Section 2 Finance

(1) Description of Current Conditions

Assessment/Evaluation Parameter (1): Has the university appropriately formulated a mid to long-term financial plan to stably execute education and research activities?

Evaluation Points
○ Formulation of mid to long-term financial plan in accordance with mid to long-term plan for the university's future
○ Formulation of indicators and objectives related to financial ratios for applicable universities

■ Formulation of Mid to Long-Term Financial Plan in Accordance with Mid to Long-Term Plan for the University's Future

APU has compiled a mid-term financial plan through AY2020 (Ref. 10-(2)-1). In addition, we have imposed caps on major cost items such as faculty personnel expenses, staff personnel expenses, and scholarships.

For expenses subject to annual fluctuation such as long-term facility upgrades and IT systems, we have formulated a budget system that spans multiple years and established a corresponding cap on spending.

Based on the above, we will continue to compile mid-term financial plans.

■ Formulation of Indicators and Objectives Related to Financial Ratios for Applicable Universities

Using the management assessment indicators specified by the Promotion and Mutual Aid Corporation for Private Schools of Japan (PMACPSJ), we confirm financial results not only at the Trust level, but also for the APU department. These indicators put us at the A2 level.

Our fundamental stance toward APU's financial administration is to keep expenditures within the scope of revenues while applying mid to long-term fixed asset renewal and other plans founded on the APU departmental cash flow based on the Ritsumeikan Trust's policies. In simple terms, we have continued to accumulate fund reserves for facility and equipment replacements since AY2011, and have engaged in administration that results in a budget surplus on a yearly basis (Ref. 10-(2)-2).

Our student tuition revenues consist of tuition revenues, enrollment fee revenues, lab and practice fee revenues, and revenues from other payments, and are positioned as our core revenue source, making up roughly 80% of our total revenues.

Our second main source of revenues (following student tuition revenues) is subsidy revenues, which range from roughly ¥860 million to ¥1.2 billion depending on progress with subsidy acquisitions other than for ordinary expenses (ordinary expense subsidies amount to roughly ¥830 million), making up about 10% of our total revenues.

Our project revenues are derived from balanced revenue-expenditure projects. Balanced revenue-expenditure projects are projects in which expense items (expenditures) are kept within the scope of revenues. They are essentially designed to achieve a breakeven position.

Dormitory fee revenues account for about 85% of project revenues, generating a yearly surplus (of around ¥270 million). However, this surplus merely reflects the difference between dormitory revenues and expenses on a single-year basis, and does not mean the long-term balance of revenues and expenditures (after including building repairs and reconstruction) is in surplus.

Fee-based revenues largely consists of entrance examination fees, which amount to about ¥100 million.

The Ritsumeikan Trust Fund Administration and Management Committee started investing in bonds from AY2005, and APU's Young Leaders Fellowship Fund Specified Reserve Assets (Scholarship of the Ryoichi Sasakawa Young Leaders Fellowship Fund) and APU Future Plan Specified Reserve Assets have been positioned as part of the Ritsumeikan Trust's total funds for management.

Turning to total revenues, the structure of our total revenues is similar to other domestic private universities in that fluctuations in student tuition revenue (i.e., yearly progress with securing enrollees) tend to have an impact on our total revenues for several years.

Our core expenditures are divided into faculty and staff personnel expenses and other expenses, with personnel expenses coming to roughly ¥3.5 billion (about 40% of total expenditures). Faculty personnel expenses are set at ¥2.1 billion (full-time faculty ¥1.89 billion + part-time faculty ¥210 million), and strictly kept within the allocated budget. In AY2017, they came to ¥2.04 billion (full-time faculty ¥1.86 billion + part-time faculty ¥180 million).

Staff personnel expenses (full-time and part-time functions) reached ¥1.46 billion in AY2017, breaking down as ¥1.37 billion for full-time staff (permanent staff, designated staff, and contract staff) and about ¥85 million for part-time staff (administrative assistants and part-time students). In addition, miscellaneous expenses (dispatching of staff, outsourcing costs to Creotech Co. Ltd, which provides university administration back office support), which correspond to staff-related costs in other expenses, come to about ¥250 million.

Other expenses are booked as education and research costs, administration costs, and facility and equipment costs, and mainly consist of costs related to education and research, costs related to student recruitment and entrance examinations, costs related to scholarships, costs related to facilities and IT infrastructure, and utility and energy costs.

