

## Review of Financial Reporting for Fiscal 2003

**Assets**

(1) Depreciation of tangible and intangible fixed assets is computed by using the straight-line method. Estimated useful life of major assets is as follows:

• Building (the interior):	15 years
• Equipment:	4 - 8 years
• Software:	5 years

(2) With regard to software, an amount equivalent to the cost of software acquisition for corporate use is reported as part of intangible fixed assets.

**Liabilities**

(1) In accordance with the Incorporated Administrative Agency Accounting Standards, grants from the government are first recognized as "Reserved Grants for Operational Expenditure" in the Current Liabilities section upon receipt, which are then recognized as revenue in accordance with the progress of specific projects or operations for which the grants are designated. The amount reported in the financial statements represents the remaining outstanding balance—with the amount recognized as revenue deducted—as of term end.

With respect to grant revenue recognition, a percentage-of-completion method based on expenditure, under which government grants are recognized up to the amount equal to expenditures on the relevant operations, has been used previously. From fiscal 2003, a percentage-of-completion method based on results accomplished (a percentage-of-completion method based on term with regard to personnel expenses and general administration expenses) is adopted so that grants carried over for the future implementation of planned but unexecuted operations and those attributable to cost reduction efforts can be clearly distinguished to promote efficient use of government grants. Current profits as well as current net earnings both increased by ¥6,219,905 through this change in method of calculation.

(2) Employee retirement bonuses are to be covered by grants for operating expenditures and therefore, in accordance with the Incorporated Administrative Agency Accounting Standards, provisions for employee retirement bonuses are not separately reported. Estimated outstanding obligations for employee retirement bonuses as of the end of the reporting term stand at ¥347,618,276.

**Equity**

Retained earnings as of the end of fiscal 2003, including ¥9,838,951 in total earnings for the year, totaled ¥11,489,058.

**Notes for Incorporated Administrative Agency Accounting Standards**
**Assets**

Assets listed in corporate accounts consist of three types: current assets, fixed assets and deferred assets. Deferred assets, however, are not recognized under incorporated administrative agency accounting standards, and so assets in these statements are comprised of only current and fixed assets. Taking into consideration that the necessary financial resource measures are undertaken for the incorporated administrative agency each fiscal year, it is not appropriate for incorporated administrative agencies to record deferred assets. These will be handled as expenses incurred during the appropriate fiscal year.

**Liabilities**

The liabilities section includes two items that represent distinct features of the incorporated administrative agency standards. The first of these is reserved grants for operating expenditure. This item consists of the amount equivalent to the grants for operating expenditure total at the time it was received, less the amount recognized as income in that it reflects the current state of operations.

Liabilities invested in capital assets are posted in the long-term liabilities section. This entry represents, in line with the assumptions contained in the medium-term business plan, depreciable assets purchased by grant for operating expenditure or money donated in accordance with the intentions of donors, or for predefined applications.

**Balance Sheets** (March 31, 2003 and 2004)

(¥)

	FY2002	FY2003
<b>Assets</b>		
<b>I Current Assets</b>		
Cash and Bank Deposits	1,195,749,459	1,079,313,483
Unrealized Income from Research Activities	109,995,405	84,770,000
Inventories	176,959	220,458
Prepayment	2,279,264	511,780
Others	410,103	1,365,155
<b>Current Assets Total</b>	<b>1,308,611,190</b>	<b>1,166,180,876</b>
<b>II Fixed Assets</b>		
<b>1. Tangible Fixed Assets</b>		
Building	—	15,101,822
Accumulated Allowance for Depreciation	—	(528,563)
Tools, Appliance, and Equipment	11,485,920	16,658,220
Accumulated Allowance for Depreciation	(2,813,095)	(5,100,759)
<b>Tangible Fixed Assets Total</b>	<b>8,672,825</b>	<b>26,130,720</b>
<b>2. Intangible Fixed Assets</b>		
Software	616,896	471,744
<b>Intangible Fixed Assets Total</b>	<b>616,896</b>	<b>471,744</b>
<b>Fixed Assets Total</b>	<b>9,289,721</b>	<b>26,602,464</b>
<b>Total Assets</b>	<b>1,317,900,911</b>	<b>1,192,783,340</b>
<b>Liabilities</b>		
<b>I Current Liabilities</b>		
Reserved Grants for Operating Expenditure	894,320,433	892,563,295
Deposits Received	6,376,840	5,275,884
Account Payable	400,535,460	246,367,918
—	—	1,976,300
Accrued Expenses Payable	5,728,350	8,505,324
Others	—	3,097
<b>Current Liabilities Total</b>	<b>1,306,961,083</b>	<b>1,154,691,818</b>
<b>II Long-term Liabilities</b>		
<b>Liabilities Invested in Capital Assets</b>		
Reserved Grants	3,256,079	21,879,876
Value of Donated Goods Put in Reserve	6,033,642	4,722,588
<b>Long-term Liabilities Total</b>	<b>9,289,721</b>	<b>26,602,464</b>
<b>Total Liabilities</b>	<b>1,316,250,804</b>	<b>1,181,294,282</b>
<b>Equity</b>		
<b>I Retained Earnings</b>		
Reserve	559,655	1,650,107
Unappropriated Retained Earnings	1,090,452	9,838,951
(Of which, total current-term earnings)	1,090,452	9,838,951
<b>Retained Earnings Total</b>	<b>1,650,107</b>	<b>11,489,058</b>
<b>Total Equity</b>	<b>1,650,107</b>	<b>11,489,058</b>
<b>Total Liabilities/Equity</b>	<b>1,317,900,911</b>	<b>1,192,783,340</b>

