

**CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE**

**Faculty of Economics and Management**

**Department of Economics**



**Financial Analysis of Philanthropic Foundation in China:  
Comparison of Public and Non-public Foundation**

© 2014 CULS in Prague

# CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Department of Economics  
Faculty of Economics and Management

## DIPLOMA THESIS ASSIGNMENT

Huang Jin

Economics and Management

Thesis title

**Financial Analysis of Philanthropic Foundation in China: Comparison of Public and Non-public Foundation**

---

### Objectives of thesis

The thesis is aimed at the analysis of social economy organisations in China and its financial situation. Social economy organisations in China are defined and classified. The practical aim of the thesis is a comparative financial analysis of two types of foundations in China, Public (Red-cross society of China) and Non-Public Foundation (Youchange China Social Entrepreneur Foundation ) (Red-cross society of China).

The thesis seeks to demonstrate the strengths and weakness of Chinese philanthropic foundation and give some information on the possible development of Chinese non-governmental sector and Social Economy.

### Methodology

The thesis uses first the literature study method for the construction of the financial index system based on the current existing financial analysis indicators for non-profit and profit-oriented organisations.

Further, comparison research methods as well as the case analysis method are used as the main methodological tools to the selected research objects (Red-cross Society of China and Youchange China Social Entrepreneur Foundation ).

The comparative study on the financial status of these two foundations are mainly includes:

- financing process analysis,
- financing stability analysis,
- management and operation ability analysis,
- efficiency analysis

### Schedule for processing

IX. XII/2012 -- Literature review

### **The proposed extent of the thesis**

50-60 pages + Annex

### **Keywords**

social economy, financial analysis, comparison, foundations, Public Foundation in China, Non-Public Foundation in China

---

### **Recommended information sources**

1. Carol M. Foundation Fundamentals: A Guide for Grantseekers. The Foundation Center, 888 Seventh Avenue, New York, NY 10106, 1980
2. Dahms, M. A, Clifton, L. R. A Handbook for Staff and Directors of Small Community- Based Social Service Agencies. Waveland Press 2000
3. Speckbacher G, Kiger J C. Philanthropic foundations in the twentieth century. Greenwood Publishing Group, 2000.
4. Jun.P The Research on Financial Management of Public Foundation. China University of Geosciences 2010
5. Chen Y. The Study on fund's benign operation of nonprofit organization. Central South University 2012

---

### **The Diploma Thesis Supervisor**

Boučková Bohuslava, Ing., CSc.

### **Last date for the submission**

March 2014

---

Electronic approval: March 21. 2014

**prof. Ing. Miroslav Svatoš, CSc.**

Head of the Department

---

Electronic approval: March 21. 2014

**Ing. Martin Pelikán, Ph.D.**

Dean

## **DECLARATION**

I hereby declare that I have written this diploma thesis “Financial Analysis of Philanthropic Foundation in China: Comparison of Public and Non-public Foundation” by myself with help of the literatures listed in reference.

Praha 6- Suchdol, 23 March 2014

-----  
Huang Jin

## **ACKNOWLEDGEMENT**

I would like to sincerely thank to my supervisor Ing. Bohuslava Boučková, from Department of Economics, Faculty of Economics and Management of the Czech University of Life Science Prague, for her valuable guidance, constructive criticism, hearted support and continuous encouragement during my study. Without her professor guidance and hearted support, my diploma thesis would not possible and completed.

Special thanks to Mr. Eamon Lenihan, PhDr. Vlastimil Černý and Ing. Daniel Dědina. Without their favouring cooperation with China Agriculture University, it is impossible for me to study in Prague and gain such a nice experience abroad. Moreover, they also hearted support and enthusiastic help my studying and living here.

Deep thank and warm heart are given to my family for their unconditional support, encourage and love.

And finally thanks to my friends, my colleagues in Czech Republic. Particularly my two-year study paterner Yu Binrong. I am very happy and thank for her kind accompany and good suggestions during these years in Prague.

## SUMMARY

The diploma thesis is aimed at the analysis on foundations financing in general and in China. The diploma thesis applies the comparative financial analysis method. In the theoretical part, it explores a relatively comprehensively and accurately the financial indicator system to measure the financial performance in Chinese foundation. In the practical part, the thesis analyses the strengths and weaknesses in the financial management of public foundation and non-public foundation in China by examining their financial situation and financial performance on the examples of typical representatives of both groups. The main conclusion of the thesis is: Public foundations have financial management problems in the financing process, while non-public foundations have problems in risk management. In conclusions, the thesis provides suggestions for financial management of the individual types of foundations accordingly.

**Key words:** social economy, financial analysis, financial management, comparison study, foundation, public foundation in China, non-public foundation in China

## SOUHRN

Diplomová práce je zaměřena na analýzu financování obecně nadací obecně, a zejména v Číně. Jako hlavní metodologický nástroj aplikuje finanční analýzu. V teoretické části práce je podrobně zkoumán a analyzován systém ekonomických indikátorů k měření ekonomického a finančního výsledku činnosti nadací v Číně. V praktické části jsou analyzovány silné a slabé stránky finančního managementu veřejných a neveřejných nadací v Číně na základě analýzy finanční situace a ekonomických výsledků nadací reprezentujících obě uvedené skupiny. Základním závěrem práce je, že veřejné nadace se potýkají především s problémy finančního managementu, zatímco neveřejné s problémy managementu rizika. V závěru práce jsou rovněž navržena doporučení pro zlepšení finančního managementu obou kategorií nadací.

***Klíčová slova:*** sociální ekonomika, finanční analýza, finanční management, srovnávací studie, nadace, veřejná nadace v Číně, neveřejná nadace v Číně

# TABLE OF CONTENTS

<b>SUMMARY .....</b>	<b>I</b>
<b>SOUHRN .....</b>	<b>II</b>
<b>TABLE OF CONTENTS.....</b>	<b>III</b>
<b>LIST OF FIGURES.....</b>	<b>VI</b>
<b>LIST OF TABLES.....</b>	<b>VI</b>
<b>ACRONYMS .....</b>	<b>VII</b>
<b>1. Introduction .....</b>	<b>1</b>
<b>1.1 Background of civil society in China .....</b>	<b>1</b>
<b>2. Objective and methodology .....</b>	<b>4</b>
<b>3. Theoretical Foundation .....</b>	<b>5</b>
<b>3.1 Definition of public foundation and non-public foundation.....</b>	<b>5</b>
<b>3.1.1 Definition of the Third Sector .....</b>	<b>5</b>
<b>3.1.2 Definition of non-profit organization .....</b>	<b>5</b>
<b>3.1.3 Definition of foundation.....</b>	<b>6</b>
<b>3.1.4 Differences in public foundation and non-public foundation in China .....</b>	<b>7</b>
<b>3.2 Related studies on financial management of foundation review .....</b>	<b>9</b>
<b>3.3 Financial analysis methods for enterprise review .....</b>	<b>10</b>
<b>3.3.1 Comparative financial analysis .....</b>	<b>12</b>
<b>3.3.2 Financial ratio analysis .....</b>	<b>13</b>
<b>3.3.3 Factor financial analysis .....</b>	<b>15</b>
<b>3.4 Indicators system of financial analysis for foundation .....</b>	<b>16</b>
<b>3.4.1 Demand analysis for the users of financial information .....</b>	<b>16</b>
<b>3.4.2 Constructing financial analysis indicators for foundation .....</b>	<b>18</b>
<b>4. Analytical Part .....</b>	<b>25</b>
<b>4.1 General financial features comparison between public foundation and non-public foundation .....</b>	<b>25</b>
<b>4.1.1 Primitive fund and allocation .....</b>	<b>25</b>



4.1.2	Size and structure of asset .....	26
4.1.4	Structure and proportion of expenditure .....	31
4.2	Financial performance comparison between public foundation and non-public foundation .....	33
4.2.1	the Chinese Red Cross Foundation and the Youchange China Social Entrepreneur Foundation overview .....	34
4.2.2	Financial performance comparison between the CRCF and the Youchange .....	39
5.	Results and discussion.....	46
5.1	Comparison between public foundation and non-public foundation.....	46
5.2	Existing problems of public foundation in financial management.....	47
5.2.1	Inflexible in funds distribution .....	47
5.2.2	Lack of investment activities.....	47
5.2.3	Excessive reliance on donation income .....	48
5.2.4	Insufficiency of development powers.....	48
5.2.5	Credibility crisis .....	48
5.3	Existing problems of non-public foundation in financial management .....	49
5.3.1	Short of professionals.....	49
5.3.2	Low investment efficiency .....	49
5.3.3	Instability of public goods providing .....	50
5.3.4	Absence of supervision mechanism .....	50
5.3.5	Lack of government supporting.....	51
5.4	Suggestions for public foundations .....	52
5.4.1	Emphasising on expenditure management .....	52
5.4.2	Diversifying the financing methods .....	52
5.4.3	Raising public awareness of charity .....	53
5.5	Suggestions for non-public foundation .....	53
5.5.1	Building special risk management institution .....	54
5.5.2	Constructing reasonable investment management mode.....	54
5.5.3	Increasing employee welfare spending .....	55
6.	Conclusion.....	56

<b>7. Reference.....</b>	<b>57</b>
<b>Appendices 1.....</b>	<b>60</b>
<b>Appendices 2.....</b>	<b>61</b>
<b>Appendices 3.....</b>	<b>62</b>
<b>Appendices 4.....</b>	<b>63</b>
<b>Appendices 5.....</b>	<b>64</b>
<b>Appendices 6.....</b>	<b>65</b>
<b>Appendices 7.....</b>	<b>67</b>

## LIST OF FIGURES

Figure 1 Total number of foundations in China from 2005 to 2012.....	2
Figure 2 public foundation and non-public foundation assets proportion .....	29
Figure 3 Income structures of public foundation and non-public foundation .....	30
Figure 4 expenditure structures of public foundation and non-public foundation .....	32
Figure 5 Organizational chart of the CRCF .....	35
Figure 6 Major financial information of the CRCF .....	36
Figure 7 Organizational chart of the Youchange Foundation.....	37
Figure 8 Major financial information of the Youchange Foundation.....	39

## LIST OF TABLES

Table 1 applied indicators in this thesis.....	23
Table 2 Annual review of domestic foundation in 2010 .....	25
Table 3 the average value and the proportion of all kinds of assets .....	28
Table 4 financial efficiency indicators of the CRCF and the Youchange in 2011 and 2012 .....	40
Table 5 Financial stability indicators of the CRCF and the Youchange in 2011 and 2012 .....	42
Table 6 Development capability indicators of the CRCF and the Youchange in 2011 to 2012 .....	44

## **ACRONYMS**

PRC: People's Republic of China

USA: United State America

GDP: Gross Domestic Product

CPI: Consumer Price Index

CRCF: Chinese Red Cross Foundation

Youchange Foundation: Youchange China Social Entrepreneur Foundation

CSRC: The China Securities Regulatory Commission

# 1. Introduction

## 1.1 Background of civil society in China

With economic restructuring and the government administrative functions changing, civil society in China has boomed rapidly during these years. Particularly after ‘5.12 Wenchuan’ earthquake in 2008 and the ‘8.8 Taiwan’ Typhoon in 2009, civil society in China became glorious in the field of public welfare. Philanthropic foundation, which is the main vector for Chinese civil society development, gives indelible contribution to building a harmonious society. Practically, Philanthropic Foundation is divided into public foundation and non-public foundation or domestic foundation and foreign foundation which are based on the “Regulations for the Management of Foundations<sup>1</sup>”. Among public foundations, there are divided into national public foundation and local public foundation at the same time.

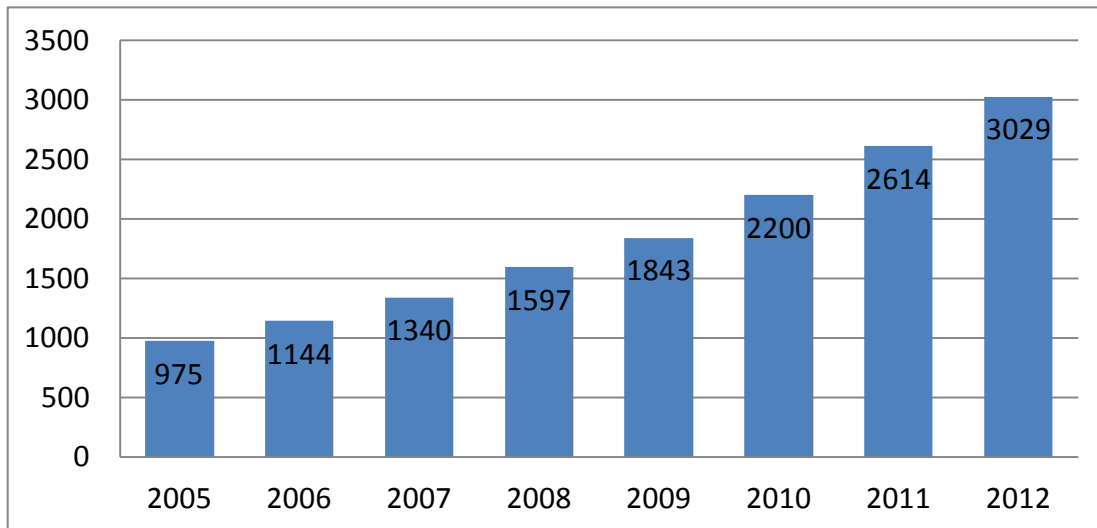
Many non-profit organizations in China have not yet been transformed from government agencies to entities in the market economy. Especially the public foundation which raised money partly from the government, thus lacking a correct assessment towards financial operation with the reasonable allocation of financial power, combination of powers and responsibilities, and appropriate separation of powers between incentives and constraints. The phenomenon results in various loopholes and many serious flaws in the financial management, causing repetitious allocation and low efficient use of the economic resources, leaving room for lawless people for personal gains, and damaging the public images of foundation. In order to modify inappropriate financial operation which causes those series problems mentioned above in Chinese foundations, a valid and reliable financial analysis report on their current financial operation results is requested. There are seldom researchers studied about financial analysis on non-profit organization in China and

---

<sup>1</sup> State Council of PRC *Regulations for the Management of Foundations*, [Cite date. 8-Jan] available from <http://www.chinadevelopmentbrief.cn/?p=241>

its proper financial evaluation index system. This fact makes this research more significant and creative.

**Figure 1 Total number of foundations in China from 2005 to 2012**



(Source: Ministry of Civil Affairs of the People’s Republic of China [Cite date: 19-June 2013] <http://cws.mca.gov.cn/thesis/tjbg/201306/20130600474746.shtml> )

According to the China Foundation’s statistical data, by the date of 12.02.2014, the total amount of foundation is 3644, and the number of non-public foundation to 2222, the number of public foundation is 1422. Non- public foundation are not only the rapid growth in the number of project operations, but also becoming increasingly sophisticated, increasingly prominent social benefits. Especially Ministry of Civil Affairs in charge of some of the non- public foundation, large- scale assets, professional, disaster relief, orphan sponsor, assistance and other diseases has carried out a lot of work.

“In 2011 the total assets of foundation in China amounted to 78.49 billion yuan , which increased 29.91% compared to 2010. The total assets of public foundation is 44.601 billion yuan, non-public foundation’ total assets is 33.889 billion yuan, with an average year-end assets of each Fund amounted to 32.9512 million yuan.

