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HABIB UNIVERSITY

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020

EY Ford Rhodes
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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF GOVERNORS OF HABIB UNIVERSITY

Opinion

We have audited the statement of financial statements of Habib University (the University), which comprise the statement of financial position as at 30 June 2020, and the income and expenditure account, statement of changes in fund and statement of cash flows 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 2020 and its financial performance and its cash flows for the year then ended in accordance with approved accounting and reporting standards as applicable in Pakistan.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's 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 Management and Those Charged with Governance for the Financial Statements

The Board of Governors (the Board) are responsible for the preparation and fair presentation of the financial statements in accordance with the approved accounting standards as applicable in Pakistan and for such internal control as the Board determines 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, the Board 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.

Those charged with governance 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.
- 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 Ford R.

Chartered Accountants

Date: 20 October 2020

Place: Karachi

Audit Engagement Partner: Arslan Khalid

HABIB UNIVERSITY
STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2020

	Note	2020	2019 (Restated)
		--------(Rupees in '000) --------	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	6	**51,640**	46,157
Intangible assets	7	**3,628**	3,784
Long-term deposits and prepayments		**5,084**	3,413
		60,352	53,354
CURRENT ASSETS			
Office and other supplies		**7,017**	7,068
Students fees receivable	8	**30,395**	8,729
Advances, deposits, prepayments and other receivables	9	**15,626**	19,289
Accrued profit		**223**	258
Advance and withholding tax receivable		**5,034**	3,362
Cash and bank balances	10	**113,012**	20,318
		171,307	59,024
TOTAL ASSETS		**231,659**	112,378
FUND AND LIABILITIES			
FUND			
General fund		**71,116**	(18,966)
NON-CURRENT LIABILITIES			
Security deposits from students		**15,750**	13,652
Lease liabilities	11	**2,354**	-
Contract liabilities	12	**19,079**	17,464
		37,183	31,116
CURRENT LIABILITIES			
Trade and other payables	13	**95,704**	69,901
Current portion of security deposits from students		**11,725**	8,500
Current portion of lease liabilities	11	**1,327**	-
Current portion of contract liabilities	12	**14,604**	21,827
		123,360	100,228
CONTINGENCIES AND COMMITMENTS	14		
TOTAL FUND AND LIABILITIES		**231,659**	112,378

The annexed notes from 1 to 25 form an integral part of these financial statements.

CHANCELLOR **PRESIDENT**

HABIB UNIVERSITY
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2020

	Note	2020	2019 (Restated)
		--------(Rupees in '000) --------	
INCOME			
Tuition fees	15	**905,690**	794,874
Application fees		**3,133**	2,215
Semester registration fees		**9,384**	4,140
Admission fees		**12,592**	10,479
Donations			
Habib University Foundation - a related party		**208,562**	153,250
Habib University Trust		**7,753**	-
Habib University Foundation U.S. Inc. – a related party		**7,603**	-
In kind - books		**180**	-
		224,098	153,250
Other income	16	**12,275**	12,231
		1,167,172	977,189
LESS: EXPENDITURE			
Academic and programmatic expenditure	17	**929,552**	939,398
Administrative expenditure	18	**143,260**	134,075
Interest expense on lease liabilities		**2,189**	-
Allowance for expected credit loss	8.2	**2,089**	5,954
Bad debts written off		-	2,326
		1,077,090	1,081,753
NET SURPLUS / (DEFICIT) FOR THE YEAR		**90,082**	(104,564)

The annexed notes from 1 to 25 form an integral part of these financial statements.

CHANCELLOR

PRESIDENT

HABIB UNIVERSITY
STATEMENT OF CHANGES IN FUND
FOR THE YEAR ENDED JUNE 30, 2020

	Note	General Fund (Rupees in '000)
Balance as on June 30, 2018		**100,589**
Adjustment on change in accounting policy	5.2.2	(14,991)
Balance as on July 01, 2018 - restated		**85,598**
Net deficit for the year – restated		(104,564)
Balance as on June 30, 2019 - restated		**(18,966)**
Net surplus for the year		90,082
Balance as on June 30, 2020		**71,116**

The annexed notes 1 to 25 form an integral part of these financial statements.

