

September 1, 2018

Financial Management at ICU

Ryoichi Arai
Trustee for Financial Affairs
International Christian University

Summary: Financial structure similar to those of prominent universities in the U.S.

The budget for educational activities at most Japanese universities¹ is by and large balanced; the expenditure for education and research is covered by revenue from tuition and government subsidies. In this regard, a deficit in the university's operating expenses tends to be considered unhealthy in Japan.

On the other hand, major private universities overseas, especially in the U.S., provide quality education, which costs more than the income from tuition and subsidies, the shortfall supplemented by donations and investment returns from the endowment.

At ICU, spending per student is rather high as we provide quality education in small classes. In the AY2017 Statement of Revenue and Expenses, our revenue was JPY 7.4 billion and expenditure, JPY 8.8 billion, which left us with a deficit of slightly less than JPY 1.5 billion. Citing this fact, the Japanese press criticized our finances as problematic. However, ever since the university was founded, the deficit at ICU has been supplemented with donations and investment return from the endowment, a healthy financial structure similar to that at universities in the U.S. We believe this misleading allegation of unhealthy fiscal management stems from a misunderstanding of ICU's finances.

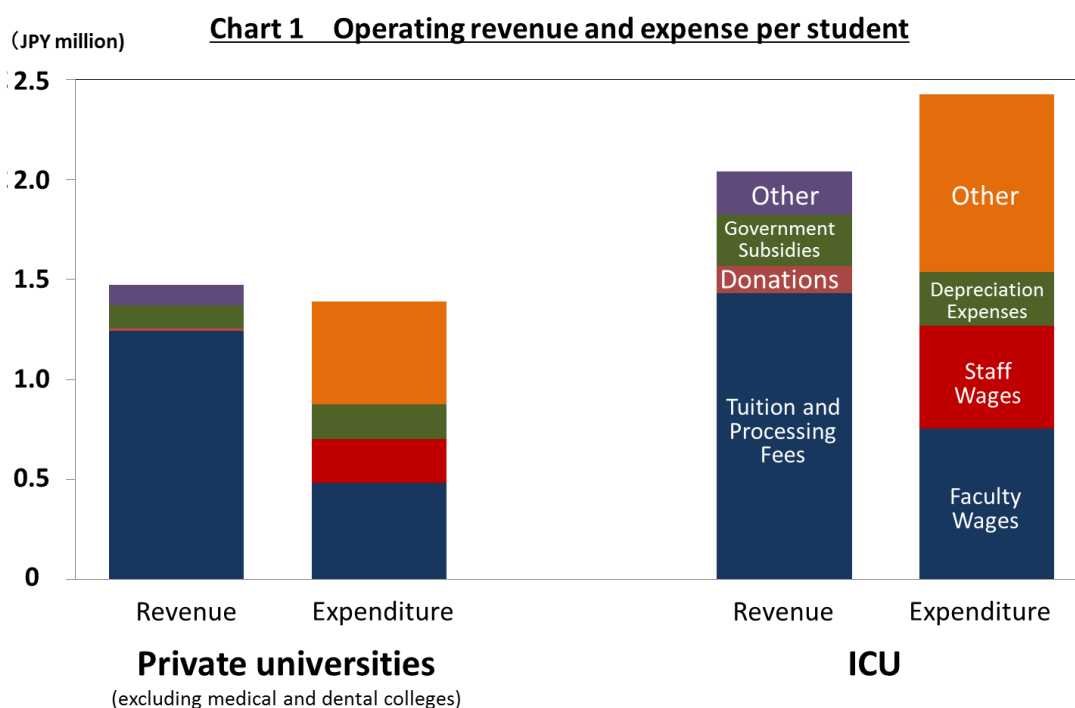
The Deficit in educational enterprise results from adhering to the principle of small class teaching

The most distinctive feature of education at ICU is instruction in small classes. When people ask if ICU still offers small classes even though the student body has expanded significantly over the years, we answer yes. The number of students has certainly increased, but the faculty has also grown. Since the 1970s we have maintained the student-faculty ratio at slightly below 20 per faculty member. At larger private Japanese universities in the Tokyo region, this number often exceeds 40, but ICU has steadfastly adhered to a tradition of meticulous tutelage in small numbers. Another factor, though little known, is that we have more staff members than other institutions do. Our staff provides scrupulous support for faculty in teaching and research, as well as help students design their course of study, hunt for jobs, organize extra-curricular activities, and study abroad. Student counseling and guidance for inbound students from partner

¹ Our financial documents are available on the ICU Website <https://www/icu.ac.jp/about/info/>

schools are also readily available.

