

OPERATION MANUAL

For the administration of the

Nippon Foundation Fund for
Japanese Language Education Program

JULY 2016

The Tokyo Foundation

Operation Manual for the Administration of the
Nippon Foundation Fund for Japanese Language Education Program

July 2016

Published by the Tokyo Foundation

NF-JLEP Association Secretariat

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CONTENTS

Glossary of Financial Terms	i
Flow Chart of NF-JLEP Endowment Management	ii
Introduction	1
I. Program	1
II. Overall Structure of NF-JLEP	1
III. Program Administration	2
1. Objectives and Scope	
2. Budget	
3. Announcement and Selection	
4. Reporting	
IV. Endowment Management	4
1. Purpose of Endowment Management	
2. Separate Accounting/Pooled Investment	
3. Investment Guidelines	
A. Principles	
B. Exceptions	
C. Investment in Assets Denominated in Currencies Other than Key International Currencies	
V. NF-JLEP New Financial Scheme	8
VI. Revision of Agreement	8
Attachments	
1. Program Report	9
2. List of Beneficiaries	10
3. Income-Expenditure Statement/Breakdown of Capital	11
4. Bond Portfolio/Description of Term Deposits	12
5. Statement for "Exceptions"	13
6. Review Report	14

GLOSSARY OF FINANCIAL TERMS

Administrative expenses

Administrative expenses refer to a university's operating costs in the administration of the NF-JLEP program and management of the endowment.

Budget

The *budget* refers to the income and expenditure plan, which serves as the basis for the allocation of expenditures.

Capital

The *capital* consists of the following: the original capital of 1.5 million US dollars and the reserves (explained below).

Earnings

Earnings are the sum of realized gains and changes in unrealized gains (explained below).

Expenditure

Expenditure refers to administrative expenses and program disbursements, as mentioned elsewhere.

Income/realized gain

Income refers to *realized gains*, such as interest from bank deposits and coupon interest from bond investments, as well as gains or losses from the sale of equities and bonds.

Original capital

The *original capital* is the 1.5 million US dollars (or equivalent if converted into another currency, using the exchange rate at the time of conversion), donated to each NF-JLEP institution. If the original capital is divided into two or more currencies, the amount for each currency should be calculated using the exchange rate at the time of initial conversion.

Program disbursements

Program disbursements refer to expenditures for Japanese-language-education activities, such as scholarships for students, research grants, development of teaching materials, and others as stipulated in the Agreement.

