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HABIB UNIVERSITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

EY Ford Rhodes
Chartered Accountants
Progressive Plaza, Beaumont Road
P.O. Box 15541, Karachi 75530
Pakistan

UAN: +9221 111 11 39 37 (EYFR)
Tel: +9221 3565 0007-11
Fax: +9221 3568 1965
ey.khi@pk.ey.com
ey.com/pk

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Independent Auditor's Report to the Board of Governors of Habib University (the University)

Opinion

We have audited the financial statements of **Habib University** (the University), which comprise the statement of financial position as at 30 June 2019 and statement of income and expenditure, statement of cash flow and statement of changes in funds for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as at 30 June 2019, and its financial performance and its cash flows for the year then ended in accordance with the approved accounting and reporting standards as applicable in Pakistan.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the University in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Board of Governors for the Financial Statements

The Board of Governors are responsible for the preparation and fair presentation of the financial statements in accordance with approved accounting and reporting standards as applicable in Pakistan, and for such internal control as the Board of Governors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Board of Governors are responsible for assessing the University'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 University or to cease operations, or has no realistic alternative but to do so.

The Board of Governors are responsible for overseeing the University's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 ISAs as applicable in Pakistan 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 ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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;
- 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 University's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the University's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the University to cease to continue as a going concern; and
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

EY [signature]

Chartered Accountants

Audit Engagement Partner: Arslan Khalid

Date: 08 October 2019

Place: Karachi

HABIB UNIVERSITY
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2019

	Note	2019	2018
		--------(Rupees in '000) --------	
ASSETS			
NON-CURRENT ASSETS			
Fixed assets	6	**48,885**	30,033
Intangible assets	7	**3,784**	8,350
Long term deposits		**3,413**	2,843
		56,082	41,226
CURRENT ASSETS			
Office and other supplies		**7,067**	6,912
Student fee receivable	8	**8,729**	70,725
Advances, prepayments and other receivables	9	**16,561**	29,063
Due from related party		**-**	1,889
Accrued profit		**259**	-
Taxation- current		**3,362**	2,576
Cash and bank balances	10	**20,318**	26,419
		56,296	137,584
TOTAL ASSETS		**112,378**	178,810
FUND AND LIABILITIES			
FUND			
General fund		**5,532**	102,657
NON-CURRENT LIABILITIES			
Security deposit from students		**13,652**	13,595
CURRENT LIABILITIES			
Trade and other payables	11	**69,322**	54,343
Current portion of security deposit from students		**8,500**	1,975
Contract liability	12	**15,372**	6,240
		93,194	62,558
TOTAL FUND AND LIABILITIES		**112,378**	178,810

The annexed notes from 1 to 24 form an integral part of these financial statements.

CHANCELLOR

PRESIDENT

HABIB UNIVERSITY
STATEMENT OF INCOME AND EXPENDITURE
FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019	2018
		--------(Rupees in '000) --------	
INCOME			
Tuition fee	13	**794,874**	662,764
Application fee		**2,215**	2,744
Semester registration fees		**4,140**	-
Admission fee		**19,986**	11,560
		821,215	677,068
Donations		**153,250**	217,164
Other income	14	**12,231**	7,049
		986,696	901,281
LESS: EXPENDITURE			
Academic and programmatic expenditure	15	**(939,398)**	(771,722)
Administrative expenditure	16	**(134,075)**	(115,625)
Allowances for expected credit losses	8.2	**(5,954)**	(4,880)
Bad debts written off		**(2,326)**	-
		(1,081,753)	(892,227)
(DEFICIT)/SURPLUS FOR THE YEAR		**(95,057)**	9,054

The annexed notes from 1 to 24 form an integral part of these financial statements.

