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REPORT ON AUDIT OF THE VIRGIN ISLANDS CORPORATION

LETTER

FROM THE

COMPTROLLER GENERAL OF THE UNITED STATES

TRANSMITTING

REPORT ON THE AUDIT OF THE VIRGIN ISLANDS CORPORATION FOR THE FISCAL YEAR ENDED JUNE 30, 1950

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LETTER OF TRANSMITTAL

General Accounting Office,
Comptroller General of the United States,
Washington 25, January 4, 1951.

The honorable the Speaker of the House of Representatives.

Dear Mr. Speaker: There is presented herein report on the audit of Virgin Islands Corporation for the fiscal year ended June 30, 1950. This audit was made by the Corporation Audits Division of the General Accounting Office, pursuant to and in accordance with the requirements of the Government Corporation Control Act (31 U. S. C. 841).

Respectfully submitted.

Lindsay C. Warren,
Comptroller General of the United States.

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REPORT ON AUDIT OF THE VIRGIN ISLANDS CORPORATION FOR THE FISCAL YEAR ENDED JUNE 30, 1950

General Accounting Office,
Corporation Audits Division,
Washington 25, D. C.

Hon. Lindsay C. Warren,
Comptroller General of the United States.

Dear Mr. Warren: We submit herewith our report on the audit of the accounts and financial statements of VIRGIN ISLANDS CORPORATION for the fiscal year ended June 30, 1950. The audit was made pursuant to the requirements of the Government Corporation Control Act (31 U. S. C. 841).

Summary

Virgin Islands Corporation succeeded The Virgin Islands Company on July 1, 1949. The Corporation was directed to take over the assets, liabilities, and properties administered by the Company and was authorized to continue all general programs, except the manufacture of alcoholic beverages, as well as to engage in broad new activities, in order to promote the general welfare of the inhabitants of the Virgin Islands through economic development. See the Virgin Islands Corporation Act approved and effective June 30, 1949 (48 U. S. C. 1407).

The Corporation reported a loss of $242,769 for the fiscal year 1950, exclusive of the rural electrification project operated by the Rural Electric Division. The loss reported by the predecessor corporation for the fiscal year 1949, also exclusive of the rural electrification project, was $784,435. These amounts are not comparable, however, since the financial statements of the Corporation for the fiscal year 1950 are not consistent with those of the preceding year. The results of sugar operations, the principal activity of the Corporation, are reported on a crop-year basis in the financial statements, while in preceding years these operations were reported on the basis of actual sales and production which took place during the fiscal year.

In addition, the new corporation is required by law to bear certain expenses which were not recorded in the predecessor corporation's accounts. These consist of the Government's share of the cost of the retirement system and compensation benefits applicable to the Corporation's employees, and interest on that portion of the Government's investment in the Corporation represented by advances from the revolving fund and transfers from the Department of the Interior and the predecessor corporation. Also, the new corporation records depreciation on the capitalized value of the properties transferred from the Department of the Interior. These expenses amounted to $127,164 for the year ended June 30, 1950.

After restating the 1949 sugar operations on a crop-year basis to make them comparable with the current year's sugar operations, the results show an operating loss (before general expenses and other charges) of $190,087 for that year compared with an operating profit of $81,424 for the fiscal year 1950. This marked improvement was due primarily to the increase in the sugarcane yield from 12.5 to 27.8 tons per acre, resulting in a decrease of $47 per ton in the cost of production of sugar. In addition, there was an increase of approximately $2 per ton in the gross revenue due to the increased market prices for sugar which prevailed at the end of the fiscal year 1950.

Advances of $1,250,000 from the revolving fund in the United States Treasury were received in the fiscal year 1950. In addition, a grant of $1,026,000 was appropriated by the Congress to reimburse the Corporation for its estimated operating loss for the year and to provide funds for the repayment of notes payable to the United States Treasury by the predecessor corporation in the amount of $750,000.

Recommendations to the Congress

Substantially all of the recommendations for legislative action contained in prior audit reports were adopted in framing the charter for the Corporation; pending further experience we have no recommendations to submit.

Recommendations to the Management

Numerous recommendations for the improvement of accounting procedures and records and for the control of physical properties and supplies have been included in our previous audit reports. These recommendations are not repeated in this report because the Corporation's management has either put them into effect or is currently considering them. Additional recommendations have been made informally to the management as a result of our audit for the fiscal year 1950.

Organization and Management

Virgin Islands Corporation was created by the Virgin Islands Corporation Act, approved June 30, 1949, to promote the general welfare of the inhabitants of the Virgin Islands of the United States through the economic development of the islands. The Corporation succeeds The Virgin Islands Company, which originally had been incorporated as an instrumentality of the Department of the Interior by the Colonial Council of St. Thomas and St. John, April 9, 1934, and had been continued as a Federal corporation by the act of June 30, 1948 (62 Stat. 1170). The new corporation is prohibited from engaging in the manufacture of alcoholic beverages, but all other activities of The Virgin Islands Company may be continued. In addition, broad powers to engage in many new activities are provided. These include the making of loans to private enterprises on the islands, improving the transportation facilities between the islands, and encouraging the development of the tourist trade. The Corporation has succession to June 30, 1959, unless sooner dissolved by act of Congress.