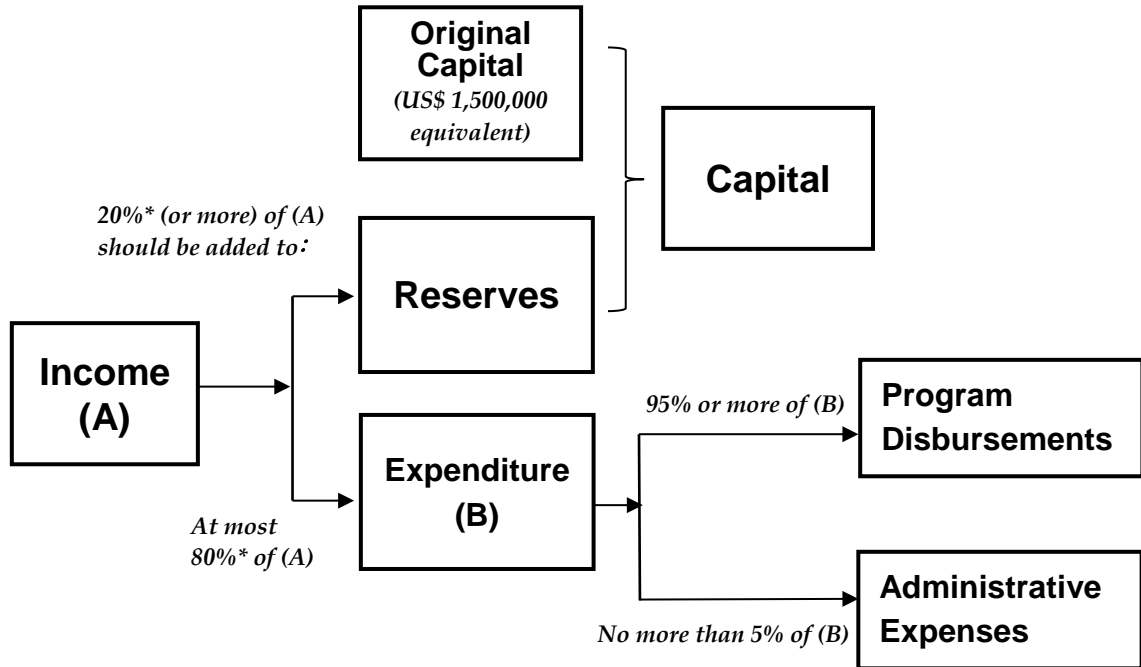
Reserves

Reserves are the part of capital that exceeds the original capital (US\$1.5 million).

Unrealized gain

An *unrealized gain* is the difference between the book value and market value of equity and bond investment.

Flow Chart of NF-JLEP Endowment Management



**The portion may vary according to NF-JLEP institution.*

INTRODUCTION

This document is intended to provide administrators of the Nippon Foundation Fund for Japanese Language Education Program (referred to hereinafter as “NF-JLEP”) with practical information and guidance on efficient and effective management of the program. Especially, it aims to set forth guidelines for endowment management and standardize financial reporting formats. Inquiries should be addressed to the Leadership Development section of the Tokyo Foundation, which is responsible for the overall administration of the program (see contact information on the inside front cover.)

I. PROGRAM

NF-JLEP was launched by the Nippon Foundation in 1994 with the purpose of enhancing the quality of Japanese language education abroad. Since then, endowments of US\$1,500,000 each have been established at eight institutions in six countries.

One hallmark of this program is the “decentralization” of program administration; its success relies on the commitment of each institution to assume responsibility for achieving the overall goal of the program.

II. OVERALL STRUCTURE OF NF-JLEP

NF-JLEP is a collaborative undertaking among the following organizations:

The Nippon Foundation

The Nippon Foundation is the donor of the NF-JLEP endowment. Established in 1962 to contribute to maritime development, the Nippon Foundation supports domestic social welfare and volunteer initiatives and promotes international cooperation with a focus on improving basic human needs, developing human resources, and encouraging international cooperation.

The Tokyo Foundation

The Tokyo Foundation is the organization responsible for overall NF-JLEP administration. It collaborates with the management committees of NF-JLEP institutions to maintain efficient and effective program operations and endowment management.

NF-JLEP Institutions (Management Committees)¹

An NF-JLEP institution operates the program through a management committee, consisting of a chairperson and committee members, as stipulated in the original “Agreement” that was signed by the representatives of the Nippon Foundation and the NF-JLEP institution. The management committee is responsible for sound program operations, including:

- (1) Operation of the program (see Section III)
- (2) Management of the endowment (see Section IV)
- (3) Reporting to and communicating with the Tokyo Foundation on the status of the program and endowment management (see Section III)
- (4) Cooperation and collaboration with the Tokyo Foundation on NF-JLEP-related activities

III. PROGRAM ADMINISTRATION

1. Objectives and Scope

The overall goal of NF-JLEP is to enhance the quality of Japanese language education, by developing Japanese language professionals in your country. The institution-specific objectives and scope of the program are stipulated in Appendix 1 or 2 to the original “Agreement,” or in the “Memorandum of Understanding (MOU)” subsequently signed by representatives of the Tokyo Foundation and the NF-JLEP institution.

(1) Activities

Specific activities that NF-JLEP supports differ from one institution to another; they are specified in the original “Agreement” or in the MOU.

The program is not intended to cover personnel costs, including those of the teaching staff, unless otherwise stated in the Agreement or MOU. If an NF-JLEP management committee wishes to change the activities funded by the program, it should submit a written proposal to the Tokyo Foundation before implementing the change, since the scope is contractually agreed upon in the original Agreement establishing the endowment. Please refer to Section VI (Revision of Agreement) below.

¹ The name of the committee varies according to NF-JLEP institution.

(2) Identity

Although each NF-JLEP institution has its own name for the program, all are requested to make clear in introducing or advertising the program that it is financed by the “Nippon Foundation Fund for Japanese Language Education.”