CHANCELLOR **PRESIDENT**

HABIB UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

	Note	2019	2018
		--------(Rupees in '000) --------	
CASH FLOWS FROM OPERATING ACTIVITIES			
(Deficit)/surplus for the year		**(95,057)**	9,054
Adjustment for non-cash and other items			
Depreciation		**15,925**	11,072
Amortization		**6,384**	5,676
Gain on sale of fixed assets		**(2,443)**	(1,947)
Accrued profit		**(1,975)**	(912)
Provision for leave encashment		**6,597**	3,489
		24,488	17,378
(Increase)/decrease in current assets			
Office and other supplies		**(155)**	(2,574)
Advances, prepayments & other receivables		**11,932**	(11,845)
Due from related party		**1,889**	(1,889)
Student fee receivable		**59,928**	7,853
		73,594	(8,455)
(Decrease) / increase in current liabilities			
Trade and other payable		**10,373**	(11,271)
Contract liability		**9,132**	107
		19,505	(11,164)
Security deposits from students-net		**6,582**	2,070
Payment for taxation		**(786)**	(1,736)
Payment for leave encashment		**(1,991)**	(1,543)
NET CASH GENERATED FROM OPERATIONS		**26,335**	5,604
CASH FLOWS FROM INVESTING ACTIVITIES			
Fixed capital expenditure		**(35,489)**	(22,424)
Sales proceeds from disposal of fixed assets		**3,155**	2,813
Additions to intangible assets		**(1,818)**	(1,546)
Profit received on bank deposit		**1,716**	912
NET CASH USED IN INVESTING ACTIVITIES		**(32,436)**	(20,245)
Net decrease in cash and cash equivalents		**(6,101)**	(14,641)
Cash and cash equivalents at the beginning of the year		**26,419**	41,060
Cash and cash equivalents at the end of the year	10	**20,318**	26,419

The annexed notes from 1 to 24 form an integral part of these financial statements.

CHANCELLOR	**PRESIDENT**

HABIB UNIVERSITY
STATEMENT OF CHANGES IN FUND
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund (Rupees in '000)
Balance as on June 30, 2017	93,603
Surplus for the year	9,054
Balance as on June 30, 2018	102,657
Balance as on July 01, 2018	**102,657**
Effect of adoption of IFRS – 9	**(2,068)**
Balance as on July 01, 2018	**100,589**
Deficit for the year	**(95,057)**
Balance as on June 30, 2019	**5,532**

The annexed notes 1 to 24 form an integral part of these financial statements.

CHANCELLOR

PRESIDENT

1. LEGAL STATUS AND NATURE OF BUSINESS

Habib University (the University) is a not-for-profit, non-commercial, degree awarding institution, incorporated on October 8, 2012 under the Habib University Act, 2012 (the Act) passed by the Sindh Assembly. The principal objectives of the University are to design, prepare and offer educational courses of international standard and to undertake, organize and promote research and dissemination of knowledge. The University is situated at Gulistan-e-Jauhar. The University has commenced its operations in August 2014.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting and reporting standards as applicable in Pakistan. Approved accounting and auditing standards comprise of International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and the Accounting Standard for Not for Profit Organizations (NPOs) issued by the Institute of Chartered Accountants of Pakistan (ICAP).

3. BASIS OF MEASUREMENT

3.1 These financial statements have been prepared under the historical cost convention.

3.2 These financial statements are presented in Pak Rupees which is the University's functional and presentation currency.

4. NEW STANDARDS, AMENDMENTS TO APPROVED ACCOUNTING STANDARDS AND NEW INTERPRETATIONS

4.1 Adoption of standards and amendments effective during the year

The University has adopted the following accounting standards amendments and interpretation of IFRSs which became effective for the current year:

IFRS 2	Share based Payments: Classification and Measurement of Share Based Payments Transactions (Amendments).
IFRS 4	Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IAS 40	Investment Property: Transfers of Investment Property (Amendments)
IFRIC 22	Foreign Currency Transactions and Advance Consideration

Improvements to accounting standard issued by IASB in December 2016

IAS 28 Investments in Associates and Joint Ventures: Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The adoption of the above standards, amendments and improvements to accounting standards did not have any material effect on the financial statements except for IFRS 9 and IFRS 15 as explain below:

4.1.1 IFRS 9 – Financial Instruments

IFRS 9: Financial Instruments has replaced IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 July 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

University has applied IFRS 9 using modified retrospective approach, with the initial application date of 1 July 2018. The University's financial assets mainly includes fee receivable from students, certain advances and ancillary receivables and bank balances held with commercial banks.

The adoption of IFRS 9 has fundamentally changed the University accounting for impairment losses for financial assets by replacing the incurred losses model approach with a forward looking expected credit loss (ECL) approach. Expected Credit Loss (ECL) are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the University expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

Considering the nature of the financial assets, the University has applied the standard's simplified approach and has calculated ECL based on life time ECL.

The adoption of the ECL requirements of IFRS 9 resulted in increases in impairment allowances of the University's financial assets. The increase in allowance resulted in adjustment to General Fund is amounting to Rs. 2.068 million.