The Virgin Islands Corporation Act transferred to the Corporation all the assets and liabilities of the predecessor corporation. In addition, it transferred to the Corporation those Federal properties formerly operated by The Virgin Islands Company under a lease agreement with the Department of the Interior, except that property conveyed to the Department by revocable permit from the Navy Department under an agreement dated January 1, 1948. It also transferred Bluebeard's Castle Hotel in St. Thomas to the new corporation.

The law authorizes the establishment of a revolving fund in the United States Treasury, through congressional appropriations, for use by the Corporation in the performance of its powers, not to exceed $9,000,000. Advances are made to the Corporation from the fund when requested by the Corporation. Repayment into the revolving fund is required of any funds in excess of requirements for working capital and authorized plant replacement and expansion. Funds so repaid shall be applied first to outstanding advances from the revolving fund, and then to the Government's investment represented by the transfers from the Department of the Interior and the predecessor corporation.

The appropriation of additional funds in the form of grants to finance specific programs included in the budget as not predominantly of a revenue-producing character, and to reimburse the Corporation for its estimated operating losses, is also authorized by the provisions of the charter. Appropriations of funds to the revolving fund and in the form of grants are limited to a total of $2,750,000 for the fiscal years 1950 and 1951.

The Corporation is required to pay interest into the Treasury on assets transferred and capitalized and on the advances from the revolving fund. The interest rate is determined annually in advance by the Secretary of the Treasury.

The management of the Corporation is vested in a board of directors consisting of seven members, including the Secretary of the Interior, the Secretary of Agriculture, the Chairman of the Reconstruction Finance Corporation, the Governor of the Virgin Islands, and three businessmen who are appointed by the President of the United States for a term of six years, except that the terms of office of the appointed directors taking office on June 30, 1949, expire, as designated by the President at the time of appointment, one at the end of two years, one at the end of four years, and one at the end of six years. The directors receive no salaries for their services on the board. The members of the board of directors at June 30, 1950, were:

Oscar L. Chapman	Secretary of the Interior
Charles F. Brannan	Secretary of Agriculture
Harley Hise	Chairman of the RFC
Morris F. De Castro	Governor of the Virgin Islands
Virgil M. Simmons	Businessman (term expires June 30, 1951)
Ward Canaday	Businessman (term expires June 30, 1953)
D. Victor Bornn	Businessman (term expires June 30, 1955)

At June 30, 1950, the officers of the Corporation and their annual salaries were:

President	Norman S. Olson	$10,330
Vice president	Axel Schade	7,740
Comptroller	Norman Cissel	6,486

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General Operations Division

FINANCIAL POSITION

The financial position of the General Operations Division, which includes all the activities of the Corporation except the Rural Electric Division, is shown by the balance sheet presented as exhibit 1 in this report.

The following summary compares the financial position of the Division at June 30, 1950, and June 30, 1949:

	June 30		
	1950	*1949*	*Increase (decrease*)*
Current assets:			
Cash	$82, 597	$57, 527	$25, 070
Receivables, net	475, 264	36, 928	438, 336
Anticipated income from unsold portion of crops	958, 744	247, 552	711, 192
Inventories	337, 032	420, 447	83, 415*
Prepaid expenses	11, 437	8, 449	2, 988
Total current assets	1, 865, 074	770, 903	1, 094, 171
Less current liabilities:			
Notes payable to bank		214, 850	214, 850*
Accounts payable and sundry accruals	156, 796	190, 450	33, 654*
Provision for employees' annual leave	49, 915	46, 116	3, 799
Anticipated expenses on unsold portion of crops	349, 555		349, 555
Total current liabilities	556, 266	451, 416	104, 850
Working capital	1, 308, 808	319, 487	989, 321
Land, structures, and equipment, less accumulated depreciation	1, 606, 041	216, 928	1, 389, 113
Other assets	75, 390		75, 390
Net assets	$2, 990, 239	$536, 415	$2, 453, 824
Represented by investment of U. S. Government:			
Interest-bearing investment:			
Advances from revolving fund	$1, 250, 000		$1, 250, 000
Transfers from the Department of the Interior and the predecessor corporation	957, 008		957, 008
Notes payable to the Treasury		$750, 000	750, 000*
	2, 207, 008	750, 000	1, 457, 008
Non-interest-bearing investment:			
Capital stock		30	30*
Grant	1, 026, 000		1, 026, 000
Net deficit	242, 769*	213, 615*	29, 154*
	783, 231	213, 585*	996, 816
	$2, 990, 239	$536, 415	$2, 453, 824

