

20. Contingencies

- i) Certain ex-employees have filed civil suits against the Institute which are pending in different courts of law. Management is confident of favorable outcome of these cases. However, at this stage the liability, if any, on account of above referred litigation can not be determined.
- ii) In the case titled Dr. M. Mansoor Ahmed vs GIKI, the plaintiff filed a suit against GIK on account of defamation and termination of services. Decree to the extent of Rs. 5.25 million has been granted in favour of plaintiff by Civil Court Islamabad. However, the Institute has filed an appeal in 2017 against the judgment of Civil Court Islamabad in the Islamabad High Court for annulment of such charges. The matter is under adjudication.
- iii) The management is confident for obtaining the tax exemption and therefore, no provision for current tax was recorded in books of account of the Institute. The Institute's request for grant of exemption status for certain prior tax years is pending for favorable consideration by the functionaries of federal government.

21. REVENUE FROM OPERATIONS	2020 Rupees	2019 Rupees
Tuition fee	1,279,264,500	1,136,760,665
Summer school fee	13,041,238	10,456,066
Admission fee	42,522,500	40,990,615
Application fee	5,132,999	21,561,225
College fee	27,163,230	25,623,830
	<u>1,367,124,467</u>	<u>1,235,392,401</u>

22. OTHER INCOME

Income from		
- investment in TDR	1,018,172	949,952
- PLS accounts with banks	10,433,552	6,438,880
- Profit allocated from society - note 22.1	17,229,021	-
- Gain on fair value of investments	-	14,882
House & municipality charges - note 22.2	28,446,103	27,975,834
Rental income	5,942,487	8,198,779
Gain on sale of operating assets	816,275	1,844,850
Administrative charges - note 22.3	30,838,873	7,985,828
Convocation - note 22.4	1,436,969	1,367,474
Cafeteria income - note 22.5	3,022,687	4,448,364
Miscellaneous income - note 22.6	7,027,957	7,113,870
	<u>106,212,096</u>	<u>66,338,713</u>

22.1 This represents income earned on balances of the Institute maintained with the Society in accordance with the charter of the Institute.

22.2 This represents charges in respect of maintenance and ancillary services provided by the Institute to the employees residing in the Institute's residential area.

22.3 This represents additional charge levied on tuition fee payable by the students opting installment plan for payment of tuition fee.

22.4 Convocation	2020 Rupees	2019 Rupees
Receipts during the year	3,345,000	6,405,800
Expenditure during the year	(1,908,031)	(5,038,326)
	<u>1,436,969</u>	<u>1,367,474</u>

22.5 Cafeteria income

Sales during the year	17,114,539	21,263,663
Expenditure during the year	(13,059,062)	(16,815,299)
	<u>4,055,477</u>	<u>4,448,364</u>

M. Mansoor Ahmed

22.6 This includes income in respect of workshops held at the Institute and income received from the service centre of the Institute.