CHANCELLOR

PRESIDENT

HABIB UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020

	Note	2020	2019 (Restated)
		--------(Rupees in '000) --------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus / (deficit) for the year		**90,082**	(104,564)
Adjustment for non-cash and other items			
Depreciation on:			
- right of use assets		**6,622**	-
- Others		**20,576**	15,925
Amortization		**2,899**	6,384
Gain on sale of operating fixed assets		**59**	(2,443)
Profit on saving accounts		**(3,886)**	(1,975)
Gain on termination of lease		**(896)**	-
Interest expense on lease liabilities		**2,189**	-
Provision for leave encashment		**11,764**	6,597
Allowance for expected credit loss		**2,089**	8,022
		41,416	32,510
(Increase) / decrease in current assets			
Office and other supplies		**51**	(155)
Students fees receivable		**(23,755)**	51,906
Advances, deposits, prepayments & other receivables		**3,663**	10,324
Due from related party		-	1,889
		(20,041)	63,964
Increase / (decrease) in current liabilities			
Trade and other payables		**19,242**	10,952
Contract liabilities		**(6,187)**	18,060
		13,055	29,012
Cash generated from operations		**124,512**	20,922
Taxes paid		**(1,674)**	(786)
Interest on lease rentals paid		**(2,124)**	-
Leave encashment paid		**(4,624)**	(1,991)
Long term deposits and prepayments - net		**(1,671)**	(570)
Security deposits from students – net		**5,323**	6,582
Net cash generated from operations		**119,742**	24,157
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment		**(22,440)**	(33,311)
Proceeds from disposal of operating fixed assets		**155**	3,155
Additions to intangible assets		**(2,743)**	(1,818)
Profit received on saving accounts		**3,921**	1,716
Net cash used in investing activities		**(21,107)**	(30,258)
CASH FLOWS FROM FINANCING ACTIVITY			
Principal portion of lease rentals paid		**(5,941)**	-
Net increase / (decrease) in cash and cash equivalents		**92,694**	(6,101)
Cash and cash equivalents at the beginning of the year		**20,318**	26,419
Cash and cash equivalents at the end of the year	10	**113,012**	20,318

The annexed notes from 1 to 25 form an integral part of these financial statements.

CHANCELLOR

PRESIDENT

HABIB UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2020

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 commenced its operations in August 2014.

1.1 Significant event during the year

During the year COVID-19 caused public health emergency across the world including Pakistan. Due to the curtailment of socio-economic activity, the University shifted to online mode of tuition and adopted online working environment which continues to date, however, as per the policy announced by Ministry of Education the physical classes may resume in the middle or end of September. Due to these conditions, the Government also required educational institutions to not charge or recover more than 80% of the total monthly fees from any of its students effective from April 01, 2020 (refer note 15.1 to these financial statements).

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 reporting standards comprise of the Accounting Standard for Not for Profit Organizations (NPOs) issued by the Institute of Chartered Accountants of Pakistan (ICAP) and International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

Where provisions and directives issued under the accounting and reporting standards for NPOs differ from the IFRS standards, the provisions of and directives issued under the accounting and reporting standards for NPOs have been followed.

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. SIGNIFICANT ACCOUNTING JUDGEMENTS ESTIMATES AND ASSUMPTIONS

The preparation of these financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amount of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates underlying the assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates, assumptions and judgements made by the management that are subject to risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year, are as follows:

	Notes
- determining the residual values and useful lives of property, plant and equipment and intangible assets	5.3 & 5.4
- impairment of financial assets and non-financial assets	5.16
- provisions	5.12
- Determination of the lease term for lease contracts with extension and termination options and estimating the incremental borrowing rate	5.10.3 and 5.10.4

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 New / Revised Standards, Amendments, Interpretations and Improvements

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

Standard or Interpretation:

IFRS 9	- Prepayment Features with Negative Compensation (Amendments)
IFRS 14	- Regulatory Deferral Accounts
IFRS 16	- Leases
IAS 19	- Plan Amendment, Curtailment or Settlement (Amendments)
IAS 28	- Long-term Interests in Associates and Joint Ventures (Amendments)
IFRIC 23	- Uncertainty over income tax treatments

Improvements to Accounting Standards Issued by the IASB in December 2017

IFRS 3	- Business Combinations - Previously held Interests in a joint operation
IFRS 11	- Joint Arrangements - Previously held Interests in a joint operation
IAS 12	- Income Taxes - Income tax consequences of payments on financial instruments classified as equity
IAS 23	- Borrowing Costs - Borrowing costs eligible for capitalization

5.2 Standards, interpretations 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 9 / IAS 39 / IFRS 7	Interest Rate Benchmark Reform (Amendments)	01 January 2020
IFRS 10	Consolidated Financial Statements and IAS 28 Investment in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendment)	Not yet finalized
IAS 1 / IAS 8	Definition of Material (Amendments)	01 January 2020
IAS 1	Classification of Liabilities as Current or Non-current (Amendments)	01 January 2022

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 the purpose of applicability in Pakistan.