*Deduction

The sources of funds provided to finance the General Operations Division activities during 1950 and their disposition are summarized:

Funds provided by:		
Advances from revolving fund in U. S. Treasury:		
Operating capital	$875,000	
Machinery and equipment	375,000	
Total advances		$1,250,000
Congressional appropriations in the form of a grant:		
Estimated operating loss	276,000	
Repayment of notes payable to U. S. Treasury	750,000	
Total grant		1,026,000
Total funds obtained from U. S. Treasury		2,276,000
Sales of livestock		9,325
Total funds provided		2,285,325
Funds applied to:		
Repayment of notes payable to U. S. Treasury	750,000	
Additions to land, structures, and equipment	353,430	
Increase in noncurrent assets	75,390	
Retirement of capital stock	30	
Net loss for year, less depreciation of $125,615	117,154	1,296,004
Balance, representing net funds applied to increase in working capital		$989,321

The financial statements of the General Operations Division are not consistent with those of the preceding year because the results of the sugar operations are reported on the crop-year basis. In preceding years these operations were reported on the basis of actual sales and production which took place during the fiscal year.

The crop-year basis of reporting operations is generally accepted in the sugar industry, both in the United States and in Puerto Rico. In reporting on this basis, all income, operating costs and expenses applicable to each year's sugar crop are considered earned or incurred in that fiscal year, whether or not any portion of the crop is processed or sold after the end of the fiscal year. The advantage gained by the use of this method is that the results of sugar operations reported in each fiscal year reflect all of the income and costs of that year's sugar crop, and are not affected by income or costs of any portion of the preceding year's crop. Thus operating results from sugar operations as stated in the financial statements for each fiscal year are placed on a comparable basis.

Anticipated income of $958,744 from the unsold portion of crops represents the sales value of the unprocessed and unsold 1950 sugar crop and its byproduct, molasses, at June 30, 1950. Of this amount $873,791 represents actual sales made subsequent to June 30, 1950. The balance of the unsold sugar, which cannot be sold in the United States until 1951 because of a quota restriction, is priced at June 30, 1950, market value.

Anticipated expenses of $349,555 on the unsold portion of crops consist of (1) the actual cost of $214,871 of harvesting and processing the 1950 sugar crop after June 30, 1950, and (2) the estimated selling expenses of $134,684 applicable to sales of sugar and molasses after June 30, 1950, based on actual selling expenses incurred on completed sales during the year.

Certain of the properties transferred pursuant to the Virgin Islands Corporation Act (see p. 3), including the central sugar mill and the abattoir, are not in operation and are of no value to the Corporation; these properties were transferred to the Corporation at the nominal amount of $1 each. Obsolete machinery and equipment of no use to the Corporation were transferred at no value. All other properties, excluding the hotel, were transferred at cost less accumulated depreciation as of June 30, 1947, as shown in schedule 1 of our audit report for the year ended June 30, 1947, adjusted for all changes from that date to June 30, 1949, the date of transfer. The value of Bluebeard's Castle Hotel was recorded in the accounts at $166,000, the amount approved by the Director of the Bureau of the Budget.

Funds were provided by the advance of $375,000 from the revolving fund for additions to machinery and equipment. Additions to property of $353,430 were capitalized during the year. A listing of properties transferred at July 1, 1949, and net additions during the fiscal year 1950 are presented in schedule 4, page 21.

INCOME FROM OPERATIONS

No new activities were undertaken by the General Operations Division during the fiscal year 1950. It continued the growing of sugarcane and the operation of a sugar mill as its principal activity.

The 1950 sugar crop operations resulted in an operating profit of $81,424, before general expenses and other charges. The 1949 crop operations, when reported on the same basis, resulted in an operating loss of $190,087. This marked improvement is due to a number of factors, the foremost of which are as follows:

1. Sugarcane grown and purchased increased from 46,162 tons in 1949 to 99,482 tons in 1950, an increase of 116 percent. Increased rainfall, the use of fertilizers, and more efficient crop management are the principal reasons for this increase.
2. The yield of sugar per ton of sugarcane increased from 202 pounds in 1949 to 217 pounds in 1950. The replacement of many obsolete pieces of machinery contributed a great deal to this increase.
3. The average market price of sugar, after deducting selling expenses, increased from $105.36 per ton in 1949 to $107.60 per ton in 1950.

Pertinent data on sugar operations for the fiscal years 1950 and 1949 are summarized:

	Fiscal year 1950	Fiscal year 1949
Sales, less selling expenses	$1,093,324	$459,144
Payments received under the Sugar Act of 1948	81,835	32,519
Total	1,175,159	491,663
Operating costs and expenses	1,093,735	681,750
Operating gain (loss*) (note)	$81,424	$190,087*
Tons of sugar produced	10,732	4,579
Tons of sugarcane grown	66,717	25,873
Tons of sugarcane purchased	32,765	20,289
Total tons of sugarcane used in the production of sugar	99,482	46,162
Cost of sugar produced per ton	$101.91	$148.89
Cost of sugarcane per ton:		
Grown	7.38	11.28
Purchased	7.01	6.10
Sugarcane yield—tons per acre	27.8	12.5
Sugar yield—pounds of sugar per ton of sugarcane	217	202

NOTE: Includes the results of molasses operations, the natural byproduct of sugar production. For comparison purposes, the 1949 sales and operating costs and expenses have been restated above in accordance with the crop-year basis and include the molasses operations; therefore they will not agree with the amounts shown in our 1949 report.

