

BACKGROUND NOTES TO THE ACCOUNTS **AHMEDABAD MUNICIPAL CORPORATION**

(PROVISIONAL BALANCESHEET AS ON 31ST MARCH 2006)

A) . BASIS OF PRESENTATION

Ahmedabad Municipal Corporation's (AMC) decision to convert its financial accounting system from cash based system of accounting to accrual based double entry accounting system required preparation of opening balance sheet as on 1.04.2006. Since the accounting system followed by AMC could not give the details and valuation of the entire assets and liabilities of the corporation an exercise for preparation of the same was undertaken. This task required reliance to be placed on certain assumptions and information provided by the corporation for the preparation of the said Opening Balance Sheet. Reliance was also placed on the various records, registers and data made available from various zones and departments. The following are the methodologies and assumptions adopted for the preparation of the opening balance sheet:

1) INCOME AND EXPENDITURE:

This being the First Balance Sheet wherein the objective is listing of assets and liabilities no Revenue Statements have been drawn.

2) FIXED ASSETS:

Broadly the method adopted is in accordance with the general guidelines contained in the National Municipal Accounts Manual. However departures have been made on consideration of materiality or non availability/ time consuming exercise for getting data/records which have been enumerated below:

i) The listing of assets is taken on the basis of the data provided by various user departmental heads/zonal offices. Physical verification of the same has not been carried out in respect of these assets. To the extent any discrepancy is noticed subsequently in coming years suitable rectification will be made.

ii) Majority of the assets are the ownership of AMC, however in some cases of assets acquired, received as donation etc though the physical possession of the same is with AMC the legal title has not been established. In case of certain land acquired by AMC due to non-availability of cost of acquisition the cost of such land is taken at a token value of Re.1.

iii) AMC over the years had acquired around 342 plots of land for a total acquisition cost of Rs.8,08,36,474. However one to one identification is not yet done due to non-availability of data. The same will be updated in subsequent year.

iv) Fixed Assets figures represent valuation of the assets identified and valued as on 01 April 2006. Wherever the actual cost of acquisition/construction was not available the rates provided in the SOR (Schedule of Rates) prevailing in the year of construction have been taken.

v) While arriving at cost of the assets, cost relating to borrowings for the specific asset and other unidentified direct cost has not been included.

vi) Some assets are capitalized despite the final bill pending as these assets have completed construction/installation and are already put to use.

vii) In case of assets wherein the economic life has been exhausted but still continuously in use has been valued at a token value of Re.1/-. In the opening balance sheet. (This method is particularly relevant to electrical and mechanical items, plant and machinery, office furniture and fittings, computers etc)

viii) All assets less than Rs.5000/- and also group of assets comprising of assets individually less than Rs.5000/- are not considered in gross value of the assets.

ix) All gifted assets and scrapped assets are valued at Re.1.

x) Fixed Assets Register of the AMC has been collated, updated and subjected to depreciation as per the policy. However, this exercise is still ongoing and is likely to continue for the next two-three years due to the sheer volume in geographical spread of the assets.

xi) Trees, Museum, Art Crafts, Statues and Animal assets have not been included in the schedule of fixed assets.

xii) Furniture and Fixtures have been included in a group of assets and not department wise to the extent data available from the purchase departments. There may be certain assets, which have not been included in the above head.

xiii) To the extent of the above, the Fixed Assets as shown in the financial statements does not represent the complete assets of the AMC.

Based on Data provided, identified assets have been categorized in the following Groups.

IDENTIFIED ASSETS

The gross value of the assets of the corporation valued as on March 31,2006 have been valued at Gross Book Value of Rs.2238,96,87,533/- in the aggregate on the basis reports provided.