Maintaining this accommodating educational environment is expensive. Chart 1 shows the revenue and expenditure per student. ICU's expenditure is JPY 2.43 million, more than 1.7 times the average JPY 1.39 million at other private universities in Japan. This results from our commitment to education in small classes and substantial support for students in addition to numerous scholarships², far more than offered at other universities. Our revenue was JPY 1.43 million from tuition and processing fees, which was 1.15 times the private-university average of JPY 1.24 million. Although tuition at ICU was comparatively low in the decades after foundation, fees are now higher than at other universities. However, the raise in tuition has been small compared to the increase in expenditure. The main source of revenue other than tuition for our educational activities is donations and government subsidies.



Note) Only for universities and colleges, data for ICU excludes the balance for ICU High School and investment income from the Fund, AY2016
Data from ICU; *Private School Finances Today*, Promotion and Mutual Aid Corporation for Private Schools of Japan

Fortunately, our alumni have been generous in their support for their alma mater and students coming after them, which has allowed us to receive more donations than the average at other private Japanese universities³. We also have the advantage of more subsidies since being chosen for the MEXT Top Global University Project. The sum of

² The aggregate amount of scholarship grants at ICU was about 8% of student fees, which greatly exceeds the average figure of slightly less than 4% at private universities in Japan excluding medical and dental colleges. Interest returns investment income from the Fund have been used to fund these scholarships.

³ In AY2016, the average ratio of donation to tuition and other procedure fees at private universities in Japan excluding medical and dental colleges was 1.3%, but the figure for ICU was 6.5%.

all this amounts to JPY 1.82 million per student, so we still need other sources to fund our expenditure. These are the circumstances of our deficit, which the Japanese media sometimes refers to as unhealthy overspending.

Investment returns from the endowment supplements deficit in educational activities

Instruction in small classes has been a tradition at ICU since its founding. In those days, tuition was much lower, so we were more deeply in the red. Until the 1980s, the deficit per student on average for four years at ICU was roughly JPY 3 million. We would not have been able to sustain our institution for 65 years since foundation, had it not been for the returns from the endowment.

At the time ICU was established, then Bank of Japan Governor Ichimada spearheaded the move to collect donations for the new university, which amounted to JPY 160 million from around Japan. The ICU library exhibits documents that show donors included not only prominent business people but also an elementary school student who chipped in his allowance he saved in buying snacks and a private university student who donated the sum he earned from his part-time job. These donations allowed us to purchase land in Mitaka for the campus (464,000 tsubos, an area 22 times the size of Tokyo Dome). During the food shortage immediately after World War II, part of the land was used for a farm, which was later converted into a golf course. In 1975, the golf course was sold (an area 9 times the size of Tokyo Dome) to the Tokyo Metropolitan Government for use as a park, and the proceeds from the sale (the course sold for JPY 32 billion) were added to the endowment Fund. Investment Income from this Fund has been supplementing the deficit in education and research activities⁴. Chart 2 shows our AY2017 balance sheet. The Fund has assets worth JPY 47.3 billion⁵ at market value, which is more than half of our total assets.

Contrary to concerns that ICU is deeply in debt, with losses accumulating year by year, its debt of JPY 10.2 billion (approximately JPY 7 billion⁶ in loans from financial institutions) amounts to less than 10% of its total assets, a sign of financial soundness.