In compliance with the provision in the Corporation's charter prohibiting the manufacture of alcoholic beverages, no rum was produced in 1950. The distillery was leased to A. H. Riise Distillers Corporation, and the entire stock of rum on hand at June 30, 1949, except for 620 cases of bottled rum, was sold during the year. The bulk of the rum was sold to the lessee of the distillery. The rum is to be paid for by installments, the final installment coming due on July 1, 1953. The installments of $75,390 due after June 30, 1951, are classified in the balance sheet as noncurrent assets.

The administrative expenses for the fiscal year 1950 were satisfactorily classified by the Corporation for comparison with the detail of such expenses presented in the 1950 budget. These expenses amounted to $112,171, which is within the limitation of $121,480 set for that year by the Congress.

In compliance with the provisions of the Virgin Islands Corporation Act, the Corporation incurred several new expenses in the fiscal year 1950 which were not recorded in the predecessor corporation's accounts. These consist of the Government's share of the cost of the retirement system and compensation benefits applicable to the Corporation's employees, and interest on that portion of the Government's investment in the Corporation represented by advances from the revolving fund and transfers from the Department of the Interior and the predecessor corporation. In addition, the new corporation records depreciation on the capitalized value of the properties transferred from the Department of the Interior. These expenses amounted to $127,164 for the year ended June 30, 1950.

New annual depreciation rates which we deem to be adequate, were established in the fiscal year 1950 for all items of property owned by the Corporation on July 1, 1949. These annual depreciation rates were determined by a consulting engineer, specializing in sugar mill and distillery operations, employed by the Corporation. The resulting depreciation expense for the year amounted to $125,615, of which $84,574 was applicable to those properties transferred from the Department of the Interior.

In the fiscal year 1950 the Corporation paid into the United States Treasury the Government's share of the cost of the civil service retirement and disability system and the Federal employees' compensation benefits applicable to its employees. These new expenses amounted to $14,066 for the fiscal year 1950.

The Corporation also paid into the Treasury interest on the advances of $1,250,000 from the revolving fund and on the transfers of property amounting to $957,008, from the Department of the Interior and the predecessor corporation, as required by the Virgin Islands Corporation Act. The interest rate was fixed by the Secretary of the Treasury at 2 percent for the fiscal year 1950; this interest amounted to $28,525.

Rural Electric Division

Because of the special contractual relations between the Corporation and the Rural Electrification Administration (see note 8, p. 17), the financial statements of the Rural Electric Division are appraised separately.

FINANCIAL POSITION

The following summary compares the financial position of the Division at June 30, 1950, and June 30, 1949.

	June 30 1950	June 30 1949 [a]	Increase (decrease*)
Current assets:			
Cash	$8,399	$20,919	$12,520*
Receivables, net	28,526	20,058	8,468
Inventory of operating supplies	18,444	18,063	381
Prepaid insurance	1,225		1,225
Total current assets	56,594	59,040	2,446*
Less current liabilities:			
Accounts payable and sundry accruals	34,596	29,894	4,702
Provision for employees' annual leave	5,825	5,124	701
Total current liabilities	40,421	35,018	5,403
Working capital	16,173	24,022	7,849*
Land, structures, and equipment, less accumulated depreciation	277,515	257,747	19,768
Net assets	$293,688	$281,769	$11,919
Represented by investment of U. S. Government:			
Notes payable to Rural Electrification Administration and accumulated interest	$386,820	$364,624	$22,196
Less deficit	93,132	82,855	10,277
	$293,688	$281,769	$11,919

[a] Does not agree with 1949 report because of reclassification of $7,991 of accounts receivable shown in land, structures, and equipment in 1949.

The sources of funds provided to finance the Division's activities during 1950 and their disposition are summarized:

Funds provided by:	
Additional loans from Rural Electrification Administration ($15,171, plus interest accrued during year of $7,025)	$22,196
Net income for year (before depreciation of $10,494)	217
Total funds provided	22,413
Funds applied to:	
Additions to land, structures, and equipment	30,262
Balance, representing decrease in working capital	$7,849

As shown by the foregoing comparative summary of assets and liabilities, the working capital of the Division decreased from $24,022 at June 30, 1949, to $16,173 at June 30, 1950. Since property additions continue to be financed through further advances from the Rural Electrification Administration, no large amount of working capital appears to be required for this Division's activities.