The total income of foundation in China was 44.711 billion yuan in 2011, which donated revenue from natural legal persons is 40.067 billion yuan, an increase of 18.8%

compared with 2010, which was approximately 89.61% of the total revenue. Meanwhile, in 2011 foundations of China's total expenditure is about 28.887 billion yuan. There 28.049 billion yuan are public welfare expenditures, which are 97.10% of total expenditure.

In 2011, the proportion of total expenditure of expenditure for wages welfare and administration are averaged 2.07% for most of the foundation in China, far below the provision of "Regulations for the Management of Foundations" where claimed that for wages welfare and administration should under the level of 10% to total expenditure. Judging from the specific distribution ratio, there 83.82% of the total number of foundation are less than 10%, while 4.38% of the foundation are more than 50%. As a matter of fact, even some foundation's wages and administration fee are less the 1% of total expenditure. In these foundations, they paid less than 20 thousand yuan for their daily operation which can hardly afford building and running the organizations.

Actually China's foundations have 8532 full-time staff in total in 2011, which means the average number of each foundation is 3.6 people. It is obviously not enough. Among all the foundation in China, 17.46% of foundation has no full-time staff at all, 66.88% of the foundations have three full-time staff or less, only 25% of the foundations have five or more full-time staffs."<sup>2</sup>

In addition, researchers in Chinese Academy of Social Sciences believe that there are three trends in the future development of China foundation. First, foundation endowment income in the proportion of revenue structure will become increasingly important. Second, the foundation will focus more on the professional operation of the project information disclosure and transparency, is expected to enhance social credibility. Third, the operation of the foundation specialization requirements will be stricter.

---

<sup>2</sup> Kang X.G., Feng L., Cheng G. *Annual report on china's foundation development 2011* Social Sciences Academic Press, 2011.12.1 115 pg. ISBN 9787509729021

## **2. Objective and methodology**

Practically, this thesis seeks to demonstrate the strengths and weakness of Chinese philanthropic foundation and hopefully provides some references for the sustainable development of Chinese foundations. Through comparative financial analysis which reflects both present and future financing activities and performances between public foundation and non-public foundation in China. On the theoretical side, this is achieved by studying the financial analysis carried out by previous researchers. This thesis also intends to explore a relatively comprehensive and accurate financial indicator of the financial performance of Chinese foundations. This indicator provides the basic financial tool for the analysis of foundations.

This thesis adopts comparison research methods as well as case analysis method as the main methodological tools. At the first section of the analytical part, this thesis applies secondary data about the general financial features of both public foundations and non-public foundations. While at the second section, this thesis considers the Red-Cross Society of China Foundation (a public foundation) and the Youchange China Social Entrepreneur Foundation (a non-public foundation) as the research objects to do financial analysis with indicators. The comparative study of the financial status of these two foundations is mainly involves using specific indicators of financial analysis, financial stability analysis, management and operation ability analysis, efficiency analysis, etc. Meanwhile, this thesis conducts a literature study to find out significant ideas and hints for the construction of a financial index system based on a review of current existing financial analysis indicators for standard profit-oriented cooperation.



## **3. Theoretical Foundation**

### **3.1 Definition of public foundation and non-public foundation.**

#### **3.1.1 Definition of the Third Sector**

The foundation is a non-profit organizations and belongs to the third sector aside from government and marketing sector. In Oxford Dictionary, the third sector refers to “the part of an economy or society comprising non-governmental and non-profit-making organizations or associations, including charities, voluntary and community groups, cooperatives, etc.”<sup>3</sup>

In field work “third sector” is an item that used as widely kinds of organizations such as charities, NGO, self-help groups, social enterprises, networks or clubs, which is a name for a few group as mentioned above that do not belong to the state or market categories. There also is so called “fourth sector”, which is defined by Priller and Zimmer, because “some humanitarian groups such as families and informal associations are also not included in the idea of third sector”<sup>4</sup>.

#### **3.1.2 Definition of non-profit organization**

As the System of National Accounts (SNA) of United State referred in 1993, the concept of non-profit organization is used for reporting and forecasting economic situation in such organizations, so the concept contains some economic elements: “Non-profit institutions are legal or social entities created for the purpose of producing goods and services whose status does not permit them to be a source of income, profit, or other financial gain for the units that establish, control or finance them. In practise their

---

<sup>3</sup> Oxford dictionaries *third sector definition* [Access date: 3-Feb 2014] available at <http://www.oxforddictionaries.com/definition/english/third-sector?q=third+sector>

<sup>4</sup> Zimmer, Annette, Priller, Eckhard *Future of Civil Society: Making Central European Nonprofit-Organizations Work* 2004, 737 pg. ISBN 978-3-322-80980-3

productive activities are bound to generate either surpluses or deficits but any surpluses they happen to make cannot be appropriated by other institutional units”<sup>5</sup>

Salamon and Anheier in *‘The international classification of nonprofit organizations’* in 1992 gave non-profit organization an structural- operational definition which concentrates on the purpose of these non-profit organizations, according to his writing books, non-profit organizations are characteristics as follow five basic items: Organized, i.e. institutionalized to some extent; Private, i.e. institutionally separate from government; Self- governing, i.e. equipped to control their own activities; Non-profit-distributing, i.e. not returning profits generated to their donors or directors; Voluntary, i.e. involving some meaningful degree of voluntary participation.

### **3.1.3 Definition of foundation**

Foundation as the representation of non-profit organization, the definition had evolved for several times.

In 1950s, Andrews (1956) came up with a definition which has adopted by US Foundation Centre, it was said that “a non-governmental, non-profit organization with its own funds which is usually from a single source, either an individual, a family, or a corporation, and program managed by its own trustees and directors, established to maintain or aid educational, social, charitable, religious, or other activities serving the common welfare, primarily by making grants to other non-profit organizations.”<sup>6</sup>

After several adjustment of the definition that Andrew proposed, Foundation Centre in USA pointed out that “A foundation is a non-governmental entity that is established as a non-profit corporation or a charitable trust, with a principal purpose of making grants to unrelated organizations, institutions, or individuals for scientific, educational, cultural, religious, or other charitable purposes. This broad definition encompasses two foundation

---

<sup>5</sup> Legal Information Institutu *NON-PROFIT ORGANIZATIONS: AN OVERVIEW* [Access date:09-Feb] available at: [http://www.law.cornell.edu/wex/non-profit\\_organizations](http://www.law.cornell.edu/wex/non-profit_organizations)

<sup>6</sup> Mary L. Kelley. *The Foundations of Texan Philanthropy* 1956. Texas A&M University Press April 2, 2004 152 pg. ISBN-10: 1585443271

types: private foundation and grant making public charities.<sup>7</sup>”

Helmyt K. Anheier proposed a definition based on the UN definition and make it more specifically in his book ‘*Non-profit organization – theory, management, policy*’, a foundation is an asset based, private, self-governing, non-profit-distributing and for public purpose entity. In terms of foundation, it is divided into several types in the real world: Grant- making foundation; Operation foundation; corporate foundation; community foundation; government- sponsored or government- created foundation.

Meanwhile, according to “*Regulations for the Management of Foundations*”, foundation is defined as non-profit corporation which refers to the civil subject of legitimate organizations, managing unrelated organizations, institutions or individuals’ donations without the share of profits for public services and welfare purpose. The definition above is more comprehensive and accurate that reflects characters of foundation in China’s context.

### **3.1.4 Differences in public foundation and non-public foundation in China**

In China, foundation is divided into public foundation and non-public foundation or domestic foundation and foreign foundation which are based on the 'Regulations for the Management of Foundations'. Among public foundation, there are split into national public foundation and local public foundation at the same time.

In this thesis, it is essential to get the basic background of the differences in public foundation and non-public foundation in China in this part:

“Firstly, differences in registration principle and institution. Furthermore, national public foundation are enrolled and charged by the Ministry of Civil Affairs and local public foundation are enrolled and charged by local civil affairs bureau in province level. On the other hand, the non-public foundation is generally enrolled by civil affairs bureau, where

---

<sup>7</sup> Sarah Collion *Foundation Fundamentals: A Guide for Grantseekers* [M]. The Foundation Center, 888 Seventh Avenue, New York, NY 10106, 1980. 239 pg. ISBN: 1595421564

the initiators addressed at.

Secondly, differences in capital source. According to the law, public foundation can raise money from public while non-public foundation cannot.

Thirdly, differences in the criterion of initial capital, the minimum initial capital for national public foundation are 8 million RMB, while for local public foundation is 4 million RMB and non-public foundation is only 2 million RMB. The demand of initial capital for non-public foundation is much lower than it for public foundation.

Fourthly, differences in appointment for council member, there is a stricter criterion in public foundation rather than non-public foundation. For those public foundations, immediate relatives cannot be appointed by the council at the same time. On the other hand, for non-public foundation there not more than 1/3 of total members of the council are immediate relatives.

Fifthly, differences in requirements for public service expenditure, there are separate regulations for public foundation and non-public foundation in 'Regulations for the Management of Foundations' on a minimum amount of resource for public service this year. As a public foundation, they should spend not less than 70% of total revenue of last year on public service. While non-public foundation should spend no less than 8% of fund balances into philanthropy activities.

Lastly, differences in requirements for disclosure of information, when raising funds from the society, a public funding foundation should publicize the activities they plan to undertake with the money raised and detailed expenditure plan. During or after the fund raising period, they should publicize the instant total amount received money and expended money on public service or other activities. While, non-public foundation does not have an obligation as above they do not have public funding activities.”<sup>8</sup>

Above all, the essential differences between public foundation and non-public

---

<sup>8</sup> State Council of PRC *Regulations for the Management of Foundations*, [Cit. 8-March] available from <http://www.chinadevelopmentbrief.cn/?p=241>

foundation is, the former is the foundation which depends on public fund to conduct public service and welfare while follower depends on value-added by operating self-fund capital or continuous donation by initiators to conduct public service and welfare.

### **3.2 Related studies on financial management of foundation review**

In modern society, philanthropic foundation appeared in America in the early 20th century. At the beginning of researches about financial management on foundation or non-profit organizations, the most significant books named *'the Foundation: Its Place in American'* written by Frederick P. Keppel in 1930 and *'Wealth & Culture: A Study of One Hundred Foundation and Community Trusts and Their Operations During the Decades 1921-1930; with 8 Charts, 3 Graphs, and Full Statistical Tables'* written by Eduard Lindeman, they are suppose to be the earliest scholar who published books studied on foundation. In 1950s, Frank Emerson Andrews, who was the chairman of American Foundation Centre, published a series works focus on describing explicitly about the condition, founding process, active area of foundation at that time, such as *'Philanthropic foundation'*, *'Legal Instruments of Foundation'*, *'American Foundation for Social Welfare'*, *'Foundation watcher'*, *'Scientific research expenditures by the larger private foundation'* etc. These researches opened up the research area of comprehensive studies on foundation. In the year of 1967, Warren Weaver and George Wells Beadle published *'U.S. Philanthropic Foundation: Their History, Structure, Management, and Record'*, this book os also an unchallengeable work on comprehensive studies on foundation which followed by some significant work recently such as *'Philanthropic Foundation in 20<sup>th</sup>'* by Joseph Charles Kiger in 2000 and *'American Foundation: An Investigative History'* by Mark Dowie in 2001.

All studies mentioned above are mainly concentrated on legal, historical and political viewpoints to discuss foundation in nowadays. However, there is extremely few article that specifically talk about the foundation from financial management and analytic point of view, while most of these are from the wider scope of non-profit organizations as

followers:

In the aspect of financial management target of non-profit organization, Jae K. Shim and Joel G. Siegel first compared with the target of organization which aims to make profits, then point out that to keep organization adaptability and stability so that they can achieve social responsibility and behaviour goals, which is totally different from profit organizations with the purpose of profit giving. This argument is widely accepted by most scholars.

In the aspect of the capital budget, some economic theories provide '*remuneration budgets*' on public goods supply by analyzing outputs of non-profit organizations and hence triggered the emergence of '*performance budget revolution*'. Along with changes in performance budget, many Western market- oriented countries introduced accrual basis into accounting system of non-profit organizations.

In the aspect of performance evaluation, Greenlee explained how charitable organizations to assess their financial performance with financial ratio in his thesis 'Financial Ratios for Use in the Analysis Review of charitable organizations'. Meanwhile, Paul. R Niven considered Balanced Scorecard into the performance evaluation of non-profit organizations. Further analyze how the non-profit organizations can design and use balance scorecard along with a large amount of examples in present days. Moreover, William J Ritchie and Robert W Kolodinsky conduct further study on the performance evaluation of non-profit organizations that are comparatively more thoroughly and systematically in this area, which promoted the method of performance evaluation based on the factor analysis method.

### **3.3 Financial analysis methods for enterprise review**

Financial analysis means to evaluated capability, stability and profitability of a corporation. It mainly consist comparative analysis, ratio analysis, factor analysis and methods which are combined of qualitative and quantitative analysis such as Waldo

Proportion Score and Du Pont analysis system.

For the purpose of financial methods, Ross, Westerfield and Jordan have written in their book *Corporate Finance: Core Principles and Applications* in 2003 infer that financial analysis on one firms aims to measure the performance of departments within multi-level companies; to project the future by supplying historical information to existing or potential investors; to provide information to creditors and suppliers; to evaluating competitive positions of rivals; to evaluate the financial performance of acquisition.

The previous financial analysis studies often differentiate themselves from the rest by developing and using different methods or employing different statistics. “There is no universally agreed-upon list regarding the type, calculation methods and number of financial ratios used in earlier studies... However, most text books and research studies published in reputable journals provided somewhere in between 20 to 30 of the more commonly used ratios, which are often found to be sufficient to evaluate the performance of a firm.” pointed out by Dursun Delen, Cemil Kuzey, Ali Uyar in latest research in 2013.

In the earlier studies, Gombola and Ketz had provided empirical evidence that the different structure of financial analysis patterns between retail and manufacturing corporations in 1983. Cinca in 2005 proved that the size of the company and the addressed country impact the structure of financial analysis. In recent years, researchers such as Uyar and Okumus who concerned global financial crisis examined the impact of crisis found out that corporations had been weakened financially at that period in 2010.

Above all, many of these studies are successful in evaluating or predicting the financial outcomes by their financial analysis approach, on the other hand, they offer have some disadvantage on identifying and explaining how the financial performance or situation of a company can be determined by individual characteristics.

Unfortunately, there is quite a few literatures discussing about the measurement to asses financial performance of non-profit organizations or charity foundation, while most of the financial studies related to them are specific to a certain program of this kind of

corporations. As a result, these papers introduce these analysis methods that mentioned above to give a general knowledge toward on financial analysis, and also use some of these methods into practical part properly.

### **3.3.1 Comparative financial analysis**

Comparative financial analysis is the process of analyzing the data found in a financial report in comparison with similar data from other statement or examining changes in the amounts of corresponding financial statement items over a certain period of time which in both horizontal and vertical way. Which means an individual can do comparative financial analysis by studying several financial report of the same company from different time periods in order to spot trends, and the alternative application of comparative analysis is to compare the reports of different companies that compete with each other in the same industry.