The budget for ordinary other expenses is ¥4.0 billion, breaking down as ¥1.9 billion for office expenses and ¥2.1 billion for scholarships.

Scholarship expenses account for the largest share of other expenses, and have risen from ¥1.6 billion in AY2011 (19.4% of total expenditures, 36.4% of other expenses after balancing revenues-expenditures) to ¥1.97 billion in AY2014 (22.3% of total expenditures, 39.6% of other expenses), and ¥2.15 billion in AY2015. They were cut back to ¥1.97 billion in AY2017.

We project scholarship expenses will hold at the ¥1.8–1.9 billion level going forward as we are currently formulating a plan to apply tuition reductions and are scaling back scholarship expenses for new enrollees.

As 18 years have passed since the university was launched, our existing facilities, equipment, and devices are due for repairs or upgrades. Our Campus Improvement Committee has formulated a mid-term repair plan for existing facilities through 2024, and started taking measures to address aging facilities.

In terms of IT infrastructure development (i.e., adoption of IT solutions in classrooms and campus infrastructure), we have thus far needed a budget of ¥200–300 million, and believe spending will have to remain at the same level going forward.

We have continued to accumulate fund reserves for future rebuilding and upgrades (accumulated asset management spending and total revenues-expenditures surplus). At the close of AY2017, we booked about ¥5.3 billion in reserves. We call these the APU Future Plan Specified Reserve Assets, which correspond to Specified Reserve Assets II under the financial plan of the Ritsumeikan Trust. The aim is to maintain the Specified Reserve Assets II at 50–100% of cumulative depreciation.

<u>Assessment/Evaluation Parameter (2): Has the university established an adequate financial foundation to stably execute education and research activities?</u>

Evaluation Points

○ Financial foundation (or budget allocation) necessary to realize forward-looking and other plans based on the university’s mission and purpose

○ Mechanisms to concurrently execute education and research activities and secure funding

○ Progress with securing external funding (Grant-in Aid for Scientific Research (MEXT), donations, contracted research expenses, joint research expenses, etc.), asset management, etc.

■ Basic Policy on the Financial Operations of the Ritsumeikan Trust

To improve the quality of education and research as stated in the R2020 Plan while ensuring the financial stability and continuity demanded of the Trust, the following financial operations policy has been compiled (Ref. 10-(2)-3). In addition, the initiatives for each activity outlined in annual operations reports are disclosed to our stakeholders (Ref. 10-(2)-4).

<u>Basic Policy on Financial Operations</u>

[1] While maintaining balance sheet indicators and incorporating an updated plan for mid to long-term fixed assets based on a break-even policy for each Division (or School), we will ensure

long-term stability in Academy finances by keeping expenditures in line with revenues.

[2] Our financial plan will encompass the five-year Academic Management Plan for the first half of the R2020 Plan. Now more than ever, we shall strive for well-planned Academy management and financial management and increase the interplay between the two. When we undertake new projects and campus development initiatives, our plans will emphasize the future outlook.

[3] In light of the R2020 Plan Phase One Outline, we will aim to engage in financial management that supports the improvement of quality in our education and research. In other words, we will spend more boldly than ever on efforts to improve the quality of our education and research.

[4] We will focus every effort on providing learning communities and learner-centered education based on current levels of tuition revenue while keeping in mind the tuition burden. To assess whether expenditures are contributing to increased quality, we will improve the Academy's system for stringent self-evaluation.

[5] In light of the overall fiscal framework (i.e., basic budget estimates), we will formulate and execute concrete plans for campus development, faculty and staff organization development and property expenditures to serve as the primary roadmap for budget expenditures for the improvement of quality in education and research.

[6] Based on the current level of tuition revenue, we will set the following important financial issues for the first phase of the R2020 Plan, in an effort to further improve quality in education and research during the second phase of the R2020 Plan: 1) formulate a policy for boosting non-tuition revenue, and 2) formulate a policy for streamlining workflow and reducing expenses.

Furthermore, given the fact that most of our revenues come from student tuition and subsidies, the basic policy of the Trust is to uphold financial discipline in the operation of the various schools while taking a unified view of education and research activities and financial affairs. In accordance with the aforementioned Basic Policy on Financial Operations, we will continue to adhere to this policy of financial autonomy for each division (and school).