Standard or Interpretation		IASB effective date (annual periods beginning on or after)
IFRS 1	First time adoption of IFRSs	01 January 2004
IFRS 17	Insurance Contracts	01 January 2021

5.2.1 Impact of adoption of IFRS 16 - Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC-15 Operating Lease-Incentive and SIC 27 Evaluating the substance of Transactions involving the legal form of a Lease. The standard sets out the principle for the recognition, measurement, presentation and disclosure of lease under IFRS 16, distinction between operating and finance lease has been removed and all lease contracts, with limited exceptions, will be recognized in statement of financial position by way of right-of-use assets along with their corresponding lease liabilities.

At the date of initial application, lease obligations of the University comprises of lease arrangements giving it the right-of-use over premises utilized as store room, guest house and hostels.

The University adopted IFRS 16 with effect from July 1, 2019 using the modified retrospective method. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application with no restatement of comparative information. The University elected to use the transition practical expedient allowing the University to use a single discount rate to a portfolio of leases with the similar characteristics.

In applying the standard, the University has recognized lease liability at the date of initial application as present value of remaining lease payments discounted using the incremental borrowing rate at the date of initial application and a right-of-use asset at an amount equal to lease liabilities, adjusted for any related prepaid lease payments previously recognized.

Lease term is the non-cancelable period for which the University has right to use the underlying asset in line with the lease contract together with the periods covered by an option to extend which the University is reasonably certain to exercise and option to terminate which the University is not reasonably certain to exercise.

The impact of adoption of IFRS 16 as at July 01, 2019 (increase/ (decrease)) is as follows;

	Rupees in '000
Assets	
Property, plant and equipment	20,943
Prepayments	(4,731)
Total assets	16,212
Liability	
Lease liabilities	16,212
Current portion of lease liabilities	(8,646)
	7,566

The impact of adoption of IFRS 16 for the year ended June 30, 2020 is as follows:

Income and expenditure account	
Depreciation charge on right-of-use assets	6,622
Interest expense on lease liabilities	2,189

The lease liabilities as at July 01, 2019 can be reconciled to the operating lease commitments as of June 30, 2019 as follows:

	Rupees in '000
Operating lease commitments as at June 30, 2019	**24,852**
Impact of discounting	(3,909)
Prepayments	(4,731)
Lease liability at July 01, 2019	**16,212**
Weighted average incremental borrowing rate as at July 01, 2019	**13.25%**

5.2.2 Revenue recognition for admission fees

The IFRS Interpretations Committee in its meeting held in September 2018 clarified that initial non-refundable fee paid at the contract inception for which an entity does not provide requisite services at or near the contract inception does not result in the satisfaction of performance obligation for the customer at a point in time. In line with the said clarification, the University has changed its accounting policy for the recognition of income from admission fees over a period of time i.e. over the period of the degree which was previously recognized as income at the time of admissions. The change in accounting policy has been applied retrospectively in these financial statements in line with the requirements of IAS 8 - "Accounting Policies, Changes in Accounting Estimates and Errors". The change in accounting policy resulted in the following;

	Rupees in '000
General Fund	
As at June 30, 2018 - as previously stated	100,589
Impact of change in accounting policy	(14,991)
As at July 01, 2018 – restated	85,598
As at June 30, 2018 – as previously stated	5,532
Impact of change in accounting policy	(24,498)
As at July 01, 2019 – restated	(18,966)
Net (deficit) / surplus	
For the year ended 30 June 2019 – unadjusted	(95,057)
Impact of change in accounting policy	(9,507)
	(104,564)

5.3 Property, plant and equipment

Operating fixed assets

These are stated at cost less accumulated depreciation.

Depreciation is charged to income and expenditure account 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. Asset 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 income and expenditure account 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 on disposal are determined by comparing proceeds with the carrying amount of the relevant assets. These are included in the income and expenditure account in the period in which they arise.

Right-of-use-assets

The University recognizes a right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, any initial direct costs incurred and any lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

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.

5.4 Intangible assets

These are stated at cost less accumulated amortization and impairment loss, if any.

Costs in relation to intangible assets are only capitalized when it is probable that future economic benefits attributable to that asset will flow to the University and the same is amortized applying the straight line method at the rates stated in note 7 to these financial statements.

5.5 Office and other supplies

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

5.6 Advances and deposits

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

5.7 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.

5.8 Cash and cash equivalents

These are carried at cost.

