporation, including a reasonable return on the Federal investment. Pursuant to the contract, all water deliveries for the 17-month period of initial operations ended June 30, 1963, were

billed on a monthly basis at the interim rate of \$1.75 a thousand gallons. In October 1963 the Corporation issued a final billing for the 17-month period in which the rate for water was adjusted to \$2.52 a thousand gallons. The adjusted rate was established to recover \$314,251--production costs totaling \$287,260 through June 30, 1963, and a reasonable return of \$26,991 on investment. The latter amount is shown in the financial statements accompanying this report as net income from salt water distillation operations. (See schedule 7.)

SUGAR OPERATIONS

Pertinent data on the Corporation's sugar operations for fiscal years 1963 and 1962 are summarized below.

	<u>1963</u>	<u>1962</u>
Financial results:		
Sugar sales	\$2,240,383	\$1,376,029
Molasses sales	147,300	81,767
Subsidies due under the Sugar Act of 1948	<u>120,479</u>	<u>80,264</u>
	2,508,162	1,538,060
Less shipping and selling expenses	<u>161,034</u>	<u>107,119</u>
	2,347,128	1,430,941
Less operating costs and expenses	<u>2,249,403</u>	<u>1,864,630</u>
Net profit or loss (-) from sugar operations	<u>\$ 97,725</u>	<u>\$ -433,689</u>
Statistics:		
Cane production (in tons):		
Corporation cane	107,136	76,919
Purchased cane	<u>44,064</u>	<u>37,952</u>
Total	<u>151,200</u>	<u>114,871</u>
Rainfall during growing season (in inches)	<u>48.1</u>	<u>43.6</u>
Sugar milling (in tons):		
Raw sugar produced	15,354	10,371
Raw sugar delivered to buyers	15,251	10,428

Cane deliveries to the Corporation's mill totaled 151,200 tons in fiscal year 1963, compared with 114,871 tons in the previous year, and raw sugar production totaled 15,354 tons, compared with 10,371 tons in fiscal year 1962. The increased production of cane and raw sugar was attributable principally to more favorably distributed rainfall. This increased production and the higher market prices for sugar prevailing in the continental United States increased the Corporation's revenue from sugar sales to \$2,240,383 in fiscal year 1963, compared with \$1,376,029 in fiscal year 1962.

All but 164 tons of the 1963 raw sugar production was sold before the end of the grinding season on a futures basis for delivery in June or July 1963. The sales were made in three odd-lot contracts entered into between February 18 and April 11, 1963, at contract prices of 6.85, 6.99, and 7.99 cents a pound and averaging 7.19 cents a pound. In comparison, the contract price for the fiscal year 1962 production was 6.49 cents a pound. Selling conditions in the spring of 1963 were more favorable than those existing in the previous year. After the final sale of the Corporation's production, New York spot-cash sugar prices reached a peak of 13.2 cents a pound on May 22, 1963.

MISCELLANEOUS ACTIVITIES

In fiscal year 1963 the Corporation's net losses from miscellaneous activities totaled \$48,942, compared with net losses of \$36,393 in the prior fiscal year. Pertinent data on these activities are summarized below.

	<u>Net income or loss (-)</u>	
	<u>1963</u>	<u>1962</u>
Rentals:		
Key employees' housing	-\$30,276	-\$10,483
Villages	-45,963	-44,696
Other	4,606	2,017
Sales of storeroom supplies, livestock, and vegetables	12,906	4,195
Interest on loans and long-term ac- counts	11,660	13,714
Adjustment of prior years' income	<u>-1,875</u>	<u>-1,140</u>
Total income or loss (-)	<u>-\$48,942</u>	<u>-\$36,393</u>

Most of the Corporation's losses resulted from costs of providing low-rent housing to key employees on the island of St. Croix and from operating villages for local residents and alien workers.

The Corporation's net interest income totaled \$11,660 in fiscal year 1963, compared with \$13,714 in the prior fiscal year. Most of the interest income was earned under contracts made in prior years for the sale of corporate assets on an installment basis and as a result of long-term loans. A number of small agricultural loans were also granted in fiscal year 1963.