	2020 Rupees	2019 Rupees
23. OPERATIONAL EXPENSES		
Salaries, wages and benefits	669,665,201	617,541,279
Repairs and maintenance	11,597,691	11,078,535
Travelling	19,051,438	27,172,646
Office, laboratory and workshop supplies	18,937,916	14,782,867
Power and heating	125,114,891	108,964,149
Telephone expenses	16,286,538	8,392,184
Postage	346,932	442,033
Advertisement	3,461,678	1,730,373
Audit fee	1,248,145	1,248,145
Legal and professional charges	1,270,864	661,784
Insurance	2,858,821	2,905,590
Staff welfare	8,800,412	5,589,641
Fee and subscription	3,199,490	4,920,126
Entertainment	2,088,412	1,285,430
Student activities	4,790,180	5,952,156
Provision for financial assistance loan	23,904,051	38,044,079
Provision of provision for doubtful advances to suppliers	403,356	2,224,369
Others	6,006,616	4,812,207
	<u>919,032,631</u>	<u>857,747,592</u>
24. ADMINISTRATIVE EXPENSES		
Salaries, wages and benefits	99,203,690	98,995,874
Power and heating	16,651,194	15,314,019
Others	6,456,619	6,047,320
	<u>122,311,503</u>	<u>120,357,213</u>
25. FINANCIAL CHARGES		
Bank charges	5,202,802	3,295,481
Mark up on loans	692,258	753,660
	<u>5,895,060</u>	<u>4,049,141</u>
26. EXCHANGE (GAIN) / LOSS		
Exchange loss on long term loans - note 26.1	16,628,306	160,347,835
Exchange loss / (gain) on foreign currency bank balances	(228,677)	(1,732,442)
	<u>16,399,629</u>	<u>158,615,393</u>
26.1 These represent transactions dealt by the Society on behalf of the Institute related to long term loans obtained by the Society and utilized for civil works and acquisition of laboratory and workshop equipment for the Institute.		
27. CASH AND CASH EQUIVALENTS		
This represents cash and bank balances.		
28. TRANSACTIONS AND BALANCES WITH RELATED PARTIES	2020 Rupees	2019 Rupees
Contribution to staff retirement benefit plan		
Employees provident fund	44,077,094	38,493,762
Transactions with Society for Promotion of Engineering Sciences and Technology	(460,860,205)	84,093,937
Payable to employees provident fund	7,258,262	3,604,885

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29. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

29.1 Financial assets and liabilities

	2020 Rupees	2019 Rupees
Financial assets :		
Maturity upto one year		
Advances and other receivables	84,017,541	19,107,602
Financial assistance loan	10,385,098	10,556,264
Cash and bank balances	71,317,956	103,821,493
Investments	30,853,579	5,339,149
Maturity after one year		
Financial assistance loan	265,345,177	245,294,745
Long term deposits	9,313,750	8,313,750
GIK Institute Emergency Reserve Fund	88,763,797	80,763,797
	<u>559,996,898</u>	<u>473,196,800</u>
Financial liabilities :		
Maturity upto one year		
Creditors, accrued and other liabilities	247,242,414	232,777,328
Students' fund	5,690,267	10,250,290
Maturity after one year		
Security deposits	53,654,626	47,876,001
	<u>306,587,307</u>	<u>290,903,619</u>

29.2 Credit quality of financial assets

Credit quality of the Institute's financial assets have been assessed below by reference to external credit ratings of counterparties determined by The Pakistan Credit Rating Agency Limited (PACRA) and JCR - VIS Credit Rating Institute Limited (JCR-VIS). The counterparties, for which external credit ratings were not available, have been assessed by reference to internal credit ratings determined based on their historical information for any defaults in meeting obligations.

	Rating	2020 Rupees	2019 Rupees
Advances, prepayments and other receivables			
Counterparties without external credit rating		<u>84,017,541</u>	<u>19,107,602</u>
Investments			
Habib Bank Limited	A1+	<u>30,853,579</u>	<u>5,339,149</u>
Financial assistance loan			
Counterparties without external credit rating		<u>275,730,275</u>	<u>255,851,009</u>
Cash and Bank balances			
Counterparties with external credit rating			
Habib Bank Limited	A1+	71,021,319	103,538,252
Cash in hand		296,636	283,240
		<u>71,317,956</u>	<u>103,821,492</u>
Long term deposits			
Counterparties with external credit rating			
WAPDA	AAA	3,195,750	3,195,750
Counterparties without external credit rating			
Foundation Gas		100,000	100,000
Others		18,000	18,000
Metro Pakistan (Pvt) Ltd		500,000	500,000
Pakistan Air Force Hospital		1,000,000	-
Combined Military Hospital		4,500,000	4,500,000
		<u>9,313,750</u>	<u>8,313,750</u>
GIK Institute Emergency Reserve Fund			
Counterparty without external credit rating		<u>88,763,797</u>	<u>80,763,797</u>

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29.3 Financial risk management

29.3.1 Financial risk factors

The Institute's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and price risk). The Institute's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Institute's financial performance. The Board of Governors (the board) has overall responsibility for the establishment and oversight of the Institute's risk management framework. The Board is also responsible for developing and monitoring the Institute's risk management policies.

a) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Institute's credit risk is primarily attributable to its advances, prepayments, other receivables and balances at banks. The Institute maintains balances with banks having satisfactory credit rating. Due to the high credit worthiness of counter parties the credit risk is considered minimal.

