



INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To
The Members of
Community Reconstruction of Social Service

Report on the Financial Statements:

We have audited the Financial Statements of **Community Reconstruction of Social Service**, Velkur Village & Post, G.D. Nellore Mandal, Chittoor District - 517 125 A.P. ("the Society"), which comprise of Balance Sheet as at 31st March 2022 vide "Project: CROSS – FCS BIOGAS" and the Income & Expenditure account and the Receipts and Payments account for the year ended 31st March 2022 and the notes to the financial statements consisting of summary of significant accounting policies.

In our opinion and to the best of our information and according to the explanations given to us,

These Financial Statements of accounts of **Community Reconstruction of Social Service, Chittoor** give a true and fair view of the financial position of the Society as at 31st March 2022 and of its financial performance for the year then ended in accordance with the Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI).

Basis for Opinion:

We have conducted our audit in accordance with Standards on Auditing (SAs) issued by the Institute of Chartered Accountants of India. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statement* section of our report. We are independent of the "Community Reconstruction of Social Service, Chittoor" in accordance with the Code of Ethics issued by the ICAI, and have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and those charged with Governance for the Financial Statement:

Management is responsible for the preparation and fair presentation of these financial statements that give a true and fair view of the state of affairs and results of operations in accordance with the accounting principles generally accepted in India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of these Financial Statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.



Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statement:

Our objectives are to;

1. Obtain reasonable assurance about whether the financial statements as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Standards on Auditing (SAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. Identify and assess the risks of material misstatement of these Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.,
4. Evaluate the overall presentation, structure and content of these Financial Statements, including the disclosures, and whether these Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
5. We have communicated with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with the Standards of Auditing (SA) as prescribed by the Institute of Chartered Accountants of India (ICAI). These Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these Financial misstatements.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in these Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, of these Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of these Financial Statements in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the management, as well as evaluating the overall presentation of these financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



For J S A S & Associates
Chartered Accountants
(Firm Registration Number. 014859S)

A handwritten signature in blue ink, appearing to read "John Ravindran Moses".

John Ravindran Moses
Partner
(Membership Number. 028566)
UDIN: 22028566AMUTED8344

Place: Chennai
Date: 14.07.2022

COMMUNITY RECONSTRUCTION OF SOCIAL SERVICE

Velkur Village, G.D Nellore Mandal 517125

Project: CROSS-FCS BIOGAS

Receipts and Payments account for the year ended 31st March 2022

Receipts		Amount	Payments		Amount
Opening Balance:			Bio Gas Project Expenses:		
	Cash in Hand	2.00		Village Volunteers Stipends	1,61,160.00
	Cash at Bank	13,603.50		Fuel and Maintenance of Motorcycles	1,04,256.00
				Repairs and Maintenance	81,580.00
	Donations	27,10,000.00		DoE Verification Fees	4,19,125.00
	Bank Interest	2,744.00		UNFCCC Issuance Fee	2,48,803.00
	Loans and Advances:			Office Running Costs & Administration	1,76,052.00
	TDS Deducted	37,000.00		Staff Salaries	13,80,000.00
				Staff Family Insurance	67,067.00
				Village Volunteer and Staff Review Meeting	10,975.00
				Audit Fees	23,600.00
				Bank Charges	619.39
				Interest on TDS & Late Filing Fee	1,360.00
				Loans and Advances:	
				TDS Paid	37,000.00
				Closing Balance:	
				Cash in Hand	128.00
				Cash at Bank	51,624.11
Total		27,63,349.50	Total		27,63,349.50

REFERRED TO IN MY REPORT OF EVEN DATE

For J S A S & Associates

Chartered Accountants

(Firm Registration Number. 014859S)

John Ravindran Moses

Partner

(Membership No. 028566)

UDIN: 22028566AMUTED8344



Place: Chennai

Date: 14.07.2022

COMMUNITY RECONSTRUCTION OF SOCIAL SERVICE

Velkur Village, G.D Nellore Mandal 517125

Project: CROSS-FCS BIOGAS

Income and Expenditure account for the year ended 31st March 2022

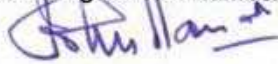
Expenditure	Amount	Income	Amount
Bio Gas Project Expenses:		Donations	27,10,000.00
Village Volunteers Stipends	1,61,160.00	Bank Interest	2,744.00
Fuel and Maintenance of Motorcycles	1,04,256.00	Excess of Expenditure over Income	6,210.48
Repairs and Maintenance	81,580.00		
DoE Verification Fees	4,19,125.00		
UNFCCC Issuance Fee	2,48,803.00		
Office Running Costs & Administration	1,76,052.00		
Staff Salaries	13,80,000.00		
Staff Family Insurance	67,067.00		
Village Volunteer and Staff Review Meeting	10,975.00		
Audit Fees	23,600.00		
Bank Charges	619.39		
Interest on TDS & Late Filing Fee	1,360.00		
Depreciation	44,357.09		
Total	27,18,954.48	Total	27,18,954.48