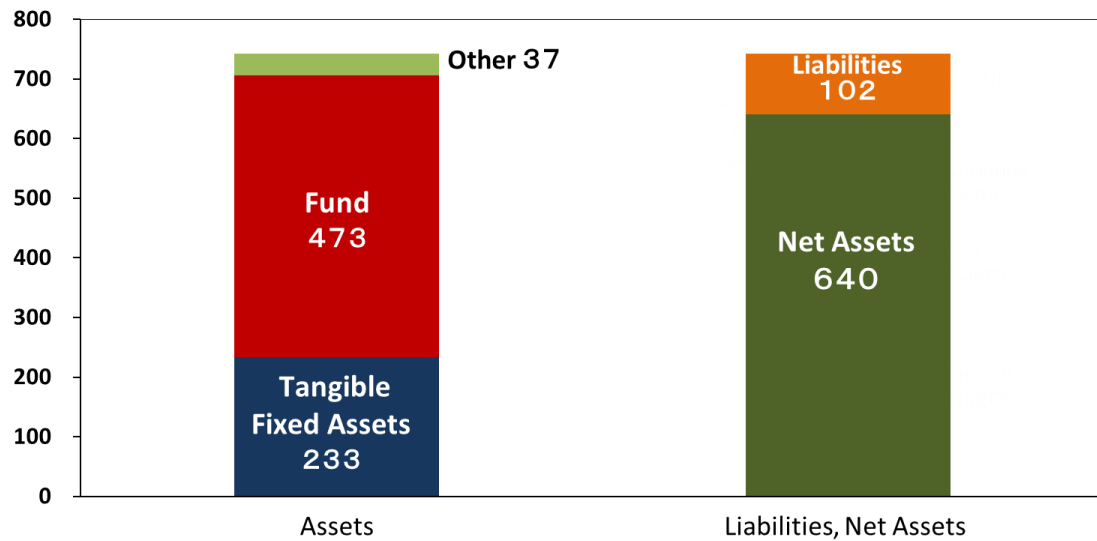
⁴ A look at ICU's Income and Expenditure Statement from the founding of the university through 1975 shows that the deficit for educational activities before selling the golf course was supplemented by donations and reversal of the original endowment.

⁵ The balance of the Fund in AY2017 was JPY 5.7 billion at market price in appraisal gain. The amount on the balance sheet was JPY 41.5 billion.

⁶ Other liabilities include a reserve for retirement allowances, advances received and accounts payable.

Chart 2 ICU's assets, liabilities, net assets

(JPY 100 million)