SCOPE OF AUDIT

Our audit of the Virgin Islands Corporation for the fiscal year 1963 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. The audit was conducted at St. Croix and St. Thomas, Virgin Islands.

OPINION ON THE FINANCIAL STATEMENTS

1. The Corporation in its income and deficit statement (schedule 2) and in its statement of power operations (schedule 6) reported that its net income from power operations in fiscal year 1963 was \$197,708. As indicated on pages 19 to 21 of this report, however, no provision was made in the accounts for a 570-kilowatt diesel generating unit which became inoperable in March 1963. If the undepreciated costs of the unit had been written off in fiscal year 1963, in accordance with generally accepted accounting principles and the Corporation's established accounting policies, net income from power operations for the fiscal year ended June 30, 1963, would have been reduced by \$60,571 less an amount, not yet determined, representing the unit's net salvage value.

2. As indicated in note 3 to the accompanying financial statements, the Board of Directors in May 1963 voted to terminate the Corporation's sugar operations on or about June 30, 1966, and it is not practicable to determine the effects of this decision on the value of the assets devoted to this activity.

In our opinion, subject to the effect of the situations explained in the foregoing paragraphs, the accompanying financial statements of the Virgin Islands Corporation present fairly the financial position of the Corporation at June 30, 1963, 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 GOVERNMENT)

SCHEDULE 1

STATEMENT OF ASSETS AND LIABILITIES--JUNE 30, 1963 AND 1962 (note 1)

	1963	1962		1963	1962
A S S E T S					
CASH IN U.S. TREASURY AND ON HAND	\$ 769,204	\$ 162,616	ACCOUNTS PAYABLE	\$ 340,407	\$ 279,442
ACCOUNTS RECEIVABLE:			ACCRUED LIABILITIES:		
General, less estimated uncollectibles of \$16,402 and \$17,370, respectively	598,432	402,179	Salaries and wages	30,840	29,533
Due from sugar broker for sale of sugar production (note 2)	2,219,453	1,386,986	Accrued leave	136,911	76,878
SHORT-TERM LOANS RECEIVABLE	1,859	14,569	Due private growers for sugarcane and molasses	38,339	30,880
ANTICIPATED INCOME FROM UNSOLD PORTION OF PRODUCTION:			Sugar selling expenses	160,785	74,956
Sugar	9,060	65,075	Accrued taxes	34,993	37,900
Molasses	110,814	-	Materials and supplies not invoiced	91,914	174,553
ACCRUED ELECTRIC REVENUE	95,268	81,939	Accrued interest, U.S. Treasury (note 5)	355,331	318,311
INVENTORIES OF COMMODITIES, SUPPLIES AND MATERIALS (note 3):			Withholdings from contractors	-	77,938
Sugarcane	87,482	144,921	Other	49,486	38,903
Materials and supplies at average cost	1,150,109	1,139,540	INTEREST-BEARING ADVANCE FROM SUGAR BROKER	620,000	-
DEFERRED CHARGES AND OTHER ASSETS	718	34,861	TRUST AND DEPOSIT LIABILITIES	159,645	120,158
Total current assets	5,042,399	3,432,686	Total current liabilities	2,018,051	1,259,452
LAND, STRUCTURES AND EQUIPMENT (schedule 9) (note 3):			INVESTMENT OF THE U.S. GOVERNMENT:		
Land and buildings	1,363,054	1,379,087	Interest-bearing investment:		
Machinery and equipment	3,367,014	3,449,003	Advances from revolving fund	10,132,000	9,682,000
Electric plant	8,022,351	6,855,326	Borrowings from the U.S. Treasury	1,225,000	943,900
Furniture and fixtures	113,993	123,660	Transfers from the Department of the Interior and predecessor corporation	938,436	938,436
Livestock	11,652	10,142	Transfer from the Department of the Navy	300,883	300,883
Salt water distillation plant	1,002,682	1,035,516	Materials and equipment transferred from other agencies	51,068	50,278
Less accumulated depreciation	13,880,746	12,852,734	Total interest-bearing investment	12,647,387	11,915,497
Machinery and equipment for non-revenue-producing activities (contra)	-	129,744	Non-interest-bearing investment:		
Total land, structures, and equipment	10,173,440	9,656,458	Grant for repayment of predecessor corporation's notes payable to the U.S. Treasury at June 30, 1949	750,000	750,000
Less depreciation	267,152	322,469	Expended from grants for non-revenue-producing activities for purchase of fixed assets (contra)	-	129,744
LONG-TERM RECEIVABLES	267,152	322,469	Unexpended grants for non-revenue-producing activities (note 6)	31,175	31,291
Total assets	\$15,482,991	\$13,411,613	Grants for reimbursement of losses from revenue-producing activities	4,426,970	3,946,970
			Total non-interest-bearing investment	5,208,145	4,858,005
			Gross investment of the U.S. Government	17,855,532	16,773,502
			Less accumulated deficit from revenue-producing activities (schedule 2) (note 7)	4,390,592	4,621,341
			Net investment of the U.S. Government	13,464,940	12,152,161
			* Total liabilities and investment of the U.S. Government	\$15,482,991	\$13,411,613