2. Budget

NF-JLEP management committees are responsible for developing a budget each year specifying the amount to be set aside for the program and administrative expenses in accordance with the “Annual Allocation of Proceeds of the Fund for the Program,” as specified in the Appendix of the Agreement or MOU or otherwise agreed upon between an NF-JLEP institution and the Tokyo Foundation. In principle, the budget should be developed on the basis of actual income. A portion of annual income should be set aside and added to the capital as “reserves.” For details, refer to Section IV 3 A (3) on the “Use of Income and Reinvestment.” The management committee is requested to forward the annual budget and program plans to the Tokyo Foundation once they are formulated.

3. Announcement and Selection

The selection process must be open and transparent; the NF-JLEP management committee should make announcements accessible to eligible applicants and screen applicants on a competitive basis. The program’s funding source (NF-JLEP) and its aims should be mentioned in such announcements.

4. Reporting (see Attachments)

NF-JLEP institutions are required to submit the following annual reports by the date indicated.

(1) Program Report (Attachment 1, p. 9)

A program report, submitted within three months of the end of each academic year. Institutions may choose to use the format they have been using until now, considering the wide range of activities undertaken through the program. In that case, however, please be sure to include the following information:

- Overall assessment of the immediate past year’s NF-JLEP activities (such as positive outcomes, difficulties, considerations made for Japanese-language-education trends in your country, and areas needing improvement)

- Description of each activity undertaken during the past year
- Notable accomplishments by scholarship/ grant recipients, if any
- Events or activities carried out in conjunction with the NF-JLEP program at your institution
- Breakdown of program disbursements
- List of members of the NF-JLEP management committee

(2) List of Beneficiaries (Attachment 2, p. 10)

The management committee is required to provide information on the recipients of NF-JLEP scholarships/ grants promptly after they are selected. It is especially important for your institution to provide information on the students who receive NF-JLEP scholarships by submitting Attachment 2.

(3) Financial Report (Attachments 3 to 6, pp. 11-14)

A financial report, submitted within three months of the end of each fiscal year. For details, please refer to Section IV 3 A (2). For institutions falling into the “Exceptions” category, please refer to Section IV 3 B (2).

IV. ENDOWMENT MANAGEMENT

1. Purpose of Endowment Management

The NF-JLEP endowment should be managed:

- (1) To generate sufficient income in accordance with the medium- to long-term plans for the NF-JLEP program
- (2) In a way that ensures the gradual growth of the capital without allowing it to fall below the amount of the original capital (US\$1.5 million).

2. Separate Accounting/Pooled Investment

In principle, each institution is required to maintain a separate account for the NF-JLEP endowment from other funds of the institution. In cases where the capital is pooled and invested with other funds, the amount of the NF-JLEP endowment and its income must be clearly demarcated. Generally, pooled investments are approved when an institution’s pooled fund is large enough to achieve higher returns by scale and when fund management is conducted by groups of experts in accordance with rules approved by the institution’s board as being transparent and accountable with clearly identified risks, returns, and responsibilities.

3. Investment Guidelines

A. Principles

(1) Basic Policy

The NF-JLEP endowment must be invested in a “safe and secure manner,” as follows:

- a. Financial instruments in which the endowment may be invested include:
 - Term deposits at banks rated A-/A3 or better by Standard & Poor’s, Moody’s, or Fitch, and/or
 - Bonds rated A-/A3 or better by Standard & Poor’s, Moody’s, or Fitch.
- b. Diversification:

Bond investments should be well diversified, avoiding concentration in terms of issuers, industries, and countries. Bonds of any single industry or country should not exceed 40% of the total. However, diversification is not necessary for bonds of government and supra-national issuers whose credit ratings are AA-/Aa3 or better.

(2) Reporting

A financial report must be submitted within three months following the end of each fiscal year. The report should include:

- a. Income-Expenditure Statement and Breakdown of Capital (Attachment 3, p. 11)*
- b. Bond Portfolio (in case of bonds) and/or Description of Term Deposits (in case of bank deposits) (Attachment 4, p. 12)*
- c. Review Report confirming the validity of the above statements (Attachment 6, p. 14)**
- d. Bank statement(s) showing the amount of cash, term deposits, and bonds at the end of the fiscal year corresponding to b. above.

* **Bond amortization:** If a bond is purchased at a premium, the amount of the premium that is amortized should be deducted from both coupon interest and book value.

** **Review Report:** The Review Report may be prepared by an auditor or department within the university not involved in writing the financial report. It need not be prepared by outside professionals.