5.9 Security deposits from students

These are stated at cost.

5.10 Leases

The University assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

5.10.1 University as a lessee

The University applies a single recognition and measurement approach for all leases, except for short-term lease. The University recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

In

5.10.2 Lease liabilities

At the commencement date of the lease, the University recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less lease incentives receivable (if any), variable lease payments that depend on an index or a rate (if any), and amounts expected to be paid under residual value guarantees (if any). The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the University (if any) and payments of penalties for terminating the lease (if any), if the termination option is reasonably certain to be exercised. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments at the lease commencement date, the University uses the interest rate implicit in the lease. In case where the interest rate implicit in the lease is not readily determinable, the University uses its incremental borrowing rate. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset.

5.10.3 Determination of the lease term for lease contracts with extension and termination options

The University determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The University has several lease contracts that include extension and termination options. The University applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the University reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization of the leased asset).

5.10.4 Estimating the incremental borrowing rate

The University cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the University would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

5.11 Taxation

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

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 current and deferred tax provision has been made in these financial statements.

5.12 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.

5.13 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 income and expenditure account.

5.14 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.

5.15 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

5.15.1 Financial assets

a) Initial recognition and measurement

Financial assets are classified at initial recognition and subsequently measured at amortized cost, fair value through other comprehensive income (FVTOCI) or fair 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 University's business model for managing them. With the exception of trade receivables, the University initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Students Fees receivable are measured at the transaction price determined under IFRS 15.
In order for a financial asset to be classified and measured at amortized cost or FVTOCI, it needs to give rise to cash flows that are SPPI on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The University's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e. the date that the University commits to purchase or sell the asset.

b) Subsequent measurement

For purposes of subsequent measurement, the University classifies its financial assets into following categories:

- Financial assets at amortized cost (debt instruments);
- Financial assets designated at FVTOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); and
- Financial assets at FVTPL.

Financial assets at amortized cost (debt instruments)

The University measures financial assets at amortized cost 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.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in statement of profit or loss and other comprehensive income when the asset is derecognized, modified or impaired.

Financial assets designated at FVTOCI (equity instruments)

Upon initial recognition, the University can elect to classify irrevocably its equity investments as equity instruments designated at FVTOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in 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 FVTOCI are not subject to impairment assessment.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVTOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value recognized in statement of profit or loss and other comprehensive income.

This category also includes derivative instruments and listed equity investments which the University had not irrevocably elected to classify at FVTOCI. Dividends on listed equity investments are also recognized as other income in profit or loss when the right of payment has been established.

The University has not designated any financial asset at FVTPL.

c) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (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 recognize the transferred asset to the extent of its continuing involvement. In that case, the University also recognizes 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 lower of the original carrying amount of the asset and the maximum amount of consideration that the University could be required to repay.

5.15.2 Financial liabilities

a) Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, trade payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

b) Subsequent measurement

Financial liabilities at FVTPL

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

Financial liabilities at amortized cost

After initial recognition, borrowings and payables are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in statement of profit or loss and other comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in statement of profit or loss and other comprehensive income.

Borrowings, if any, are classified as current liabilities unless the University has an unconditional right to defer the settlement of the liability for at least twelve months after the reporting date. Exchange gains and losses arising in respect of borrowings in foreign currency are added to the carrying amount of the borrowing.

c) Derecognition

A financial liability is derecognized 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 recognized in statement of profit or loss and other comprehensive income.

5.15.3 Offsetting of financial instruments

Financial assets and financial liabilities are set off and the net amount is reported in the financial statements only when the University has a legally enforceable right to set off and the University intends to either settle on a net basis, or to realize the assets and to settle the liabilities simultaneously. Income and expense items of such assets and liabilities are also offset and the net amount is reported in the financial statements.

5.16 Impairment

- 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 amortized cost, contract assets and debt investments at FVTOCI, 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.

- Impairment of non-financial assets

The carrying amounts of non-financial assets are assessed at each reporting date to ascertain whether there is any indication of impairment. If such an indication exists, the asset's recoverable amount is estimated to determine the extent of impairment loss, if any. An impairment loss is recognized, as an expense in income and expenditure account. The recoverable amount is the higher of an asset's fair value less cost to disposal and value in use. Value in use is ascertained through discounting of the estimated future cash flows using a discount rate that reflects current market assessments of the time value of money and the risk specific to the assets for which the estimate of future cash flow have not been adjusted. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss is reversed if there is a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised previously. Reversal of an impairment loss is recognized immediately in income and expenditure account.