The land, structures, and equipment are stated on the balance sheet at their cost of $334,343, less accumulated depreciation of $56,828. Depreciation was computed on the production plant and on the distribution system at rates of 3 and 3.48 percent, respectively, as prescribed by the Rural Electrification Administration. These rates, which were based on depreciation studies, appear to be reasonable.

Gross additions of $30,262 to property accounts were recorded during the year, consisting of:

Electric generating unit and substation facilities (under construction at June 30, 1949)	$6,411
Distribution plant facilities and equipment	21,464
Transportation equipment	2,000
Miscellaneous	387
	$30,262

A survey of the existing facilities and future requirements of the Division was completed in September 1950. The increase in demand for electric power on St. Croix is expected to continue, and further additions to the capacity of the plant will be required. Under the terms of the wholesale power contract with the St. Croix Power Authority, the Authority will furnish and install at its own expense an additional generating unit in the Division's generating plant whenever the excess capacity of the generating plant is no longer sufficient to meet the requirements of the Authority. This generating unit will be purchased and installed in the fiscal year 1951. Additional generating and distribution equipment are needed to meet future requirements of the Division, and the Rural Electrification Administration will be asked to advance the Division $350,000 for this purpose.

The Rural Electric Division is financed by funds advanced by the Rural Electrification Administration, secured to the extent of a mortgage on all property owned or acquired by the Division and on the revenues derived from its operations. (See note 8, p. 17.) At June 30, 1950, the Rural Electrification Administration had advanced $351,671 on the principal amount of loan authorizations totaling $367,731. The remaining authorization of $16,060 represents uncompleted construction work and approved projects not yet undertaken.

Scheduled payments on the notes to and including the installment due September 5, 1945, were made by the predecessor corporation, but, by agreement, no further payments of principal or interest were required until September 5, 1950, although interest continued to accrue at 2 percent annually. Unpaid interest accumulated to June 30, 1950, amounted to $35,149 and is included in the $386,820 investment shown on the balance sheet at June 30, 1950.

Major deficiencies found in the accounting records of the Division in the preceding year were corrected in the year ended June 30, 1950.

INCOME FROM OPERATIONS

The following summary compares the operating results of the Rural Electric Division for the fiscal years 1950 and 1949.

	1950	*1949*
Electric operating revenue	$77,426	$48,202
Operating expenses	62,842	41,210
	14,584	6,992
Other expenses	24,861	9,852
Net loss	$10,277	$2,860

The increase of $7,417 in the net loss is due primarily to the decision by management to take out fire and windstorm insurance on the generating and distribution plants and equipment. The additional insurance expense amounted to $6,116. In addition, the Division was required to bear, for the first time, the Government's share of the cost of the civil service retirement and disability system applicable to its employees. This expense amounted to $1,293 for the year ended June 30, 1950.

Scope of Audit

We have examined the balance sheet of Virgin Islands Corporation as of June 30, 1950, and the related statements of income and deficit for the year then ended. Our examination 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 in the circumstances and appropriate in view of the effectiveness of the system of internal control.

Opinion

During the examination we observed no program, expenditure, or other financial transaction or undertaking which, in our opinion, was carried on or made without authority of law.

In our opinion, the accompanying balance sheet and related statements of income and deficit present fairly the financial position of the Corporation at June 30, 1950, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles, and on a basis consistent with applicable Federal laws. The accompanying financial statements are not consistent with those of the preceding year because:

1. Sugar operations in 1950 are reported on a crop-year basis whereas in the preceding year they were recorded on the bases of actual sales and production within the fiscal year.
2. The cost of maintaining and operating free housing and nursery schools for plantation employees, in prior years allocated to the cost of sugar operations, was included in "General expenses and other charges" in 1950.
3. In compliance with the provisions of the Virgin Islands Corporation Act, the Corporation incurred several new expenses in the fiscal year 1950 which were not recorded in the predecessor corporation's accounts. These consist of the Government's share of the cost of the retirement system and compensation benefits applicable to the Corporation's employees, and interest on that portion of the Government's investment in the Corporation represented by advances from the revolving fund and transfers from the Department of the Interior and the predecessor corporation. In addition, the new corporation records depreciation on the capitalized value of the properties transferred from the Department of the Interior.
4. Major deficiencies in the accounting records of Rural Electric Division, which adversely affected the financial statements for the fiscal year 1949, were corrected in fiscal year 1950.

Stephen B. Ives,
Director of Corporation Audits.

