

[Finance]

1. Description of Current Conditions

(1) Has the necessary and sufficient financial base for the steady implementation of education and research been established?

1) Basic Policy on the Financial Operations of the Ritsumeikan Trust

The Ritsumeikan Trust has formulated the Academy Vision R2020, which depicts the Ritsumeikan of 2020, and a mid-term master plan entitled “R2020: Creating the Future—The Ritsumeikan Academy Master Plan—Phase One (AY2011-AY2015)” as well as a mid-term financial plan and financial operations policy called the "Basic Policy on Financial Operations for the First Half of the R2020 Plan" (Ref. 9(2)-1; Ref. 9(2)-2; Ref. 9(2)-3). 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. In addition, the initiatives for each activity outlined in annual operations reports are disclosed to our stakeholders (Ref. 9(2)-4).

Basic Policy on Financial Operations

- [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).

2) Status of efforts to strengthen non-tuition revenue

Every year, we receive approximately ¥800 million 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.

With regard to Grants-in-Aid for Scientific Research for AY2014, we submitted 34 applications (one less than the previous academic year) and were awarded 10 new grants and 19 continuing grants worth a total of ¥42 million (Ref. 9(2)-5). To encourage faculty to actively apply for and secure Grants-in-Aid, we overhauled the Ritsumeikan Asia Pacific University Academic Research Subsidy system in AY2014 and are gradually switching to a system in which we provide faculty with funding they can use to prepare Grant-in-Aid applications as well as research funds linked to the application results. (Ref. 9(2)-6).

As for commissioned research funds, we receive approximately ¥60 million every year, with ¥63.5 million in AY2011, ¥55 million in AY2012 and ¥57 million in AY2013. The core of our commissioned projects is the regional development training program that we have conducted for government officials from Africa, Asia, South America and other regions since AY2006 under the auspices of the Japan International Cooperation Agency (JICA). We also accept actively working businesspersons as part-time students under the Global Competency Enhancement Program (GCEP), which takes full advantage of our multicultural campus. In AY2012, we accepted 14 employees from five companies, and in

AY2013, these numbers increased to 38 employees from 11 companies. Revenue from part-time student admissions, which is comprised primarily of these trainees, increased from ¥17.38 million in AY2011 to ¥40.6 million in AY2012 and again to ¥41.35 million in AY2013.

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.

3) Financial status of the Trust

The soundness of university management can be verified from the various financial statements (Ref. 9(2)-7; Ref. 9(2)-8; Ref. 9(2)-9; Ref. 9(2)-10; Ref. 9(2)-11). Looking at the financial ratios for the Statement of Financial Activities (Table 7, University Basic Data), when we compare our figures at the close of the 2013 fiscal year to the national average (See: Values for universities with multiple colleges including humanities colleges in "FY2013 Private School Financials" published by the Promotion and Mutual Aid Corporation for Private Schools of Japan), our personnel expense ratio is lower (APU: 38.1%; National average: 52.2%), but our ratios for education and research expenses (APU: 48.1%; National average: 30.6%) and management expenses (APU: 14.3%; National average: 8.3%) are higher. This is due to factors unique to APU, namely, the large amount of tuition reduction scholarships we grant to international students and the operation of an international education dormitory to house said students.

On the other hand, our subsidy revenue ratio remains high due to proactive efforts to apply for and secure subsidies (APU: 11.7%; National average: 8.0% (AY2013)). As for our balance of payments, since AY2011, our ratio of income from ordinary operations has remained in negative territory. In accordance with the Basic Policy on Financial Operations, we put funds on reserve to cover medium to long-term facilities upgrades, but securing a solid stream of revenue remains an issue in term of maintaining our financial soundness.

The financial status of the Academy is as shown in the financial ratios for the Statement of Financial Position (Table 8, University Basic Data). In the assets category, fixed assets account for the majority of assets (Fixed asset ratio, AY2013: 92.6%). This is because the Academy has stockpiled the necessary funds (i.e., specified assets for future provisions (fixed assets)) to maintain the long-term stability of the education and research environment while making improvements to facilities in the name of Academy development. As a result, the ratio of liquid to total assets is low (7.4% in AY2013), 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 fell from 10.7% in AY2009 to 9.6% in AY2013, while the funds-on-hand ratio increased from 89.3% in AY2009 to 90.4% in AY2013. As for cumulative net income/loss, spending 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) Are budget-making and execution adequate?