The financial asset subject to credit risk such as deposits and other receivables are recoverable within short period of time. Further, bank balances are held with A1+ rated institutions. Accordingly, the ECL impact on such assets is not material to these financial statements

The new accounting policy in respective of financial instrument and impairment of financial assets is stated in note 4.19 to these financial statements.

4.1.2 IFRS 15 - Revenue from Contracts with Customers

IFRS 15: Revenue from Contracts with Customers supersedes IAS 11: Construction Contracts, IAS 18: Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all the relevant facts and circumstances when applying each step of the model to contracts with their customers. The University has applied IFRS 15 using modified retrospective approach, with the initial application date of 1 July 2018.

The University has carried out an assessment based on which it concluded that currently there is no material impact on the revenue recognition of the University. However, upon adoption of IFRS 15, the University has recognised liability for student loan waiver amounting to Rs. 9.17 million.

The new accounting policy in respect of revenue from contract with customer is stated in note 4.17 of these financial statements

4.2 Standards and amendments to approved accounting standards that are not yet effective

The following standards, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

	Standard or Interpretation	Effective date (annual periods beginning on or after)
IFRS 3	Definition of a Business (Amendments)	01 January 2020
IFRS 3	Business Combinations: Previously held interests in a joint operation	01 January 2019
IFRS 4	Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)	01 July 2019
IFRS 9	Prepayment Features with Negative Compensation (Amendments)	01 January 2019
IFRS 10/IAS 28	Consolidated Financial Statements and Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized
IFRS 11	Joint Arrangements: Previously held interests in a joint operation	01 January 2019
IFRS 16	Leases	01 January 2019
IAS 1/ IAS 8	Definition of Material (Amendments)	01 January 2020
IAS 12	Income Taxes: Income tax consequences of payments on financial instruments classified as equity	01 January 2019
IAS 19	Plan Amendment, Curtailment or Settlement (Amendments)	01 January 2019
IAS 23	Borrowing Costs - Borrowing costs eligible for capitalisation	01 January 2019
IAS 28	Long-term Interests in Associates and Joint Ventures (Amendments)	01 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	01 January 2019

The above standards and amendments are not expected to have any material impact on the University's unconsolidated financial statements in the period of initial application except for IFRS 16 - 'Leases'. The University is currently evaluating the impact of these standards.

In addition to the above standards, amendments and improvements to various IFRSs have also been issued by the IASB in December 2017. Such improvements are generally effective for annual reporting period beginning on or after January 01, 2019. The University expects that such improvements to the standards will not have any material impact on the University's financial statements in the period of initial application.

The IASB has also issued the revised Conceptual Framework for Financial Reporting (the Conceptual Framework) in March 2018 which is effective for annual periods beginning on or after 01 January 2020 for preparers of financial statements who develop accounting policies based on the Conceptual Framework. The revised Conceptual Framework is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist IASB in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards. Further, the following new standards have been issued by IASB which are yet to be notified by the SECP for applicability in Pakistan.

Standard or Interpretation		**Effective date (annual periods beginning on or after)**
IFRS 1	First Time adoption of IFRSs	January 01, 2004
IFRS 14	Regulatory Deferral Accounts	January 01, 2016
IFRS 17	Insurance Contracts	January 01, 2021

4.3 Fixed assets

Operating fixed assets

These are stated at cost less accumulated depreciation.

Depreciation is charged to statement of income and expenditure using straight line method so as to write off the cost of the assets over their estimated useful lives at the rates specified in note 6.1 to these financial statements. Depreciation on additions is charged from the month asset is available for use and on disposal up to the month immediately preceding the disposals. Assets residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each financial year end.

Maintenance and normal repairs are charged to Statement of income and expenditure as and when incurred. Major renewals and improvements, if any, are capitalized when it is probable that respective future economic benefits will flow to the University.

An item of fixed assets is derecognized upon disposal or when no future economic benefits are expected from its use.

Gains and losses are determined by comparing proceeds with the carrying amount of the relevant assets. These are included in the Statement of income and expenditure in the period in which they arise.

Capital work in progress

All expenditure connected to the specific assets incurred during the installation and construction period are carried under capital work in progress. These are transferred to specific assets as and when assets are available for use.

4.4 Intangible assets

Project development cost comprises of cost in relation to development of academic planning & modeling and networking and partnership frameworks. Following initial recognition of the development expenditure as an asset, the cost model will be applied requiring the amount to be carried at cost less any accumulated amortization and accumulated impairment losses, if any. Capitalized development cost will be amortized on a straight-line basis over the period of expected future benefit from the date of completion / development of these assets and the asset is available for use.