The notes on pages 42 to 44 are an integral part of this statement.

The opinion of the General Accounting Office on these financial statements appears on page 29.

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, 1963 AND 1962 (note 1)

	<u>1963</u>	<u>1962</u>
INCOME OR LOSS (—) FROM OPERATIONS:		
Sugar operations (schedule 3)	\$ 97,725	\$ -433,689
Miscellaneous activities (schedule 8)	-48,942	-36,393
Power operations (schedule 6)	197,708	24,165
Salt water distillation operations (schedule 7)	<u>26,991</u>	<u>-</u>
Net income or loss (—) from oper- ations	273,482	-445,917
NON-OPERATING INCOME OR EXPENSE (—):		
Sale of land	53	-
Property transfers	<u>-26,423</u>	<u>-</u>
NET INCOME OR LOSS (—) FOR THE YEAR	247,112	-445,917
ADJUSTMENTS APPLICABLE TO PRIOR YEARS' OP- ERATIONS	-16,363	-
CUMULATIVE DEFICIT (—) FROM REVENUE- PRODUCING ACTIVITIES AT BEGINNING OF YEAR	<u>-4,621,341</u>	<u>-4,175,424</u>
CUMULATIVE DEFICIT (—) FROM REVENUE- PRODUCING ACTIVITIES AT END OF YEAR (schedule 1)	<u>-\$4,390,592</u>	<u>-\$4,621,341</u>

The notes on pages 42 to 44 are an integral part of this statement.

The opinion of the General Accounting Office on these financial statements appears on page 29.

VIRGIN ISLANDS CORPORATION

STATEMENT OF SUGAR OPERATIONS

FOR THE FISCAL YEARS ENDED JUNE 30, 1963 AND 1962

	<u>1963</u>	<u>1962</u>
SALES:		
Sugar	\$2,240,383	\$1,376,029
Molasses	<u>147,300</u>	<u>81,767</u>
Total	2,387,683	1,457,796
COST OF SUGAR SOLD:		
Cost of sugar produced (schedule 4)	\$2,597,562	\$1,774,185
Shipping and selling expenses:		
Sugar	160,785	106,932
Molasses	<u>249</u>	<u>187</u>
Total	<u>2,758,596</u>	<u>1,881,304</u>
OPERATING LOSS, SUGAR MILLING	-370,913	-423,508
Operating profit or loss (-) and subsidy cane growing (sched- ule 5)	<u>468,638</u>	<u>-10,181</u>
OPERATING PROFIT OR LOSS (-) FOR THE YEAR (schedule 2)	<u>\$ 97,725</u>	<u>\$ -433,689</u>

The notes on pages 42 to 44 are an integral part of this statement.

The opinion of the General Accounting Office on these financial statements appears on page 29.