1) Budget-making

The finances of the Trust are typified by inelasticity. Since a large portion of our revenues is derived from student tuition and subsidies, the sources of our funds are highly public in nature, and it is difficult to increase revenues to counter increased expenditures. A mid-to long term financial plan to support Academic development and academic planning and a budget system that allows for the proper management of the university both play vital roles in maintaining the financial soundness while enabling the sustainable undertaking of education and research activities.

At APU, as we strive to firmly establish the PDCA Cycle, the Academic Management Planning Committee established under the Executive Board of Trustees presents a basic policy for academic management every academic year. It also formulates a comprehensive overview, including progress reports on the plans for each organization (i.e., schools, graduate schools, affiliated schools and administrative organizations) as well as the related budget-making policy and draft budgets. The budget for each academic year is formulated using the following steps: [1] Present basic policy; [2] Hold hearings on each Division's action plans for the upcoming academic year (These sessions are conducted by Division of Financial Affairs. At APU, they are conducted by University Administration and Student Services); [3] Present Division budget quota based on the hearings; [4] Finalize a budget-making policy that incorporates the demands of each Division; [5] Formulate a draft budget after refining the budget for revenues and assessing demands; [6] Finalize the budget in meetings of the Board of Trustees and Ritsumeikan Trust Council (Ref. 9(2)-12, Article 30).

Division budget quotas are used in the formulation of the budget for the upcoming academic year after hearings are held with the Division of Financial Affairs (or, at APU, University Administration and Student Services) in light of each Division's task performance. At APU, our basic approach is to adopt a zero ceiling policy. The Administration Office reviews the budget based on a balance sheet analysis, and the various offices exchange opinions in the preparation of the final budget.

Day-to-day budget management and execution is conducted via a computerized accounting and administration system. Budget usage is approved in accordance with the Ritsumeikan Trust Regulations for Accounting Operations and Decision-Making, and tools in the system prevent excess distribution of funds and input errors; they also enable searches of budget balances and the details of funds disbursed. In this way, we engage in stringent yet efficient budget management.

2) Financial auditing

As it becomes increasingly difficult to run a private school, financial auditing is becoming ever more important as a means to shed light on the financial situation and ensure the

soundness of management. In accordance with Article 37, Paragraph 3 of the Private School Act and Article 16 of the Ritsumeikan Trust Act of Endowment, the Trust conducts audits by an auditor, and in accordance with Article 14, Paragraph 3 of the Private School Promotion Subsidy Act, the Trust implements accounting audits by an auditing firm and internal audits based on the Internal Auditing Regulations (Ref. 9(2)-12, Article16; Ref. 9(2)-13).

Our auditing framework used to only consist of part-time auditors, but in November 2008, we appointed one of our three auditors on a full-time basis to enhance our auditing capacity in light of revisions to the Private School Act. The full-time auditor attends important meetings (e.g., Board of Trustees, Trust Council and Executive Board of Trustees). He also works closely with the office in charge of internal audits to collect the information he needs on a daily basis and conducts scheduled audits of the Trust's operations based on the Auditing Plan. At APU, the auditors attend the University Senate Meeting three to four times a year and conduct audits as needed.

The auditors receive reports on accounting audits from our certified public accountant halfway through the fiscal year and at the close of the fiscal year in meetings attended by the Chairman of the Board of Trustees and the Executive Trustees; they also conduct audits of the Trust's property. We have taken efforts to strengthen cooperation among the auditors by holding regular Auditors Meetings, i.e., venues where the auditors can exchange opinions, and discussion meetings between the full-time auditor and our certified public accountant. Reports on internal audits are also presented in the Auditors Meetings. The outcomes of our audit in AY2013 were deemed appropriate.

Accounting audits by an auditing firm are conducted based on the Auditing Plan formulated at the beginning of the academic year, and these consist of tangible fixed assets assessments, cash-on-hand and deposit assessments and audits at the end of the accounting period. The outcomes of our audit in AY2013 were deemed appropriate.