Useful lives of intangible assets are reviewed, at each financial year end and adjusted if appropriate.

4.5 Impairment

The University assesses at each reporting date whether there is any indication that the assets may be impaired. If such indications exist, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amounts. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment charge is recognized in Statement of income and expenditure.

4.6 Office and other supplies

These are carried at weighted average cost less provision for slow moving and obsolete items, if any.

4.7 Advances and deposits

These are stated at cost less an allowance for uncollectible amounts, if any.

4.8 Fee and other receivables

These are recognized and carried at original invoice amount, being the fair value, less an allowance for any uncollectible amounts, if any. An estimate for doubtful debts is made when collection is no longer probable. Bad debts are written-off when identified.

4.9 Cash and cash equivalents

These are carried at cost.

4.10 Trade and other payables

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in future for the goods and services received, whether or not billed to the University.

4.11 Security deposits from students

These are stated at cost.

4.12 Taxation

The University is entitled to tax credit under section 100C of the Income Tax Ordinance, 2001 (the ordinance).

4.13 Minimum tax

The University is also exempt from minimum tax under section 113 of the Ordinance, in view of clause (11A) of Part IV of the second schedule to the Ordinance. Therefore, no tax provision has been made in these financial statements.

4.14 Provisions

Provisions are recognized when the University has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.15 Staff retirement benefits

The University operates a contributory provident fund for all eligible employees. Equal monthly contributions are made by the University and the employees to the fund at the rate of 8.33% of basic salary. Contributions are charged to Statement of income and expenditure.

4.16 Employee compensated absences

The University accounts for employees' leave encashment on the basis of un-availed earned leave balance of each employee at the end of the year.

4.17 Revenue recognition

The University designs, prepares and provides education courses to different levels of students. The services provided by the University to students includes tuition/education, hostel, lab/studio and transportation facilities. The University has assessed that significant performance obligations in a contract with students are closely related and therefore are discharged over the period of a semester. However, any variation or reduction in fee which are expected at the time of admission is adjusted at the time of recognizing revenue.

- Admission fee is recognised as income at the time of admissions provided all conditions of admission are met.
- Application fee income is recognized on receipt basis.
- Donations are recognized as income as and when received.

4.17.1 Contract liability

A contract liability is the obligation to render services to a student for which the University has received consideration (or an amount of consideration is due) from the customer. If a student pays consideration before the University renders services to the student, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the University performs under the contract.

4.18 Foreign currency translations

Foreign currency transactions are translated into Pak Rupees (functional currency) using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees using the exchange rate at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at the yearend exchange rates of monetary assets and liabilities denominated in foreign currencies are taken to Statement of income and expenditure currently.

4.19 Financial instruments

4.19.1 Financial assets

(i) Initial recognition and measurement

Under IFRS 9 Financial assets are classified, at initial recognition, as subsequently measured at following:

(a) at amortised cost
(b) at fair value through other comprehensive income (FVTOCI); and
(c) at fair value through profit or loss(FVTPL).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the business model for managing them.

(a) At amortised cost

A financial asset is measured at amortised if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(b) At fair value through other comprehensive income

A debt instruments is measured at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the University may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis. However, Foundation does not elect to present its equity investment at Fair value through other comprehensive income.

(c) At fair value through profit and loss

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value, the University may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

(ii) Subsequent measurement

For purposes of subsequent measurement, financial assets are classified into following categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); and
- Financial assets at fair value through profit or loss

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)

These assets are subsequently measured at fair value. interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

Financial assets at fair value through OCI with recycling of cumulative gains and losses (equity instruments)

These assets are subsequently measured at fair value. Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the University benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

As at the date of statement of financial position, University is not having any equity instrument designated at fair value through OCI.

Financial assets at fair value through profit or loss

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

(iii) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the University's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The University has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the University has transferred substantially all the risks and rewards of the asset, or (b) the University has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the University has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the University continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the University also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the University has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the University could be required to repay.

(iv) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the University expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. However, in certain cases, the University may also consider a financial asset to be in default when internal or external information indicates that the University is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the University.

At each reporting date, the University assesses whether financial assets are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the respective asset.

