

## ii [Financial Affairs]

**1. Description of Current Conditions****(1) Is there an adequate financial base to stably pursue education and research?**

<Preparation of Mid-Term and Long-Term Financial Plans>

The Ritsumeikan Trust has formulated the “Trust Vision R2020” showing what the Ritsumeikan will be in 2020, and a mid-term master plan titled “Creating the Future R2020 – Ritsumeikan Trust Master Plan – First Half Plan Outline (AY2011 – AY2015)”. In addition the Trust also has a mid-term financial plan and financial management policy titled “R2020 Plan (first half) Financial Plan and Basic Financial Management Policy”. While these pledge the financial stability and continuity required for the Trust, the Trust confirms its fiscal administration policy which invests its funds to “improve education and research”, as outlined in the R2020 Plan.

Fiscal management presupposes that 1) a shift from a “Ever-increasing Growth Model” to a “Sustainable Plateau Model”, 2) the importance of the placement and redistribution of logical and efficient resources and funds, and the 3) establishment of systems that promote autonomous and efficient fiscal management, will be taken into consideration before stepping into the second half of R2020. In light of this, the following 6 basic policies for fiscal administration were affirmed.

[Basic Policies for Fiscal Administration]

- 1) To ensure stable and permanent management of Trust finances by keeping spending within the range of income and reflecting the mid-term update plans of fixed assets based on the income and expenditure of each division (school), whilst paying attention to maintaining balance sheet indicators.
- 2) To manage a fiscal plan that anticipates the five-year action plans for the first half of R2020. Strive towards more planned fiscal and Trust management and strengthen ties between the two. For new initiatives and campus management, emphasis on formulating plans that anticipate the future.
- 3) In keeping with the R2020 plan outline, aim for fiscal management that, above all, supports improving the quality of education and research. In other words, be bolder with financial spending in an effort to enhance the quality of education and research.
- 4) Keeping the current level of tuition revenue as a base, respond to the weight of academic fees by financially (revenue policies etc.) striving to provide an education that focuses on students and the learning community. Develop a strict internal system (self-assessment etc.) to verify whether or not financial expenditure is contributing effectively to improving the quality of education and research.
- 5) In keeping with basic income and expenditure estimates formulate and implement a spending budget policy, aimed at ultimately improving the quality of education and

research, that stipulates specific campus development plans, faculty and staff organization plans and equipment and property expenditure plans.

- 6) With the aim of improving the quality of research and education after the second half of R2020, in light of keeping the current level of tuition revenue as a base, make policies to 1) increase non-tuition revenue income and 2) streamline and reduce expenditure in administration the two main fiscal points of the first half of R2020.

While fiscal management should be politically implemented using the collective strengths of the entire Trust, fiscal autonomy for each school is important from the perspective of a school and/or university management that maintains fiscal discipline. It was determined that fiscal management and the concept of fiscal autonomy for each school/university will continue to follow the above “Basic Policies for Fiscal Administration”. APU, in addition to putting aside a set amount of special assets for provision to provide for the upgrading and replacement of facilities and equipment every year, strives to maintain student numbers and create a university with a vision towards 2020.

In line with this thinking, and after estimating a basic budget, it was confirmed that two additional financial issues are 1) policies to increase non-tuition revenue income (policies for donations and managing funds), and 2) administration streamlining and cost-cutting policies. A financial review (income and expenditure) for the “APU Division” is carried out every year in line with the above Trust-wide Basic Policies for Fiscal Administration and any issues identified are reflected on in annual Action Plans and budget revisions.

<Receiving Status of Grant-in-Aid, Commissioned Research Funding and Other External Funding>

As stated above, strengthening non-tuition revenue income is one of our main financial concerns and APU is actively examining ways in which the university can bring in more money.

APU receives approximately 800 million yen in subsidy for current expenditures to private institution of higher education every year. However, because there hasn't been an increase in the national fiscal budget for private schools, this figure remains unchanged. However, we have been able to actively carry out university reforms using the financial assistance scheme the Ministry of Education implements for the support of university reform via means of national private universities. In addition to being selected for the “2011 Re-Inventing Japan Project”, APU was also selected for MEXT's “Project for the Promotion of Global Human Resources” in AY2012, bringing in a total of over 200 million yen each year.