FINANCIAL STATEMENTS

EXHIBIT 1

VIRGIN ISLANDS CORPORATION

BALANCE SHEET—JUNE 30, 1950

ASSETS	*General Operations Division*	*Rural Electric Division*	*Combined*
CURRENT ASSETS:			
Cash in U. S. Treasury and on hand	$82, 597	$8, 399	$90, 996
Accounts receivable:			
Government agencies (note 2)	84, 082	356	84, 438
Other	391, 501	29, 567	421, 068
	475, 583	29, 923	505, 506
Less estimated loss on collection	319	1, 397	1, 716
	475, 264	28, 526	503, 790
Anticipated income from unsold portion of 1950 crop (note 3):			
Sugar	931, 340		931, 340
Molasses	27, 404		27, 404
	958, 744		958, 744
Inventories:			
Sugarcane under cultivation, 1951 crop (note 4)	180, 599		180, 599
Rum, at cost	1, 448		1, 448
Operating supplies (note 5)	154, 985	18, 444	173, 429
	337, 032	18, 444	355, 476
Prepaid expenses	11, 437	1, 225	12, 662
Total current assets	1, 865, 074	56, 594	1, 921, 668

LIABILITIES	*General Operations Division*	*Rural Electric Division*	*Combined*
CURRENT LIABILITIES:			
Accounts payable and sundry accruals:			
Due other Government agencies	$14, 839	$2, 245	$17, 084
Other	141, 957	32, 351	174, 308
	156, 796	34, 596	191, 392
Provision for employees' annual leave	49, 915	5, 825	55, 740
Anticipated expenses on unsold portion of 1950 crop (note 3):			
Sugar	345, 380		345, 380
Molasses	4, 175		4, 175
	349, 555		349, 555
Total current liabilities	556, 266	40, 421	596, 687
INVESTMENT OF THE UNITED STATES GOVERNMENT:			
Interest-bearing investment:			
Advances from revolving fund (note 7)	1, 250, 000		1, 250, 000
Transfers from the Department of the Interior and the predecessor corporation (exhibit 2 and note 7)	957, 008		957, 008
Notes payable to Rural Electrification Administration, with accumulated interest of 2 percent (note 8)		386, 820	386, 820
	2, 207, 008	386, 820	2, 593, 828

Land, Structures, and Equipment (note 6):			
Land	183, 907	3, 836	187, 743
Buildings and land improvements	649, 232	14, 861	664, 093
Machinery and equipment	866, 441	312, 754	1, 179, 195
Construction work in progress	32, 076	2, 892	34, 968
Total (schedule 4)	1, 731, 656	334, 343	2, 065, 999
Less accumulated depreciation	125, 615	56, 828	182, 443
Net land, structures, and equipment	1, 606, 041	277, 515	1, 883, 556
Other Assets:			
Accounts receivable not due within one year (note 10)	75, 390		75, 390
	$3, 546, 505	$334, 109	$3, 880, 614

*Deduction

Non-interest-bearing investment:			
Grant (note 9)	1, 026, 000		1, 026, 000
Less deficit (exhibits 3 and 4)	242, 769	93, 132	335, 901
	783, 231	93, 132*	690, 099
Net investment of the United States Government	2, 990, 239	293, 688	3, 283, 927
	$3, 546, 505	$334, 109	$3, 880, 614

The notes on page 17 are an integral part of this statement.

EXHIBIT 2

VIRGIN ISLANDS CORPORATION

GENERAL OPERATIONS DIVISION

TRANSFERS FROM THE DEPARTMENT OF THE INTERIOR AND THE PREDECESSOR CORPORATION—JUNE 30, 1950

Properties transferred from the Department of the Interior:		
Federal properties operated under lease agreement with the Department of the Interior, except that property conveyed to the Department by revocable permit from the Navy Department		$1,004,623
Federal interest in Bluebeard's Castle Hotel		166,000
		1,170,623
Liabilities assumed less assets transferred from the predecessor corporation:		
Current liabilities	$451,416	
Capital stock	30	
Notes payable to U. S. Treasury	750,000	
	1,201,446	
Current assets	770,903	
Land, structures, and equipment (net)	216,928	
	987,831	213,615
Transfers from the Department of the Interior and the predecessor corporation, June 30, 1950 (exhibit 1)		$957,008

The notes on page 17 are an integral part of this statement.

EXHIBIT 3

VIRGIN ISLANDS CORPORATION

GENERAL OPERATIONS DIVISION

INCOME STATEMENT

For the Year Ended June 30, 1950

	Prior to June 30, 1950	*Subsequent to June 30, 1950*	*Total*
Sugar operations, 1950 crop (note 1):			
Sales:			
Sugar	$345, 336	$925, 301	$1, 270, 637
Molasses		27, 404	27, 404
Payments received from the Production and Marketing Administration of the Department of Agriculture under Sugar Act of 1948	52, 611	29, 224	81, 835
	397, 947	981, 929	1, 379, 876
Less selling expenses:			
Sugar	54, 944	142, 775	197, 719
Molasses		6, 998	6, 998
	54, 944	149, 773	204, 717
Income from 1950 crop	343, 003	832, 156	1, 175, 159
Less cost of sugar produced (schedule 1)	308, 373	785, 362	1, 093, 735
Operating profit on 1950 crop (before general expenses and other charges)	$34, 630	$46, 794	81, 424
Add gain on sale of balance of 1949 crop			14, 118
Operating profit on sugar operations (before general expenses and other charges)			95, 542
General expenses and other charges:			
Depreciation (note 6)			125, 615
Administrative expenses			112, 171
Interest on investment of U. S. Government (note 7)			28, 525
Other interest, property taxes, audit fees, and general expenses			119, 267
Net loss from miscellaneous activities (schedule 3)			10, 619
			396, 197
Net operating loss			300, 655
Other income:			
Net gain on sale of rum inventories (note 10)			57, 886
Net loss for year (exhibit 1)			$242, 769

The notes on page 17 are an integral part of this statement.