(i) Exposure to credit risk

The maximum exposure to credit risk at the reporting date was:

	2020 Rupees	2019 Rupees
Long term deposits	9,313,750	8,313,750
GIK Institute Emergency Reserve Fund	88,763,797	80,763,797
Financial assistance loan	275,730,275	255,851,009
Advances, prepayments and other receivables	222,993,204	110,753,612
Investments	30,853,579	5,339,149
Cash and bank balances	71,317,956	103,821,493
	<u>698,972,561</u>	<u>564,842,810</u>

(ii) Geographically there is no concentration of credit risk.

b) Liquidity risk

Liquidity risk is the risk that the Institute will not be able to meet its financial obligations as they fall due. The Institute's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Institute's reputation. The Institute uses different methods which assists it in monitoring cash flow requirements and optimizing its cash return on investments. Typically the Institute ensures that it has sufficient cash on demand to meet expected operational expenses for a reasonable period, this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The table below analyses the contractual maturities of the Institute's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the maturity date. The amounts disclosed in the table are undiscounted cash flows.

	Carrying amount	Contractual cash flows	Less than 1 Year	Above 1 year
	Rupees			
At June 30, 2020				
Creditors and other liabilities	247,242,414	247,242,414	247,242,414	-
Students' fund	5,690,267	5,690,267	5,690,267	-
Security deposits	53,654,626	53,654,626	-	53,654,626
At June 30, 2019				
Creditors and other liabilities	232,777,328	232,777,328	232,777,328	-
Students' fund	10,250,290	10,250,290	10,250,290	-
Security deposits	47,876,001	47,876,001	-	47,876,001

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts.

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c) Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Institute incurs financial liabilities to manage its market risk. All such activities are carried out with the approval of the Board. The Institute is exposed to interest rate risk, currency risk and market price risk.

i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies. Financial assets include Rs. 7,028,071 (2019: Rs. 6,657,841) and financial liabilities include Nil (2019: Nil) which were subject to currency risk.

Rupees per USD	2020 Rupees	2019 Rupees
Average rate	158.65	142.70
Reporting date rate	168.60	164.00

Sensitivity analysis

At June 30, 2020, if the currency had weakened/strengthened by 10% against US dollar with all other variables held constant, surplus for the year would have been Rs 702,807 (2019: Rs 665,784) lower/ higher.

ii) Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has no long term interest bearing financial assets whose fair value or future cash flows will fluctuate because of changes in market interest rates. The management estimates that a 1% increase in the market interest rates, with all other factors remaining constant, would increase the Company's income by Rs. 710,689 (2019: Rs. 982,659), and a 1% decrease in the market interest rates would decrease the income by the same amount. However, in practice, the actual results may differ from the sensitivity analysis.

iii) Price risk

Price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

At the year end the Institute is not exposed to price risk since there are no financial instruments, whose fair value or future cash flows will fluctuate because of changes in market prices.

29.3.2 Fair value of financial assets and liabilities

The carrying values of financial assets and liabilities approximate their fair value.



29.4 Reclassification

Corresponding figures have been reclassified wherever necessary to reflect more appropriate presentation of events and transactions for the purpose of comparison in accordance with the accounting and reporting standards as applicable in Pakistan.

30. DATE OF AUTHORISATION

These financial statements were authorised for issue by the Board of Governors of the Institute on

27.7.2011

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Member


Member