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REPORT TO THE CONGRESS

Examination Of Financial Statements Virgin Islands Corporation (In Final Liquidation) Fiscal Year 1969 B-114822

Department of the Interior

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

~~7155021~~

MARCH 6, 1970

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

B-114822

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

This is our report on examination of the financial statements of the Virgin Islands Corporation (in final liquidation), Department of the Interior, for the fiscal year ended June 30, 1969. Our examination was made pursuant to the Government Corporation Control Act (31 U.S.C. 841) which requires that a report of each audit of a Government corporation be made to the Congress.

Copies of this report are being sent to the Director, Bureau of the Budget, and to the members of the Board of Directors and the President of the Virgin Islands Corporation.

A handwritten signature in cursive script that reads "James B. Stacks".

Comptroller General
of the United States

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D I G E S T

WHY THE EXAMINATION WAS MADE

The Government Corporation Control Act requires that the General Accounting Office (GAO) audit the Virgin Islands Corporation.

During fiscal year 1969 the Corporation was dissolved in accordance with the Virgin Islands Corporation Act (48 U.S.C. 1407c) which provided that the Corporation have succession until June 30, 1969.

FINDINGS AND CONCLUSIONS

At the close of fiscal year 1969, all remaining assets of the Corporation were disposed of as follows:

- Cash was deposited as miscellaneous receipts in the U.S. Treasury.
- Fixed assets and receivables were transferred to the General Services Administration.

During fiscal year 1969 about 127 acres of land and buildings thereon were donated to the Virgin Islands Government. The land and buildings, having a net book value of \$25,995 and an appraised value of \$980,000, were donated to the Virgin Islands Government, through assignment to and disposition by the Secretary of Health, Education, and Welfare, as a public benefit allowance, pursuant to the Federal Property Administrative Services Act of 1949 and the Civil Rights Act of 1964.

In GAO's opinion, the financial statements included in this report present fairly the financial position of the Corporation at June 30, 1969, prior to its final liquidation, 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.

RECOMMENDATIONS OR SUGGESTIONS

None.

AGENCY ACTIONS AND UNRESOLVED ISSUES

None.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report contains no recommendations or suggestions requiring action by the Congress. It is submitted to the Congress as required by the Government Corporation Control Act. The report shows the results of GAO's final audit of the Virgin Islands Corporation prior to its final liquidation.

GENERAL COMMENTS

The General Accounting Office has made an examination of the financial statements of the Virgin Islands Corporation for the fiscal year ended June 30, 1969. The scope of the audit is described on page 5.

During the fiscal year, the Corporation was dissolved in accordance with the Virgin Islands Corporation Act (48 U.S.C. 1407c) which provided that the Corporation have succession until June 30, 1969. The Corporation's remaining assets, consisting of cash, fixed assets, and principally of long-term promissory notes arising from sales of the Corporation's facilities, were disposed of at the close of the fiscal year through cash payments to the U.S. Treasury and transfers of receivables and fixed assets to the General Services Administration for collection or other disposition.

During the fiscal year, about 127 acres of land and buildings thereon were donated to the Virgin Islands Government, through assignment to and disposition by the Secretary of Health, Education, and Welfare, as a public benefit allowance, pursuant to authority of the Federal Property and Administration Services Act of 1949 (63 Stat. 377), as amended, and the Civil Rights Act of 1964 (78 Stat. 241). The land and buildings had a net book value of \$25,995 and an appraised value of \$980,000.

DEVELOPMENT DEPARTMENT

The Development Department was established in 1954 as a separate activity concerned with the management of the former Marine Corps Air Facility and the Naval Submarine Base on the Island of St. Thomas. These facilities were operated by the Corporation under a lease agreement with the Department of the Navy. The income derived therefrom was used for the operation and rehabilitation of the facilities. Ownership of these properties was conveyed to the Government of the Virgin Islands during fiscal years 1966 and 1967 through the General Services Administration.

As of June 30, 1968, the Development Department had a cash balance of \$161,133, consisting of \$95,000 representing

insurance recoveries from fire losses to U.S. Navy buildings at Bourne Field, Harry S. Truman Airport on St. Thomas and of retained earnings of \$66,133. Since the only transaction during the fiscal year was the deposit of the cash as miscellaneous receipts in the U.S. Treasury, financial statements for the Development Department are not included in this report.

The principal officials responsible for the affairs of the Virgin Islands Corporation are listed in the appendix.

SCOPE OF EXAMINATION

Our examination of the financial statements of the Virgin Islands Corporation for the fiscal year 1969 was made at the Washington, D.C., office of the Office of Territories, Department of the Interior, where the records of the Corporation were maintained. The examination was made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary. We did not confirm the \$2.5 million due from eight mortgagees (see note 2 to the financial statements) but satisfied ourselves as to the correctness of the amounts due through other auditing procedures. The Corporation confirmed the amounts due at the time the mortgages were assigned and transferred to the General Services Administration for servicing and collection.