EXHIBIT 4

VIRGIN ISLANDS CORPORATION

RURAL ELECTRIC DIVISION

INCOME AND DEFICIT STATEMENT

For the Year Ended June 30, 1950

Operating revenue		$77,426
Less operating expenses:		
Production	$46,079	
Distribution	2,293	
Maintenance	3,976	
Depreciation	10,494	
Total operating expenses		62,842
Net operating profit		14,584
General expenses and other charges:		
General and administrative	16,037	
Interest	7,025	
Other income and expense (net)	1,799	24,861
Net loss for year		10,277
Deficit, June 30, 1949		82,855
Deficit, June 30, 1950 (exhibit 1)		$93,132

NOTES TO FINANCIAL STATEMENTS

1. The accompanying financial statements of the General Operations Division are not consistent with those of the preceding year because the results of the sugar operations are reported on a crop-year basis. In preceding years sugar operations were reported on the basis of actual sales and production within the fiscal year.

2. Accounts receivable due from other Government agencies include $81,835 representing the sugar benefit payment receivable from the Production and Marketing Administration of the Department of Agriculture under the Sugar Act of 1948. Of this amount, $29,224 is applicable to sugar produced from July 1, 1950, to the end of the crop year. (See note 1.)

3. Under the crop-year basis of reporting, all income, operating costs, and expenses applicable to the year's crop are considered earned or incurred during the fiscal year. Anticipated income of $958,744 represents the estimated sales value of that part of the 1950 crop unsold at June 30, 1950, while anticipated expenses of $349,555 represent the estimated additional operating costs and selling expenses incurred after the end of the fiscal year. (See note 1.)

4. The amount of $180,599 represents the actual costs accumulated to June 30, 1950, of planting, cultivating, preparation of acreage, etc., for crops to be harvested in the fiscal year 1951. The Corporation follows the practice of charging sugar operations, at the time the cane is ground, with all the costs accumulated on the crop harvested.

5. Supplies used in the production of sugar are reported at average cost. The inventory of these supplies at June 30, 1950, has been reduced by the cost of supplies required for the completion of the processing of the 1950 sugar crop. Electrical supplies used by the Rural Electric Division are carried at average cost.

6. The Virgin Islands Corporation Act (63 Stat. 350), approved June 30, 1949, transferred to the Corporation all the assets and liabilities of the predecessor corporation. In addition, it transferred the Federal properties operated by the Company under lease agreement with the Department of the Interior, and Bluebeard's Castle Hotel in St. Thomas. These properties, excluding the hotel, are carried at cost less accumulated depreciation as of June 30, 1947, shown in schedule 1 of the Comptroller General's report on the audit of The Virgin Islands Company for the fiscal year ended June 30, 1947, adjusted for all changes from that date to June 30, 1949, the date of transfer. The value of Bluebeard's Castle Hotel was recorded in the accounts at $166,000, the amount approved by the Director of the Bureau of the Budget.

New depreciation rates were established for each item of property as of July 1, 1949.

7. The Virgin Islands Corporation Act authorizes the establishment of a revolving fund in the United States Treasury, not to exceed $9,000,000, through congressional appropriations. Advances are made to the Corporation from the fund for use in the exercise of its corporate powers and functions; $1,250,000 was appropriated in the fiscal year 1950.

Transfers of $957,008 from the Department of the Interior and the predecessor corporation represent the property and other assets, less the liabilities assumed, transferred to the Corporation at June 30, 1949. The Corporation is required to pay interest on the advances and transfers at a rate determined annually in advance by the Secretary of the Treasury. The rate for the fiscal year 1950 was 2 percent.

8. The notes and interest payable to the Rural Electrification Administration are secured to the extent of a mortgage on the land, structures, equipment, and revenues of the Rural Electric Division. Payments of both principal and interest are to be made only from revenues derived from the operation of these properties. The first payment date on the notes and interest is September 5, 1950.

9. A grant of $1,026,000 was appropriated by the Congress during the fiscal year 1950 to reimburse the Corporation for its estimated operating loss for the year and to provide funds for the repayment of notes payable to the United States Treasury by the predecessor corporation in the amount of $750,000.