VIRGIN ISLANDS CORPORATION

STATEMENT OF COST OF SUGAR PRODUCED

FOR THE FISCAL YEARS ENDED JUNE 30, 1963 AND 1962

	<u>1963</u>	<u>1962</u>
COST OF SUGAR PRODUCED:		
Materials:		
Market value of sugarcane grown	\$1,098,639	\$ 553,554
Cost of sugarcane purchased	<u>431,127</u>	<u>283,446</u>
Total materials	1,529,766	837,000
LABOR AND OVERHEAD:		
Transportation of cane to mill	\$ 69,115	\$ 54,496
Weighing and discharging cane	54,907	36,054
Grinding	20,941	15,366
Other processing operations	46,494	31,933
Supplies (fuel oil, lubricants, and chemicals)	117,370	68,918
Power, light and water, and steam plant furnances	65,878	42,242
Superintendence and general overhead	60,251	35,066
Repairs to factory	184,959	188,876
Other	<u>33,008</u>	<u>23,260</u>
Total labor and overhead	652,923	496,211
ALLOCATED SUGAR MILLING EXPENSES (schedule 10):		
Depreciation	153,703	169,635
Administrative expenses	72,550	61,384
General expenses	62,390	88,220
Interest on investment	<u>126,230</u>	<u>121,735</u>
Total allocated expenses	<u>414,873</u>	<u>440,974</u>
Total cost of sugar produced (schedule 3)	<u>\$2,597,562</u>	<u>\$1,774,185</u>

The notes on pages 42 to 44 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 DEFICIT ON SUGARCANE GROWING

FOR THE FISCAL YEARS ENDED JUNE 30, 1963 AND 1962

	<u>1963</u>	<u>1962</u>
MARKET VALUE OF SUGARCANE GROWN (note a)	\$1,098,639	\$553,554
GROWING COSTS:		
Materials	\$ 93,043	\$ 58,246
Labor and equipment	363,177	290,117
Overhead	163,741	149,522
Allocated expenses (schedule 10):		
Depreciation	43,114	49,139
General expenses	30,161	29,959
Administrative expenses	23,861	24,939
Interest on investment	<u>33,383</u>	<u>42,077</u>
Total growing costs	<u>750,480</u>	<u>643,999</u>
OPERATING PROFIT OR LOSS (-), CANE GROWING	348,159	-90,445
Subsidy from Commodity Stabilization Service under the Sugar Act of 1948	<u>120,479</u>	<u>80,264</u>
OPERATING PROFIT OR LOSS (-) AND SUBSIDY ON SUGARCANE GROWING (schedule 3)	\$ <u>468,638</u>	\$ <u>-10,181</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.

The notes on pages 42 to 44 are an integral part of this statement.

VIRGIN ISLANDS CORPORATION

STATEMENT OF POWER OPERATIONS

FOR THE FISCAL YEARS ENDED JUNE 30, 1963 AND 1962

	1963		1962			
	Total	St. Thomas	St. Croix	Total	St. Thomas	St. Croix
REVENUES:						
Power sales	\$2,129,656	\$1,332,310	\$797,346	\$1,702,040	\$1,059,868	\$642,172
Other revenues	<u>39,913</u>	<u>28,905</u>	<u>11,008</u>	<u>26,786</u>	<u>19,785</u>	<u>7,001</u>
Total revenues	<u>2,169,569</u>	<u>1,361,215</u>	<u>808,354</u>	<u>1,728,826</u>	<u>1,079,653</u>	<u>649,173</u>
OPERATING EXPENSES:						
Production:						
Generation	608,144	362,334	245,810	570,782	338,470	232,312
Maintenance	397,615	315,036	82,579	247,298	175,033	72,265
Distribution	248,652	124,698	123,954	125,541	71,419	54,122
Administrative expenses allocated (schedule 10)	54,457	32,950	21,507	60,466	38,069	22,397
Other administrative and general expenses	243,073	132,179	110,894	196,615	107,365	89,250
Depreciation	<u>265,560</u>	<u>170,056</u>	<u>95,504</u>	<u>223,476</u>	<u>149,472</u>	<u>74,004</u>
Total operating expenses	<u>1,817,501</u>	<u>1,137,253</u>	<u>680,248</u>	<u>1,424,178</u>	<u>879,828</u>	<u>544,350</u>
OPERATING INCOME OR LOSS (-) FOR THE YEAR	352,068	223,962	128,106	304,648	199,825	104,823
INTEREST ON INVESTMENT	-211,848	-131,120	-80,728	-155,013	-92,650	-62,363
OTHER INCOME AND EXPENSES (-)						
Net proceeds from settlement of claim	57,488	57,488	-	-	-	-
Extraordinary expenses	-	-	-	-125,470	-125,470	-
NET INCOME OR LOSS (-) FOR THE YEAR (schedule 2)	<u>\$ 197,708</u>	<u>\$ 150,330</u>	<u>\$ 47,378</u>	<u>\$ 24,165</u>	<u>\$ -18,295</u>	<u>\$ 42,460</u>

The notes on pages 42 to 44 are an integral part of this statement.