The main purpose of comparative financial analysis is to see the trend of various income statement and balance sheet figures of a company, and to investigate unexpected changes in financial statement items so that to evaluate overall performance of the company. Investors analyze financial reports as a way of determining how they should invest their capital. As time passes and companies growing, “comparative financial analysis can be used to study those changes and to see if the company is trending upward or downward. Looking at reports from several past time periods and comparing those numbers from the current period can shed a lot of light on a company's progress.”<sup>9</sup>

Theoretically, comparative financial analysis is conducted for balance sheet, income statement, schedules of current fixed assets and statement of earnings. This method has three major types according to the content of measurement:

- 1) Comparing total volume of accounting factors, in other words, comparing the amount of individual items in financial report, which is often applied for horizontal analysis to

---

<sup>9</sup> What Is Comparative Financial Analysis? [access date: Jan 18 2014] available at: <http://www.wisegeek.com/what-is-comparative-financial-analysis.htm>



assess the statue of one corporation in the located industry.

- 2) Comparing structural percentage in financial statement, which percent the company's financial items such as assets, liability, benefits, income, net profit etc...
- 3) Comparing various changes in financial indicators.

As a matter of fact, this thesis focuses on the comparison of financial situation between two different foundations in China, where comparative financial analysis method is mainly applied.

### 3.3.2 Financial ratio analysis

A financial ratio is an expression of the relationship between two selected items from the income statement or the balance sheet.

Financial ratio analysis helps to make evaluation the weak and strong point in financial performance which can be utilized to analysis the company's financial condition and attractiveness or operations for investors.

Formally, the major aim of financial ratio analysis is to make the results comparable so that decision make can control these numbers in a proper way, and it gives one fundamental trends: make it reasonable in the numerator and the denominator by controlling their size. In 1979, Lev and Sunder pointed out the basic financial variables relationship models in ratio forma:

$$\frac{y}{x} = a + \frac{\mu}{x} + \epsilon$$

In this model,  $\epsilon$  stands for random error, and it should fit the requirement of the linear regression model's assumption. Apparently, the denominator plays an essential role controlling the size effect. However, it has some problems in multiple regression models in empirical studies later.

---

<sup>10</sup> Lev, B. and Sunder, S, *Methodological issues in the use of financial ratios*, Journal of Accounting and Economics 1979. 1/3, 187-210

Mc Donald and Morris (1986) adjusted the formal model with intercept in ratio forma:

$$\frac{y}{x} = a + \frac{b}{x} + \frac{\mu}{x} \quad 11$$

“This model is conducted under extensive empirical studies of statistical validity of financial ratio method, which is the replacement of financial ratios made by Lev and Sunder.

Fieldsend, Longford and McLeay (1987) draw on the fact that a number of accounting variables are expected to be lognormal distributed because of technical zero lower bounds. Consequently they test empirically a lognormal regression model:

$$\ln Y_{ij} = b + a \ln X_{ij} + g_j + e_{ij} \quad 12$$

Where the industry effect  $g_j$  is explicitly specified in the model based on their empirical results on a single financial ratio are in line with the earlier results supporting proportionality only if industry effects are included”<sup>13</sup>

As a method that reveals the result from activities of the firm by dealing with the change ratio of relevant data, normally, frequently-used financial ratio analysis method can be divided into the following kinds:

**Trend ratio**, which is mainly applied to illustrate the same indicators in different variation trends, leading to figure out the related problems or regular patterns in enterprise development, which helps them to take corresponding measurements timely and accelerate the development of enterprises. Trend ratio helps investors to forecast future development of enterprises by trend analysis, to judge whether this enterprise has the value to invest and to make final investment decisions.

**Component ratio**, which is mainly applied to analyze the percentage of an economic

---

<sup>11</sup> McDonald, B., and Morris, M.H., *The statistical validity of the ratio method in financial analysis: an empirical examination: a reply*, Journal of Business Finance and Accounting 1986 13/4, 633-635

<sup>12</sup> McLeay, S., and Fieldsend, S., *Sector and size effects in ratio analysis: an indirect test of a ratio proportionality*, Accounting and Business Research 1987 17/66, 133-140.

<sup>13</sup> Salmi & Martikainen, *Review of Financial Ratio Analysis*, 1994 [accessed date Jan 01, 2014] available at: <http://lipas.uwasa.fi/~ts/eire/eire.html>

index to total amount, for instance, most widely used component ratio is asset-liability ratio and prime operating revenue ratio. Asset- liability ratio can not only measure how firm's debt risk could be, and also can analyze whether it is suitable for the density of debt capital to equity capital which can help manager and creditor to make relevant decision. Whether the firm's total revenue comes from main business is observable by prime operating revenue ratio, furthermore, if the prime operating revenue ratio is relatively larger, the more stable the enterprise development and revenue source are.

*Efficiency ratio*, which mainly applied to reflect the interrelation ratio about the relationship between input and output, such as rate of net profit to the sale or return on assets etc. These indicators can help the manager or creditor to judge a fixed assets and revenue can bring how much profits.

### **3.3.3 Factor financial analysis**

Factor analysis is a statistical method that helps to calculate the impact of individual factor to financial objectives, which is based on the correlation analysis of multi-variables. The purpose is to reduce multiple variables to a lesser number of underlying factors that are measured by the variables. Factors are formed by grouping the variables that have a correlation with each other. Factor analysis is effective when the sample size is more than 300. There are mainly four stages in factor analysis.

When it comes to the history of factor analysis for financial utilize, the name Pinches, Mingo and Caruthers have to be mentioned, as the first group who developed an empirically-based classification of financial ratios in 1973. After this approach successfully applied, the researchers started to use factor analysis into empirical researches as well as reducing the application of financial ratios. In 1994, Hamdi and Charbji used factor analysis to 42 financial ratios of international Commercial Airlines, which aims to develop these financial ratios by factor analysis. Since then, there are many scholars tend to use factor analysis on other financial ratios in empirical studies.

In not recent academic world, application of Cluster Analysis on financial ratios came out. Cluster Analysis is another statistical method which conducted on the final set of variables. As Anupam De in his thesis '*Application of the Factor Analysis on the Financial Ratios and Validation of the Results by the Cluster Analysis: An Empirical Study on the Indian Cement Industry*' (2011) illustrated: "Cluster Analysis is involved with categorization by dividing a large group of observations into groups so that observations within each group are relatively similar. In general, proper determination of number of clusters is an important aspect of Cluster Analysis. However, the objective of Cluster Analysis is to test the composition of categories such as factors is indentified by the Factor Analysis and to reach to a final conclusion."

To conduct factor analysis, the researchers should combine macroeconomic environment and situation of enterprise, so that to make an appropriate develop strategy for this enterprise. As applied factor analysis, investor and manager can find the essential factor that impacts the value of indicator the most, and take measurement focused on it. Afterward, this method helps organization to improve the financial situation and operation efficiency.

### **3.4 Indicators system of financial analysis for foundation**

#### **3.4.1 Demand analysis for the users of financial information**

In order to build an indicator system for foundation's financial analysis, this thesis first intends to analyze the demand of users of financial information so that to construct financial indicator system for foundation's financial analysis.

The users of financial information including donors, related government sector, creditor, directors and managers of foundation:

**Donors:** as the main resource contributor for foundation in China, there are more than 90% of revenues comes from donation. Some researchers believe that the most significant

concern of the donor is not only the proper use of their money or materials but also the effectiveness and efficiency of their donation. Chemy (1992) considered that donors put more emphases on the effectiveness and efficiency of foundation operation, which means they tend to choose those foundations that can provide maximum use of the resource. Weisbrod and Dominguez (1986) through their empirical study proved that efficiency indicator plays an important role for donors. Li Jing(2006) pointed out that enterprises who intend to donate care less about the fiscal situation or scale of one non-profit organization, however, they tend to concern the information about application effect of resources in the organization. Besides, several studies showed donors also need to know whether the organizations can sustainable operation and development in the future, which requires financial information disclosure by the foundation to contain information that helps donors to analyze the sustainability of them. Above all, donors care about the financial situation of non-profit organization, and then concentrate on the effectiveness and efficiency of resources as well as the sustainability of the organization itself to make their donation decision. <sup>14</sup>

***Related government sector:*** it might contain the social welfare sector, tax sector, revenue sector and audits sector etc. These sectors have responsibilities to supervise the foundation, and mainly concern about legitimate and valid of foundation operation. When it comes to assessment or audit foundation, they usually demand for well-rounded indicators that reflect financial situation, operation efficiency and financial stability. In addition, government need to make choose between different non-profit organizations (including foundation) when the purchasing public services, they also ask for a proper assessment of the organization's public benefit and operation efficiency as considered factors.

***Creditor:*** for Foundation, creditor is not the major financial channel for foundation, nevertheless, when they are under extreme situation such as they cannot afford regular

---

<sup>14</sup> *Financial ratio's. Degree Essay and Coursework Help from ... (n.d).* [access date: Jan19 2014] available at: <http://www.markedbyteachers.com/university-degree/business-and-administrative-studies/financial-ratio-s.html>

operation, foundation would ask external loan for help. Moreover, it would generate some short-term liabilities in accounting operation activities with creditors, e.g. suppliers. Obviously, the main creditors for foundation are banks or suppliers, they emphasis on debt paying ability and financial stability of foundation, so that to make their money safe and decide whether to do continuous lending activities.

***Directors and managers of the foundation:*** foundation's directors and managers are not only the implementer of foundation accountability, but also the decision maker and planner of foundation's daily operation and public activity. In order to make sustainable development in a long-term period for foundation, they are supposed to have comprehensive understanding of foundation's current financial situation, including income structure, balance of expenditure for public welfare, daily expenditure, administration expenditure and liabilities etc. Meanwhile, they have to get information about the effectiveness and efficiency of foundation's financial resources and liquidity of foundation's assets, in order to timely detection of problems in foundation and implement valid control and scientific planning.

As a conclusion, foundation's financial information users are likely to demand indicators that can present three aspects of foundation's financial effectiveness and efficiency, financial stability and capability to development.

### **3.4.2 Constructing financial analysis indicators for foundation**

Financial analysis indicators have followed characteristics: Based on the financial report; reflecting business transaction that can be measured by value; by the impact of accounting regulations. According to these features, traditional financial indicators which are widely used in nowadays cannot meet the demand for foundation's financial information users. For instance, they need financial effectiveness and efficiency of their donors that are mainly presented by shareholders' satisfaction and social contribution of foundation's operation or public activities, however, these indicators we can measure are

not sufficient. As a result, it is extremely hard to build indicators for non-financial information.

Considering the combination of user's requirement and financial indicators characteristics, this thesis will construct financial indicators system from three aspects, namely financial efficiency, financial stability and development capability. Concerning of their explanations, financial efficiency is the ratio of output- input in public service activities. Financial stability refers to the financial condition in a fixed period and reflects the extent of security of financial situation to guarantee foundations survive and development. Development capability is the ability to maintain continuous operation that shows the potential of future development.

### ***1) Financial efficiency***

Theoretically speaking, the reason that the public trust non-profit organization to do public services is that they believe the operation efficiency of non-profit organization. Comparing to government, foundation tends to meet more demands from target group since they founded by the whole society. As a matter of fact, foundation is supposed to prove to the public better service, higher efficiency, maximum benefits and minimum cost. Therefore, higher efficiency is a basic demand for foundations as well as the basic existing conditions.

In general, efficiency means the input-output ratio in organization's business activity. While in the context of foundation, input represents the total expenditure or cost and output are the public services they provide with (e.g. public good expenditure). Therefore, the efficiency of foundation refers to the ability to maximize the public good based on minimizing investment.

Financial efficiency can be analyzed from three items: total efficiency, operations efficiency, financing efficiency. More specifically, total efficiency draw how foundation can provide public goods at last after financing and investing activities; operation efficiency is to illustrate as the ability to provide public goods within investing activities

while financing efficiency is within financing activities.

- 1) **Total efficiency:** it can be reflected by “the price of public service” indicator, the higher the value, the lower the financial efficiency. **Total efficiency:** it can be reflected by “the price of public service” indicator, the higher the value, the lower the financial efficiency.

$$\text{Price of public service} = \frac{(1 - \text{tax rate})}{1 - \frac{\text{expenditure on financing}}{\text{total expenditure}} - \frac{\text{expenditure on administration}}{\text{total expenditure}}}$$

Where numerator is the real cost of donors after “tax deduction effect”, if the donation did not have ‘tax deduction effect’, the numerator would be 1, practically speaking, individual donors can enjoy 100% tax deduction for their donation in several foundations that appointed by Ministry of Finance and Ministry of Civil Affairs in China, whereas, enterprises can enjoy 100% tax deduction for their donation that are in the range of 12% of total profit; denominator reflects how financial resources can be translated into public goods, in other words, how much one unit currency can be used for public services. This ratio shows the real cost of public goods for target groups in one unit currency after tax.

- 2) **Operational efficiency:** it can be divided into “input-output ratio” indicator and “public-good expenditure to revenue from last year” indicator:

$$\text{Input-output ratio} = \frac{\text{annual public good expenditure}}{\text{total annual expenditure}} * 100\%$$

Which indicates the higher the ratio is, the better the operational efficiency is.

$$\text{Public-good expenditure to revenue from last year} = \frac{\text{public-good expenditure this year}}{\text{total revenue of last year}} * 100\%$$

Which indicates the higher the ratio is, the better the operational efficiency is. As the thesis 29<sup>th</sup> of “Regulations for the Management of Foundations”, the expenditure on public-good of public foundation is not allowed to be below the 70% of total



revenue of last year.

- 3) **Financing efficiency:** it can be reflected by “Rate of expenditure on financing” indicator. The higher the rate is, the worse the financing efficiency is.

$$\text{Rate of expenditure on financing} = \frac{\text{annual expenditure on financing}}{\text{total annual financing}} * 100\%$$

Where annual expenditure on financing should be the total amount of cost for financing in the current year, total annual financing means the total amount of resource from financing activities which is the total revenue minus earmarks support and subsidies from government.

## 2) **Financial stability**

Three aspects can reflect financial stability: debt paying ability, maintain net assets and changes in public-good expenditure.

- 1) **Debt paying ability:** to guarantee foundation’s financial stability, strong debt paying ability is necessary. However, foundation’s liabilities are less than other enterprise or groups and most of them are short-term debt, as a result, this thesis mainly concentrates on current liabilities’ paying ability.

$$\text{Working capital ratio} = \frac{\text{Working capital}}{\text{current assets}} * 100\%$$

Where working capital= current assets- current liabilities.

- 2) **Maintain net assets:** for finance point of view, foundations are supposed to maintain their net asset being positive so that they can operation continuously. Trussel and Greenlee (2004) considered that if a non-profit organization’s net assets keep declining by at least 20% in three years, it means they get troubles in financial operation and have a bad financial stability. Therefore, “net assets change rate” indicator can reflect the maintaining net assets of foundation.

$$\text{Net assets change rate} = \frac{\text{Net assets this year} - \text{net assets last year}}{\text{net assets last year}} * 100\%$$

If the value of the ratio is negative, it means the scale of net asset is decreased, while the value of ratio is positive and the scale of net asset is increased. When the value shows continuous declining by three years, obviously this foundation has a bad financial stability.