## Review of Financial Reporting for Fiscal 2003

### Ordinary Income

- (1) In fiscal 2003, ¥1.704 billion out of the budgeted ¥2.041 billion was recognized as revenue.
- (2) During fiscal 2003, RIETI undertook two commissioned projects:  
 • "Creating an environment conducive to creating university-led venture-businesses" commissioned by the Ministry of Economy, Trade and Industry.  
 • "Case study accumulation of patent analysis in the development of MOT training materials" commissioned by the Ministry of Education, Culture, Sports, Science and Technology.
- (3) Miscellaneous income for fiscal 2003 represents the amount of foreign exchange gain on the payment of foreign currency denominated commissions for services provided by external sources.

### Net Income and Total Earnings

Net income and total earnings for fiscal 2003 totaled ¥9,838,951 each as compared to ¥1,796,904,072 in total ordinary income which includes ¥1,704,430,016 in grants for operating expenditures and ¥87,920,000 in commissions.

### Earnings Statement

#### Ordinary Expenses Ordinary Income

In the incorporated administrative agency standard organization of earnings statements, expenses are listed at the top, followed by income.

Ordinary expenses include operating expenses, general administrative expenses, financial expenses and miscellaneous losses. Ordinary income includes, in addition to grant for operating expenditure, money donated, commissions, financial revenues and miscellaneous income.

## Statements of Income (Years Ended March 31, 2003 and 2004)

(¥)

	FY2002	FY2003
<b>I Ordinary Expenses</b>		
1. Research Expenses:		
(1) Operating Expenses	726,285,574	533,882,864
(2) Personnel Expenses	427,173,570	466,175,344
(3) Depreciation Expenses	33,933	203,600
(4) Others	548,187,222	405,487,280
Total	1,701,680,299	1,405,749,088
2. General Administrative Expenses:		
(1) Personnel Expenses	109,040,483	110,972,868
(2) Depreciation Expenses	1,566,675	2,757,779
(3) Others	157,636,435	267,585,386
Total	268,243,593	381,316,033
<b>Ordinary Expenses Total</b>	<b>1,969,923,892</b>	<b>1,787,065,121</b>
<b>II Ordinary Income:</b>		
1. Grant for Operating Expenditure	1,858,071,456	1,704,430,016
2. Income from Dissemination of Material		
(1) Editing Fees	479,976	1,268,754
(2) Document Sales	271,304	106,000
Total	751,280	1,374,754
3. Commissioned Research	109,995,405	87,920,000
4. Offsetting Revenues from Reserved Grants	289,554	1,650,325
5. Offsetting Amount Corresponding to Depreciation of Donated Goods	1,311,054	1,311,054
6. Financial Revenue		
Interest Received	23,526	12,003
7. Miscellaneous Income	572,069	205,920
<b>Ordinary Income Total</b>	<b>1,971,014,344</b>	<b>1,796,904,072</b>
<b>III Net Ordinary Income</b>	<b>1,090,452</b>	<b>9,838,951</b>
<b>IV Net Income</b>	<b>1,090,452</b>	<b>9,838,951</b>
<b>V Total Earnings</b>	<b>1,090,452</b>	<b>9,838,951</b>

## Notes for Incorporated Administrative Agency Accounting Standards

### Cash Flows

Cash flow statements for incorporated administrative agencies must be included as one part of the financial statements, and similarly to those of private-sector companies, these statements are divided into the three areas of cash flows from operational activities (for private-sector companies, operating activities for the purpose of commercial gain), investing activities and financial activities.