OPINION OF FINANCIAL STATEMENTS

In our opinion, the financial statements of the Virgin Islands Corporation (schedules 1 through 3) present fairly the financial position of the Corporation at June 30, 1969, prior to final liquidation, 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)

COMPARATIVE STATEMENT OF ASSETS AND LIABILITIES AT
JUNE 30, 1969, PRIOR TO FINAL LIQUIDATION (notes 1 and 2)
AND AT JUNE 30, 1968

A S S E T S

| | <u>1969</u> | <u>1968</u> |
|--|---------------------|---------------------|
| CASH IN U.S. TREASURY AND ON HAND | \$ 522,196 | \$ 430,644 |
| ACCOUNTS RECEIVABLE: | | |
| General | <u>733,926</u> | <u>777,973</u> |
| Total current assets | <u>1,256,122</u> | <u>1,208,617</u> |
| | | |
| LAND, STRUCTURES, AND EQUIPMENT (note 2): | | |
| Land and buildings | 263,409 | 310,936 |
| Machinery and equipment | 9,217 | 21,586 |
| Furniture and fixtures | <u>10,629</u> | <u>10,979</u> |
| | 283,255 | 343,501 |
| Less accumulated depreciation | <u>211,103</u> | <u>229,989</u> |
| Total land, structures, and equipment less accumulated depreciation | <u>72,152</u> | <u>113,512</u> |
| | | |
| LONG-TERM RECEIVABLES | <u>9,494,067</u> | <u>10,172,208</u> |
| Total assets | <u>\$10,822,341</u> | <u>\$11,494,337</u> |

The notes on pages 12 and 13 are an integral part of this statement.

L I A B I L I T I E S

| | <u>1969</u> | <u>1968</u> |
|--|---------------------|---------------------|
| ACCRUED LIABILITIES | \$ - | \$ 30,405 |
| Total current liabilities | <u>-</u> | <u>30,405</u> |
| INVESTMENT OF THE U.S. GOVERNMENT: | | |
| Interest-bearing investment (note 3): | | |
| Advances from revolving fund | 9,495,345 | 8,845,345 |
| Borrowings from the U.S. Treasury | - | 1,225,000 |
| Transfers from the Department of the Interior and predecessor corporation | 938,436 | 938,436 |
| Transfer from the Department of the Navy | 300,883 | 300,883 |
| Transfers from other agencies of materials and equipment | <u>51,068</u> | <u>51,068</u> |
| Total interest-bearing investment | <u>10,785,732</u> | <u>11,360,732</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 |
| Grants for reimbursement of losses from revenue-producing activities | <u>4,426,970</u> | <u>4,426,970</u> |
| Total non-interest-bearing investment | <u>5,176,970</u> | <u>5,176,970</u> |
| Gross investment of the U.S. Government | 15,962,702 | 16,537,702 |
| Less accumulated deficit from revenue-producing activities (schedule 2) | <u>-5,140,361</u> | <u>-5,073,770</u> |
| Net investment of the U.S. Government | <u>10,822,341</u> | <u>11,463,932</u> |
| Total liabilities and investment of the U.S. Government | <u>\$10,822,341</u> | <u>\$11,494,337</u> |

SCHEDULE 2

VIRGIN ISLANDS CORPORATION

STATEMENT OF INCOME AND DEFICIT

FOR THE FISCAL YEAR ENDED JUNE 30, 1969

| | |
|---|---------------------|
| INTEREST INCOME | \$ <u>473,519</u> |
| EXPENSES: | |
| Interest expense (note 3) | 516,507 |
| General expense | 2,649 |
| Depreciation expense | <u>15,364</u> |
| Total expenses | <u>534,520</u> |
| NET LOSS | -61,001 |
| WRITE-OFF OF BOOK VALUE OF LAND AND BUILDINGS DONATED TO V.I. GOVERNMENT (note 2) | -25,995 |
| DEFICIT AT BEGINNING OF YEAR | <u>-5,073,770</u> |
| | <u>-5,160,766</u> |
| ADJUSTMENTS APPLICABLE TO PRIOR YEARS: | |
| Adjustment of liability for payments in lieu of property taxes due V.I. Govern- ment (note 4) | 19,504 |
| Other adjustments | <u>901</u> |
| Total adjustments applicable to prior years | <u>20,405</u> |
| DEFICIT AT END OF YEAR (schedule 1) | <u>-\$5,140,361</u> |

The notes on pages 12 and 13 are an integral part of this statement.