The University uses the standard's simplified approach and calculates ECL based on life time ECL on its financial assets. The University has established a provision matrix that is based on the University's historical credit loss experience, adjusted for forward-looking factors specific to the financial assets and the economic environment

4.19.2 Financial Liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The University has not designated any financial liability as at fair value through profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

4.19.3 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

4.20 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is the University 's functional and presentation currency

5. SIGNIFICANT ACCOUNTING JUDGEMENTS ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the University's accounting policies. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In the process of applying the accounting policies, management has made the following judgments and estimates which are significant to the financial statements:

	Notes
- determining the residual values and useful lives of fixed asset	4.3 & 4.4
- employee compensated absences	4.16

6. FIXED ASSETS

	Note	2019	2018
		-----(Rupees in 000')-----	
Operating fixed assets	6.1	38,383	29,033
Capital work in-progress	6.2	10,502	1,000
		48,885	30,033

6.1 Operating fixed assets

	Cost			Accumulated Depreciation			Book Value	
	As at July 01 2018	Additions/ Transfer/ (disposals)*	As at June 30 2019	As at July 01 2018	Charge for the year/ (disposals)*	As at June 30 2019	As at June 30 2019	Rate %
	Rupees in '000							
Motor vehicles	13,850	2,544 (1,579)*	14,815	7,191	1,104 (1,075)*	7,220	7,595	20%
Computer and multimedia	31,933	19,773 (2,085)*	49,621	13,517	13,511 (1,934)*	25,094	24,527	20%-33.33%
Lab equipment	-	371	371	-	12	12	359	20%
Furniture and fixture	391	149	540	76	93	169	371	20%
Office equipment	1,703	1,727 (89)*	3,341	312	535 (32)*	815	2,526	20%
Library books	2,779	1,423	4,202	527	670	1,197	3,005	20.%
2019	50,656	25,987 (3,753)*	72,890	21,623	15,925 (3,041)*	34,507	38,383	

	Cost			Accumulated Depreciation			Book Value	
	As at July 01 2017	Additions/ Transfer/ (disposals)'	As at June 30 2018	As at July 01 2017	Charge for the year/ (disposals)*	As at June 30 2018	As at June 30 2018	Rate %
	Rupees in '000							
Motor vehicles	12,584	2,263 (997)*	13,850	5,382	1,940 (131)*	7,191	6,659	20%
Computer and multimedia	15,439	16,494	31,933	5,120	8,397	13,517	18,416	20%-33.33%
Furniture and fixture	108	283	391	13	63	76	315	20%
Office equipment	919	784	1,703	25	287	312	1,391	20%
Library books	1,179	1,600	2,779	142	385	527	2,252	20%
2018	30,229	21,424 (997)*	50,656	10,682	11,072 (131)	21,623	29,033	

6.1.1 The University land and other operating assets are owned by Habib University Foundation, a related party, and no depreciation is charged to the University.

6.1.2 Depreciation charge for the year has been allocated to academic expenditures and administrative expenditure, which are as follows:

	Note	2019	2018
		(Rupees in '000)	
Academic and programmatic expenditure	15	**12,740**	8,858
Administrative expenditure	16	**3,185**	2,214
		15,925	11,072

6.2 Capital work in progress

	2019	2018
Computers and multimedia	**5,071**	-
Motor vehicle	-	1,000
Lab equipment	**3,110**	-
Library books	**725**	-
Office equipment	**1,596**	-
	10,502	1,000

6.3 Movement of capital work in progress is as follow:

	2019	2018
Opening balance	**1,000**	-
Capital expenditure incurred/advances made during the year	**15,875**	1,000
Transfer to operating fixed assets	**(6,373)**	-
Closing balance	**10,502**	1,000

7. INTANGIBLE ASSETS

	Cost			Accumulated amortization			Book Value	
	As at July 01 2018	Additions	As at June 30 2019	As at July 01 2018	Charge for the year	As at June 30 2019	As at June 30 2019	Rate %
	Rupees in '000							
Software	6,394	1,818	8,212	2,027	2,401	4,428	3,784	33%
Project development cost – academic planning & modeling	19,973	-	19,973	15,990	3,983	19,973	-	20%
2019	26,367	1,818	28,185	18,017	6,384	24,401	3,784	

	Cost			Accumulated amortization			Book Value	
	As at July 01 2017	Additions	As at June 30 2018	As at July 01 2017	Charge for the year	As at June 30 2018	As at June 30 2018	Rate %
	Rupees in '000							
Software	4,848	1,546	6,394	343	1,684	2,027	4,367	33%
Project development cost – academic planning & modeling	19,973	-	19,973	11,999	3,991	15,990	3,983	20%
2018	24,821	1,546	26,367	12,342	5,675	18,017	8,350	