(3) Use of Income and Reinvestment

As specified in the Agreement, each institution is required to reinvest a portion of the income back into the capital as a hedge against inflation and other forms of

financial instability. Even when there is no provision in the Agreement concerning the ratio, the institution should, as a rule, add 20% (or more) of income to the reserves and use the remaining 80% (or less) for program disbursements and administrative expenses. Administrative expenses should not exceed 5% of total expenditures.

Only realized gains may be used as expendable income. Although unrealized gains may arise in the case of bonds whose market values can be assessed, these gains should not be used as a source for expenditures, since market value will return to par at maturity.

(4) Use of Reserves

In case of a contingency, such as when continuing low interest rates do not generate sufficient income vis-à-vis planned expenditures, the use of the reserves to cover the shortfall may be approved. Use of the reserves refers to spending more than annual income or the partial/complete waiver of a mutually agreed reinvestment plan. The reserves may be used only under the following conditions:

- a. The NF-JLEP institution first receives the approval of the Tokyo Foundation.
- b. The capital, after the use of the reserves, does not fall below the original capital of US\$1.5 million. When the capital is held in currencies other than US dollars, the amount of the original capital will be calculated using the exchange rate applied at the time of the conversion from US dollars to those currencies.
- c. The use of the reserves is **limited to a period of five years**, from July 1, 2016, to the end of June 2021. (A decision on whether or not this measure will be extended will be made by July 1, 2020, one year prior to the end of the five-year period.)

B. Exceptions

(1) Basic Policy

If an NF-JLEP institution, for historical or other reasons, wishes to invest in riskier financial instruments, such as lower-rated bonds, stocks, or real estate, it will need to disclose the breakdown of its investment and to demonstrate that it has the organization and capacity necessary to manage such a riskier portfolio. Specifically, it will need to have (1) investment experts, either within or outside the university, and (2) an investment management committee or equivalent organization to monitor risks.

For investment in riskier financial instruments, unrealized gains may be used as sources for expenditures, provided that certain conditions are met.

- a. Rules determining the percentages of capital for targeted earnings and planned expenditures must be clarified. These rules must be approved by the NF-JLEP management committee and the Tokyo Foundation.
- b. Actual medium- to long-term expenditures (over a period of about five years) must not exceed 80% of actual earnings over the same period. (The percentage may vary according to NF-JLEP institution.)
- c. The capital must not fall below the amount of the original capital.

(2) Reporting

Please submit a financial report within three months of the end of each fiscal year.

The report should consist of:

- a. Consolidated financial report providing a breakdown of investments and a description of the investment management team set up to manage the riskier portfolio (no prescribed format)
- b. Statement for “Exceptions” indicating conformity with condition (1) b above (Attachment 5, p. 13)
- c. Review Report confirming the validity of the above statement (Attachment 6, p. 14)*
- d. Bank statement(s) showing the amount of capital at the end of the fiscal year

* *Review Report:* The Review Report may be prepared by an auditor or department within the university not involved in writing the financial report. It need not be prepared by outside professionals.

C. Investment in Assets Denominated in Currencies Other than Key International Currencies

- (1) NF-JLEP institutions may invest up to US\$500,000 or equivalent amount in assets denominated in their local currencies.
- (2) Investment in local currency assets should adhere to the Investment Guidelines.
- (3) This provision allowing for investment in local currency assets is a temporary measure **applicable for five years**, from July 1, 2016, to the end of June 2021. A decision on whether or not this measure will be extended will be made by July 1, 2020.

V. NF-JLEP NEW FINANCIAL SCHEME

In the light of the difficulty some NF-JLEP institutions are facing in generating sufficient investment income, a new financial scheme was proposed to all institutions in spring 2014 that enables universities to continue providing program disbursements without worrying about endowment management.

An annual program budget of up to US\$50,000 is set aside for each institution that chooses to participate in the new scheme.

To participate, institutions are first requested to return the NF-JLEP endowment to the Nippon Foundation and to enter into a five-year agreement with the Tokyo Foundation. The agreement will, as a rule, be renewed for another five years, provided that the institution duly fulfills its announcement, screening, annual reporting, and other requirements.

The aim of the new financial scheme is to enable NF-JLEP institutions to continue offering program disbursements in an uninterrupted manner. To learn more about the scheme, please refer to the Operation Manual of the (new) NF-JLEP Fellowship Program, available upon request.