REFERRED TO IN MY REPORT OF EVEN DATE

For J S A S & Associates

Chartered Accountants

(Firm Registration Number. 014859S)



John Ravindran Moses

Partner

(Membership No. 028566)

UDIN: 22028566AMUTED8344



Place: Chennai

Date: 14.07.2022

COMMUNITY RECONSTRUCTION OF SOCIAL SERVICE

Velkur Village, G.D Nellore Mandal 517125

Project: CROSS-FCS BIOGAS

Balance Sheet as at 31st March 2022

Value as at 31-Mar-21	Liabilities	Value as at 31-Mar-22	Value as at 31-Mar-21	Assets	Value as at 31-Mar-22
	GENERAL FUND	(4,42,19,577.54)	2,99,816.96	PROPERTY, PLANT AND EQUIPMENT	2,55,459.87
	Less : Excess of Expenses	6,210.48		(as per Schedule)	
		(4,42,25,788.02)		CURRENT ASSETS	
3,62,76,954.00	Retired Carbon offsets		6,02,000.00	Excavation advance	6,02,000.00
			14,000.00	Advance Paid to Staff	14,000.00
	LOANS AND LIABILITY		11,000.00	Rental Advance	11,000.00
88,83,046.00	Advance received from Fair		2.00	Cash in Hand	128.00
	Climate Services Pvt. Ltd		13,603.50	Cash at Bank	51,624.11
	Less: Retired Carbon offsets			MISCELLANEOUS EXPENDITURE	
				Excess of Expenditure	4,42,25,788.02
4,51,60,000.00	TOTAL		4,42,19,577.54	TOTAL	4,51,60,000.00

REFERRED TO IN MY REPORT OF EVEN DATE

For J S A S & Associates

Chartered Accountants

(Firm Registration Number. 014859S)

John Ravindran Moses

John Ravindran Moses

Partner

(Membership No. 028566)

UDIN: 22028566AMUTED8344



Place: Chennai

Date: 14.07.2022

COMMUNITY RECONSTRUCTION OF SOCIAL SERVICE

Velkur Village, G.D Nellore Mandal 517125

Project: CROSS-FCS BIOGAS

Schedule: Property, Plant and Equipment

Sl. No.	Name of the Assets	Rate of Depn	Value as on 31.03.2021	Additions		Total	Depreciation	WDV as on 31.03.2022
				> 182 Days	< 182 Days			
1	Motor Cycles	15%	1,99,511.48			1,99,511.48	29,926.72	1,69,584.76
2	Camera	15%	10,467.37			10,467.37	1,570.11	8,897.26
3	Hard Disk	40%	49.76			49.76	19.90	29.86
4	Furniture	10%	16,290.44			16,290.44	1,629.04	14,661.40
5	UPS	40%	746.50			746.50	298.60	447.90
6	D Link Wifi Modem	15%	961.71			961.71	144.26	817.45
7	Stabilizer	15%	7,165.84			7,165.84	1,074.88	6,090.96
8	Tubular Batteries	15%	30,171.97			30,171.97	4,525.80	25,646.17
9	GPS Machine	15%	4,303.94			4,303.94	645.59	3,658.35
10	Equipment	15%	30,147.95			30,147.95	4,522.19	25,625.76
TOTAL			2,99,816.96	-	-	2,99,816.96	44,357.09	2,55,459.87



NOTES TO BALANCE SHEETS AND INCOME AND EXPENDITURE

Significant Accounting Policies:

a. Basis of accounting and Preparation of Financial Statement:

The Financial Statements are prepared under historical cost convention on accrual basis of accounting complying in all material aspects with applicable Accounting Principles and the Accounting Standard generally accepted in India.

b. Revenue Recognition:

Income is recognized on cash basis.

1. All donations are recognized as income and accounted on receipt of donations
2. Government grant is recognized on accrual basis.

c. Property, Plant and Equipment

Fixed assets are stated at their historical cost of acquisition or construction, less accumulated depreciation. Cost includes all cost incurred to bring the asset to their working condition and location.

d. Employee Benefits:

Financial Statements are prepared on cash basis. Retirement benefits to employees will be recognized and accounted in the year they arise.





July 14, 2022

To,
The Secretary & Board Members,
Community Reconstruction of Social Service,
Velkur Village and Post, G.D. Nellore Mandal,
Chittoor District - 517 125
Anthra Pradesh

Dear Sir,

Sub: Management Representation Letter

We have audited the attached accounts of "COMMUNITY RECONSTRUCTION OF SOCIAL SERVICE (CROSS) FCS Biogas" for the year ended 31st March 2022 and are pleased to give our observations below.

1. Income Tax Compliances:

Emission Reductions Purchase Agreement (ERPA), End User Agreement and your Journal Voucher for recognising Income from ERPA Receipt offset generated by Project No. 8784 "Micro Sale Biogas CDM Project" from Fair Climate Services Private Limited points out that CROSS has sold CER.