The opinion of the General Accounting Office on these financial statements appears on page 29..

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, 1963 AND 1962

	<u>1963</u>	<u>1962</u>
REVENUES:		
Water deliveries to the Government of the Virgin Islands (note 4)	\$ <u>267,508</u>	\$ <u>46,743</u>
OPERATING EXPENSES:		
Production expenses:		
Steam (allocated)	102,064	30,819
Electric power (allocated)	28,244	12,975
Station labor	19,844	10,324
Maintenance	9,949	6,994
Other	2,677	3,242
Administrative expenses allocated (schedule 10)	3,203	931
Depreciation	<u>32,249</u>	<u>13,925</u>
Total operating expenses	198,230	79,210
INTEREST ON INVESTMENT	<u>25,678</u>	<u>10,775</u>
TOTAL OPERATING EXPENSES AND INTEREST	223,908	89,985
Less water deliveries for station use	<u>15,754</u>	<u>10,879</u>
NET OPERATING EXPENSES AND INTEREST	208,154	79,106
EXPENSES DEFERRED FOR RECOVERY IN FISCAL YEAR 1963	<u>32,363</u>	<u>-32,363</u>
NET COSTS RECOVERED	<u>240,517</u>	<u>46,743</u>
NET INCOME FOR THE YEAR (schedule 2)	\$ <u><u>26,991</u></u>	\$ <u><u>-</u></u>

The notes on pages 42 to 44 are an integral part of this statement.

VIRGIN ISLANDS CORPORATION

STATEMENT OF LAND, STRUCTURES AND EQUIPMENT

AT JUNE 30, 1963 AND 1962

	1963		1962			
	Total investment	Less accumulated depreciation	Net book value	Total investment	Less accumulated depreciation	Net book value
SUGAR AND GENERAL OPERATIONS:						
Land and buildings	\$ 1,363,054	\$ 548,636	\$ 814,418	\$ 1,379,087	\$ 517,892	\$ 861,195
Machinery and equipment	3,367,014	1,648,802	1,718,212	3,449,003	1,558,176	1,890,827
Furniture and fixtures	113,993	65,513	48,480	123,660	63,798	59,862
Livestock	11,652	2,400	9,252	10,142	2,666	7,476
Total	<u>4,855,713</u>	<u>2,265,351</u>	<u>2,590,362</u>	<u>4,961,892</u>	<u>2,142,532</u>	<u>2,819,360</u>
ELECTRIC PLANT AND SALT WATER DISTILLATION FACILITIES:						
St. Croix power division	2,925,297	578,389	2,346,908	2,692,921	496,172	2,196,749
St. Thomas power division:						
Electric plant	5,097,054	863,566	5,236,170	4,162,405	687,316	4,510,605
Salt water distillation facilities	1,002,682			1,035,516		
Total	<u>9,025,033</u>	<u>1,441,955</u>	<u>7,583,078</u>	<u>7,890,842</u>	<u>1,183,488</u>	<u>6,707,354</u>
TOTAL LAND, STRUCTURES AND EQUIPMENT	<u>\$13,880,746</u>	<u>\$3,707,306</u>	<u>\$10,173,440</u>	<u>\$12,852,734</u>	<u>\$3,326,020</u>	<u>\$9,526,714</u>

The notes on pages 42 to 44 are an integral part of this statement.