- 3) ***Changes in public-good expenditure***: commonly, there is law or regulation for foundation public-good expenditure, the public-good expenditure declining means the worse the ability to afford public service.

$$\text{Public goods expenditure change} = \frac{\text{public goods expenditure this year} - \text{public goods expenditure last year}}{\text{public goods expenditure last year}} * 100\%$$

If the value of ratio is negative, it means the expenditure on public goods is decreased, while the value of ratio is positive and the expenditure on public goods is increased. When the value shows continuous declining by three years, obviously this foundation has a bad financial stability.

3) ***Development capability***

Development capability is a virtual indicator to measure the sustainability of foundation. From the finance point of view, the main factors that decide sustainability are foundation's revenue and scale growth rate, in details, it can be reflected by three indicators: total revenue growth rate, rate of return on investment and total assets growth rate.

- 1) ***Total revenue growth rate***:

$$\text{Total revenue growth rate} = \frac{\text{Total revenue this year} - \text{total revenue last year}}{\text{total revenue last year}} * 100\%$$

If the value of growth rate is positive, revenue from this year is better than last year, whereas if it is negative, it worse than last year. Theoretically speaking, the higher the value is the better the situation is.

- 2) ***Rate of return on investment***:

$$\text{Rate of return on investment} = \frac{\text{Annual return on investment}}{\text{total annual investment}} * 100\%$$

When the foundation financial situation runs well in security and liquidity, the higher the value of the ratio is, means foundation capability to earn from running resources which led to a better condition for sustainable development of foundation.

- 3) **Total assets growth rate:** the total scale of foundation directly affects their future development and social impacts. In general, the bigger the foundation is, the stronger the organization develops when it comes with risks.

$$\text{Total assets growth rate} = \frac{\text{Total assets this year} - \text{total assets last year}}{\text{total assets last year}} * 100\%$$

In conclusion, this thesis has built 10 indicators from there dimension of finical efficiency, financial stability and development capability, and they are sorted out by writer herself as **Table 1** below.

**Table 1 applied indicators in this thesis**

<b>Objective</b>	<b>Indicator</b>	<b>Formula</b>
<b>Financial Efficiency</b>	price of public service	$(1 - \text{tax rate}) / (1 - \text{expenditure on financing} / \text{total expenditure} - \text{expenditure on administration} / \text{total expenditure})$
	input-output ratio	$\text{annual public good expenditure} / \text{total annual expenditure}$
	public-good expenditure to revenue from last year	$\text{public-good expenditure this year} / \text{total revenue of last year}$
	Rate of expenditure on financing	$\text{annual expenditure on financing} / \text{total annual financing}$
<b>Financial Stability</b>	working capital ratio	$\text{Working capital} / \text{current assets}$

	Net assets change rate	<i>(Net assets this year- net assets last year)/ net assets last year</i>
	Public-goods expenditure change rate	<i>(public goods expenditure this year-public goods expenditure last year)/ public goods expenditure last year</i>
<b>Development Capability</b>	Total revenue growth rate	<i>(Total revenue this year- total revenue last year)/ total revenue last year</i>
	Rate of return on investment	<i>Annual return on investment / total annual investment</i>
	Total assets growth rate	<i>(Total assets this year- total assets last year)/ total assets last year</i>

(Source: Sorted by author, all indicators in the table are presented in previous context)

## 4. Analytical Part

### 4.1 General financial features comparison between public foundation and non-public foundation

#### 4.1.1 Primitive fund and allocation

Considering the annual review of domestic foundation in 2010(see *table 2*), not only the total volume but also the average value of primitive fund for non-public foundation are lower than those for public foundation. The reasons why are probably these two as follows:

**Table 2 Annual review of domestic foundation in 2010**

*(Unit: million yuan)*

	<b>Number</b>	<b>Primitive fund</b>	<b>Average</b>
<b>Public foundation</b>	1078	880683	816.96
<b>Non-public foundation</b>	1065	671377	630.40
<b>Total</b>	2143	1552060	724.25

(Data Source: Beijing Normal University *2010 China's non-public foundation development report* 11.2011 [Cite: 11-Feb 2014] Available at: <http://crm.foundationcenter.org.cn/html/2011-12/50.html>)

One of the reasons is the difference in the registered capital requirement according to 'Regulations for the Management of Foundations'. In "Regulations", the registered capital for non-public foundation is considerably lower than public foundation, which draws capital holders are easier to set up a non-public foundation. It reflects that government encourages the development of non-public foundation and drives private capital into development of non-public foundation rapidly.

Another reason is the difference in the background of establishing. As a matter of fact, most public foundations have government background. They are well funded and holding a

comparatively higher primitive fund. However, non-public foundation is mainly from civil organizations that are relatively not as strong as the government background, and have smaller scale of primitive fund.

#### **4.1.2 Size and structure of asset**

In terms of current assets, public foundation and public foundation's current assets to total assets are 88.70% and 85.49% respectively, which means the proportion of current asset is relatively much higher than other assets both for public foundation and non-public foundation. Normally speaking, it is caused by current assets that are mainly used for public funds collection and operation.

In terms of fixed assets, the proportion of fixed assets to total assets is 2.15% in public foundation while for non-public foundation is only 0.93%. Obviously, there is no producing activity in philanthropy foundation, which means the majority of fixed assets for foundation are consist of office facilities, equipment. Hence, the rate of 0.93 probably reveals that non-public foundation is lack of independent office place or under poor condition office environment.

In terms of long-term assets, public foundation rarely runs long-term investment for fundraising, so that the volume of long-term assets is always lower compared to non-public foundation. That is because different social credit and operation mode of these two separate types of foundation.

In term of intangible assets and principal-agent assets, the sum of these two assets in non-public foundation is zero equally, and those in public foundation are higher than non-public foundation. It is probably due to the longer history of public foundation. During the continuous development of public foundation, they are gradually accumulating rich experience and strong capacity for good support conditions and office environments. Besides, they have already built their own brand image which brings a strong social impact. Whereas, non-public foundation is still in the initial development stage recently with less

capital and facilities, and for the project operation aspect, they even do not have a well-know project to build a brand image for the general public.

Hence, for non-public foundations in China, they should make efforts to fundamental infrastructure building and office environment for their employees. On the other hand, non-public foundation should build their own brand image during project operation to enhance their social impacts. Comparing the size of foundation assets and registered capital shows that there is no relationship between them. Although the initial capital is somehow related to assets size, it is more relevant to its revenue, especially for local non-public foundations start from the initial capital with 2million yuan to more than doubled assets in the end. It is showed on *table 2* that initial capital requirement for non-public foundation is much lower than public foundation. However, according to *table 3* the disparity between them is not as obvious as figures in *table 2*, which means the original capital can hardly influence the total assets for foundations in China.

**Table 3 the average value and the proportion of all kinds of assets**

*(Unit: 10 thousand yuan)*

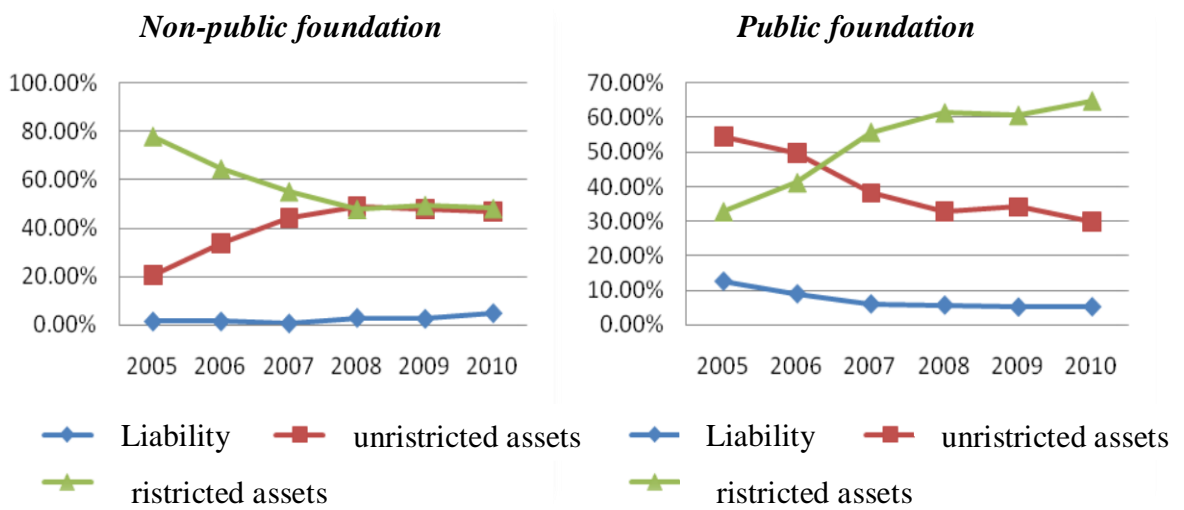
	Year	current assets		long-term assets		fixed assets		intangible assets		principal-agent assets		total assets
		sum	proportion	sum	proportion	sum	proportion	sum	proportion	sum	proportion	sum
<b>public foundation</b>	2008	9765.5	89.18%	863.8	7.89%	246.2	2.25%	38.6	0.35%	36.7	0.34%	10950.8
	2009	10890.3	88.06%	1161.6	9.39%	254.8	2.06%	34.7	0.28%	25.2	0.20%	12366.6
	2010	14046.1	88.70%	1371.9	8.66%	340.5	2.15%	12.3	0.08%	63.9	0.40%	15834.7
<b>non-public foundation</b>	2008	9343.1	88.83%	1092.9	10.39%	81.3	0.77%	0.1	0.00%	0.0	0.00%	10517.4
	2009	9582.1	87.10%	1355.6	12.32%	63.4	0.58%	0.0	0.00%	0.0	0.00%	11001.1
	2010	11183.4	85.49%	1776.0	13.58%	122.0	0.93%	0.0	0.00%	0.0	0.00%	13081.4

(Data Source: Beijing Normal University 2010 China's non-public foundation development report 11.2011 [Cite: 11-Feb 2014] Available at:

<http://crm.foundationcenter.org.cn/html/2011-12/50.html>)



**Figure 2 public foundation and non-public foundation assets proportion**



(Data Source: Beijing Normal University 2010 *China's non-public foundation development report* 11.2011 [Cite: 11-Feb 2014] Available at: <http://crm.foundationcenter.org.cn/html/2011-12/50.html>)

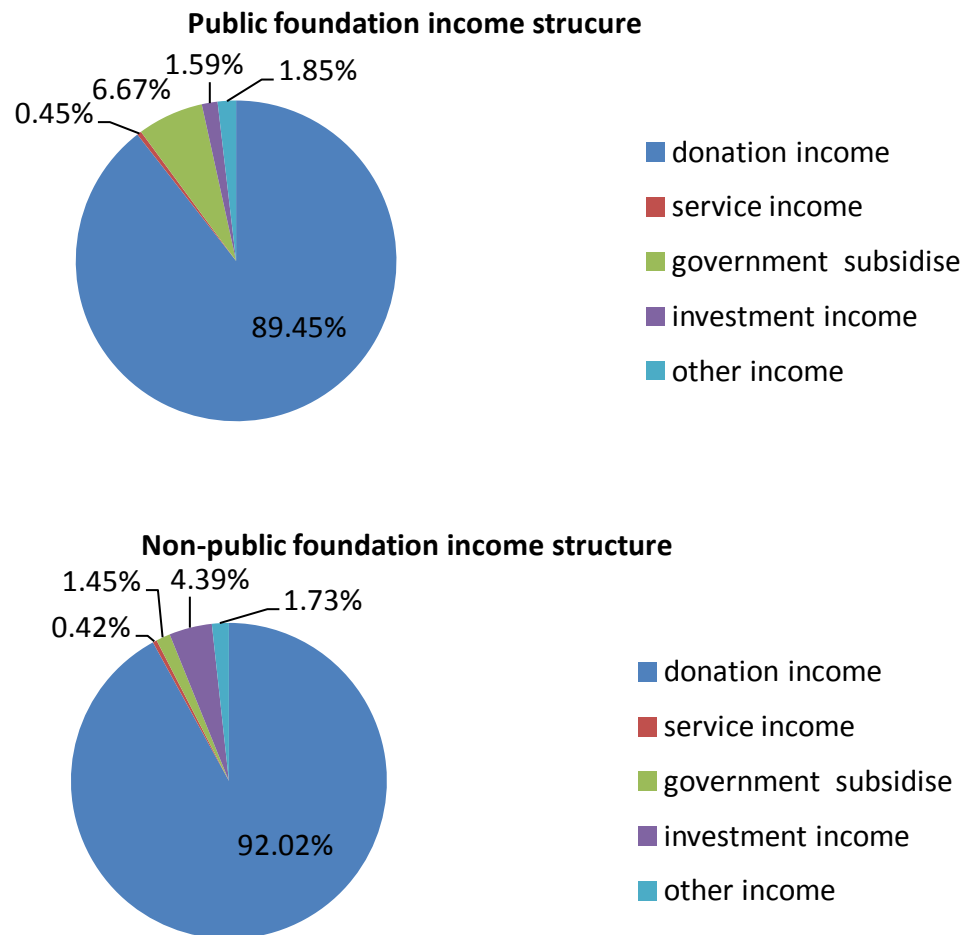
As *figure 2* draws, there is a relatively huge disparity in proportion of asset between public foundation and non-public foundation. The unrestricted asset of non-public foundation is increasing, whereas it is decreasing from 2005 to 2008. It indicates that the fund of public foundation is restricted to donor's requirement to some extent, and non-public foundation fund utilization is more flexible in this case. Particular for those foundations founded by large-scale enterprises, they donate much money without using restriction.

Non-public foundation should take full advantage of unrestricted assets. For instance, they can move their eye from charitable aid or material support area that draws general attention to that area or social problem that seldom people interest but important equally, to do innovation in the philanthropy industry, to lead the public to care about omitted or frontier social issue.

### 4.1.3 Financial channel

*Figure 3* consist of two pie graphs on the income structure of public foundation and non-public foundation. Comparing these two graphs, it is interesting that the proportion of donation income for non-public foundation (92.02%) is higher than the proportion for public foundation (89.54%). As a matter of fact, public foundation fundraise money and resource from public while non-public foundation cannot. However, the result is not as it is supposed to be, which is the donation income proportion will be higher in public foundation.