5.17 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.

- Tuition fee is recognized as income when the services are performed.
- Admission fee and semester registration fee are recognized as income over a period of time.
- Application fee income is recognized on receipt basis.
- Donations are recognized as income as and when received.

5.18 Fee discount

Early payment discount is allowed to students paying entire tuition fees at the start of the semester. The discount is recognized when the payment is made.

5.19 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 student. 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 recognized as revenue when the University performs under the contract.

5.20 Functional and presentation currency

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 statement of financial position date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are taken to income and expenditure account currently.

6. PROPERTY, PLANT AND EQUIPMENT

	Note	2020	2019
		----- (Rupees in 000') -----	
Operating fixed assets	6.1	**48,621**	38,383
Capital work-in-progress	6.2	**3,019**	7,774
		51,640	46,157

6.1 Operating fixed assets

	Cost			Accumulated Depreciation			Book Value	
	As at July 01 2019	Additions (note 6.1.1)/ (disposals)*	As at June 30 2020	As at July 01 2019	Charge for the year/ (disposals)*	As at June 30 2020	As at June 30 2020	Rate %
	Rupees in '000							
Motor vehicles	14,815	-	14,815	7,220	1,179	8,399	6,416	20
Computer and multimedia	49,621	20,019 (173)*	69,467	25,094	16,902 (77)*	41,919	27,548	33
Lab equipment	371	1,583	1,954	12	364	376	1,578	20
Furniture and fixture	540	217	757	169	137	306	451	20
Office equipment	3,341	2,605	5,946	815	865	1,680	4,266	20
Library books	4,202	2,771	6,973	1,197	1,129	2,326	4,647	20
Right-of-use asset - store	2,992	-	2,992	-	598	598	2,394	20
Right-of-use asset - guest house	2,042	-	2,042	-	721	721	1,321	35
Right-of-use asset – hostel (note 6.1.2)	15,908	(15,908)*	-	-	5,303 (5,303)*	-	-	36
2020	93,832	27,195 (16,081)*	104,946	34,507	27,198 (5,380)*	56,325	48,621	

	Cost			Accumulated Depreciation			Book Value	
	As at July 01 2018	Additions (note 6.1.1)/ (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	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	

6.1.1 Includes transfer from capital work-in-progress amounting to Rs. 8.324 million (2019: Rs. 6.373 million).

6.1.2 Represents lease agreements terminated during the year.

6.1.3 The University land and various other operating assets are owned by Habib University Foundation, a related party, and no rentals or other compensation is charged to the University for such assets.

6.1.4 Operating fixed assets include items having an aggregate cost of Rs. 24.762 million (2019: Rs. 11.854 million) which are fully depreciated and are still in use of the University.

6.1.5 Depreciation charge for the year has been allocated as follows:

	Note	2020	2019
		--------(Rupees in '000)--------	
Academic and programmatic expenditure	17	**21,758**	12,740
Administrative expenditure	18	**5,440**	3,185
		27,198	15,925

6.2 Capital work-in-progress - movement

	Note	2020	2019
Opening balance		**7,774**	1,000
Capital expenditure incurred during the year		**3,569**	13,147
Transfer to operating fixed assets		**(8,324)**	(6,373)
Closing balance	6.3	**3,019**	7,774

6.3 Capital work-in-progress - break up

	2020	2019
Computers and multimedia	**1,662**	2,343
Lab equipment	**1,357**	3,110
Library books	-	725
Office equipment	-	1,596
	3,019	7,774

6.3.1 Commitments in respect of capital work in progress amounts to Rs. 12.026 million (2019: Nil).

7. INTANGIBLE ASSETS

	Cost			Accumulated amortization			Book Value	
	As at July 01 2019	Additions / transfer	As at June 30 2020	As at July 01 2019	Charge for the year	As at June 30 2020	As at June 30 2020	Rate %
	Rupees in '000							
Softwares	8,212	2,743	10,955	4,428	2,899	7,327	3,628	33
Project development cost – academic planning & modeling	19,973	-	19,973	19,973	-	19,973	-	20
2020	28,185	2,743	30,928	24,401	2,899	27,300	3,628	
Softwares	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	

7.1 Intangible assets include items having an aggregate cost of Rs. 24.821 million (2019: Rs. 19.973 million) which are fully amortized and are still in use of the University.