## Statements of Cash Flows (Years Ended March 31, 2003 and 2004)

(¥)

	FY2002	FY2003
<b>I Cash Flows from Operational Activities:</b>		
Expenditures for Purchases of Products and Services	(1,012,725,396)	(736,931,191)
Personnel Expenses	(587,980,442)	(635,509,524)
Other Operational Expenses	(623,317,982)	(560,566,221)
Grant for Operating Expenditure	2,038,674,000	1,722,947,000
Income from Dissemination of Material	751,280	1,374,754
Income from Commissioned Research	118,016,010	113,145,405
Miscellaneous Income	572,069	205,920
Subtotal	(66,010,461)	(95,333,857)
Interest Reserved	32,195	12,003
Net Cash Provided by Operational Activities	(65,978,266)	(95,321,854)
<b>II Cash Flows from Investing Activities:</b>		
Expenditures for Acquisition of Tangible Fixed Assets	(2,166,780)	(21,114,122)
Net Cash Used in Investing Activities	(2,166,780)	(21,114,122)
<b>III Cash Flows from Financial Activities</b>	0	0
<b>IV Increases in Cash and Cash Equivalents</b>	(68,145,046)	(116,435,976)
<b>V Cash and Cash Equivalents at the Beginning of the Year</b>	1,263,894,505	1,195,749,459
<b>VI Cash and Cash Equivalent at the End of the Year</b>	1,195,749,459	1,079,313,483

## Review of Financial Reporting for Fiscal 2003

### Costs of Providing Administrative Services

- (1) "Expected Retirement Bonus Increases Not Covered by Reserves" is reported in an amount increased during each reporting year in the pro forma employee retirement bonus obligations based on voluntary retirement.
- (2) An amount listed as "Opportunity Costs for Gratuitous Use of Government Assets," which primarily arises from the use of government building facilities, has been calculated based on rents charged for the use of nearby buildings.

## Notes for Incorporated Administrative Agency Accounting Standards

### Costs of Providing Administrative Services

The Statement of Costs of Providing Administrative Services is a financial statement required under incorporated administrative agency accounting standards. Its purpose is to combine in one statement the costs (grant for operating expenditure, etc.) borne by taxpayers for the operation of an incorporated administrative agency, and by means of thorough information disclosure contribute to the evaluation and decision-making processes regarding the service provided for the taxpayers. The specific contents of this statement are as follows:

- (1) Expenses listed on the incorporated administrative agency's income statement, less income other than that based on grant for operating expenditure
- (2) Depreciation amount of depreciable assets that has been calculated in accordance with Section 77 - Depreciation Accounting Procedures for Specific Depreciable Assets
- (3) Estimated increases in retirement bonuses when reserves are not recorded, in accordance with Section 78— Accounting Procedures for Retirement Benefits
- (4) Opportunity costs arising from use of government assets

## Statements of Costs of Providing Administrative Services

(Years Ended March 31, 2003 and 2004)

(¥)

	FY2002	FY2003
<b>I Operating Expenses</b>	1,858,581,612	1,697,552,444
Expenses Listed on Income Statement		
Research Expenses	1,701,680,299	1,405,749,088
General Administrative Expenses	268,243,593	381,316,033
Total	1,969,923,892	1,787,065,121
(Deductions)		
Income from Dissemination Activities	(751,280)	(1,374,754)
Income from Commissioned Research	(109,995,405)	(87,920,000)
Income from Financial Activities	(23,526)	(12,003)
Miscellaneous Income	(572,069)	(205,920)
Total	(111,342,280)	(89,512,677)
<b>II Expected Retirement Bonus Increases Not Covered by Reserves</b>	26,322,215	19,956,196
<b>III Opportunity Costs</b>		
Opportunity Costs for Gratuitous Use of Government Assets	144,188,800	143,098,200
<b>IV Total Cost of Providing Administrative Services</b>	2,029,092,627	1,860,606,840

## Statements of Appropriation of Retained Earnings (March 31, 2003 and 2004)

(¥)

	FY2002	FY2003
<b>I Unappropriated Retained Earnings</b>	1,090,452	9,838,951
Total Earnings	1,090,452	9,838,951
<b>II Total Appropriations</b>		
Reserve	1,090,452	9,838,951