**Figure 3 Income structures of public foundation and non-public foundation**



(Data Source: Beijing Normal University 2010 *China's non-public foundation development report* 11.2011 [Cite: 11-Feb 2014] Available at: <http://crm.foundationcenter.org.cn/html/2011-12/50.html>)

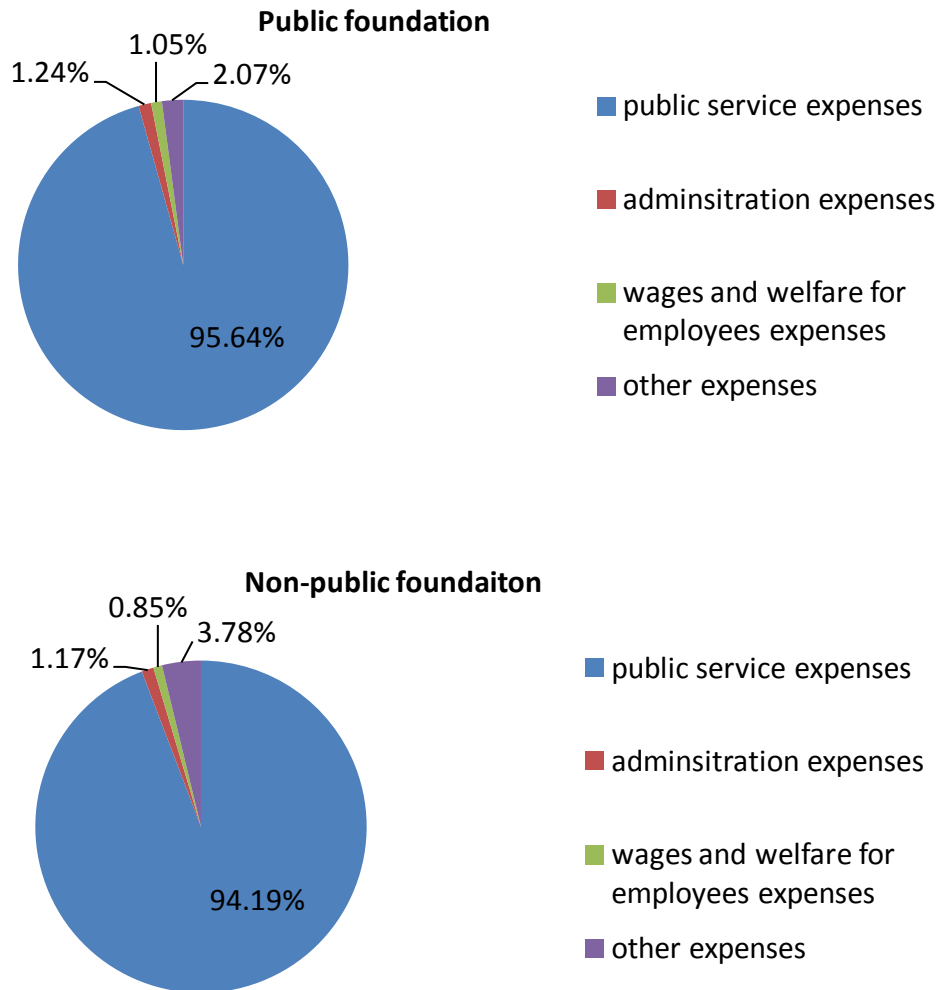
In addition, another significant difference in business channel is government subsidises. Government subsidises for public foundation peaks to 6.67% while for non-public foundation is just 1.45%. Initiators from public foundation are most from government or institutions that are highly related to the government authority. They usually depend on government power and cooperate with them to obtain help. That is to say, the reliance on government fund for non-public foundation is relatively less compared to public foundation, which means it is more socialized and independent.

Besides, there is likewise a distinction in terms of return on investment. Investment income of non-public foundation reaches to 4.39%, but only 1.59% for public foundation. Based on 'Regulations', foundations should securely and efficiently achieve to maintain and appreciate their capital. The approaches to achieve the maintenance and appreciation of funds are bank deposit, Treasury bond investment, other issued valuable securities investment, investing and setting up enterprises, or trust management. As a matter of fact, 'Regulation' encourages foundations to gain profit on relatively safe investments, however, the profit from the investment should eventually contribute to public welfare since foundation's financial resources are from public donation. Hence, if foundations were engaged in maintenance and appreciation of funds, they should pay attention to property safety, which means they should dedicate in avoiding risks that could damage foundation's total property when considering methods to maintain and value funds. It is obvious from the difference in investment income between public foundation and non-public foundation that non-public foundation concerns more about fund appreciation, and normally would be more effective from their investment rather than public foundation. One reason for it is that non-public foundation's income mainly from donors which are unstable and inconclusive, which means foundation could not make ends meet if donations fluctuated dramatically. Moreover, owing to limited capital foundation, it is hard to satisfy the requirement that public service expenditure should not be less than 8% of net income from last year. Therefore, foundation especially non-public foundation should increase stable income resource from the proper investment for promoting the public welfare as well as for

sustainable development of foundations.

#### 4.1.4 Structure and proportion of expenditure

**Figure 4 expenditure structures of public foundation and non-public foundation**



(Data Source: *Annual report on china's foundation development 2011* pg.95)

As it can be illustrated from **figure 4**, public service expenses are more than 90% both in public foundation and non-public foundation, and public foundation is just slightly higher than non-public foundation. From that point of view, non-public foundation is as active as public foundation in public service area, although the initial capital and total assets of public foundation are fatherly higher than non-public foundation. Thus, it is hard

to measure the contribution to public service just only depends on the size of total assets of foundation.

It is not good that wages and welfare for employee's expenses for non-public foundation are less than 1%, and public foundation is 0.2% higher than non-public foundation. It figures that wages and welfare for employees in foundation are relatively lower than average, and there is rarely professional staff working in this industry. Non-Profit organizations require the much skilled labour to maintain and appreciate, fund value, however, low wages and welfare for employees cannot drive intelligent into this sector. Besides, if the total amount of employees is tiny, the proportion of employees is obviously small which indicate that both public foundation and non-public foundation are short of full-time staff. As a matter of fact, non-public foundation has even poorer treatment and less staff than public foundation that calls for improvement in drawing professional labour accordingly to promote professional operation and for foundation's sustainable development.

## **4.2 Financial performance comparison between public foundation and non-public foundation**

As a matter of fact, it is an extremely difficult work to do financial analysis on all philanthropy foundations in China and make a comparison between public foundation and non-public foundation for there are more than 3 thousand foundations in China continent. Hence, this thesis picks up two foundations to do financial analysis and each of them represent separate types of Chinese philanthropy foundation. So that the audience can realize how these two foundations works in financial management from specific financial analysis on two typical foundations: Chinese Red Cross Foundation as a case for public foundations while Youchange Foundation as a case for non-public foundation.

#### **4.2.1 The Chinese Red Cross Foundation and the Youchange China Social Entrepreneur Foundation overview**

##### ***The Chinese Red Cross Foundation:***

The Chinese Red Cross Foundation, it is abbreviated as CRCF in follow text, is a national public fundraising organization registered through the Ministry of Civil Affairs as an independent corporation, though it is still under the administration of the Chinese Red Cross Society. The mission of the CRCF is to carry forward the core spirit of the Red Cross: humanity; fraternity and dedication; improve the living condition and development of human beings; protect people's health and lives and promote world peace and social advancement.

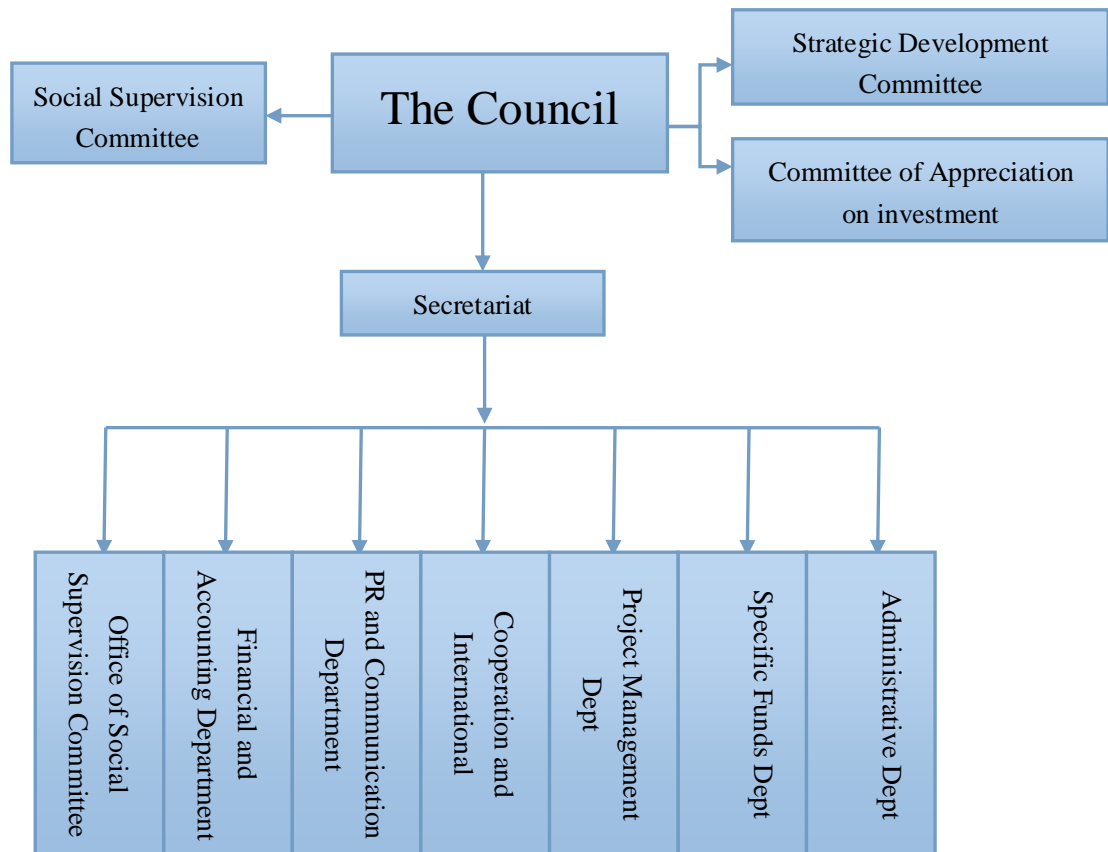
The CRCF was located in Beijing registered in 1996, and it is the first public welfare organization which has introduced ISO9001 Quality Certification Systems in China. Its primary established capital is 8,000,000 yuan that is exactly equal to the criterion of initial capital for public foundation. Moreover, the service scope of the CRCF is humanitarian assistance; disaster rescue; medical assistance; educational assistance; social welfare services for aged; non-profit geological work with international; widely raising funds, increasing financial sources, preserve and increase the value of public funds.

The structure of the CRCF is illustrated as *figure 5* that the council is the core of the CRCF to make the decision along with strategic development committee and appreciation on the investment committee assisting to manage foundation strategy and investment. Besides, social supervision committee is nominated to monitor foundation's operation. What is more, there are totally seven depart under the secretariat arrangement.

The major resource of the CRCF comes from public fundraising income while other financial channels are voluntary contributions from natural persons, legal persons or other organizations, return on investment and other legitimate income. It is common that the CRCF or another public foundation has rare income from their own investment, since the

take extremely little activities on investment for financing. Meanwhile, regulation for fund usage is not less than 70% total revenue from last year shall be used for the public-good expenditure; not more than 10% for administration expenditure.

**Figure 5 Organizational chart of the CRCF**

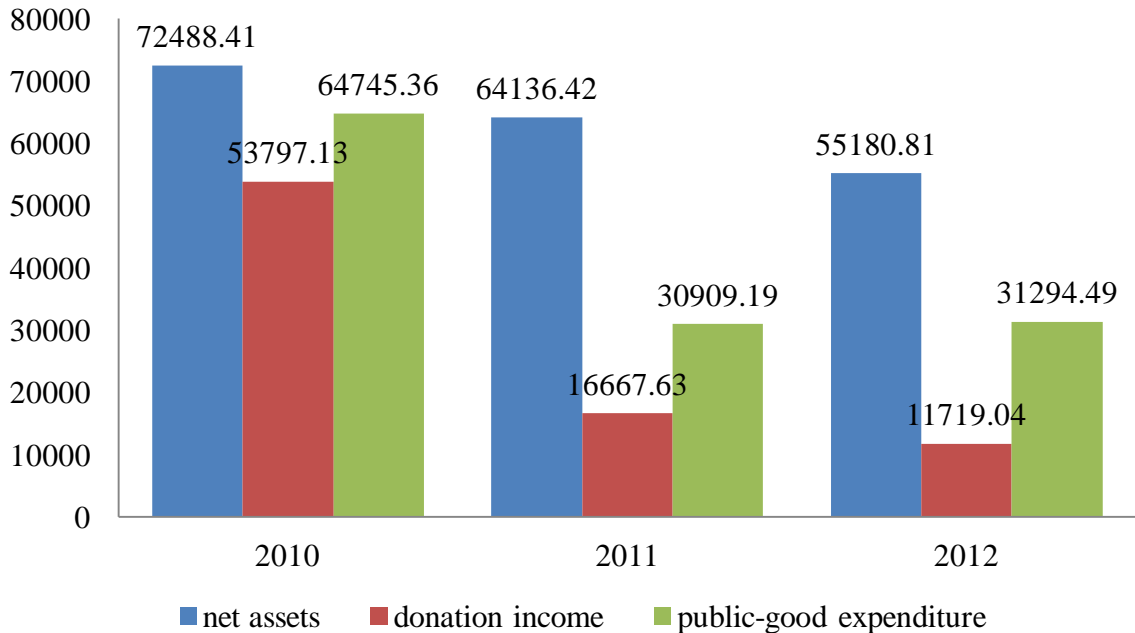


(Source: 2012 CRCF Annual Report p.g.14)

Judging the major financial information from *figure 6*, there is a significant shrink among 3 items from 2010 to 2011. It is due to the crisis of confidence which drives by a series of corruption scandals, the donation income were rapidly decreasing among foundations in China especially for CRCF who is the beginner of this crisis after the year of 2011 (see more information in *appendices 1*). In Red Cross Foundation of Shenzhen, the donation income was down in August more than 97% from a month earlier in 2011, while some local Red Cross even did not receive any social donations at that time.