7.2 Amortization charge for the year has been allocated as follows:

	Note	2020	2019
		--------(Rupees in '000)--------	
Academic and programmatic expenditure	17	**2,319**	5,107
Administrative expenditure	18	**580**	1,277
		2,899	6,384

8. STUDENTS FEES RECEIVABLE

	Note	2020	2019
		--------(Rupees in '000) --------	
Students fees receivable	8.1	**40,506**	16,751
Allowance for expected credit loss	8.2	**(10,111)**	(8,022)
		30,395	8,729

8.1 Includes receivable amounting to Rs. 7.666 million in respect of Student Finance Scheme which has been approved and received subsequent to year end.

8.2 Movement - Allowance for expected credit losses

	Note	2020	2019
		--------(Rupees in '000) --------	
Opening balance		**8,022**	5,706
Add: Provision recognized during the year		**2,089**	8,022
Less: Bad debts written off		**-**	(5,706)
Closing balance		**10,111**	8,022

9. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Note	2020	2019
Advances			
Employees		**2,242**	2,862
Suppliers		**2,335**	3,422
Expenses		**-**	134
		4,577	6,418
Deposits		**1,843**	-
Prepayments			
Insurance	9.1	**359**	1,745
Maintenance		**38**	461
Online subscription	9.2	**8,558**	8,344
		8,955	10,550
Other receivables	9.3	**251**	2,321
		15,626	19,289

9.1 Includes Rs. 0.16 million (2019: Rs. 1.5 million) paid to 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 Includes Rs. 0.135 million (2019: Rs. 1.051 million) receivable from Thal Limited, a related party.

10. CASH AND BANK BALANCES

	Note	2020	2019
		--------(Rupees in '000) --------	
Cash in hand – foreign currency		**658**	1,368
Bank balances in:			
- current accounts		**66,549**	1,886
- saving accounts	10.1	**45,805**	17,064
	10.2	**112,354**	18,950
		113,012	20,318

10.1 This carries profit at rates ranging from 6.50 % to 7.50% (2019: 5.5% to 10.25%) per annum.

10.2 Includes an amount of Rs. 106.026 million (2019: 18.94 million) deposited with Habib Metropolitan Bank Limited, a related party.

	Note	2020	2019
		-------- (Rupees in '000) --------	

11. LEASE LIABILITIES

Lease liabilities		**3,681**	-
Current portion of lease liabilities		**(1,327)**	-
		2,354	-

11.1 Reconciliation of the carrying amount is as follows:

Impact of Initial application of IFRS-16		**16,212**	-
Accretion of interest		**2,189**	-
Leases terminated during the year		**(11,462)**	-
Lease rental paid during the year		**(3,258)**	-
Lease Liabilities as at June 30, 2020		**3,681**	-
Current portion of lease liabilities		**(1,327)**	-
		2,354	-

12. CONTRACT LIABILITIES

	2020	2019 (Restated)
	-------- (Rupees in '000) --------	
Tuition fees	**1,687**	14,793
Admission fees	**31,996**	24,498
	33,683	39,291
Current portion of contract liabilities	**(14,604)**	(21,827)
	19,079	17,464

13. TRADE AND OTHER PAYABLES

	Note	2020	2019
		-------- (Rupees in '000) --------	
Payable to suppliers and contractors		**820**	539
Employees salary and fringe benefit payable		**10,804**	7,432
Payable to students		**6,467**	579
Accrued expenses		**46,890**	36,446
Provision for leave encashment	13.1	**30,314**	23,174
Sales tax payable		**409**	1,407
Withholding tax payable		-	248
Other		-	76
		95,704	69,901

13.1 Provision for leave encashment

Opening balance	**23,174**	18,568
Charge for the year	**11,764**	6,597
Payments made during the year	**(4,624)**	(1,991)
Closing balance	**30,314**	23,174

14. CONTINGENCIES AND COMMITMENTS

14.1 Contingencies

As of June 30, 2020, the University has no contingencies.

14.2 Commitments

As of June 30, 2020, the University has no commitments other than those disclosed in note 6.3.1 to these financial statements.

15. TUTION FEES

	Note	2020	2019
		--------(Rupees in '000) --------	
Represented by:			
Self-funded		**388,474**	305,469
Leap and High achievement scholarship		**(1,620)**	(2,117)
Fees Discount:			
- COVID-19	15.1	**(14,885)**	-
- Other		**(158)**	(202)
		(15,043)	(202)
		371,811	303,150
Funded by Habib University Foundation, a related party, through:			
- Scholarship		**252,766**	273,990
- Zakat		**179,614**	155,906
- Grant		**25,784**	25,277
		458,164	455,173
Funded by Habib University Trust through scholarship		**61,692**	-
Funded by Habib Metropolitan Bank Limited, a related party, through student finance scheme		**14,023**	36,551
		905,690	794,874

15.1 Represents discount amounting to Rs. 14.885 million accrued by the University under the directives of Government of Sindh via Sindh COVID-19 Emergency Relief Ordinance, 2020 (the Ordinance) dated May 18, 2020. Under the said Ordinance no educational institute shall charge or recover more than 80% of the total monthly fees from any of its students effective from April 01, 2020.