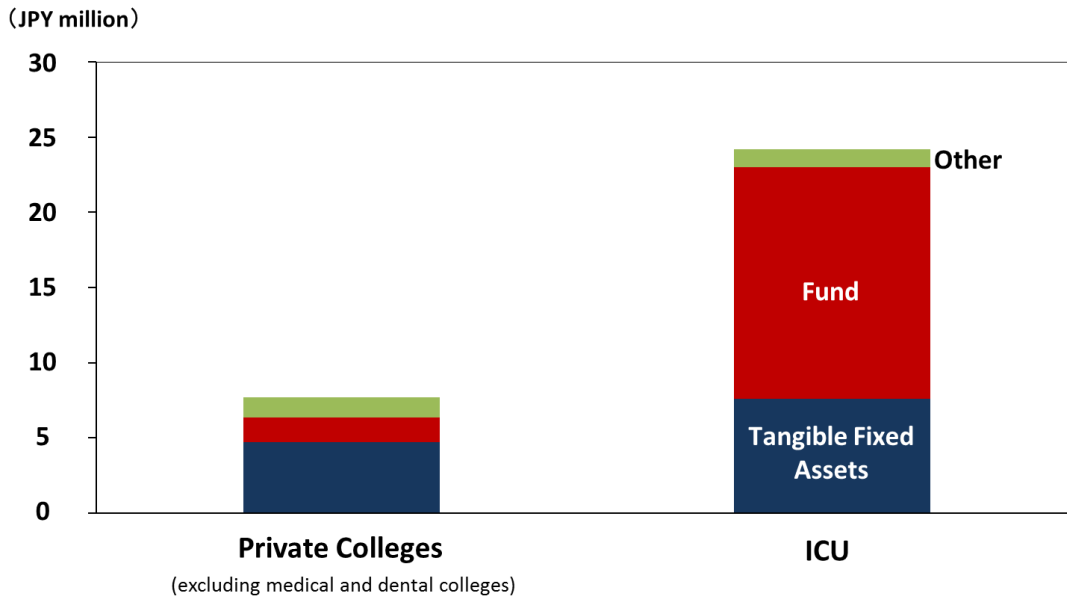


Note) Figure for AY2017. Fund and net assets at a market value reflecting an appraisal of profit or loss of securities held.

Sizable endowment among Japanese universities

Chart 3 compares ICU's assets with those of other private universities in Japan. To make it easier to compare, we have provided data per student rather than the absolute value. ICU's sizable endowment stands out among private schools. The Fund amounts to approximately JPY 15 million per student. This means that with investment income of 5% per year, we earn JPY 750,000 per student, in addition to revenue from tuition, etc. The endowment at other private universities only amounts to an average of JPY 1.66 million per student, which yields only JPY 80,000 per year at the rate of return of 5%. The sizable Fund at ICU makes operating at a deficit possible. Without the Fund, we would face the risk of bankruptcy. Negative comments from the media have failed to consider the benefits of our Fund.

Chart 3 Asset per student



Note) Figure for AY2016. Figure for ICU at a market price reflecting an appraisal of profit or loss in securities held. Assets of the institution divided by the total number of students.
Data from ICU; *Private School Finances Today*, Promotion and Mutual Aid Corporation for Private Schools of Japan

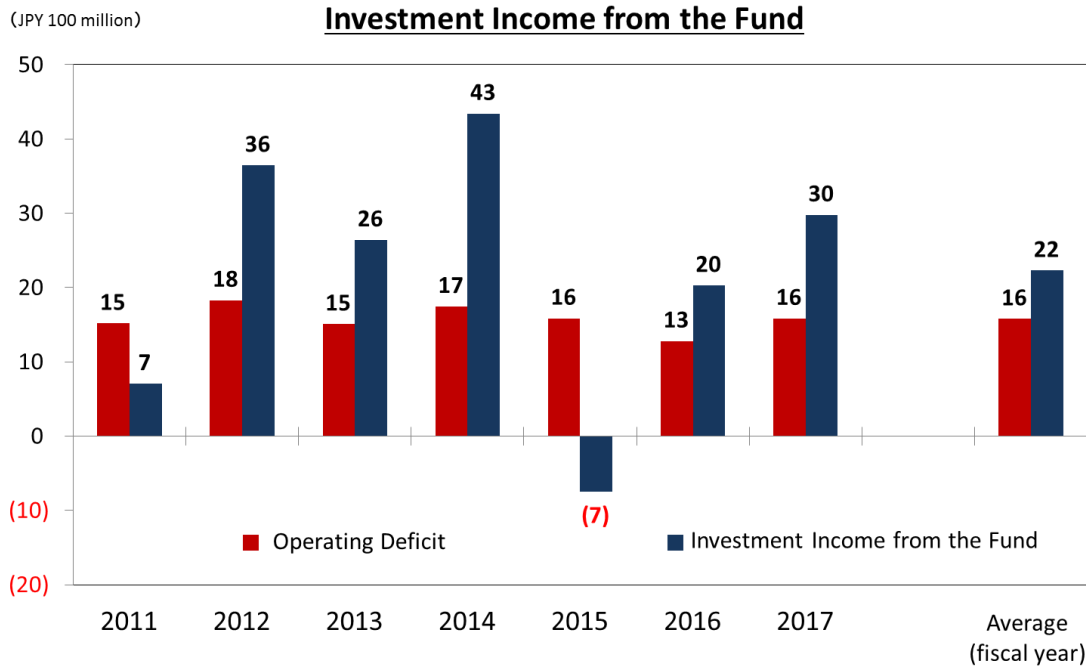
Investment returns from the endowment supplement student tuitions