**Figure 6 Major financial information of the CRCF**

*(Unit: 10 thousand yuan)*



(Data source: the China Foundation Centre *China Foundation Transparency Index* [online] available at: [http://www.fti.org.cn/html/content\\_69.html](http://www.fti.org.cn/html/content_69.html))

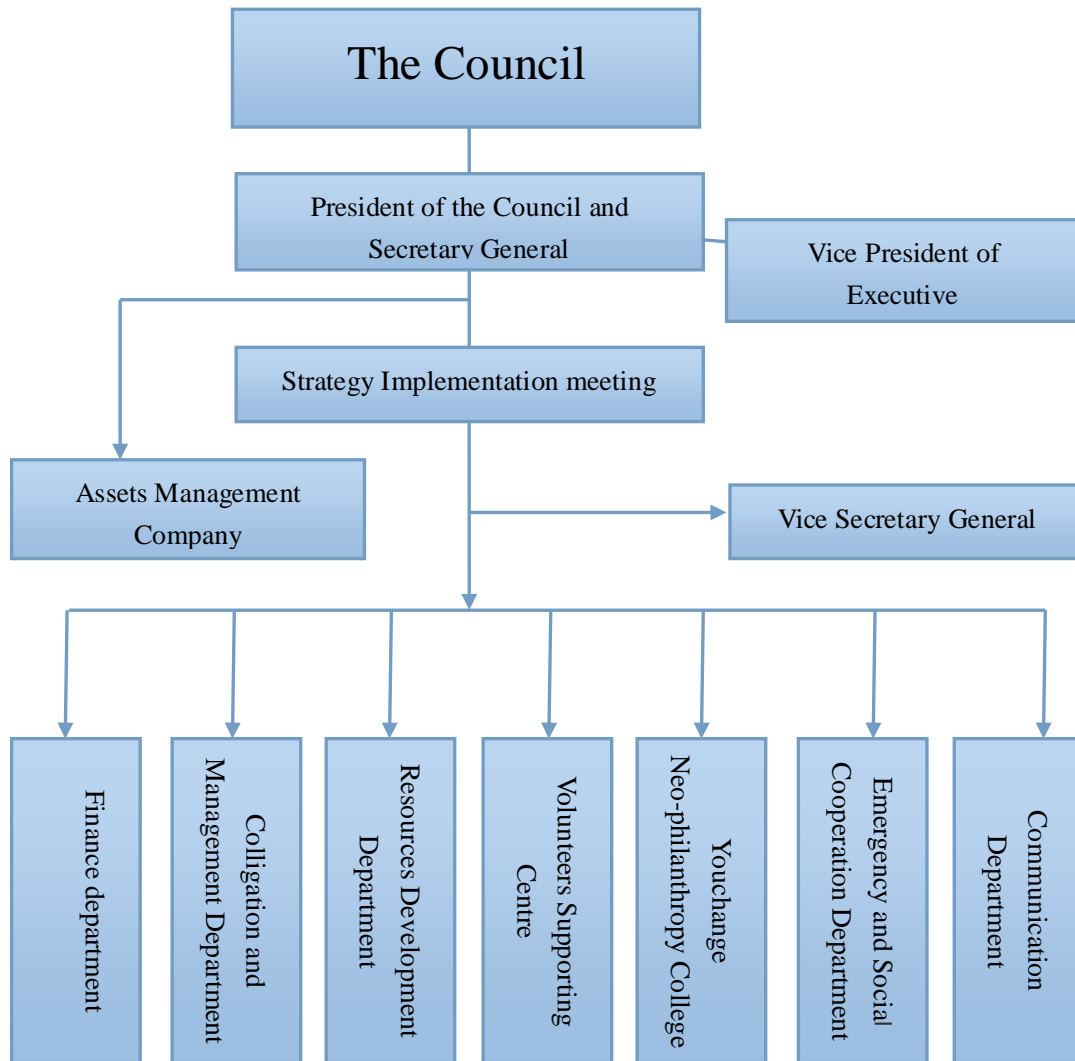
Besides, there is a boom of civil society from 2008 to 2010 because the natural disaster happened frequently in these years and people in China started to take active participation in civil society with willing to donate money into non-government organizations particular in some famous foundations for instance CRCF. Consequently, the donation income in 2008 and 2009 is extremely higher than average for foundations. However, the increasing number of foundations distracts donations from the whole society in recent years.

***The Youchange China Social Entrepreneur Foundation:***

The China Social Entrepreneur Foundation (Youchange) is a non-profit organization with independent legal status. It is formally guided and supervised by the State Council's Leading Group Office of Poverty Alleviation and Development and officially registered at the Ministry of Civil Affairs in 01.03.2007.



**Figure 7 Organizational chart of the Youchange Foundation**



(Data source: Youchange Foundation *Organization Structure* [online] available at: <http://www.youcheng.org/plus/list.php?tid=210>)

The Youchange is a non-public foundation that is fund-raiser by Chinese entrepreneurs from continent, Hong Kong and Taiwan. The objectives of the Youchange are to promote the harmonious development of human social justice. While the mission of the Youchange is to promote of the concept of social innovation in this new economic era, to identify and supporting neo-philanthropy leaders interested in social innovation, to explore development models of social innovation organizations, and to develop neo-philanthropy networks and platforms of cross-sector cooperation. High-engaged grant making is the model of organizational operation, which means donors can highly participate in

organization's management and projects. The service scope of Youchange including poverty relief assistance (including education training, health, environment, supporting rural industries); public welfare project consulting and management; preserve and increase the value of public funds; cultural promotion.

As the same with the CRCF and most foundations in China, the absolute centre of foundation is the council. Moreover, it is visual in *figure 7* that the president of the committee and secretary general charges the day-to-day decisions with the assistance of the vice president of the executive.

What is more noteworthy is that the Youchange is the only non-public foundation in China that has their own registered asset management company to achieve their maintenance and appreciation of foundation assets. At the beginning of 2008, as the same as most foundation in China, the Youchange intends to authorise a professional financial institutions to conduct portfolio investment. Nevertheless, this institution cannot act for funds that less than 50 million yuan according to the CSRC provisions, while the Youchange were lack of available assets at that time. As a result, the Youchange decided to establish its own asset management company. For the sake of security, controllability of foundation assets and maximizing assets value-added benefits with lower cost, this company undertakes the comparative more professional investment operation. For its initiators are successful entrepreneurs in China, the Youchange takes full advantage in their investment sense and experience. They have many successful investment cases in 2009 when capital was withdrawal abundantly from the stock market due to the recession but Youchange choose to stay. Since then, the Youchange gained appreciable returns on investment at that time. By the way, there are seven departments in total in the implemented level.

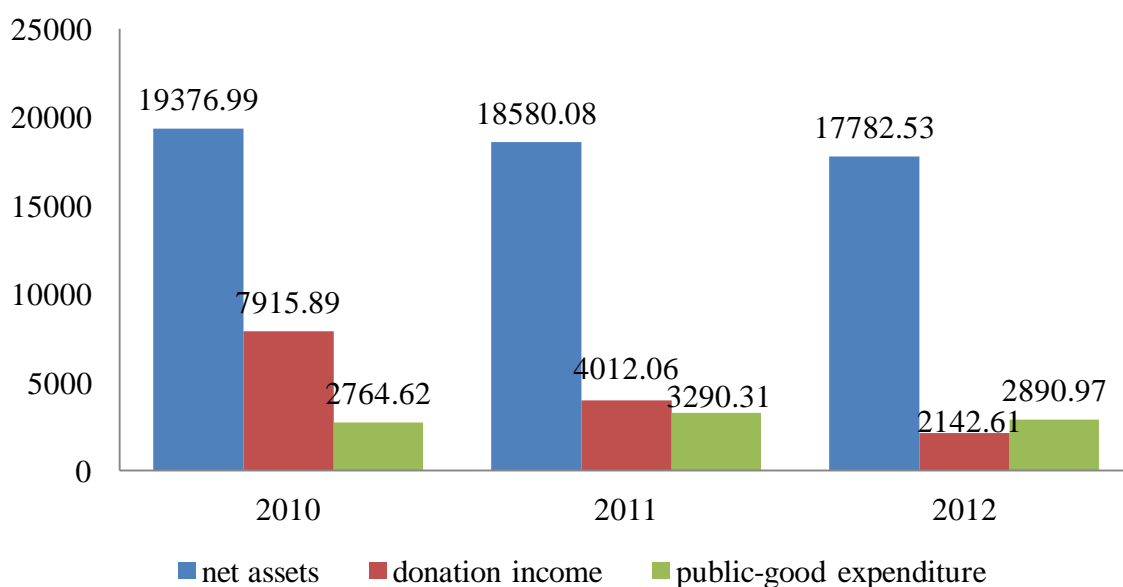
Their financial sources are mainly from voluntary contributions of natural persons, legal persons or other organizations. However, they also have state funding or subsidies and other legitimate income from investment activities. Based on their organizational

control, it is recorded that no less than 8% of fund balance shall be used for the public-good expenditure, which is relatively much lower than the fund regulation for the representation of public foundation –the CRCF. For administrative expenditure, there are not more than 10% of revenues from last year shall be dedicated.

As we can see from *figure 8*, the net asset of the Youchange Foundation is decreasing in these three years as well as the donation income. Because shrinking is similar to the CRCF, but not as big damage as it. However, it is also appreciated that the Youchange did not adjust their expenditure on public goods according to their net assets. From this point of view, this thesis can infer that shrinking in net assets would not slow down the expenditure on public goods if this foundation were dedicated into the social welfare.

**Figure 8 Major financial information of the Youchange Foundation**

(Unit: 10 thousand yuan)



(Data source: the China Foundation Centre *China Foundation Transparency Index* [online] available at: [http://www.fti.org.cn/html/content\\_69.html](http://www.fti.org.cn/html/content_69.html))

#### 4.2.2 Financial performance comparison between the CRCF and the Youchange

##### 1. Financial efficiency

As it already mentioned in the theoretical part of this thesis, this thesis has worked out financial efficiency of one foundation by 4 indicators: price of public service, input-output ratio, public-good expenditure to revenue from last year and the rate of expenditure on financing. The figures of these indicators are listed in *table 4*.

To calculate the price of public service, it needs to consider the tax rate. In this thesis, the tax rate is 25% considered as the same percentage of corporate income tax in Beijing. As the CRCF and the Youchange are in the list of non-profit organization that has pre-tax cost deductions rights, which means individual donors can enjoy 100% tax deduction for their donation in the CRCF and the Youchange. Whereas, enterprises can enjoy 100% tax deduction for their donation that is in the range of 12% of total profit. Hence, this thesis takes corporate income tax as the standard of the tax rate to calculate the public service price. As it shows from table 4, the prices of public good in these two foundations are almost close approximately 0.72 yuan, which means if donors contributed 1 yuan into this two foundations, donors could convert around 0.72 yuan into public service. As a result, the total efficient is not a significant difference between the CRCF and the Youchange foundation.

**Table 4 financial efficiency indicators of the CRCF and the Youchange in 2011 and 2012**

*(Unit: yuan/ %)*

INDICATORS	The CRCF		The YOUNCHANGE	
	2011	2012	2011	2012
Price of public service	0.7269	0.7254	0.6517	0.7225
Input-output ratio	96.93%	96.72%	86.90%	96.35%
Public-good expenditure to revenue from last year	50.50%	132.96%	37.55%	102.74%

<b>Rate of expenditure on financing</b>	0.37%	1.24%	0.60%	0.46%
-----------------------------------------	-------	-------	-------	-------

(Source: Calculated by author based on financial report [See Appendices])

Concerning the input-output ratio, we regard the total annual expenditure as input and expenditure on public-good as output. Not only public foundation as the CRCF but also non-public foundation as the Youchange spends absolute largest proportion of total expenditure on public goods. Therefore, non-public foundation such as Youchange is dedicated into public service to the same extent as public foundation.

Public-good expenditure to revenue from last year is another indicator to measure foundations operational efficiency. Indeed ‘*Regulations*’ has articles for this indicator for public foundation that intend to accelerate the development of social welfare and guarantee public foundations’ public good input as well as to wipe out public foundation that deviate from their original commission or stop activities in public area. According to government statistics<sup>15</sup>, the average of public-good expenditure ratio is 50%, the government try to promote the public foundation’s development so that the criterion for this ratio settled at not less than 70%. That is make sense to the CRCF only has 50.50% of public goods expenditure to total revenue from last year, it still under the average level of public foundations.

**Table 4** demonstrates that public foundation runs better than non-public foundation in operation efficiency. It dues to that non-public foundation’s financial resource mainly from fund interest and regular donation from donors, and ‘*Regulations*’ just settle regulations on public goods expenditure to net assets for the purpose of encouraging non-public foundation to process maintaining and appreciating their own funds.

For financing efficiency, it can be measured by the rate of expenditure on financing. Obviously, both the CRCF and the Youchange spend relatively less money on financing activities. However, the proportion of the CRCF is higher than the Youchange, which is

---

<sup>15</sup> Kang X.G., Feng L., Cheng G. *Annual report on china's foundation development 2011* Social Sciences Academic Press, 2011.12.1 115 pg. ISBN 9787509729021

determined by the difference in properties of foundations. It is reasonable that the public foundation should spend a set number of money to raise money from the whole society.

Above all, financial efficiency of the CRCF and the Youchange foundation are almost the same to each other except for operational efficiency that public foundation runs better. Due to the crisis of public trust after 2011, the income revenue of foundation in China is reducing significantly which make a huge damage to foundations financial efficiency especially for the CRCF.

## 2. *Financial stability*

Financial stability consists of dept paying ability; maintain net assets and changes in public-good expenditure. They are computed in *table 5*.

**Table 5 Financial stability indicators of the CRCF and the Youchange in 2011 and 2012**

(Unit: %)

INDICATORS	The CRCF		The YOUCCHANGE	
	2011	2012	2011	2012
<b>Working capital ratio</b>	99.98%	99.16%	98.18%	97.76%
<b>Net assets change rate</b>	-11.52%	-13.96%	-4.11%	-4.29%
<b>Public goods expenditure change</b>	-52.26%	1.25%	19.01%	-12.14%

(Source: Calculated by author based on financial report [See Appendices])

In order to reflect debt paying ability, this thesis takes working capital ratio into consideration. As it illustrates in *table 5*, the debt paying ability of both foundations are rather perfect for these two foundations that rarely have liabilities or debt whatever in long-term or short-term.

Towards on net assets maintaining, the overall performance is not optimistic, particular

for the CRCF. As this thesis already explained the decreasing of donation income after 2011, the net assets of foundation are shrinking concomitantly. From financial point of view, the net assets of foundation should be positive to keep good operation otherwise the foundation would face a financial crisis. However, the CRCF's situation is even worse than the Youchange by the percentage of -13.96% in 2012. In this case, it shows repeatedly how many damages are from the public confidence crisis for the CRCF. Once public foundation cannot be trusted by the public and people stop to donate on it which would be a fatal wound for them, because public foundations mainly depend on public fundraising and run little investment to maintain and appreciate their net assets.

Considering the changes in public-good expenditure, this is noteworthy that the figures of the CRCF and the Youchange go completely opposite way from 2011 to 2012. In 2011, the CRCF rapidly cut down the public goods expenditure while the Youchange put more amount of money on public services compared to 2010. In 2012, it changed from upside down that the CRCF spent slightly more on public goods, and the Youchange did a negative percentage on public goods.

As far as this thesis concerns about the financial stability of the CRCF and the Youchange, they are apparently in a serious situation for continuous shrinking in net assets. It would be not easy to keep the ability to contribute in public welfare if the net asset were declining, fortunately, the CRCF could make it for a strong base number of net assets, but it was a nightmare for these non-public foundations that have comparative fewer amounts of net assets. In addition, the debt paying ability for both foundations is fine since they have less debt in the account.

### ***3. Development capability***

Development capability is related to the vertical development of foundation with considering revenue and scale of foundation. **Table 6** presents the figures about development capability in the CRCF and the Youchange.

In terms of total revenue growth rate, there are significant falls both in the CRCF

(-61.55%) and the Youchange (-67.89%) for the reasons that this thesis has already explained in the financial efficiency section and do not have to be repeated here. Comparing the decreasing extent in 2012, the CRCF is much better that lessen the declining of total revenue, for they intensified the financing process and public communication. However, it is a grave sign for the Youchange that asks for them to take actions on financing.

**Table 6 Development capability indicators of the CRCF and the Youchange in 2011 to 2012**

(Unit: %)

INDICATORS	The CRCF		The YOUNCHANGE	
	2011	2012	2011	2012
<b>Total revenue growth rate</b>	-61.55%	-0.58%	-67.89%	-21.71%
<b>Rate of return on investment</b>	-	-	-8.02%	0.33%
<b>Total assets growth rate</b>	-11.76%	-13.25%	-6.49%	-4.31%

(Source: Calculated by author based on financial report [See Appendices])

In 2011 and 2012, the CRCF did not take any investment projects for maintenance and appreciation of the fund, the majority of its resources come from donation income. Hence, this item can only refer to the investment performance of the Youchange. It is a negative return on the investment in 2011, while it is a little better in 2012. Nevertheless, according to ‘Regulations’ that non-public foundation should spend no less than 8% of funds balance on public goods, which means non-public foundation asks more return on their investment activities if they intend to contribute to public welfare.