MAJOR CATEGORY

TYPE OF ASSETS

Land & Buildings

Plots/Vacant Plot/ Plots on Lease
Residential Quarters
Staff Quarters
Slum Quarters
Community Hall and Recreation Centre
Community Centre
Stadium
Commercial Buildings
Hospital Buildings
Fire Brigade Building
Crematorium and burial Ground
Markets
Kiosks/Shops/Stalls
Water Overhead Tanks
Public Places & Others

Infrastructure Assets

Roads including Footpath and Dividers
Asphatic Road
Bridges
Culverts

Fountain
Street Light
Flyover
Urinals
Dhalao
Dustbin
Lavatory Blocks
Drainage
Storm Water Drain
Water Pipeline

Furniture's & Fixtures

Furniture & Fixtures, Fans, Air Conditioners, Coolers etc

Computers

Monitors, Printers, UPS and all related accessories, Software

Plant & Machinery

Electrical Equipment & Lamps
Electric Cables
Transformers
Electric Installations
Pipelines
Filter Plant
Fire Assets
Construction Equipments
Medical Instruments
Other Plant & Machinery

Vehicles

iii) Infrastructure Assets : - Infrastructure assets are defined as per International Public Sector Accounting Standards (IPSAS). As per IPSAS 17, infrastructure assets are characterized by the following.

- They are a part of a system or network
- They are specialized in nature and do not have alternative uses

- They are immovable
- They may be subject to constraints on disposal

iv) Capital Work in Progress : - CWIP represents capital assets which are in the process of construction/ completion. We have reviewed the bills for the financial year 2005-2006 to arrive at the closing WIP as on 31st March 2006 in absence of specific data from concerned departments.

v) Leased Properties : - Leased properties have been valued at actual cost in case of buildings and market value in case of land.

vi) Depreciation : Under this method, the rates of depreciation has been applied at a fixed percentage on the original cost of the Asset at the end of the year.

(a) In line with international Best Practices, the Straight Line Method of Depreciation has been applied.

(b) For all assets that qualify for depreciation, and were valued, depreciation has been provided from the year of construction/acquisition and transferred to accumulated depreciation account of the concerned asset.

(c) Valuation for the purpose of depreciation has been done as per the significant accounting policies subject to the notes mentioned above.

(d) Current values of Qualifying Assets are now represented appropriately in the Fixed Assets Register.

(e) Assets valued at Replacement cost & Estimated cost has been depreciated considering remaining useful life.

3) CURRENT ASSETS

i) Cash & Bank Balances : - Bank Balances shown as on March 31, 2006 are taken as per the actual bank balances Opening balances as on April 1, 2006 have been taken as per actual bank balance. However the book balance and the bank balance are not reconciled. The reconciliation differences comprises of identifiable and unidentifiable entries. There are many bank accounts, which are non-operative out of which many accounts are also closed. There are balances, which were taken from the book record at the time of conversion of Fund Based Accounting System to Double Entry cash based accounting system in 1996. The entire unreconciled balance of all the banks amounting to Rs.20,92,66,244/- are transferred to a separate “

Unreconciled Bank Adjustment Account” which will be adjusted in coming year. This unreconciled amount is reflected in schedule of bank balance of general fund.

Separate Bank Accounts are not maintained for some capital project, special revenue and trust and agency funds which is normally the practice. In such cases General Fund bank accounts are used to incur expenditure to these funds.

- ii) Arrears of Property Tax : -The Property Taxes arrears outstanding as on March 31, 2006 are based on information furnished by Tex Department . Appropriate provisions have been made as per the guidelines issued by the National Municipal Accounts Manual.
- iii) Investments in Fixed Deposit (FD) is as per information furnished, are Rs. 363,44,83,463 /- as on March 31, 2006 in respect of all funds with AMC. Interest receivable on such investment amounting to Rs.7,10,21,248 is accounted for on the basis of information made available to us.
- iv) Inventories : -
 - (a)Store/ Material is treated as part of inventories.
 - (b) Stores inventory data have been taken on the basis of information furnished by concerned departments.
 - (c) Inventory Valuations have been done on the basis of information provided by the various departments of AMC.
 - (d) There is a difference between physically stock and book stock on account of non-reconciliation & accounting treatment in the past.
 - (e) Stock of Flats (Business Types) have been valued at cost.
- v) Prepaid expenses are not calculated as on 31.03.2006.