10. Virgin Islands Corporation is restricted by its new charter from producing rum and other alcoholic beverages. In compliance with this restriction, the distillery has been leased to a private operator, and the entire stock of rum, except for 600 cases of bottled rum carried in the inventory at June 30, 1950, was sold. The bulk of the rum was sold to the lessee of the distillery and is to be paid for by installments, the final installment coming due on July 1, 1953. Accounts receivable not due within one year of $75,390 represent the installments due after June 30, 1951.

SCHEDULE 1

VIRGIN ISLANDS CORPORATION

GENERAL OPERATIONS DIVISION

COST OF SUGAR PRODUCED

For the Year Ended June 30, 1950

	Sugar-cane growing	*Sugar mill*	*Total sugar operations*
Materials used:			
Sugarcane:			
Purchased (32,765 tons at $7.01)		$229, 595	$229, 595
Grown (66,717 tons at $7.38)		492, 146	492, 146
Other materials	$37, 659	60, 783	98, 442
Total materials	37, 659	782, 524	820, 183
Direct labor	201, 857	146, 207	348, 064
Overhead expenses (schedule 2)	68, 801	178, 504	247, 305
Total production costs	308, 317	1, 107, 235	1, 415, 552
Add inventory, June 30, 1949	183, 829		183, 829
Total costs to be accounted for	492, 146	1, 107, 235	1, 599, 381
Deduct:			
Sugarcane transferred to sugar mill, at cost	492, 146		492, 146
Shipping and handling losses		13, 500	13, 500
	492, 146	13, 500	505, 646
Cost of sugar produced (exhibit 3)		$1, 093, 735	$1, 093, 735

SCHEDULE 2

VIRGIN ISLANDS CORPORATION

GENERAL OPERATIONS DIVISION

OVERHEAD EXPENSES

For the Year Ended June 30, 1950

	Sugar-cane growing	*Sugar mill*	*Total sugar operations*
Salaries and wages	$32,170	$69,038	$101,208
Maintenance department expenses allocated	1,233	26,592	27,825
Supplies	7,560	25,190	32,750
Tractor expenses	44,536	2,052	46,588
Transportation expenses	7,207	26,992	34,199
Storekeeping expenses	2,500	10,859	13,359
Livestock expenses (work animals)	9,929		9,929
Fuel oil and water		13,100	13,100
Supervision of purchased sugarcane growing		1,030	1,030
Miscellaneous	4,558	3,651	8,209
	109,693	178,504	288,197
Less cost of cutting cane seeds	40,892		40,892
Total overhead (schedule 1)	$68,801	$178,504	$247,305

SCHEDULE 3

VIRGIN ISLANDS CORPORATION

GENERAL OPERATIONS DIVISION

SUMMARY OF MISCELLANEOUS ACTIVITIES

For the Year Ended June 30, 1950

	Income	*Costs and expenses*	*Net income (loss*)*
Operation of the yacht "Flight," principally for freight service between St. Croix, St. Thomas, and San Juan	$6, 547	$11, 092	$4, 545*
Rentals:			
Tractors and other equipment	22, 712	15, 312	7, 400
Leases:			
Distillery	5, 089	2, 678	2, 411
Bluebeard's Castle Hotel	3, 000	----------	3, 000
Poultry farm	270	1, 284	1, 014*
Houses occupied by officers, supervisory personnel, and others	4, 769	6, 502	1, 733*
Sales:			
Livestock	15, 217	18, 905	3, 688*
Vegetables (principally tomatoes)	----------	13, 059	13, 059*
Shopwork and material	11, 825	9, 316	2, 509
Miscellaneous	6, 667	8, 567	1, 900*
	$76, 096	$86, 715	$10, 619*
			(exhibit 3)

SCHEDULE 4

VIRGIN ISLANDS CORPORATION

GENERAL OPERATIONS DIVISION

LAND, STRUCTURES, AND EQUIPMENT—JUNE 30, 1950

Properties transferred from the Department of the Interior and the predecessor corporation, July 1, 1949:	
Bethlehem sugar mill	$411,040
Central sugar mill	1
Distillery, rum warehouses, and bottling plant	111,725
Estate villages and structures	317,565
Transportation equipment	84,863
Water supply and sanitation equipment	45,199
Administrative and maintenance equipment	43,666
Abattoir	1
Farm equipment	15,441
Livestock	14,748
Land	177,302
Bluebeard's Castle Hotel	166,000
	1,387,551
Net additions during the fiscal year 1950:	
Sugar mill equipment	139,235
Farm equipment, including tractors	133,062
Transportation equipment	38,967
Furniture and fixtures	6,294
Construction work in progress (principally on sugar mill equipment)	32,076
Total additions to machinery and equipment	349,634
Miscellaneous minor buildings, and land improvements	2,543
Increment in livestock	1,253
Total additions	353,430
Less sale of livestock	9,325
Net additions during fiscal year 1950	344,105
Land, structures, and equipment, June 30, 1950 (exhibit 1)	$1,731,656

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