For the net asset, it can be reflected directly from *figure 6* and *figure 8* that net assets of both the CRCF and the Youchange have been shrinking from 2010 to 2012, and the



reason has been already shown in the previous explanation. In *table 6*, it shows that the statues of the CRCF (-13.25%) is worse than Youchange (-4.31%) in term of net assets.

In conclusion, the sustainability of the CRCF and the Youchange is not in a good condition due to the shrink in net assets in 2011 and 2012.

## **5. Results and discussion**

### **5.1 Comparison between public foundation and non-public foundation**

This thesis has already described the differences between public foundation and non-public foundation in legal context according to '*Regulations*'. However, the most essential disparity of them in this thesis is the financial channel and operation in which are mainly concerning about the way to collect money instead. The disparity of financing process triggers five different behaviours as follows:

First difference is the focus of work, public foundation put more emphasizes on raising fund, since its financial resource mainly depends on donation income.

Second difference is project implementation including project designing. Public foundation's project should mainly focus on social concerns and hot issues to gain recognition from society and build excellent public relationship. Hence, public foundation would be more concern on project designing, fund raising and project promotion to acquire sufficient financial resource. While for non-public foundation, they put more efforts to choose partners without considering promotion.

Third difference is the public relationship. In this example, non-public foundation is more relax and flexible since they just need to satisfy the individual donors or enterprises when undertaking a project. In terms of accountability, fortunately non-public foundations only have responsibilities for donors. However, public foundation should have responsibilities not only for individual donors or enterprises, but also for the public. In other words, public foundation is supposed to build credibility and non-public foundation are supposed to build fiscal credibility.

Forth difference is the social division, public foundation play a virtual role in large scale and widely participated the project. Unlike public foundation, non-public foundation

has financial flexibility so that it could focus on a new pattern of philanthropy project that has not been acceptable for public yet.

Above all, public foundation and non-public foundation are different because of their completely different financing channel. Considering public foundation can raise money from the public in large scale, they need to take social trust into account, what non-public foundation does not have to. However, the boundary settled between public foundation and non-public foundation is wearing off gradually.

## **5.2 Existing problems of public foundation in financial management**

### **5.2.1 Inflexible in funds distribution**

As a matter of fact, the proportion of limited assets to total assets in public foundation is accelerating that reached nearly 65% in 2010 according to *figure 2*, which means the allocation of funding resource is largely restricted to a fixed goal in public foundations. This situation mainly caused by the project operation process that most public foundation raised money for presupposed project so that the public can choose which project they would like to make a contribution to base on the project information. Hence, the majority of the donation incomes are oriented to fixed philanthropy purposes or projects. While in this case assets of non-public foundation are much more flexible since non-public foundation is launching a project with pre-prepared fund in most cases.

### **5.2.2 Lack of investment activities**

It is no longer a surprise that Chinese public foundations do not take any investment activities for asset management. Regarding the CRCF as a typical example, the CRCF's aggregate assets are 641/556 million yuan without taking any long-term investment in 2011 and 2012. Whereas, for the representation of non-public foundation- the Youchange, the total assets are 186/178 million yuan and long-term investment assets are 154/155 million yuan, so that the investment to total asset is 82.69% in 2011 and 86.89% in 2012. It can be concluded that public foundation such as the CRCF is lack of investment behaviour

compared to non-public foundation. Most public foundation prefers to highly conservative investment or no investment as a strategy for asset security since they can raise money from the public without high pressure on funds appreciation as in most non-public foundations.

### **5.2.3 Excessive reliance on donation income**

This thesis has already presented the importance of donation income for foundation especially for public foundation of previous discussions in Chapter 4. In the CRCF's case, the donation income decreased rapidly after 2010 for corruption scandal issues along with the shrinking of public-good expenditure. In other words, the donation income determines the public service capacity of public foundations.

### **5.2.4 Insufficiency of development powers**

In this thesis, the development capability is determined by revenue growth, return on investment and assets growth. The CRCF did a bad performance with negative figures for these three items. In general speaking, one reason for the insufficiency of development power of public foundation is the lack of investment activities that trigger no return on investment. Another factor is the funding expenditure is not enough, and it caused inadequate financing that can attract more donations and investments.

### **5.2.5 Credibility crisis**

The credibility crisis is the major external shock for public foundation presently. After corruption scandal of the CRCF has disclosed in June of 2011, the credibility of public foundation had fallen sharply as well as the volume of donation, which drove the public foundation to financial predicament. However, it is not only one foundation of the CRCF but also other public foundations coloured by official background were hit by a credibility crisis caused by scandal. Consequently, destruction of public confidence became the major reason for financing difficulties in these years. As a matter of fact, the trust between donors and charitable foundation is based on integrity and transparency of the foundation.

Nevertheless, the operation of most foundations in China is not exposed and normalized to public. Considering an investigation on charity transparency in China, it shows more than 90% of the public indicated that they were not satisfied or not very satisfied with the current situation of foundations' transparency.

Besides, public hardly can understand the financial management and operation process of foundations due to lack of publicity and education in this area, which weakens the knowledge of donations.

### **5.3 Existing problems of non-public foundation in financial management**

#### **5.3.1 Short of professionals**

It is true that the non-profit organization cannot attract the high-levelled skilled labour compared with other industries. However, it is even worse for non-public foundations rather than communal foundations since the treatment for staff is better in public foundations. Besides, many public foundations have the state background and can take in employees who are supposedly belonging to the government institution. Thus, there are few professional accountants in non-public foundation, and those staffs who are lack of accounting training and knowledge would lead to severe financial situation for foundation. In addition, due to the loss of specific financial staff, accountants often need to deal with overloaded work, which leads to them can only have time to do routine business instead of financial management issues.

#### **5.3.2 Low investment efficiency**

In fact, the Youchange Foundation is the only non-public foundation owns registered Assets Management Company in China who has professionals and rich experience on investment. However, the investment performance of the Youchange is not good. However, the Youchange is one of the leaders of non-public foundation in the investment area than average. This situation indirectly reflects the low investment efficiency of non-public foundation.

Moreover, the investment channel is quite narrow. Most of the non-public foundation would prefer bank deposit or bond to appreciate their asset considering the safety of initial funds. However there is still some non-public foundation would like to invest in stock or futures which are higher in risk such as Youchange.

Furthermore, blindness in entrusted investment triggers many failures. Non-public foundation would like to authorize security agency to do the maintenance and appreciation of funding due to the lack of professional finance team and investment information. In the early 90s, there are totally 9 national non-public foundations authorized 54 million yuan to one asset management agency to conduct investment activities. Unfortunately, this agency was bankruptcy after acute management in years, and it dragged these non-public foundations into financial crises that they could hardly recover from it.

The low efficiency on investment would result in a high financial risk in non-public foundations eventually.

### **5.3.3 Instability of public goods providing**

Unlike public foundation, non-public foundation could not provide a stable amount of public services for public if any changes in the foundation. It makes sense that non-public foundation engaged in more investment activities regarded as high risk.

What is more, taking the Youchange as an example, they devote into neo-philanthropy pattern, and conducting much projects into the new philanthropy area as most non-public foundation intends to do. However, they the project might fail sometimes and they would stop spending money on them which decreased the expenditure on public goods this year.

In addition, the budget for expenditure on public goods would depend on net assets of this year. It comes from the requirement of “Regulations” that no less than 8% of fund balance should be used for the public-good expenditure.

### **5.3.4 Absence of supervision mechanism**

Commonly, non-public foundations do not have supervisory mechanism in their

organizational construction. For example, most public foundation would need supervisors from the public to assess project operational situation and supervise public donation while non-public foundation does not have due to they have less responsibility to the public. Many non-public foundations are lack of the awareness of open financial information to the public. As a result, non-public foundations are lack of social supervision comparing to a public foundation.

However, non-public foundations are short for self-discipline system to value their operational activities because of absence of financial indicator system in general. Commonly non-public foundations are lack of experts in finance, so that they can hardly develop self-discipline system themselves.

Officially, the non-public foundation is co-supervised by a registered institution and the competent authority. For instance, the Youchange is supervised by the Ministry of Civil Affairs as well as the State Council's Leading Group Office of Poverty Alleviation and Development. In reality, the Ministry of Civil Affairs just care about the annual inspection report and annual inspection forms and care less about supervision on daily activities. For the State Council's Leading Group Office of Poverty Alleviation and Development, they are stakes for each other that they would cover up problems in financial operation. Consequently, non-public foundations are lack of proper third supervision institution as well.

### **5.3.5 Lack of government supporting**

This item it can be easily interpreted by the comparison of financial channel structure between public foundation and non-public foundation that government subsidises for public foundation is 6.67% of total income, while for non-public foundation is just 1.45% of total income.

Not only brief for the government subsidies, but also non-public foundations are lack of preferential taxation policies. However, not all of foundations in China can enjoy the tax free treatment for donation incomes. They have to be certificated by the state and that

result the number of tax-free public foundations is much more than non-public foundations.

## **5.4 Suggestions for public foundations**

It is common sense that financing is the most important process for development of public foundations. Hence, they have to try their best to attract donor to make a contribution as well as to develop effective financing method to increase the donation income.

### **5.4.1 Emphasising on expenditure management**

For public foundation, the expenditure can directly indicate the efficiency of financial operation that is the most important indicator the donor interest about. Therefore, public foundation should emphasis on expenditure management. For instance, they should complete financial management system, prohibit embezzling, misappropriating, privately dividing, withholding or defaulting on donations. While for the daily cost, they should increase income and reduce expenditure without waste. What is more, they should be active on public service, and allocate donations to the recipient timely to enlarge the expenditure on public goods. Meanwhile, foundation should trace process of fund usage till the end after appropriating their funds for target audience, so that they can realize the effective management on fund utilizing.

### **5.4.2 Diversifying the financing methods**

Donors can be roughly divided into two categories according to their demands: the first type of donor asks for improvement of social status, honour or popularity while another type is fascinated by the strong sense of social obligation to make a contribution to social welfare. Therefore, public foundation should change their financing concept to take effective financing strategy actively instead of waiting for initiative donors. For the former type of donors, public foundation could appoint them as honourable position in foundation or project activities such as counsellor or a member of the council. Meanwhile, foundation



could promote donation behaviour to satisfy their desires of social status or popularity with social media. Additionally, it can also improve foundations themselves to some extent. For the second type of donors, what foundation can do is to live up to their expectations, and to properly allocate designated funds for the sake of keeping their passion on the public welfare.

Besides, at the time of an increasingly competitive market environment, public foundations begin to take diverse financing techniques. Except for those traditional financing approaches such as the charity performance, charity bazaar and television advertisement, public foundation adopts internationally-advanced financing methods such as professional fundraising or marketing fundraising.

In addition, public foundation can make use of their official background. For example, they could adopt multilateral cooperative financing strategy that refers to donee of public foundation's project is accompanied with local government and related institution's donation, or donors could make a contribution to a fixed area with a fixed purpose that regards the foundation as a medium.

### **5.4.3 Raising public awareness of charity**

China is developing towards the multiplex and marketing direction. The citizen's live standard and social participation has been improving significantly. However, the awareness of civil society as well as the knowledge of the operation of the foundation is unable to keep pace with economic development. From this point of view, public foundation should take action to popularization of charity general knowledge through newspaper, magazine, television or other social media, especially to the next generation.

## **5.5 Suggestions for non-public foundation**

In order to deal with existing problems listed above, non-public foundation should focus on constructing financial risk control mechanism for maintenance and appreciation of funds. It can be built up by the follow steps:

### **5.5.1 Building special risk management institution**

In general, building risk control institution for normative internal controlling is the precondition for financial risk management. Hence, from the structural point of view, non-public foundation set up unique risk management institution to develop the ability of risk managing. This special risk management institution should be the general decision-making mechanism, incentive mechanism and restriction mechanism based on scientific decision and management rules from mechanism point aspect.

Meanwhile, non-public foundation should build internal financial supervision mechanism to avoid and resolve financial risks. They should perfect financial management rules and regulations so that every single activity and business have relatively regulation to take reference.

### **5.5.2 Constructing reasonable investment management mode**

When it comes to the investment activities, non-public foundation should consider their own situation on six elements of management philosophy, investment policy, the investment target, investment scale, risk preference, personnel allocation and cost, and based on them to build reasonable investment management mode.

Foundations with larger scale and more professionals such as the Youchange, the governance structure of them is relatively completed. Therefore, they could set a committee of investment management whose job is preparing the important annual investment plan and taking responsibility for decided investment activities in that plan.

For Foundations who is a lack of experts, they should observe professionals in the investment bank, the asset management company or other financing institutions into council, and let them set investment policy and target for foundations. Meanwhile, they can also ask external investment consultation and management institution for cooperation. With the professional advantage investment consultation and management institution could help the foundation to make suitable investment policy and target, to do proper asset

allocation, and to achieve a diversified investment portfolio. So that foundation can gain the maximum benefit under a tolerable risk.

### **5.5.3 Increasing employee welfare spending**

In order to attract more capable persons to dedicate themselves into public welfare industry, non-profit organization should raise the treatment for staffs especially for non-public foundation. Increasing employee welfare spending is not only on wages and welfare expenditure, but also on administration expenditure to improve the office environment.

## **6. Conclusion**

In conclusion, this thesis constructs the financial indicator system and applied it into financial analysis on foundations. The main methodology this thesis applied is comparative analysis. More specifically, it compares public foundation and non-public foundation in China on the financial situation in order to find the weakness of financial management of foundations. At the final part, this thesis points them out and tries to find some suitable recommendations for them.

The principal finding of this thesis is that public foundations have financial management problem in financing process while non-public foundations have problems in risk management.

Honestly speaking, considering the theoretical part, the indicator system still lack of indicators that can measure the financial effect of foundation. However, the effect is related to the specific project running of foundations. Hence it is hard to get feedback and construct a proper performance appraisal system for this project. Hopefully it can be done in the future study of financial analysis on foundations.

In the practical part, it is better to do in financial performance analysis on a variety of samples, in other words, one foundation with each types of foundation is not representative to do analysis on the whole industry. However, considering the feasibility of using a large number of objects to analyze financial performance, the author prefers to analyze it with definite foundations.

Finally, the author hopes that the proposed solutions are highly practical and would be applied in the near future for helping foundation move towards more sustainable development.