4) Loan & Advances:-

Loan and Advances includes advances given to contractors for capital project and to supplies for materials. These advances were supposed to be adjusted against bills raised and to be reconciled which was however pending. Since the assets/warehouses are already created and recorded in books. Old advances prior to 2001-02 are identified and written off.

Loans to AMTS :

The public transport of Ahmedabad city is run by Ahmedabad Municipal Transport Service which receives a financial support from the corporation, Such amount is reflected under the head "Loan to AMTS". No terms and conditions are stipulated for the repayment of such loan.

5) Zone Control Account:-

This represents the amounts transferred to Zones for meeting their zonal expenditure. Expenses incurred by the Zones in their monthly account have been reduced from such transfers to obtain the closing balance as reflected in the financial statements. The amounts standing under the head Municipal Commissioner – Zone Bank Account represents monies transferred to bank account at the Zones and expenditure incurred.

6) Long Term Liability:-

- i) Loans from HUDCO, ICICI, NHB, State Government Loans, Open Market Borrowings(Public Loans), Public Tax Free Bonds & World Bank – Loans are subject to reconciliation & confirmation . The amount due for repayment in case GMFB and State Government loans is deducted by State Government from the AMC's Share of grants payable to AMC in some cases.

The loans from government and financial institutions are secured by following:

(A) General Fund:

(1) Public Loan :

a)	12% Government Loan (2011)	:-	Secured by State Government Guarantee
b)	13% Government Loan (2007)	:-	Secured by State Government Guarantee
c)	11.5% Government Loan (2010)	:-	Secured by State Government Guarantee
d)	11.5% Government Loan (2010)	:-	Secured by State Government Guarantee
e)	11.5% Government Loan (2009)	:-	Secured by State Government Guarantee
f)	11.5% Government Loan (2008)	:-	Secured by State Government Guarantee

- 2) ICICI Loan : Secured by escrow of octroi receipt of 10 octroi collection centers.

3) Government Loan: The government loans are unsecured loans.

(B) Capital Project Fund :

(1) National Housing Bank EWS Loan:- Secured by State Government Guarantee.

(2) 9% Tax free public bonds 2002 are secured by

(i) Escrow of property tax receivables of central & north Zone

(ii) Mortgage of land of AMC at Parimal Garden, Ellisbridge & at Law Garden, Ellisbridge Ahmedabad.

(iii) The bond carry a put and call option at the end of 5 year from the deemed date of allotment which is 31.03.2002.

(3) 6.4% Tax Free Public Bond 2004: These are secured by:

(i) Escrow of octroi revenues from specified 10 nakas (Points) and property tax revenues receivable from western and eastern Zones

(ii) The bonds carry a put and call option at the end of 5 years from the deemed date of allotment i.e.31.03.2004.

(4) 6% Tax Free Public Bond 2005: Theses are secured by:-

(i) Trust and retention account with bank for collecting the revenues from specified revenues receivables.

(ii) Mortgage of various plots of land of corporation

(iii) The bonds carry a put and call option at the end of 5 years from the deemed date of allotment i.e. 31.03.05.

6(ii) The amount of long term loans payable within next 12 months is

General Fund :- ICICI Loan: Rs. 12,50,00,000/-

Capital Project Fund:-

(a) National Housing Bank Loan for EWS Project Rs. 1,37,24,000/-

(b) 9%Tax Free Public Bond 2002 Rs. 100,00,00,000/-

6(iii) Interest Overdue on Government loans are:

General Fund Rs.111,64,67,526/-

7) Current Liabilities:-

(i) Corporation has an unpaid liability of Rs.101,17,30,057/- towards security deposit and other deposits. This also includes unclaimed deposits outstanding since long and which is not identifiable. These deposits comprises of Earnest Money Deposit security deposits received from contractors, retention money deducted from payments made to contractors and various other deposits like octroi deposits, Water drainage connection deposit, certain charges of town planning as per General Development Control Regulation(GDCR) & various deposits. These are subject to reconciliation with various sub ledgers and are outstanding since long out of these payables some amount might not be payable which can be determined only after the reconciliation of these amounts are done with various sub ledger.

ii) GPF / CPF / GIS Payable represents the amount deducted from salaries and remaining payable as of March 31, 2006. The same are however subject to reconciliation.

iii) Due of contractors / suppliers as on 31.03.06 are subject to confirmation from respective external parties.

8) Provisions :-

Provision for Property Tax for Rs.666,57,46,882/- has been made as on March 31, 2006 in accordance with the guidelines issued by National Municipal Accounts Manual. No provision for market rent receivable has been made as the data is not available.

9) Gratuity and Superannuation:-

Dues on account of gratuity and superannuation benefits are accounted for on cash basis. No actuarial valuation has been done to ascertain the liability.

10) Merger of Nagarpalikas(Local Bodies):-

Under a notification dated 14.02.2006 issued by Urban Development & Urban Housing Development Department (UDUHD) of Government of Gujarat, following local bodies are merged with AMC:

- (1) Bodakdev Municipality
- (2) Makarba Municipality
- (3) New Odhav Municipality
- (4) Nikol Municipality
- (5) Vastrapur Municipality
- (6) New Naroda Municipality
- (7) Thaltej Municipality

The merger of Assets and Liabilities of these local bodies with the Current balance sheet is not done due to pendency of listing of such assets and liabilities of the above-mentioned nagarpalikas.

11) Estimates and Assumptions:-

A number of estimates and assumptions relating to the reporting of assets and liabilities were used to prepare these financial statements. Actual results could differ from those estimates, besides the ones explained above based on NURM guidelines to the extent applicable.

12) Contingent Liability, Judgment and Claims:-

No estimate of the liability for unsettled claims has been reported. However, the contingent liability will have to be estimated by categorizing the various claims and applying a historical average percentage based primarily on actual settlements by type of claim on the basis of information provided by AMC's legal department.

13. Disclaimers

a) Consultants:

1. All the financial figures and comments in specific or general terms made in relation to the same or the accounting process in general in the AMC are based on documents, information and explanations provided by AMC officers and staff during the course of engagement of team of M/s. Dharmendra & Karachi (Consulting Team) with the AMC, and the correctness, origin comprehensiveness or veracity of comments or explanations in so far as they relate to existing practices is not the responsibility of the Consulting team. It is emphasized that the total figures and process of compilation in the AMC, based on which the present document has been devised, must be made the subject of independent audit.

2. Although the Consulting team has made every effort to obtain information comprehensively for every department of the AMC and has also widely circulated the team's requirements in this regard, it is possible that some relevant information or documentation has not become available to the team. It is therefore specifically stated that this document is based upon and restricted to the set of documents, information, comments and explanations provided by AMC officers and staff and therefore any such documents, information, comments and explanations not provided to the Consulting team is excluded and the team has no responsibility whatsoever in regard to the possible present or future effects of such documents, comments, information and explanations on present document.

3. The Consulting team is not responsible for any legal or other liability that may arise in any way at any point of time from this documents or any interpretation whatsoever that may be put on the whole or part of it. Likewise, the Consulting team is not responsible for any legal consequences arising out of non-compliance by the AMC of any of its statutory or other Governmental obligations that may become apparent now or any time in the future, in whatsoever manner and in whatsoever ways.

b) Ahmedabad Municipal Corporation :

This Opening Balance Sheet has been prepared by M/s. Dharmendra & Khajanchi, Chartered Accountants, the appointed consultants. This is the first step towards implementation of Fund wise Accrual Based Double Entry Accounting System. The figures shown therein does not amount to any confirmation either from the Consultants or from the Corporation and is subject to approval of competent authority and audit.