

Colorado Linkage Lab Program  
Breakeven Problem

The Elder Clinic, a non-for-profit organization, provides limited medical services to low-income elderly patients. The manager's summary report for the past four months of operations is as follows:

	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>Total</u>
Patient visits	<u>849</u>	<u>821</u>	<u>778</u>	<u>842</u>	<u>3,290</u>
Patient fees	<u>\$4,230</u>	<u>\$4,180</u>	<u>\$3,875</u>	<u>\$4,260</u>	<u>\$16,545</u>
Medical staff salaries	<u>\$13,254</u>	<u>\$13,256</u>	<u>\$13,254</u>	<u>\$14,115</u>	<u>\$53,879</u>
Medical supplies used	<u>3,182</u>	<u>3,077</u>	<u>2,934</u>	<u>3,175</u>	<u>12,368</u>
Administrative salaries	<u>3,197</u>	<u>3,198</u>	<u>3,197</u>	<u>3,412</u>	<u>13,004</u>
Rent	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,100</u>	<u>4,100</u>
Utilities	<u>532</u>	<u>378</u>	<u>321</u>	<u>226</u>	<u>1,457</u>
Other expenses	<u>2,854</u>	<u>2,776</u>	<u>2,671</u>	<u>2,828</u>	<u>11,129</u>
Total expenses	<u>\$24,019</u>	<u>\$23,685</u>	<u>\$23,377</u>	<u>\$24,856</u>	<u>\$95,937</u>
Operating surplus (loss)	<u>\$(19,789)</u>	<u>\$(19,505)</u>	<u>\$(19,502)</u>	<u>\$(20,596)</u>	<u>\$(79,392)</u>

The clinic receives an operating subsidy from the city, but unfortunately, the operating loss incurred through June (\$79,392) is larger than anticipated. Part of the problem is the salary increase that went into effect in June, which had been overlooked when the budget was submitted to the city last year. To compound the problem, the warm summer months traditionally bring increases in heat-related problems. Thus, the clinic is likely to experience an increase in patient visits in July.

Assume the following:

- Salaries are fixed and June values are representative of the coming months;
- Medical supplies vary with patient visits;
- Rent and utilities are fixed, and the June figures are used;
- Other expenses are mixed; through analysis, however, it was determined that the fixed component of these expenses are \$702, while the variable component is \$2.53 per visit.

The clinic is considering an increase in patient fees to reduce the operating deficits.

1. Assuming that there will be 940 patient visits in July, what is the necessary average patient fee that will have to be charged in order for the clinic to break even that month? How does this compare to the average patient fee charged from March-June?