VI. REVISION OF AGREEMENT

When the NF-JLEP management committee wishes to revise Appendix 1 and/or Appendix 2 of the Agreement, it should consult with the Tokyo Foundation and submit a written proposal **before** taking any action. The matter will be discussed, and, upon agreement, a Memorandum of Understanding (MOU) will be signed to execute the revision.

If the Foundation and the management committee agree that the proposed changes do not require an MOU, the changes may be implemented by way of an exchange of written correspondence (letter, fax, or e-mail) between the chairperson of the NF-JLEP management committee and the director for leadership development of the Tokyo Foundation.

Program Report

This report should be signed and submitted by an NF-JLEP management committee member within three months following the end of each academic or calendar year.

Name of Institution: _____

Academic Year: From (month) _____ (year) _____ through (month) _____ (year) _____

Program Information

1. Overall assessment of the immediate past year's NF-JLEP activities (e.g., positive outcomes, difficulties, considerations made for Japanese-language-education trends in your country, and areas of improvement)
2. Description of each activity undertaken in the past academic year
3. Notable accomplishments by scholarship/grant recipients (past and present), if any
4. Events or activities carried out in conjunction with the NF-JLEP program (e.g., an award ceremony)
5. Breakdown of program disbursements
6. List of the members of the NF-JLEP management committee. Please note changes, if any
7. URL of NF-JLEP program at your institution

Program Planning

1. Plans for the next academic year, including income and expenditure plans, and the program calendar
2. Anticipated revisions to Appendix 1 and/or Appendix 2 of the Agreement or the MOU in near future

This report has been completed by:
(name)
(title)

Date

Signature

List of Beneficiaries (sample)

Please report on the beneficiaries who received an NF-JLEP scholarship/grant.

Institution name	Student's name			Male or female	Title	E-mail address	Award period			Enrolled degree program	Category of grants	Amount of award (currency)	Field of specialization	Research topic
	Surname	Given name	Middle name				Starting month	Starting year	Ending month					
ABC University	Brown	Erika		Female	Ms.	E2322@ABC.edu	Jan	2011	June	2011	Research	AUD10000	Linguistics	Phonology and morphology of the Japanese language
ABC University	Nakamura	James		Male	Mr.	J825@ABC.edu	Sept	2010	Mar	2011	Research in Japan	AUD3000	Economics	Asia-Pacific Cooperation and Japan
ABC University	Tanaka	Lisa		Female	Ms.	L2566@ABC.edu	Sept	2010	Aug	2011	Scholarship	AUD3000	Japanese studies	N/A

Income-Expenditure Statement

(for the fiscal year ended [Mar. 31, 2016])

Currency: [] (note 1)

Income	[Apr.] 2015 - [Mar.] 2016	2014-15	2013-14
Income (a1)	56,100	28,100	45,100
Income from bank deposits	100	100	100
Income from bond investments (notes 2, 3)	56,000	28,000	45,000
(IF ANY) Subsidy from other entity (a2)	0	4,000	0
Total (A=a1+a2)	56,100	32,100	45,100

Expenditure	[Apr.] 2015 - [Mar.] 2016	2014-15	2013-14
Expenditure (b1)	40,300	36,300	36,300
Program disbursements	40,000	36,000	36,000
Administrative expenses (note 4)	300	300	300
(IF ANY) Payback of subsidy (b2)	4,000	0	0
Total (B=b1+b2)	44,300	36,300	36,300

Add to or disburse from reserves (C=A-B)	11,800	-4,200	8,800
Reserve Ratio (C/a1) (note 5)	21%	NA	20%

Breakdown of Capital

(as of [Mar. 31, 2016])

(Example) Bonds denominated in currency [X] in the amount of X500,000 reached maturity in 2014-15 and were reinvested in bonds denominated in currency [Y] in the amount of Y5,000,000 at an exchange rate of 1X=10Y.