Regarding the Grant-in-Aid for scientific research in AY2012, 35 applications were made (decreased by 4 from the previous year), with 8 cases being newly adopted and 16 remaining unchanged for total revenue of 32 million yen (Document 9(2)-1). As far as

external funding is concerned, in AY2010 we received, amongst others, a total of 25 million yen from O-RID Co., Ltd, as commissioned research funding over five years (Document 9(2)-2), and 2 million yen in 2011 from the Japan Management Association (Document 9(2)-3).

In addition, APU is actively developing and bringing in trainees (non-degree students) for its Global Competency Enhancement Program (GCEP), a program that utilizes our unique and diverse campus environment. In AY2012 we welcomed 14 trainees from 5 companies, bringing in a total of 11 million yen in external funding.

<Adequacy of Balance Sheet Ratio and Consumption Ratio between Income and Expenditure >

The state of the Trust's management is reflected in the Basic University Data, Chart 6 "Consumption Ratio between Income and Expenditure". The effect of the R2020 Plan-based campus re-developments and improvements to faculty and staff structures was a slight drop in ratio between income and expenditure, with it now hovering between 99% and 102%. Compared to the national average (figures from the "Heisei 24 Fiscal Analysis of Private Universities" by The Promotion and Mutual Aid Corporation for Private Schools of Japan) the Trust has a slightly lower personnel expenditure ratio, sitting at 51.3 % (all Trust figures from the AY2011 financial statement) compared to the national average of 54.0%. At 36.8% the Trust's academic research expenses ratio was higher than the national average of 30.9%. Looking just at figures for APU, and not the entire Trust, we see that APU's personnel expenditure ratio is even lower at 39.7%, but our academic research expenses ratio is comparatively higher at 45.2%, due to the large numbers of international students on tuition reduction scholarships.

In revenue, the Trust has a student income ratio of 74.5%, pretty much in line with the national average of 72.7%, while APU's sits slightly higher at 78.4% (chart 7 in the Basic University Data). Revenue from student income is the backbone of private schools' funding and maintaining a consistent income flow is paramount in forming a financial base that promotes Trust development and educational reform. We face the challenge of diversifying the ways in which we can gain income externally, from donations and other non-student tuition sources.

The Trust's financial situation is outlined in Basic University Data, Chart 8, "Balance Sheet Ratios". In terms of assets, the Trust's percentage of fixed assets is 92.1%, a lot higher than the national average of 87.0%. This is because in addition to implementing improvements and developments of facilities as part of academic and other Trust-wide developments, progress has been made in creating a stock of the funds (special assets for provision - fixed assets) necessary to preserve a stable and permanent education and research environment. While this has led to a low current assets ratio of 7.9%, our current

ratio and rate of previous holding show there is definitely enough liquidity of assets to meet debts. Composite ratios for collective assets show a total debt ratio lower than the national average of 13.1%, with ours decreasing further from 11.3% in AY2008 to 10.3% in AY2011. This has led to a rising trend in the Trust's ratio of private funds, from 88.7% in AY2008 to 89.7% in AY2011. Consumption Income and Expenditure has exceeded spending since AY2010, and because this was after taking out capital funds (endowment), the Trust can be commended for having the necessary private funds and maintaining a sound financial base.

**(2) Are we making and enforcing the budget adequately?**

<Adequate Budget-Making and Clarification of Enforcement Rules>

The financial structures of the Trust are inelastic and the large portion of revenue coming from student income and subsidies means that asset sources are highly public and it is difficult to increase revenues to counter increased expenditure. A mid-term financial plan that backs-up the Trust and Academic Creation Plan, as well as a budget that allows for adequate management and running of the university, both play vital roles in maintaining the healthy financial administration required to develop stable and permanent education and research endeavors.