VIRGIN ISLANDS CORPORATION

SCHEDULE OF EXPENSE ALLOCATIONS

FOR THE FISCAL YEAR ENDED JUNE 30, 1963

	Depreciation		Interest on investment		General expenses		Administra- tive expenses allocated (note 8)
	Allocated	Direct	Allocated	Direct	Allocated	Direct	
SUGAR MILLING OPERATIONS (schedule 4)	\$11,246	\$142,457	\$153,703	\$ -	\$126,230	\$49,360	\$ 72,550
SUGARCANE GROWING OPERA- TIONS (schedule 5)	2,974	40,140	43,114	-	33,383	26,715	23,861
POWER OPERATIONS (sched- ule 6)	-	265,560	265,560	-	211,848	-	54,457
SALT WATER DISTILLATION (schedule 7)	-	32,249	32,249	-	25,678	-	3,203
MISCELLANEOUS ACTIVITIES	496	16,619	17,115	5,567	6,801	5,027	11,375
DEVELOPMENT DEPARTMENT	-	-	-	-	-	-	17,874
Total	\$14,716	\$497,025	\$511,741	\$238,760	\$403,940	\$81,102	\$183,320

The notes on pages 42 to 44 are an integral part of this statement.

VIRGIN ISLANDS CORPORATION

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 1963

	Sugar operations, miscellaneous activities, and other general <u>operations</u>	Power and salt water <u>distillation</u>	<u>Total</u>
SOURCE OF FUNDS:			
Net funds from operations:			
Operating revenues	\$2,605,409	\$2,494,565	\$5,099,974
Less operating expenses	<u>2,556,626</u>	<u>2,269,866</u>	<u>4,826,492</u>
Net income from operations	48,783	224,699	273,482
Add current year's depreciation charges	<u>213,933</u>	<u>297,809</u>	<u>511,742</u>
Net funds from operations and depreciation	262,716	522,508	785,224
Funds from other sources:			
Grants for losses from sugar operations	480,000	-	480,000
Withdrawals from revolving fund	-	450,000	450,000
Borrowings from the U.S. Treasury	-	281,100	281,100
Repayments of long-term receivables	55,317	-	55,317
Sale of land	<u>6,477</u>	<u>-</u>	<u>6,477</u>
Net funds provided	<u>\$ 804,510</u>	<u>\$1,253,608</u>	<u>\$2,058,118</u>
APPLICATION OF NET FUNDS PROVIDED:			
Net additions to fixed assets	\$ -15,856	\$1,164,432	\$1,148,576
Expenditures for non-revenue-producing activities	116	-	116
Property transfers and other miscellaneous non-cash adjustments, net	<u>32,848</u>	<u>25,464</u>	<u>58,312</u>
Net funds applied	17,108	1,189,896	1,207,004
DIFFERENCE REPRESENTING INCREASE IN WORKING CAPITAL	<u>787,402</u>	<u>63,712</u>	<u>851,114</u>
Total funds applied and change in working capital	<u>\$ 804,510</u>	<u>\$1,253,608</u>	<u>\$2,058,118</u>

The notes on pages 42 to 44 are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

1. The statement of assets and liabilities (schedule 1) and the income and deficit statement (schedule 2) do not include the activities of the Corporation's Development Department. 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 available only to operate and maintain the facilities.

2. The amount of \$2,219,453 due from sugar broker at June 30, 1963, is based on the sales value of the Corporation's sugar sold for delivery in the continental United States under three contracts dated February 18, March 19, and April 11, 1963. On May 10, 1963, the Corporation secured a cash advance of \$620,000 through its sugar broker, based on the first of these sales, paying interest thereon at an annual rate of 4-3/4 percent. The sugar was delivered from St. Croix in three shipments beginning on July 19, 1963, and the cash advance was repaid on August 5, 1963. The statement of sugar operations (schedule 3) reflects the estimated value of the three shipments and the estimated shipping and selling expenses applicable thereto.

3. The Board of Directors in May 1963 voted to close the Corporation's sugar mill on the island of St. Croix on or about June 30, 1966. As shown in schedule 9, page 39, the fixed assets for General Operations, most of which are used for sugar operations, were acquired at a total investment of \$4,855,713 and had a net book value of \$2,590,362 at June 30, 1963. Depreciation of \$213,932 was charged on these assets in fiscal year 1963. On the basis of the Corporation's consistently applied depreciation policies, it is not anticipated that the fixed assets used in sugar operations will be fully depreciated at June 30, 1966.