ICU has always had to operate at a deficit to maintain a costly education in small classes. This shortfall has been supplemented by investment return from the Fund, which has grown through donations. Therefore, the soundness of our financial situation in the long term depends on how much investment income the Fund yields. Chart 4 shows the operating deficit and yield⁷ from the Fund between AY2011 and AY2017⁸. We have a deficit of roughly JPY 1.6 billion per year before supplementing it with investment income. Investment income earned from the Fund fluctuates from year to year: we earned JPY 4.3 billion in 2014 in a robust market but lost JPY 700 million in 2015 when stocks plummeted due to Brexit. The average return from the Fund in the last seven years has been JPY 2.2 billion, which exceeds the deficit of JPY 1.6 billion per year. During these years, our revenue has exceeded expenditure by JPY 4.7 billion, which has been more than sufficient to supplement the deficit.

⁷ The investment income from the Fund is the total return including fluctuation in appraisal loss and gain in securities added to realized gain and losses listed in book value on the Consumption Income/Expenditure Statement and Balance Sheet and Business Activity Balance Statement.

⁸ The yield from the Fund since AY2011 is available on the university website.

Chart 4 Deficit in Operating Revenue and Expenditure and Investment Income from the Fund



Note) Investment Income from the Fund at market value with appraisal profit and loss deducted or added to realized gain. Operating revenue and expenditure before supplementing with investment income gained from the Fund.

ICU's U.S.-style financial structure

A deficit supplemented by investment income from the endowment is rare in Japan, but popular in the U.S. Chart 5 shows financial data from Harvard University and Yale University, both actively investing its huge endowment, and also that of Amherst College and Middlebury College, small-size liberal arts colleges like ICU. All four operate at a deficit with a higher ratio to their revenue than ICU⁹. It would seem then, that their finances are unhealthy when scrutinized from the perspective popular among Japanese media. These schools also supplement the shortfall in revenue with investment income from their endowment.

ICU's Fund is 34 times the amount of its deficit: this proportion is similar to universities in the U.S. They supplement large deficits with investment income gained from endowment investments. Very few private academic institutions in Japan have succeeded in taking this approach, although it is a popular form of financial management abroad.

⁹ Calculated by the author based on annual reports from each university.

Chart 5 Financial Situation at U.S. Universities and ICU

(US\$ million)	Yale	Harvard	Middlebury	Amherst	ICU
Tuition etc.	345.3	1,054.2	151.2	65.9	50.0
Subsidies etc.	768.3	885.5	9.1	1.6	12.1
Donations etc.	497.1	1,000.4	26.2	41.9	2.4
Other revenue	1,314.3	967.2	9.3	29.2	13.1
Total revenue excluding yield from the endowment ①	2,924.9	3,907.3	195.8	138.7	77.6
Operating expenses	3,480.5	4,884.6	273.9	195.0	91.5
Deficit ②	-555.6	-977.2	-78.1	-56.3	-13.9
②/①	-19.0%	-25.0%	-39.9%	-40.6%	-17.9%
Yield from endowment	3,003.3	2,652.0	134.0	332.9	29.8
Total balance	2,447.7	1,674.7	56.0	276.6	16.0
Assets from investing the Fund ③	32,735.3	43,275.9	1,102.3	2,857.4	472.5
③/②×-1	58.9	44.3	14.1	50.7	34.0

Note) Data publicized in 2017 for U.S. universities, operating deficit: balance of the increase in net assets minus the returns from the Fund. AY2017 data for ICU, including that for ICU High School and research institutes. The Fund and returns from the Fund at market value

Conclusion

The deficit in ICU's budget is the result of substantiating the educational environment and is supplemented by investment income from the Fund. Negative views of our state of finances from the media are the result of a misunderstanding, as our approach to financial management, though rare in Japan, is quite popular at prominent universities in the U.S. Please refer to the financial report on the university website to confirm data cited in this report. We have been disclosing data in more detail than have other Japanese universities.

We ask you for your continued support and cooperation. Thank you.