16. OTHER INCOME

	2020	2019
	--------(Rupees in '000) --------	
Gain on sale of operating fixed assets	**59**	2,443
Gain on termination of lease	**896**	-
Late payment charges	**1,987**	2,287
Profit on saving accounts	**3,886**	1,975
Swimming pool and gym fees	**2,275**	2,031
Exchange gain	**608**	399
Library fees and penalties	**80**	183
Playground income	**206**	94
Rental income	**207**	1,323
Others	**2,071**	1,496
	12,275	12,231

17. ACADEMIC AND PROGRAMMATIC EXPENDITURE

	Note	2020	2019
		--------(Rupees in '000) --------	
Salaries and benefits		**629,621**	550,585
Training and professional development		**10,372**	9,717
Faculty research grant		**596**	1,625
Faculty and staff recruitment		**1,751**	6,259
Lab, studio and academic supplies		**6,505**	7,710
Library and other academic activities		**9,958**	16,575
Student transport and hostel		**5,865**	15,115
Health, sports, wellness and counselling		**18,129**	18,684
Conferences, seminars and workshops		**8,079**	26,810
Student recruitment, admission and marketing		**15,954**	28,256
Resource development		**2,361**	18,587
Technology- licenses and hardware		**44,197**	32,604
Vehicle, supplies and others		**21,227**	24,264
Utilities		**38,870**	48,992
Building and equipment maintenance		**47,819**	47,620
Insurance		**7,522**	8,271
Safety and security		**14,117**	14,136
Depreciation	6.1.5	**21,758**	12,740
Amortization	7.2	**2,319**	5,107
Travelling and conveyance		**21,656**	40,489
Postage and printing		**247**	479
Others		**629**	4,773
		929,552	939,398

18. ADMINISTRATIVE EXPENDITURE

	Note	2020	2019
Salaries and benefits		**103,390**	93,175
Utilities		**9,718**	12,248
Building repairs and maintenance		**11,955**	11,905
Safety and security		**3,529**	3,534
Vehicle, supplies and others		**5,307**	6,066
Auditors' remuneration	18.1	**585**	358
Training and professional development		**875**	259
Insurance		**1,881**	2,068
Depreciation	6.1.5	**5,440**	3,185
Amortization	7.2	**580**	1,277
		143,260	134,075

18.1 Auditors' remuneration

	2020	2019
Audit fee	**300**	250
Fee for review of half yearly financial statements	**120**	100
Out of pocket expenses	**165**	8
	585	358

19. FINANCIAL INSTRUMENTS BY CATEGORY

	Interest / Mark-up bearing				Non-Interest / Mark-up bearing				Total
	No Maturity /on demand	Maturity upto one year	Maturity after one year	Subtotal	No Maturity /on demand	Maturity upto one year	Maturity after one year	Subtotal	
	Rs in '000								
2020									
Financial assets									
Amortized cost									
Student fee receivables	-	-	-	-	-	30,395	-	30,395	30,395
Long-term deposits	-	-	-	-	-	-	2,036	2,036	2,036
Other receivables	-	-	-	-	-	251	-	251	251
Accrued Profit	-	-	-	-	-	223	-	223	223
Bank balances	45,805	-	-	45,805	66,549	-	-	66,549	112,354
	45,805	-	-	45,805	66,549	30,869	2,036	99,454	145,259
Financial liabilities									
Amortized cost									
Security deposit from students	-	-	-	-	-	11,725	15,750	27,475	27,475
Lease liabilities	-	1,327	2,354	3,681	-	-	-	-	3,681
Trade and other payables	-	-	-	-	-	95,295	-	95,295	95,295
	-	1,327	2,354	3,681	-	107,020	15,750	122,770	126,451