7.1 Amortization charge for the year has been allocated to academic expenditures and administrative expenditure, which are as follows:

	Note	2019	2018
		--------(Rupees in '000) --------	
Academic and programmatic expenditure	15	**5,107**	4,540
Administrative expenditure	16	**1,277**	1,135
		6,384	5,675

8. STUDENT FEE RECEIVABLE

	Note	2019	2018
Student Fee receivable	8.1	**16,751**	76,431
Allowances for expected credit losses	8.2	**(8,022)**	(5,706)
		8,729	70,725

8.1 Includes Rs.0.875 (2018: Rs.56.87) million on account of receivable from students in process of arranging a student loan facility from Habib Metropolitan Bank, a related party.

8.2 **Movement - Allowances for expected credit losses**

	Note	2019	2018
		--------(Rupees in '000) --------	
Opening balance		**5,706**	826
Add: Effect of adoption of IFRS 9		**2,068**	-
Add: Provision recognized during the year		**5,954**	4,880
Less: Write off during the period		**(5,706)**	-
Closing balance		**8,022**	5,706

9. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Note	2019	2018
Advances			
Employees		**2,862**	221
Suppliers		**1,244**	169
Expenses		**134**	1,756
		4,240	2,146
Prepayments			
Insurance	9.1	**1,745**	1,525
Rent		**461**	478
Online subscription	9.2	**7,794**	9,239
		10,000	11,242
Other receivables - Considered good	9.3	**2,321**	15,675
		16,561	29,063

9.1 Includes Rs. 1.5 (2018: Rs. 1.33) million with Habib Insurance Company Limited, a related party.

9.2 Represents prepayment made for various IT application software, online library subscription and firewall, which are adjusted on monthly basis against the amount of subscription paid.

9.3 This includes receivable Rs. 1.05 million from Thal limited, a related party.

9.3.1 The maximum aggregate amount outstanding at any time during the year is Rs. 1.05 million.

9.3.2 Ageing of receivables from Thal limited is as follows

	2019	2018
	-------- (Rupees `000) -------	
upto 30 days	-	-
from 31 to 60 days	-	-
from 61 to 90 days	-	-
from 90 to 120 days	**1,051**	-
	1,051	-

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	Note	2019	2018
		--------(Rupees in '000)--------	

10. CASH AND BANK BALANCES

	Note	2019	2018
Cash in hand			
Local currency		-	57
Foreign currency		1,368	495
		1,368	552
Bank balances			
Current account		1,886	5,526
Saving account	10.1	17,064	20,341
	10.2	18,950	25,867
		20,318	26,419

10.1 This carries profit at rate ranging from 5.5% to 10.25% (2018: 3.75% to 5.5%) per annum.

10.2 Includes an amount of Rs. 18.94 (2018: 25.617) million deposited at Habib Metropolitan Bank, a related party.

11. TRADE AND OTHER PAYABLES

	Note	2019	2018
		--------(Rupees in '000) --------	
Payable to suppliers and contractors		539	1,149
Employees salary and Fringe Benefits		7,432	13,045
Accrued expenses		36,446	20,569
Provision for leave encashment	11.1	23,174	18,568
Sales tax payable		1,407	452
Withholding tax payable		248	560
Other		76	-
		69,322	54,343

11.1 Provision for leave encashment

	2019	2018
Opening balance	18,568	16,622
Charge for the year	6,597	3,489
Payment made during the year	(1,991)	(1,543)
Closing balance	23,174	18,568

12. Contractual Liability

	2019	2018
Advances against Study Abroad Program'19	7,677	-
Advance tuition fee	6,314	-
Clubs and Programs	579	-
Advance admission fee	-	6,240
Others	802	-
	15,372	6,240

13. TUTION FEE

	2019	2018
Self-funded	305,469	230,422
Add:		
Funding for scholarship, grant and loan		
Scholarship from Habib University Foundation	273,990	239,601
Zakat from Habib University Foundation	155,906	112,577
Grant from Habib University Foundation	12,137	20,998
Funded through Non- Conditional Grant from Habib University Foundation	13,140	-
Student Loan scheme – Habib Metropolitan Bank	36,551	61,309
	491,724	434,485
Less:		
Leap and High achievement scholarship	2,117	2,093
Fees Discount	202	50
	2,319	2,143
	794,874	662,764

