

# Performance report for a non-profit organization



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PROBLEM 9—20 Performance Report for a Non-Profit Organization [LO1, LO4, LO6] The St. Lucia Blood Bank, a private charity partly supported by government grants, is located on the Caribbean island of St. Lucia. The blood bank has just finished its operations for September, which was a particularly busy month due to a powerful hurricane that hit neighboring islands causing many injuries. The hurricane largely bypassed St. Lucia, but residents of St. Lucia willingly donated their blood to help people on other islands. As a consequence, the blood bank collected and processed over 20% more blood than had been originally planned for the month. A report prepared by a government official comparing actual costs to budgeted costs for the blood bank appears below. (The currency on St. Lucia is the East Caribbean dollar.) Continued support from the government depends on the blood bank's ability to demonstrate control over its costs. The managing director of the blood bank was very unhappy with this report, claiming that his costs were higher than expected due to the emergency on the neighboring islands. He also pointed out that the additional costs had been fully covered by payments from grateful recipients on the other islands. The government official who prepared the report countered that all of the figures had been submitted by the blood bank to the government; he was just pointing out that actual costs were a lot higher than promised in the budget. The following cost formulas were used to construct the planning budget:

Required:

1. Prepare a new performance report for September using the flexible budget approach.
2. Do you think any of the variances in the report you prepared should be investigated? Why?

1. Performance should be evaluated using a flexible budget performance report. In this case, the report will not include revenues (shown in East Caribbean dollars).

St. Lucia Blood Bank Flexible Budget

## Performance Report For the Month Ended September 30 Planning Budget

Activity	Variances	Flexible Budget	Spending Variances	Actual Results	Liters of blood collected (q)
Medical supplies	(\$15.00q)	\$ 7,500	\$1,800 U	\$ 9,300	500
Lab tests	(\$12.00q)	\$ 9,250	\$ 50 F	\$ 9,250	620
Equipment depreciation	(\$2,500)	2,500	0	2,500	620
Rent	(\$1,000)	1,000	0	1,000	620
Utilities	(\$500)	500	0	500	620
Administration	(\$10,000 + \$2.50q)	11,250	300 U	11,550	620
<b>Total expense</b>		<b>\$28,750</b>	<b>\$3,540 U</b>	<b>\$32,290</b>	

2. The overall unfavorable activity variance of \$3,540 was caused by the 24% increase in activity. There is no reason to investigate this particular variance. The overall spending variance is \$750 F, which would seem to indicate that costs were well-controlled. However, the favorable \$1,260 spending variance for lab tests is curious. The fact that this variance is favorable indicates that less was spent on lab tests than should have been spent according to the cost formula. Why? Did the blood bank get a substantial discount on the lab tests? Did the blood bank fail to perform required lab tests? If so, was this wise? In addition, the unfavorable spending variance of \$300 for equipment depreciation requires some explanation. Was more equipment obtained to collect the additional blood?