At APU, as we strive towards firmly establishing the PDCA Cycle, the Project Planning Committee, which was established under the Executive Board of Trustees, presents the basic project ideas for each year based on the action plans. It also formulates a general overview, including progress reports on the plans for each organization (schools, graduate schools, affiliated schools and administrative organizations), as well as formulates related budget structure policies and draft budgets.

The budget for each year is formulated using the following steps:

- [1] Presentation of basic thoughts
- [2] Hearing of the following year's action plan for each division (Division of Financial Affairs and APU University Administration and Student Services for the APU Division)
- [3] Presentation of "Division Budget Proportion" based on hearing outcome.
- [4] Finalize budget structure policies that reflect the demands of each Division.
- [5] Formulate draft budget after refining revenue budget and assessing demands.
- [6] Budget confirmation by Board of Trustees and Ritsumeikan Trust Council

The APU Division formulates a division-wide income and expenditure estimate, and subsequent budget plan, based on estimates of student numbers (tuition revenue) and the following year's action plan. Then budget for APU Division ("Division Budget Proportion) is proposed. In line with the above steps, the budget is then refined and confirmed by the Board of Trustees and Ritsumeikan Trust Council.

An accounting and management system is used to manage and execute the budget on a daily basis. The system, which approves budget execution in line with the Ritsumeikan

Trust Regulations for Accounting Operations and Decision-Making, prevents data entry mistakes and execution of a budget that exceeds the distributed budget, also has a search function to look up budget balances and details of how it is being spent, leading to an overall more stringent and efficient budget management.

<Internal Audits of Account Settlement>

In an increasingly harsh environment for Private University management, financial auditing has become an even more important factor in ensuring a healthy management and financial situation. APU carries out internal audits in accordance with the internal auditing regulations, an accounting audit by an auditing firm, as stipulated in Article 14, Paragraph 3 of the Private Educational Institution Promotion Subsidy Act, and an audit by an auditor-secretary, as stipulated in Article 16 of the Ritsumeikan Trust Act of Endowment and Article 37, Paragraph 3 of the Private School Act. The Trust used to only have part-time auditors-secretary, but in order to strengthen auditing functionality in line with Private School Act revisions, one of the 3 auditors-secretary was made full-time in November, 2008. This full-time auditor-secretary attends the main meetings (Board of Trustees, Trust Council and the Executive Board of Trustees), works with the division which is in charge of audits, ascertaining necessary every-day information, and carries out a planned audit of Trust administration based on an audit plan. As far as APU is concerned, this auditor-secretary attends 3 or 4 University Senate Meetings a year and carries out audits in response to issues that arise.

At the end of the fiscal year, and at interim time, the auditor-secretary sits in to hear an accounting audit report by a certified public accountant with the Chairperson and Executive Trustees, as well as carries out audits of financial assets. Through the holding of Audit – secretary Board opinion exchange meetings, discussion sessions between certified public accountants and the full-time auditor-secretary, and internal audit progress reports at Audit –secretary Board, we are endeavoring to strengthen collaboration between the internal audit, certified public accountant audit and auditor-secretary’s audit. The audit results for AY2012 were favorable.

The accounting audits by an auditing firm are carried out as interim audits based on the Auditing Plan formulated at the beginning of the academic year, and as audits of tangible fixed assets and cash-on-hand, and in the end of the accounting period. The audit result for AY2012 was favorable. More than 150 people participated in the audit.

The internal audit is overseen by the Office of Inspections and Auditing, an organization directly affiliated with the Chairperson of the Board. Operations and accounting audits are implemented based on an Internal Audit Plan. In AY2012 an audit was carried out into the status of procurement and goods management and grant-in-aid subsidy usage etc.

<Systems to Analyze and Verify the Effect of Budget Execution>

With the “Division Budget Proportion”, the Division of Finance (Division of Finance / APU University Administration and Student Services for the APU Division Budget) carries out a hearing based on the status of issues for each division, and efforts are made towards a cycle that ties the budget in with budget formulation for the following year. On the premise, APU Division takes a zero-based budgeting as its basic policy, which means no increase is allowed from previous year, thus the Administration Office reviews budget with each office repeatedly based on analysis of account settlement and the policy is positively contributed for APU Division budget making. However, we need to strengthen systems to analyze and verify the effect of budget execution, including the development of methods to verify budget execution outcomes.