	Interest / Mark-up bearing				Non-Interest / Mark-up bearing				Total
	No Maturity /on demand	Maturity upto one year	Maturity after one year	Subtotal	No Maturity /on demand	Maturity upto one year	Maturity after one year	Subtotal	
	Rs in '000								
2019									
Financial assets									
Amortized cost									
Student fee receivables	-	-	-	-	-	8,729	-	8,729	8,729
Long-term deposits	-	-	-	-	-	-	3,413	3,413	3,413
Other receivables	-	-	-	-	-	2,321	-	2,321	2,321
Accrued Profit	-	-	-	-	-	258	-	258	258
Bank balances	17,064	-	-	17,064	1,886	-	-	1,886	18,950
	17,064	-	-	17,064	1,886	11,308	3,413	16,607	33,671
Financial liabilities									
Amortized cost									
Security deposit from students	-	-	-	-	-	8,500	13,652	22,152	22,152
Trade and other payables	-	-	-	-	-	68,246	-	68,246	68,246
	-	-	-	-	-	76,746	13,652	90,398	90,398

20. 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 these risks which are summarized below:

20.1 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, accrued profit 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.

The carrying values of financial assets are as under:

	Note	Past due but not impaired 2020	Past due but not impaired 2019	Neither past due nor impaired 2020	Neither past due nor impaired 2019
		(Rupees in '000)			
Student fee receivables	8	**30,395**	8,729	-	-
Long-term deposits		-	-	**2,036**	3,413
Other receivables	9	-	-	**251**	2,321
Accrued profit		-	-	**223**	258
Bank balances	10	-	-	**112,354**	18,950
		30,395	8,729	**114,864**	24,942

The credit quality of University's bank balances reference to external credit ratings as follows:

Bank Balances	**Rating agency**	**Rating**
Habib Metropolitan Bank Limited	JCR-VIS	A-1+
Meezan Bank	JCR-VIS	A-1+

20.2 Operational Risk

COVID-19 pandemic has created an unprecedented challenge for University in terms of Business Continuity Plans. The University is closely monitoring the situation and has invoked required actions to ensure the safety and security of University's staff and uninterrupted service to stakeholder.

Business Continuity Plans for respective areas are in place and tested. Work-from-Home capabilities have been enabled for staff where required, while ensuring adequate controls to ensure that University's information assets are adequately protected from emerging cyber threats.

20.3 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 (equity price risk)

20.3.1 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, 2020, had the exchange rates of USD 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	2020 %	2020 Rs. '000	2019 %	2019 Rs. '000
USD	lower / higher	10%	**891**	10%	93
GBP	lower / higher	10%	-	10%	35
AED	lower / higher	10%	-	10%	9

20.3.2 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. 0.458 million (2019: Rs. 0.17 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.

20.3.3 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.

The maturity profile of the University's liabilities based on contractual maturities is disclosed in note 19 to these financial statements.

20.3.4 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.

20.4 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

Related parties comprises of the directors, entities having directors in common with the University and other key management personnel. Details of transactions with related parties during the year, are as follows:

Nature of relationship	Nature of transaction	2020	2019
		------- (Rupees `000)	-------
Common directorship			
	Contribution for restricted fund	**458,164**	455,173
	Donation received	**216,165**	153,250
	Tuition Fees received under student loan scheme	**8,216**	91,878
	Profit received on saving accounts	**3,922**	1,716
	Insurance premium paid	**7,154**	10,751
	Purchase of other supplies	**2,235**	2,506
	Rental income	**135**	1,323

The Habib University Foundation, a related party, has allowed free of cost use of it's property, plant and equipment and certain intangibles to the University.

21.1 Following are the related parties of the University with whom the University had entered into transactions or have arrangement/agreement in place.

Name of related parties	Basis of relationship	Nature of Transactions
Habib University Foundation	Common directorship	Donation received and use of assets (note 6.1.3)
Habib University Foundation U.S Inc.	Common directorship	Donation received
Habib Metropolitan Bank Limited	Common directorship	Tuition fees under student loan scheme, banking and related services
Habib Insurance Company Limited	Common directorship	Insurance premium paid
Metro Pakistan (Pvt.) Limited	Common directorship	Purchase of other supplies
Thal Limited	Common directorship	Rental income

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

	2020 President	2019 President
	--------- (Rupees in '000) -------	
Remuneration	**54,667**	40,532
Retirement Benefits	**1,097**	1,036
Utilities	**1,283**	1,015
Others	**2,287**	2,123
	59,334	44,706

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

22.3 There are 10 Governors (2019: 11) of the University.

23. NUMBER OF EMPLOYEES

Number of persons employed as at year end were 234 (2019: 230) and the average number of persons employed during the year were 232 (2019: 228).

24. DATE OF AUTHORISATION FOR ISSUE

These financial statements have been authorized for issue on 20-OCT-2020 by the Board of Governors of the University.

25. GENERAL

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

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

CHANCELLOR

PRESIDENT