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		Note	2019	2018
			--------(Rupees in '000) --------	
14.	**OTHER INCOME**			
	Gain on sale of fixed assets		**2,443**	1,948
	Late payment charges		**2,287**	1,424
	Bank profit		**1,975**	912
	Convocation fees		**1,592**	824
	Swimming pool and gym fees		**2,031**	1,612
	Library fees and penalties		**183**	56
	Playground income		**94**	115
	Rental income		**1,323**	-
	Others		**303**	158
			12,231	7,049
15.	**ACADEMIC AND PROGRAMMATIC EXPENDITURE**			
	Salaries and benefits		**550,585**	454,318
	Training and professional development		**9,717**	5,932
	Faculty research grant		**1,625**	-
	Faculty and staff recruitment		**6,259**	5,387
	Lab, studio and academic supplies		**7,710**	6,971
	Library and other academic activities		**16,575**	13,448
	Student transport and hostel		**15,115**	17,481
	Health, sports, wellness and counselling		**18,684**	7,094
	Conferences, seminars and workshops		**26,810**	25,444
	Student recruitment, admission and marketing		**28,256**	18,427
	Resource development		**18,587**	6,022
	Technology- licenses and hardware		**32,604**	23,294
	Vehicle, supplies and others		**24,264**	23,133
	Utilities		**48,992**	44,921
	Building and equipment maintenance		**47,620**	48,965
	Insurance		**8,271**	9,312
	Safety and security		**14,136**	13,765
	Depreciation	6.1.2	**12,740**	8,858
	Amortization	7.1	**5,107**	4,540
	Travelling and conveyance		**40,489**	28,814
	Postage and printing		**479**	1,505
	Others		**4,773**	4,091
			939,398	771,722
16.	**ADMINISTRATIVE EXPENDITURE**			
	Salaries and benefits		**93,175**	76,788
	Utilities		**12,248**	11,230
	Building repairs and maintenance		**11,905**	12,244
	Safety and security		**3,534**	3,436
	Vehicle, supplies and others		**6,066**	5,405
	Audit fee		**358**	377
	Training and professional development		**259**	468
	Insurance		**2,068**	2,328
	Depreciation	6.1.2	**3,185**	2,214
	Amortization	7.1	**1,277**	1,135
			134,075	115,625

17. FINANCIAL INSTRUMENTS BY CATEGORY

17.1 Financial assets as per statement of financial position

Financial asset measured at amortised cost

	Note	2019	2018
Student fee receivables	8	**8,729**	70,725
Deposits		**3,413**	2,843
Other receivables	9	**2,321**	15,675
Due from related party		**-**	1,889
Accrued Profit		**259**	-
		14,722	91,132

17.2 Financial liabilities as per statement of financial position

Financial liabilities measured at amortised cost	Note	2019	2018
		--------(Rupees in '000)	--------
Trade and other payables	11	**69,322**	54,343
Security deposit from students		**22,152**	15,570
		91,474	69,913

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The University's activities expose it to a variety of financial risks mainly are market risks, credit risk and liquidity risk. The Board of Governors reviews and agrees policies for managing each of t hese risks which are summarized below:

18.1 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and another price risk.

(i) Interest rate risk

Interest rate risk is the risk that the value of future cashflows of financial instrument will fluctuate due to the changes in market interest rates. The University is exposed to interest rate risk in respect of bank deposits. Management of the University estimates that 1% increase in the market interest rate, with all other factor remaining constant, would decrease the deficit / increase the surplus by Rs. 0.17 (2018: Rs. 0.20) million and a 1% decrease would result in the increase / decrease in the University's deficit / surplus by the same amount. However, in practice, the actual result may differ from the sensitivity analysis.

(ii) Foreign currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign currency risk arises mainly where payables exist due to imports of goods and transactions with foreign related parties as well as receivables and payable exist due to transaction in foreign currency. The University primarily has foreign currency exposures in US Dollar (USD), Great Britain Pounds (GBP) and Dirham (AED).

As at June 30, 2019, had the exchange rates of USD, GBP and AED appreciated or depreciated against the currency with all other variables held constant, the change in (Deficit)/Surplus would have been as follows:

Currency	(Deficit)/Surplus	2019		2018	
		%	Rs. '000	%	Rs. '000
USD	lower / higher	10%	**93**	10%	37
GBP	lower / higher	10%	**35**	10%	3
AED	lower / higher	10%	**9**	10%	7

(iii) Equity price risk

Price risk represents the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instruments or its issuer or factors affecting all similar financial instruments traded in the market. The University is not exposed to equity price risk as currently the University's has no investments in listed securities.