## **2. Self Assessment**

Financial operation is carried out in according with the plans and policies outlined in the “R2020 Plan (first half) Financial Plan and Basic Financial Management Policy”. Based on the AY2011 account settlement, the APU Division, after accumulating 400 million yen in special assets for provision for the renewal and replacement of equipment and facilities (incorporated into asset management expenditure), had an income of approximately 600 million yen more than expenditure. This capital is a vital source for APU’s scholarship scheme and we plan on continuing to accumulate more capital.

### **[1] Items That Are Showing Results**

<1> Increasing Non-Tuition Revenue

The APU Division is moving ahead with academic reforms and we are succeeding in strengthening non-tuition revenue including receiving over 100 million yen in university reform subsidies in AY2012 alone. In addition, the active development of our Global Competency Enhancement Program and other initiatives is resulting in revenue coming in from a variety of different sources.

<2>Streamlining Administration and Cost Trimming

The APU Division has been actively looking for areas and ways of streamlining administration through either narrowing down or eliminating unnecessary areas all together, including the standardization and intensification of back-up support administration, and outsourcing some areas of administration. Progress in this area was reflected in the AY2012 account settlement with a 15.5% reduction compared to the AY2010 account settlement .

### **[2] Items Requiring Improvement**

<1> Filling Intake Capacity for Graduate School and Transfer Student Numbers and

#### Recovery from Revenue Loss Due to Student Withdrawal

Tuition revenue in AY2012 was approximately 6.8 billion yen, down 270 million yen from AY2011. Currently intake capacities and accommodation capacity are being filled in the colleges, but the same cannot be said for the graduate schools and numbers of places available for transfer students, total of both 83 people. There are also quite a large number of students (approximately 450) who have taken a leave of absence for reasons such as travelling abroad, and this is having an effect on tuition revenue. To ensure adequate revenue from tuition, which is the backbone of university operation, we must improve graduate school and transfer enrollment fill rate.

### **3. Development Policies Towards the Future**

#### **[1] Items That Are Showing Results**

##### <1> Increasing Non-Tuition Based Revenue

In addition to the subsidy and grant-in-aid revenue, which we have successfully seen increasing, APU is also striving to increase revenue from donations. While the amount of revenue from donations in AY2012 was up 20 million yen from AY2011, we need to work towards getting more individual smaller donations mainly from graduate students, and bolstering the foundation of stable donation revenue.

##### <2> Streamlining Administration and Cost Trimming

In addition to continuing to review administrative duties, standardizing and consolidating back-up support administration and promoting outsourcing, we will also work on initiatives to systematically review the administration framework. We will further strengthen systems to analyze and verify the effect of budget enforcement, including improvement of effect verification methods. This streamlining and improving of administrative systems will allow us to cut back expenses from a medium-term perspective.

#### **[2] Items Requiring Improvement**

##### <1> Loss in Income from Withdrawals and Insufficient Numbers in the Graduate School and Transfer Students

We need to ensure that we fill the number of spots for transfer and graduate school students. In addition we must strengthen exchange programs and as a result, reduce students on leave of absences, increase fee-based short-term exchange student numbers, increase GCEP trainees and, through a total grasp of the current student situation, work towards reducing withdrawals and securing tuition revenue.

### **4. Supporting Documents**

9(2)-1 APU AY2012 Grant-in-Aid for Scientific Research Results (2012.6.13 Executive Board of Trustees)

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9(2)-2 Commissioned Research by O-RID Co. Ltd., and Construction of APU's "Digital Technologies Innovation Center" (2010.10.12 University Senate)

9(2)-3 APU's Commissioned Research Contract with the Japan Management Association in relation to "Industry-Academia Joint Research for the Cultivation of Tourism Management Human Resources" (2011.9.6 University Senate)