■ Status of efforts to strengthen non-tuition revenue

Every year, we receive approximately ¥1 billion in ordinary expense subsidies for private universities. We also proactively promote reforms using Support for University Education Reform throughout National, Public and Private Universities (i.e., university reform subsidies) offered by the Ministry of Education, Culture, Sports, Science and Technology (MEXT). More recently, we were selected for the Re-Inventing Japan Project in AY2011 and the Project for the Promotion of Global Human Resources Development in AY2012, which resulted in us receiving total annual subsidies of over ¥200 million. Furthermore, in AY2014, we were selected for the Top Global University Project, effectively receiving yet another subsidy that enables us to pursue ongoing university reforms.

As for commissioned research funds, we receive approximately ¥30–40 million every year, with ¥44.7 million recorded in AY2015, ¥30.9 million in AY2016, and ¥32.3 million in AY2017. We also accept actively working businesspersons as trainees (part-time students) under the Global Competency Enhancement Program (GCEP), which takes full advantage of our multicultural campus.

As mentioned above, boosting non-tuition revenue is defined as a key financial issue, and at the institutional level, we make an effort to consider proactive measures for increasing revenues.

■ Financial Status of the Trust

The soundness of university management can be verified from the various financial statements (Ref. 10-(2)-5). Looking at the financial ratios for the Statement of Financial Activities (University Basic Data, Table 7), when we compare our figures at the close of AY2017 to the national average, our personnel expense ratio (APU: 38.0%; national average: 50.3%) and our ratios for education and research expenses (APU: 38.3%; national average: 42.1%) are lower, but our management expense ratio (APU: 13.4%; national average: 9.3%) is higher. This is due to factors unique to APU, namely, the operation of an international education dormitory to house international students.

On the other hand, our subsidy revenue ratio remains high due to proactive efforts to apply for and secure subsidies (APU: 10.5%; national average: 10.1% (AY2017)). As for our balance of payments, in accordance with the Basic Policy on Financial Operations, we put funds on reserve to cover mid to long-term facility upgrades, but securing a solid stream of revenue remains a key challenge in term of maintaining our financial soundness.

In the assets category, fixed assets account for the majority of assets (fixed asset ratio of 90.6% in AY2017). This reflects the stockpiling of necessary funds (i.e., specified reserve assets (fixed assets)) to maintain the long-term stability of the education and research environment while making improvements to facilities through development of the Academy and academic programs. As a result, the ratio of liquid to total assets is low (9.3% in AY2017), but the liquidity of assets relative to liabilities is sufficient as evidenced by the liquidity ratio and the advances received ratio.

Looking at total assets, the ratio of total liabilities to total funds rose from 9.6% in AY2013 to 12.2% in AY2017, while the funds-on-hand ratio declined from 90.4% in AY2013 to 87.7% in AY2017. As for cumulative net income/loss, expenditures outstripped revenues in AY2010, but since this figure represents the total after transfers to the capital funds, we still have the necessary funds-on-hand, thereby ensuring financial stability.

(2) Strengths and distinctive features

■ Boosting Non-Tuition Revenue

At APU, we undertake educational reforms and actively pursue university reform subsidies. We have boosted non-tuition revenue by securing subsidies under the Re-Inventing Japan Project (AY2011), the Project for the Promotion of Global Human Resources Development (AY2012), and the Top Global University Project (AY2014). We have also sought to diversify our revenue sources by actively developing programs such as globalization training.

■ Operational Streamlining and Cost-Cutting

We have proactively reviewed all work tasks (and eliminated or reduced tasks in some cases), and we are striving to thoroughly streamline operations and cut costs by standardizing, formally specifying, consolidating, and outsourcing back office duties.

(3) Problem areas

Nothing in particular.

(4) Summary

■ Boosting Non-Tuition Revenue

As donations have continued to decline from about ¥47.9 million in AY2013 to roughly ¥16.9 million in AY2017, we will work to further increase revenue from donations. We will strengthen efforts to solicit small-scale individual donations primarily from alumni as we strive to create a constant stream of revenue from donations.

■ Operational Streamlining and Cost-Cutting

We will continue reviewing tasks and promoting the standardization, formal specification, concentration, and outsourcing of back office duties. We will also review our administrative systems in a well-planned manner. Furthermore, we will strive to improve systems and methods for analyzing and verifying the effectiveness of budget execution. By doing this, we will realize a reduction in expenses over the medium term.