18.2 Credit risk

Credit risk is the risk that a counterparty will not meet its obligation under a financial instruments or customer contract leading to a financial loss.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The University is exposed to credit risk mainly on deposits, student fee receivables, other receivables, and bank balances. The University seeks to minimize the credit risk exposure through having exposure only to banks considered credit worthy and student fee facilities arranged with banks.

	Note	2019	2018
		(Rupees in '000)	
Exposure to credit risk The University's maximum exposure to credit risk at the reporting date is as follows:			
Other receivables	9	2,321	15,675
		2,321	15,675

Quality of financial assets

The credit quality of financial assets can be assessed by reference to external credit ratings or default history of counter parties as shown below:

	2019	2018
	(Rupees in '000)	
Bank balances		
Ratings		
A1+	18,950	25,867

2019	Not yet due	Less than 3 months	3 to 6 Months	Over 6 Months	Total
	(Rupees in '000)				
Student fees receivable	765	2,554	4,912	8,520	16,751

2018	Not yet due	Less than 3 months	3 to 6 Months	Over 6 Months	Total
	(Rupees in '000)				
Student fees receivable	197	2,152	63,639	10,443	76,431

18.3 Liquidity risk

Liquidity risk is the risk that the University will encounter difficulties in raising funds to meet commitments associated with financial instruments. The management of the University believes that it is not exposed to any significant level of liquidity risk.

The management forecasts the liquidity of the University on the basis of expected cash flow considering the level of liquid assets necessary to mitigate the liquidity risk.

2019	On demand	Less than 3 Months	3 to 12 Months	Above 12 Months	Total
	(Rupees in '000)				
Security deposit from students	-	-	8,500	13,652	22,152
Trade and other payables	-	38,237	31,085	-	69,322
	-	38,237	39,585	13,652	91,474

2018	On demand	Less than 3 Months	3 to 12 Months	Above 12 Months	Total
	(Rupees in '000)				
Security deposit from students	-	-	1,975	13,595	15,570
Trade and other payables	-	54,343	-	-	54,343
	-	54,343	1,975	13,595	69,913

19. FAIR VALUE OF MEASUREMENT:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The different levels of fair valuation method have been defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities;
Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
Level 3: Inputs for the asset or liability that are not based on observable market data.

There were no changes in the valuation techniques during the year.

The carrying values of all assets and liabilities reflected in these financial statements approximate their fair values.

20. CAPITAL RISK MANAGEMENT

The University's objectives when managing capital is to maintain an optimal capital structure to reduce the cost of capital. The University is currently financing majority of its operations through funds and working capital. The capital structure of the University is fund based with no financing through long term borrowings.

21. RELATED PARTIES TRANSACTIONS

The related parties include Habib University Foundation, entities having directors in common with the Habib University Foundation, members of the Board of Governors and other key management personnel. Related party transactions are disclosed below:

	Note	2019	2018
		-------- (Rupees in '000) -------	
Donation - Habib University Foundation		**153,250**	217,164
Profit on bank deposits - Habib Metropolitan Bank limited		**1,716**	912
Tuition fee received under student loan scheme - Habib Metropolitan Bank Limited		**91,878**	66,364
Insurance premium paid - Habib Insurance Company limited		**10,751**	11,582
Purchase of vehicles – Indus Motors Company Limited		**-**	1,999
Contribution for restricted fund - Habib University Foundation	13	**455,173**	371,083
Rental Income- Thal Limited		**1,323**	-

22 REMUNERATION OF PRESIDENT AND GOVERNORS

22.1 The aggregate amounts charged in the financial statements in respect of remuneration, including all benefits, to the President of the University were as follows:

	2019 President	2018 President
	--------- (Rupees in '000) -------	
Remuneration	**40,532**	36,189
Retirement Benefits	**1,036**	908
Utilities	**1,015**	1,420
Others	**2,123**	1,766
	44,706	40,283

22.2 No fee was charged by any Governor of the University.

22.3 There are 11 Governors (2018: 11) of the University.

23. DATE OF AUTHORISATION FOR ISSUE

These financial statements have been authorised for issue on 08 OCT 2019 by the Board of Governors of the University.

24. GENERAL

24.1 Figures have been rounded off to the nearest thousand rupees.

24.2 Certain prior period figures have been reclassified or rearranged for the purpose of comparison. However, there were no material reclassifications to report.

CHANCELLOR

PRESIDENT