	[Apr.] 2015 - [Mar.] 2016	2014-15	2013-14
Denominated in currency [X]			
Cash (note 6)	18,400	6,800	11,000
Term deposits	10,000	10,000	10,000
Bonds at "book value" (note 7)	1,300,000	1,300,000	1,800,000
Total	1,328,400	1,316,800	1,821,000
(Original capital) (note 8)	1,000,000	1,000,000	1,500,000
(Reserves)	328,400	316,800	321,000
Denominated in currency [Y]			
Cash (note 6)	300,000	125,000	0
Term deposits	125,000	0	0
Bonds at "book value" (note 7)	5,000,000	5,000,000	0
Total	5,425,000	5,125,000	0
(Original capital) (note 8)	5,000,000	5,000,000	0
(Reserves)	425,000	125,000	0

Notes:

- The statement should be denominated in the currency used for actual expenditures. Income denominated in other currencies should be converted by the exchange rate at the end of fiscal year.
- If an asset management company is engaged, such fees should be deducted from income.
- If a bond is purchased at a premium, the amount of the premium that is amortized should be deducted from coupon interest. See Section IV 3 A (2).
- Bank charges, excluding asset management fees, should be included.
- 20% (or more) of income should be added to the reserves. (The portion may vary according to NF-JLEP institution.) See Section IV 3 A (3).
- Cash includes deposits in savings and/or current accounts.
- Book value, not market value, should be used.
- If the original capital is divided into two or more currencies, the amount for each currency should be calculated using the exchange rate at the time of initial conversion.

Bond Portfolio

Purchase Date	Description	Maturity Date	Credit Rating	Rated by	Coupon (%)	Book Value (note 1)	Unit Price (note 1)	Quantity
2015/8/15	A Corporaiton	2025/8/15	AA	S&P	2.80%	US\$300,000	US\$100.00	3,000
2015/9/15	B Corporation	2020/9/15	A2	Moody's	3.75%	US\$105,000	US\$105.00	1,000
2015/9/15	C Bank	2020/6/1	A+	S&P	3.00%	US\$298,500	US\$99.50	3,000
2015/10/25	D Coporation	2025/8/15	A	S&P	3.00%	US\$202,000	US\$101.00	2,000
2016/2/1	E Corporation	2026/2/25	A+	Fitch	3.15%	US\$200,000	US\$100.00	2,000

Description of Term Deposits

Date of Deposit	Name of Deposit Institution	Maturity Date	Credit Rating	Rated by	Interest Rate	Currency and Value
2015/12/1	X Bank	2016/12/1	A+	S&P	0.50%	US\$50,000
2015/6/1	Y Bank	2016/6/1	AA	S&P	8.50%	INR18,000,000

Note:

1. If a bond is purchased at a premium, the amount of the premium that is amortized should be deducted from book value. See Section IV 3 A (2).

Statement for "Exceptions"

(for the fiscal year ended [Mar. 31, 2016])

Currency []

	[Apr.] 2015- [Mar.] 2016	2014-15	2013-14	2012-13	2011-12	Five-Year Total
Capital, beginning of year	3,413,999	3,260,217	3,232,274	3,744,561	3,391,820	
Earnings (A)	262,514	280,135	150,034	-400,807	437,150	729,026
Expenditures (B=C+D)	127,842	126,353	122,091	111,480	84,409	572,175
Program disbursements (C)	121,450	120,035	115,987	105,906	80,189	543,567
Administrative expenses (D)	6,392	6,318	6,104	5,574	4,220	28,608
Capital, end of year	3,548,671	3,413,999	3,260,217	3,232,274	3,744,561	
Original capital	1,500,000					

B/A	78%
------------	------------

(note)

Note:

Five-year cumulative expenditures should be less than 80% of five-year cumulative earnings. (The percentage may vary according to NF-JLEP institution.) See Section IV 3 B (1).

Review Report

(sample)

To the Chairperson of the Management Committee
The Nippon Foundation Fund for Japanese Language Education (NF-JLEP)
ABC University

We have reviewed the accompanying Statement of Financial Position of ABC University regarding the Nippon Foundation Fund for Japanese Language Education (the "Fund") as of December 31, 2015, and the related Statement of Activities for the financial year then ended. These financial statements are the responsibility of the Fund's managers. Our responsibility is to express an opinion on these financial statements based on our review.

We conducted our review in accordance with the NF-JLEP Operation Manual dated July 2016. Those procedures require that we plan and perform a review to obtain reasonable assurances that the financial statements are free of material misstatement. A review includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2015, and the results of its operations for the year then ended in accordance with the NF-JLEP Operation Manual dated July 2016.

[Name and Signature of Reviewer]

(Name) John Smith, Financial Expert

Date

Signature