Internal audits are handled by the Office of Auditing, which reports directly to the Chairman of the Board of Trustees. In accordance with the Internal Audit Plan, we conduct both operational audits and accounting audits.

2. Assessment

(1) Items that are Showing Results

1) Boosting non-tuition revenue

At APU, we undertake educational reforms and actively seek out 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 sources of revenue by actively developing programs such

as the Global Competency Enhancement Program.

2) Operational streamlining and cost-cutting

We have proactively reviewed all tasks (and eliminated or reduced tasks in some cases), and we are striving to thoroughly streamline operations and cut costs by standardizing, formally specifying and concentrating and outsourcing back office duties. Compared to figures from the close of the 2011 fiscal year, we reduced our expenses by approximately 25% at the close of fiscal 2012 and 22% at the close of fiscal 2013 (Statement of Cash Flow, University Basic Data).

(2) Areas for Improvement

1) Unfulfilled undergraduate transfer enrollment and graduate enrollment capacities and lost revenue stemming from withdrawals

Due to efforts to carefully manage capacities, revenue from tuition in AY2013 increased ¥23 million over AY2012 to approximately ¥6.9 billion (Statement of Cash Flow, University Basic Data). At present, we have fulfilled our undergraduate enrollment capacities, but our undergraduate transfer enrollment and graduate enrollment capacities remain unfulfilled. Also, revenue from student tuition is affected by the fact that a considerable number of students take leave of absences to travel overseas (about 450 every year). To improve the balance of payments, it is important to steadily secure revenue from fee-paying students as it is the basic source of revenue we use to operate the school.

3. Strategic Direction for the Future

(1) Items that are Showing Results

1) Boosting non-tuition revenue

As donations continue to increase from ¥26.9 million in AY2011 to ¥45.5 million in AY2012 and again to ¥47.9 million in AY2013, we will work to further increase revenue from donations (Statement of Cash Flow, University Basic Data). 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.

2) 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 reduced expenses over the medium term.

(2) Areas for Improvement

- 1) Unfulfilled undergraduate transfer enrollment and graduate enrollment capacities and lost revenue stemming from withdrawals

We will ensure that we fulfill our undergraduate transfer enrollment and graduate enrollment capacities. We will strive to secure revenue from student tuition by a) improving study abroad program offerings and reducing the number of students taking leaves of absence to pursue privately-funded study abroad, b) increasing the number of fee-based short-term exchange students, d) increasing the number of corporate trainees on programs such as GCEP, and e) working to reduce the withdrawal rate by ascertaining the student situation.

Furthermore, in accordance with the Trust's basic policy of maintaining the operational and financial discipline of each school, we will need to strengthen efforts to secure revenue from student tuition, which is our core revenue, in order to improve upon the negative ratio of income from ordinary operations that we have maintained in recent years (2011~2013) and to carry out academic reforms whose primary aim is to dramatically improve the quality of our internationally-viable education. Therefore, we will revise our tuition rates for AY2015 enrollees (Ref. 9(2)-14).

4. Supporting Resources

- 9(2)-1: Academy Vision R2020
- 9(2)-2: R2020: Creating the Future—The Ritsumeikan Academy Master Plan—Phase One (AY2011-AY2015) [Summary]
- 9(2)-3: Basic Policy on Financial Operations for the First Half of the R2020 Plan—Final Report of the Academy Financial Review Committee
- 9(2)-4: AY2013 Operations Report
- 9(2)-5: AY2014 Selection Results for Grant-in-Aid for Scientific Research
- 9(2)-6: Application Guidelines for AY2014 APU Academic Research Subsidies (Grant-In-Aid Linked and General Types) (same as Ref. 7-15)
- 9(2)-7: Financial Statements
- 9(2)-8: Five-Year Consolidated Statement of Cash Flow (University-Level / Trust-Level)
- 9(2)-9: Five-Year Consolidated Statement of Financial Activities (University-Level / Trust-Level)
- 9(2)-10: Five-Year Consolidated Statement of Financial Position
- 9(2)-11: Asset Inventory
- 9(2)-12: Ritsumeikan Trust Act of Endowment (same as 9(1)-10)
- 9(2)-13: AY2014 List of Executives (as of July 21, 2014)

9. Administration and Finance
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9(2)-14: APU Tuition Revisions for AY2015