VIRGIN ISLANDS CORPORATION

STATEMENT OF SOURCES AND APPLICATION OF FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 1969

SOURCES OF FUNDS:

| | |
|--|--------------------|
| Interest income | \$ 473,519 |
| Withdrawal from revolving fund | 650,000 |
| Portion of long-term receivables due within a year, classified as cur- rent assets | 678,142 |
| Adjustments applicable to prior years: | |
| Adjustment of liability for payments in lieu of property taxes due V.I. Government | 19,504 |
| Other adjustments | <u>901</u> |
| Total funds provided | <u>\$1,822,066</u> |

APPLICATION OF FUNDS:

| | |
|---|--------------------|
| Interest expense | \$ 516,507 |
| Other expenses (excluding depreciation) | 2,649 |
| Repayment of borrowings from U.S. Trea- sury | 1,225,000 |
| Increase in working capital | <u>77,910</u> |
| Total funds applied | <u>\$1,822,066</u> |

NOTES TO FINANCIAL STATEMENTS

1. The financial statements (schedules 1 through 3) do not include activities of the Development Department which have been accounted for separately by the Corporation. As of June 30, 1968, the Department had a cash balance of \$161,133, consisting of \$95,000 representing insurance recoveries from fire loss damage to U.S. Navy buildings and of retained earnings of \$66,133. During fiscal year 1969, these funds were deposited in the U.S. Treasury as miscellaneous receipts.
2. At the close of fiscal year 1969, all remaining assets of the Corporation were disposed of as follows:

Cash was deposited as miscellaneous receipts in the U.S. Treasury.

Accounts receivable consisting of notes receivable, secured by purchase money mortgages, totaling about \$10.2 million--about \$2.5 million due from eight mortgagees and about \$7.7 million due from the Virgin Islands Government--were assigned to the General Services Administration for servicing and collection. The collections are to be deposited as miscellaneous receipts in the U.S. Treasury.

Real and personal property consisting of approximately 732 acres of land and buildings thereon, machinery and equipment, and furniture and fixtures having a net book value of \$72,152 were transferred to the General Services Administration for disposition. The appraised value of the properties will be established at the time of their disposition.

During fiscal year 1969, real property, consisting of 126.9 acres of land and buildings thereon having a net book value of \$25,995 and an appraised value of \$980,000, were donated to the Virgin Islands Government, through assignment to and disposition by the Secretary of Health, Education, and Welfare, as a public benefit allowance, pursuant to authority of the Federal Property and Administrative Services Act of 1949 (63 Stat. 377), as amended, and the Civil Rights Act of 1964 (78 Stat. 241).

3. The Corporation was required by law to pay interest to the Treasury on (1) withdrawals from its revolving funds in the 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 on June 30, 1949. The Corporation was required also to pay interest to the U.S. Treasury on the appraised value of assets transferred from other Federal agencies without cost or for consideration clearly not commensurate with value received.

4. The adjustment of the liability for payments in lieu of property taxes covers the first half of calendar year 1966 through June 30, 1968, during which time the Virgin Islands Government was granted the use of the properties. The Corporation determined that no liability existed for such payments during the period since these properties were used by the Virgin Islands Government.

APPENDIX



PRINCIPAL OFFICIALS RESPONSIBLE FOR THE AFFAIRS
OF THE VIRGIN ISLANDS CORPORATION

The management of the Corporation was vested in a seven-member Board of Directors and was under the general direction of the Secretary of the Interior. The Board of Directors consisted of three businessmen, appointed for terms of 6 years by the President of the United States, and four Federal officials. A list of the members of the Board of the Corporation follows.

| | Tenure of office | |
|---|------------------|---------------|
| | From | To |
| BOARD OF DIRECTORS: | | |
| Secretary of the Interior: | | |
| Walter J. Hickel (Chairman) | Jan. 1969 | June 30, 1969 |
| Stewart L. Udall (Chairman) | Jan. 1961 | Jan. 1969 |
| Secretary of Agriculture: | | |
| Clifford M. Hardin | Jan. 1969 | June 30, 1969 |
| Orville L. Freeman | Jan. 1961 | Jan. 1969 |
| Administrator, Small Business Administration: | | |
| Howard J. Samuels | Aug. 1968 | June 30, 1969 |
| Governor of the Virgin Islands: | | |
| Cyril E. King (acting) | Feb. 1969 | June 30, 1969 |
| Ralph M. Paiewonsky | Apr. 1961 | Feb. 1969 |
| Businessmen: | | |
| Stanley Gewirtz | Dec. 1965 | June 30, 1969 |
| Gerald C. Mann | Dec. 1965 | June 30, 1969 |