Community Reconstruction of Social Service (CROSS) require to re-visit this project with the amendments to Sec 2(15) and introduction of Sec. 115BBG in the year 2017. Sec. 2(15) is amended in the Finance Act, 2015 and as per the amended Act, Charity now reads as follows.

[⁶⁷(15) ⁶⁸"charitable purpose"⁶⁹ includes relief of the poor, ⁶⁹education, ⁷⁰[yoga,] medical relief, ⁷¹[preservation of environment⁶⁹ (including watersheds, forests and wildlife) and preservation of monuments or places or objects of artistic or historic interest,] and the advancement of any other ⁶⁹object of general public utility:

⁷²[**Provided** that the advancement of any other object of general public utility⁶⁹ shall not be a charitable purpose, if it involves the carrying on of any activity in the nature of trade, commerce or business⁷³, or any activity of rendering any service in relation to any trade, commerce or business⁷³, for a cess or fee or any other consideration, irrespective of the nature of use or application, or retention, of the income from such activity, unless;

- (i) such activity is undertaken in the course of actual carrying out of such advancement of any other object of general public utility⁷³; and
- (ii) the aggregate receipts from such activity or activities during the previous year, do not exceed twenty per cent of the total receipts, of the trust or institution undertaking such activity or activities, of that previous year;]]

Taking the stand that Biogas activity is towards protection of environment and the proviso will not be applicable to CROSS, we still face the problem in Sec. 115BBG.



Finance Act, 2017 has introduced Tax on Carbon Credits. Section 115BBG reads as follows.

115BBG. (1) Where the total income of an assessee includes any income by way of transfer of carbon credits, the income-tax payable shall be the aggregate of—

- (a) the amount of income-tax calculated on the income by way of transfer of carbon credits, the rate of ten per cent; and
- (b) *the amount of income-tax with which the assessee would have been chargeable had his income been reduced by the amount of income referred to in clause (a).*

(2) *Notwithstanding anything contained in this Act, no deduction in respect of any expenditure or allowance shall be allowed to the assessee under any provision of this Act in computing his income referred to in clause (a) of sub-section (1).*

Explanation: *For the purposes of this section, "carbon credit" in respect of one unit shall mean reduction of one tonne of carbon dioxide emissions or emissions of its equivalent gases which is validated by the United Nations Framework on Climate Change and which can be traded in market at its prevailing market price.*

Tax at the rate of 10% has been introduced with effect from A.Y 2018-19. This means that CROSS will have to pay Tax on transfer of Carbon Credit. Subsequent **Circular No. 2/2018, Dated 15-2-2018** issued by CBDT also confirms this.

As per the end user agreement signed with the respective beneficiary, CROSS has assumed the right to sell the CER (Carbon Emission Rights). Therefore, as the person who has the right and sold the same, CROSS will need to bear the Tax.

2. Goods and Service Tax Compliances:

There are two views on taxability of Carbon Credits. The first view is that Carbon Credits are 'goods' under the GST law. This view is based on the fact that Carbon Credits like, 'replenishment licenses or R.E.P. licences" issued under the EXIM policy to provide to the registered exporters the facility of importing the essential inputs required for the manufacture of the products exported' and 'Priority Sector Lending Certificates (PSLCs) and Renewable Energy Certificates (RECs). PSLCs are tradable certificates issued against priority sector loans of banks', have intrinsic value and are movable and freely transferable. Further, Carbon Credits (CERs) always have had a market of their own.

The issue pertaining to determining the nature of Carbon Credit/CERs as goods, was deliberated under the Notification No. 256/CDVAT/2009/43 dated 13.01.2010 issued by the Commissioner, Trade and Taxes, Delhi VAT under section 85 of the Delhi VAT 2004.

The Second view is that Carbon Credit/CER is 'service. According to the Bangalore Chamber of Commerce and Industry (BCIC), carbon credits (Certified Emission Reductions) should be treated as services and taxed as such. In its note for submission to the Union Government, BCIC has argued that CERs are intangible in nature and it is either exported to industrialised countries or are tradable as securities on specified exchanges. Hence CERs should attract only services tax, not goods tax.



Either way, the activity of CROSS under the Bio-gas project attracts GST. Bi-gas project of CROSS is also covered under the Income Tax law u/s 115BBG. Therefore, we suggest that CROSS get an expert opinion on the rate of Tax under GST and register itself under GST and remit the Tax.

Further, as explained in previous paragraphs, Income Tax is attracted at 10% on the CERs sold by CROSS. This will attract the attention of Income Tax Department and there are possibilities that CROSS could lose its Tax Exemption u/s 12AA of the Income Tax Act, 1961. Urgent action is necessary from CROSS.

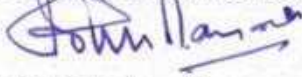
Thanking you,

Yours truly,

For J S A S & Associates

Chartered Accountants

(Firm Registration No. 014859S)



John Ravindran Moses

Partner

(Membership No. 028566)