The materials and supplies inventory for General Operations carried on the Corporation's books totaled \$504,953 at June 30, 1963. Of this amount, \$486,886 represented stocks accumulated for cane-producing and sugar-milling activities. Included were items having a total value of \$312,790 against which no receipts or issues were recorded in fiscal year 1963. Over the years the Corporation has accumulated large inventories of materials and supplies, partly as a result of its remoteness from sources of supply and its need to make prompt repairs of mill and field equipment. The amount of inventory that will be consumed by June 30, 1966, or its probable liquidation value, cannot be determined at this time.

4. On January 16, 1959, the Government of the Virgin Islands agreed to buy the potable water produced by the Corporation's salt water distillation facilities at cost and a reasonable rate of return. Cost embraces all operating and maintenance expenditures including depreciation and interest on the Corporation's investment. Accordingly, the statement of water distillation operations (schedule 7) reflects billings to the Government of the Virgin Islands for the fiscal years ended June 30, 1963 and 1962. The billings for water deliveries in fiscal year 1963 resulted in a net income from water operations of \$26,991.

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) borrowings totaling \$1,225,000 authorized for the 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 required also to pay interest to the United States Treasury on the value of assets transferred from

other Federal agencies. The interest amounts due the Treasury at June 30, 1963 and 1962, were \$355,331 and \$318,311, respectively.

6. Unexpended grants for non-revenue-producing activities represent the difference between cumulative appropriations of \$1,480,000 and expenditures of \$1,448,825 to June 30, 1963. The cumulative appropriations comprised \$1,140,000 for water and soil conservation, \$95,000 for tourist development, and \$245,000 for the forestry program.

7. Grants for reimbursement for losses represent amounts appropriated to the Corporation to cover the operating losses of revenue-producing activities of prior years. At June 30, 1963, the net grants of \$4,426,970 provided to the Corporation exceeded by \$36,378 its cumulative losses of \$4,390,592, including a deficit of \$82,855 applicable to the predecessor Corporation. 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)).

8. Administrative expenses of \$183,320 are subject to the limitation of \$183,800 established by the Department of the Interior and Related Agencies Appropriation Act, 1963 (76 Stat. 335), and the Supplemental Appropriation Act, 1963 (77 Stat. 20).

APPENDIX

PRINCIPAL OFFICIALS RESPONSIBLE FOR AFFAIRSOF THE VIRGIN ISLANDS CORPORATION

The management of the Corporation is vested in a 7-member Board of Directors consisting of four members from the Federal Government and three businessmen who are appointed for terms of 6 years by the President of the United States. Serving at June 30, 1963, were the following Board members:

SECRETARY OF THE INTERIOR:

Stewart L. Udall (Chairman)

SECRETARY OF AGRICULTURE:

Orville L. Freeman

ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION:

John E. Horne

GOVERNOR OF THE VIRGIN ISLANDS:

Ralph M. Paiewonsky

BUSINESSMEN:

Archer A. Claytor (term expired June 30, 1963)

Ward M. Canaday (term expires June 30, 1965)

On August 7, 1963, Mr. Eugene P. Foley succeeded to the office of Administrator of the Small Business Administration. On October 7, 1963, Mr. Robert F. Dwyer was appointed to fill the unexpired term of Mr. Ashley L. Totten who served as a member of the Board from August 15, 1961, to January 26, 1963.

Officials of the Department of the Interior exercising general direction over the Corporation's activities during fiscal year 1963 included:

ASSISTANT SECRETARY OF THE INTERIOR--
PUBLIC LAND MANAGEMENT:
John A. Carver, Jr.

ADMINISTRATIVE ASSISTANT SECRETARY
OF THE INTERIOR:
D. Otis Beasley

DIRECTOR, OFFICE OF TERRITORIES:
Richard F. Taitano

By appointment of the Board, Dr. Kenneth A. Bartlett served as President of the Corporation from December 29, 1953, to October 31, 1962. Mr. Robert P. Cramer was appointed President of the Corporation effective November 1, 1962.