## 7. Reference

### Printed resources:

Kang X.G., Feng L., Cheng G., *Annual report on china's foundation development 2011*, Social Sciences Academic Press, 2011.12.1 115 pg. ISBN: 9787509729021

Zimmer, Annette, Priller, Eckhard *Future of Civil Society: Making Central European Nonprofit-Organizations Work*, Springer Fachmedien Wiesbaden, 2004, 737 pg. ISBN: 978-3-322-80980-3

Salamon L M, Anheier H K. *The international classification of nonprofit organizations: ICNPO-Revision*. Johns Hopkins University Institute for Policy Studies, 1996. ISBN: 1-886333-23-8

Mary L. Kelley. *The Foundations of Texan Philanthropy* Texas A&M University Press April 2, 2004 152 pg. ISBN-10: 1585443271

Sarah Collion *Foundation Fundamentals: A Guide for Grantseekers* [M]. The Foundation Center, 888 Seventh Avenue, New York, 1980. 239 pg. ISBN: 1595421564

Anheier, Helmut K., Stefan Toepler, eds. *Private funds, public purpose: Philanthropic foundations in international perspective*. Springer, 1999. 264 pg. ISBN: 0306459477

Dahms. M. A, Clifton. L. R. *A Handbook for Staff and Directors of Small Community-Based Social Service Agencies* Waveland Press 2000. ISBN: 100818503459

Gelatt J. P. *Managing nonprofit organizations in the 20st century*. Oryx Press, 1992. 368pg. ASIN: B002ZJCR5A

McLaughlin.T.A. *Streetsmart financial basics for nonprofit managers*. Wiley.com, 2009. 304Pg. ISBN: 978-0470414996

MacVaugh. L. *American Foundations: An Investigative History* Cambridge MA MIT Press 2002. 320 pg. ISBN: 0262541416

Greenlee J S, Bukovinsky D. *Financial ratios for use in the analytical review of charitable organizations* [J]. Ohio CPA Journal, 1998, 57: 32-38.

Ritchie W J, Kolodinsky R W. *Nonprofit organization financial performance measurement: An evaluation of new and existing financial performance measures* [J]. Nonprofit Management and Leadership, 2003, 13(4): 367-381

Jun.P. *The Research on Financial Management of Public Foundation* [Diploma thesis] China University of Geosciences 2010

Chen Y. *The Study on fund's benign operation of nonprofit organization* [Diploma thesis] Central South University 2012

Guo G, LI X. *Financing pattern of foreign NPO* [J]. *Economic Theory and Business Management*, 2001, 12: 003.

Westerfield R W, Jaffe J F, Jordan B D. *Corporate finance: Core principles & applications*. McGraw-Hill Irwin, 2009. 696 pg. ISBN: 0073530689

Delen D, Kuzey C, Uyar A. *Measuring firm performance using financial ratios: A decision tree approach* [J]. *Expert Systems with Applications*, 2013, 40(10): 3970-3983.

Gombola M J, Ketz J E. *A note on cash flow and classification patterns of financial ratios* [J]. *Accounting Review*, 1983: 105-114.

Serrano-Cinca C, Fuertes-Callén Y, Mar-Molinero C. *Measuring DEA efficiency in Internet companies* [J]. *Decision Support Systems*, 2005, 38(4): 557-573.

Delen D, Kuzey C, Uyar A. *Measuring firm performance using financial ratios: A decision tree approach*. *Expert Systems with Applications*, 2013, 40(10): 3970-3983.

Lev, B. and Sunder, S, *Methodological issues in the use of financial ratios*, *Journal of Accounting and Economics* 1979. 1/3, 187-210

McDonald, B, and Morris, M.H, *The statistical validity of the ratio method in financial analysis: an empirical examination: a reply*, *Journal of Business Finance and Accounting* 1986 13/4, 633-635

McLeay, S, and Fieldsend, S, *Sector and size effects in ratio analysis: an indirect tests of a ratio proportionality*, *Accounting and Business Research* 1987 17/66, 133-140.

De A, Bandyopadhyay G, Chakraborty B N. *Application of the Factor Analysis on the Financial Ratios and Validation of the Results by the Cluster Analysis: An Empirical Study on the Indian Cement Industry*. *Journal of Business Studies Quarterly*, 2011, 2(3).

### **Electronic resources:**

State Council of PRC *Regulations for the Management of Foundations*, [Cite date: 8-Jan 2014] available from <http://www.chinadevelopmentbrief.cn/?p=241>

Ministry of Civil Affairs of the People's Republic of China [Cite date: 19-Jan 2014] available at: <http://cws.mca.gov.cn/thesis/tjbg/201306/20130600474746.shtml> )

Oxford dictionaries *third sector definition* [Access date: 3-Feb 2014] available at <http://www.oxforddictionaries.com/definition/english/third-sector?q=third+sector>

Salmiamp; Martikainen, *Review of Financial Ratio Analysis*, 1994 [Accessed date Jan 01, 2014] available at: <http://lipas.uwasa.fi/~ts/ejre/ejre.html>

What Is Comparative Financial Analysis? [Access date: Jan 18 2014] available at: <http://www.wisegeek.com/what-is-comparative-financial-analysis.htm>

*Application of the Factor Analysis on the Financial Ratios ..*, [accessed date Jan 25, 2014] Available at: <http://jbsq.org/wp-content/uploads/2011/06/June-2011-B.pdf>

Legal Information Institution *NON-PROFIT ORGANIZATIONS: AN OVERVIEW* [Cite date:09-Feb 2014] available at: [http://www.law.cornell.edu/wex/non-profit\\_organizations](http://www.law.cornell.edu/wex/non-profit_organizations)

Beijing Normal University *2010 China's non-public foundation development report* 11.2011 [Cite date: 11-Feb 2014] Available at: <http://crm.foundationcenter.org.cn/html/2011-12/50.html>

CRCF *2012 CRCF Annual Report* [Cite date: 16-Feb 2014] Available at: <http://new.crcf.org.cn/html/auditReport.html>

The China Foundation Centre *China Foundation Transparency Index* [online] [Cite date: 20-Feb 2014] available at: [http://www.fti.org.cn/html/content\\_69.html](http://www.fti.org.cn/html/content_69.html)

Youchange Foundation *Organization Structure* [online] [Cite date: 22-Feb 2014] available at: <http://www.youcheng.org/plus/list.php?tid=210>

Youchange Foundation *Financial report* [access date: 23-Feb 2014] available at <http://www.youcheng.org/plus/list.php?tid=12>

## Appendix 1

### Corruption scandal of Red Cross Society of China<sup>16</sup>

*“China's Red Cross Society came under fire after a credibility scandal erupted on the Internet. Netizens were infuriated when a 20-year-old woman named Guo Meimei, who claimed on Sina Weibo (the Chinese version of Twitter) to be the general manager of a company called Red Cross Commerce, boasted about her luxurious lifestyle, showing off her Maserati and Lamborghini cars, expensive handbags and palatial villa.*

*The furious netizens began to question whether Guo had financed her lifestyle out of money that had been donated to the society and started a human flesh search to find out the identity of Guo Meimei and her connection with the Red Cross Society. Although both Guo and the society publicly denied having any ties to one another, continuous disclosures of inside stories and disputes over this incident flooded the Internet. The Red Cross Society of China was plunged into an unprecedented crisis of trust.*

*Due to the Red Cross's long-established shady operation and lack of internal transparency, as well as its already plummeted public credibility following previous scandals, the collective outburst of public doubt triggered by this incident hardly came as a surprise.”*

---

<sup>16</sup>This news is excerpted from China daily.com.cn, more information can be found in [http://www.chinadaily.com.cn/opinion/2011-07/15/content\\_12912148.htm](http://www.chinadaily.com.cn/opinion/2011-07/15/content_12912148.htm)



## Appendix 2

### Financial statement of CRCF

Assets	2011(yuan)	2012(yuan)
<b>Current Assets</b>		
Monetary funds	85,316,143.00	554,589,600.49
Accounts receivable	80,894.00	35,403.00
Prepaid expenses	1,000.00	1,000.00
Inventory	633,603.30	572,976.13
<i>Total current assets</i>	639,827,772.90	555,198,979.62
<b>Long-Term Assets</b>		
Total fixed assets	3,937,750.00	3,699,011.50
(Less accumulated depreciation)	-2,293,000.90	-2,430,208.94
<i>Total fixed assets</i>	1,644,749.10	1,268,802.56
<b>Total Assets</b>	641,472,522.00	556,467,782.18
<b>Current Liabilities</b>		
Payables	86,341.08	-
Payroll payable	-	1,000,000.00
Income taxes payable	21,972.01	6,832.84
Prepayment	-	3,652,834.12
<i>Total current liabilities</i>	108,313.09	4,659,666.96
<b>Long-Term Liabilities</b>		
Long-term account payable	-	-
<i>Total long-term liabilities</i>	-	-
<b>Owner's Equity</b>		
Unrestricted equity	591,364,208.91	501,808,115.22
Restricted equity	50,000,000.00	50,000,000.00
<i>Total owner's equity</i>	641,364,208.91	551,808,115.22
<b>Total Liabilities and Owner's Equity</b>	641,472,522.00	556,467,782.18

(source: CRCF 2012 CRCF Annual Report [Cite date: 16-Feb 2014] Available at: <http://new.crcf.org.cn/html/auditReport.html>)

## Appendix 3

### Operation statement of CRCF

	2011(yuan)	2012(yuan)
<b>Revenues</b>		
Donation income	166676312.44	117190416.45
Government subsidies income	41433700.00	88566300.00
Other income	27,250,364.05	28229082.85
<b>Total Revenues</b>	<b>235360376.49</b>	<b>233985799.30</b>
<b>Expenses</b>		
Operating cost	309091877.70	312944933.53
Management cost	9066863.33	9142662.24
Financing cost	621509.10	1454297.22
Other Expenses	100000.00	-
<b>Total expenses</b>	<b>318880250.13</b>	<b>323541892.99</b>
<b>Changes in Equity</b>	<b>(83519873.00)</b>	<b>(89556093.69)</b>

(source: CRCF 2012 CRCF Annual Report [Cite date: 16-Feb 2014] Available at: <http://new.crcf.org.cn/html/auditReport.html>)

## Appendix 4

### Major financial features of CRCF

	2011(yuan)	2012(yuan)
<b>Net assets</b>	641,364,208.91	551,808,115.22
<b>Total annual revenue</b>	235,360,376.49	233,985,799.30
<i><b>Donation income</b></i>	166,676,312.44	117,190,416.45
<i>from demotic natural person</i>	21,038,561.86	47,651,908.60
<i>from demotic organization and institution</i>	144,821,550.27	68,705,540.46
<i>from foreign natural person</i>	780,500.11	421,157.39
<i>from foreign organization and institution</i>	35,700.20	411,810.00
<i><b>Government subsidies income</b></i>	41,433,700.00	88,566,300.00
<b>Total annual expenses</b>	318,880,250.13	323,541,892.99
<i>for public service</i>	309,091,877.70	312,944,933.53
<i>for employs' wages and welfare</i>	4,128,352.38	5,233,446.49
<i>for administration</i>	4,938,510.95	3,909,215.75

(source: CRCF 2012 CRCF Annual Report [Cite date: 16-Feb 2014] Available at: <http://new.crcf.org.cn/html/auditReport.html>)

## Appendix 5

### Financial statement of Youchange

Assets	2011(yuan)	2012(yuan)
<b>Current Assets</b>		
Monetary funds	13,420,476.76	22,121,514.72
Short-term investment	16,952,090.08	
Accounts receivable	289,622.70	223,745.29
Prepaid expenses	474,661.75	248,619.12
<i><b>Total current assets</b></i>	<b>31,136,851.29</b>	<b>22,593,879.13</b>
<b>Long-Term Assets</b>		
Long-Term investment	154,114,744.75	154,957,343.67
Total fixed assets	1,927,113.00	1,931,613.00
(Less accumulated depreciation)	-812,116.18	-1,151,415.27
<i><b>Total long-term assets</b></i>	<b>1,114,996.82</b>	<b>155,737,541.40</b>
<b>Total Assets</b>	<b>186,366,592.86</b>	<b>178,331,420.53</b>
<b>Current Liabilities</b>		
Payables	154,494.89	154,495.29
Payroll payable	24,181.66	24,181.63
Income taxes payable	273,097.11	27,272.93
Prepayment	114,003.00	300,200.00
<i><b>Total current liabilities</b></i>	<b>565,776.66</b>	<b>506,149.85</b>
<b>Long-Term Liabilities</b>		
Long-term account payable	-	-
<i><b>Total long-term liabilities</b></i>	<b>-</b>	<b>-</b>
<b>Owner's Equity</b>		
Unrestricted equity	151,425,254.70	144,845,231.22
Restricted equity	34,375,561.50	32,980,039.46
<i><b>Total owner's equity</b></i>	<b>185,800,816.20</b>	<b>177,825,270.68</b>
<b>Total Liabilities and Owner's Equity</b>	<b>186,366,592.86</b>	<b>178,331,420.53</b>

(Youchange Foundation *Financial report* [access date: 23-Feb 2014] available at <http://www.youcheng.org/plus/list.php?tid=12>)

## Appendix 6

### Operation statement of Youchange

	2012(yuan)			2011(yuan)		
	Unrestricted	Restrict	Total	Unrestricted	Restrict	Total
<b>Revenues</b>						
Donation income	4,229,200.00	17,196,897.33	21,426,097.33	17,972,941.38	22,147,698.46	40,120,939.84
Investment income	508,634.60	-	508,634.60	-12,353,861.50	-	-12,353,861.50
Government subsidies income	-	-	-	-	100,000.00	100,000.00
Other income	95,993.27	-	95,993.27	272,877.47	-	272,877.47
<b>Total Revenues</b>	4,833,827.87	17,196,897.33	22,030,725.20	5,891,957.35	22,247,698.46	28,139,655.81
<b>Expenses</b>						
Operating cost	28,909,738.78	-	28,909,738.78	20,975,516.21	11,962,633.56	32,938,149.77
Management cost	911,318.80	-	911,318.80	4,669,006.25	-	4,669,006.25
Financing cost	97,778.20	-	97,778.20	241,440.47	-	241,440.47
Other Expenses	87,434.94	-	87,434.94	14,329.06	-	14,329.06
<b>Total expenses</b>	30,006,270.72	-	30,006,270.72	25,900,291.99	11,962,633.56	37,862,925.55
<b>Changes from restriction assets to unrestricted assets</b>	18,011,380.27	-18,011,380.27	0.00	3,846,508.15	-3,846,508.15	-

<b>Changes in Equity</b>	-7,161,062.58	-814,482.94	-7,975,545.52	-16,161,826.49	6,438,556.75	-9,723,269.74
--------------------------	---------------	-------------	---------------	----------------	--------------	---------------

(Youchange Foundation *Financial report* [access date: 23-Feb 2014] available at <http://www.youcheng.org/plus/list.php?tid=12>)

## Appendix 7

### Major financial features of Youchange

	2011(yuan)	2012(yuan)
<b>Net assets</b>	185,800,816.20	177,825,270.68
<b>Total annual revenue</b>	28,139,655.81	22,030,725.20
<b>Donation income</b>	40,120,639.84	21,426,097.33
<i>from demotic natural person</i>	1,672,500.00	2,192,801.00
<i>from demotic organization and institution</i>	31,163,176.55	10,096,918.00
<i>from foreign natural person</i>	1,500.00	0.00
<i>from foreign organization and institution</i>	7,283,463.29	9,136,378.33
<b>Investment income</b>	-12,353,861.50	508,634.60
<b>Government subsidies income</b>	100,000.00	0.00
<b>Total annual expenses</b>	37,862,925.55	30,006,270.72
<i>for public service</i>	32,903,066.95	28,909,738.78
<i>for employs' wages and welfare</i>	3,070,826.50	2,342,216.58
<i>for administration</i>	116,852.74	243,616.96

(Youchange Foundation *Financial report* [access date: 23-Feb 2014] available at <http://www.youcheng.org/plus/list.php?tid=12>)