



Limitations of Dental School Financial Surveys – “Apples to Apples” ...Why finding the “right apple” is so difficult.

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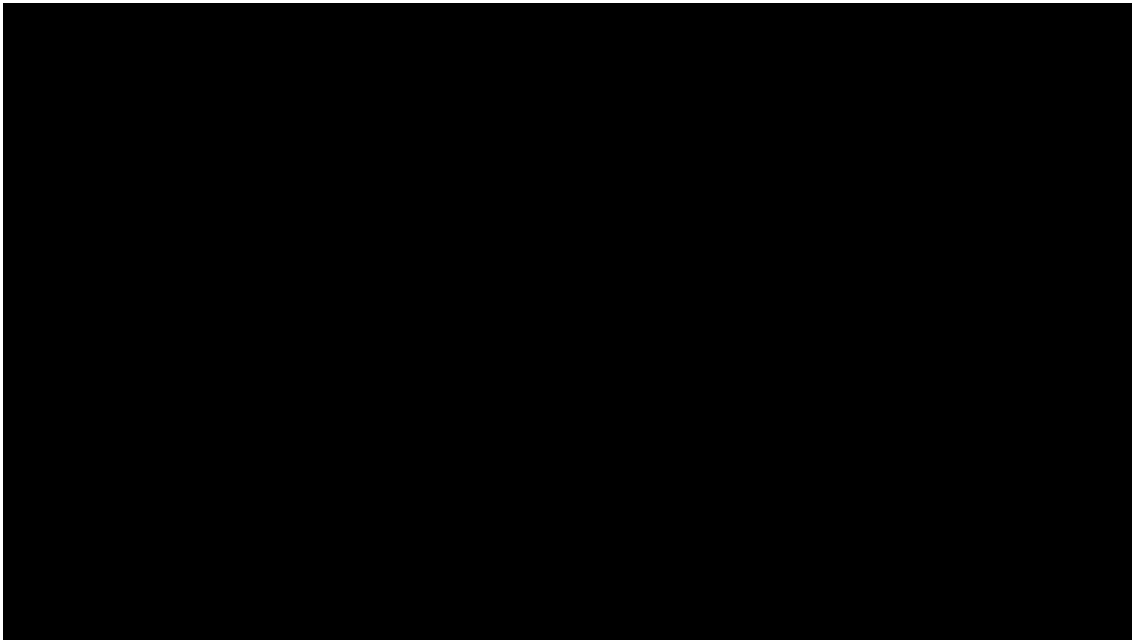


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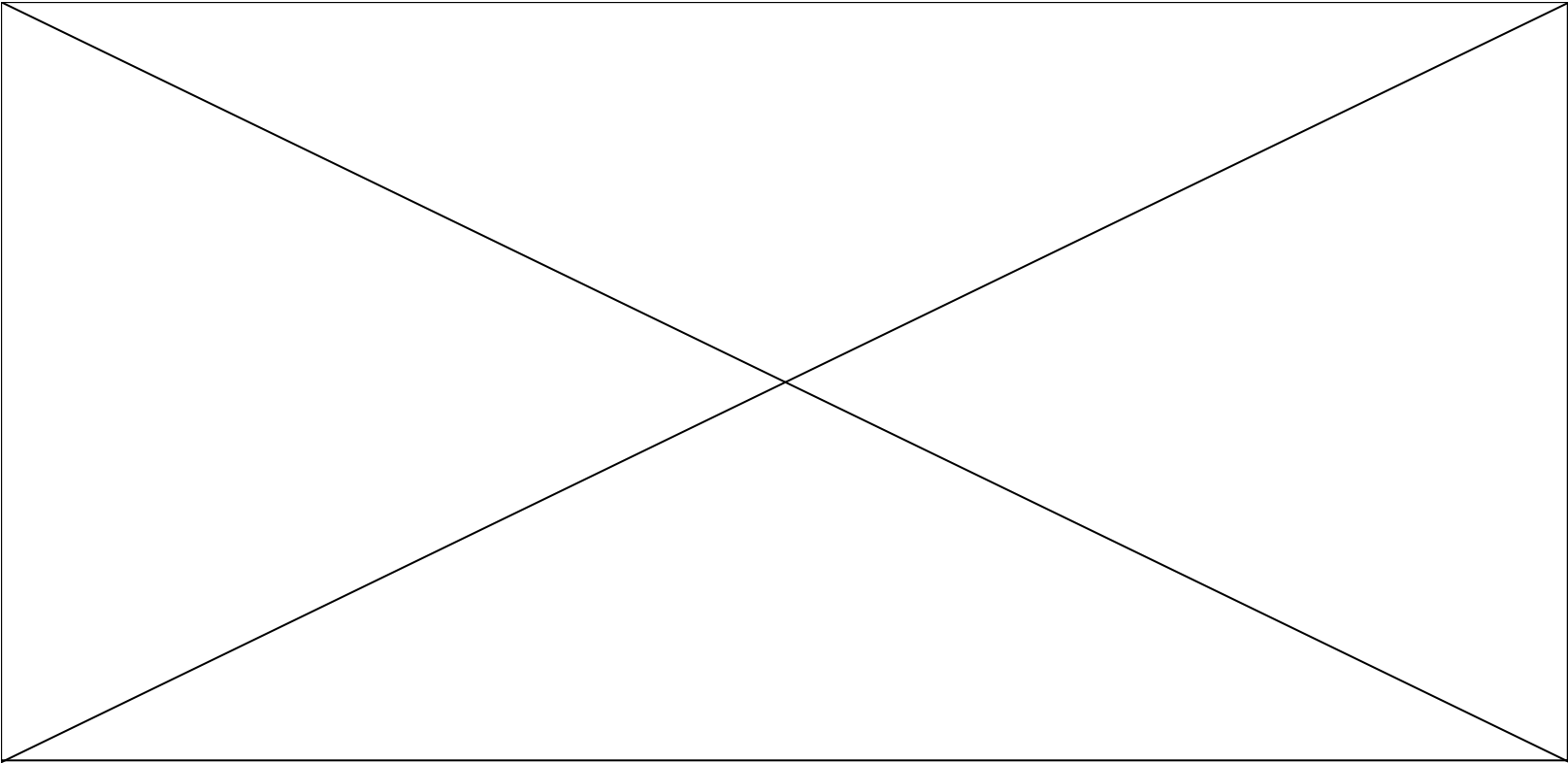
ADVANCING DENTAL KNOWLEDGE. ADVANCING DENTAL CARE.

Project Issues

- Why we all talk about “net revenue” most of all the surveys are all about “revenue”. ... and are we talking about accrual based accounting, or cash based accounting?
- How is net revenue calculated?



<http://www.youtube.com/v/L2zqTYgcpfg&autoplay=1>



Project Issues

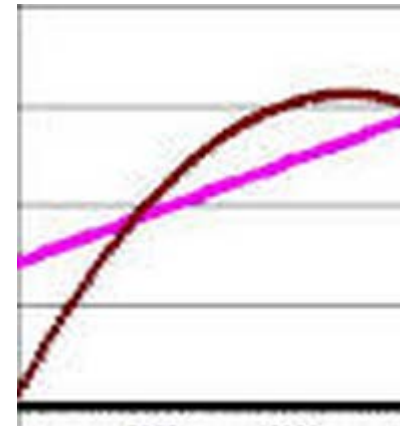
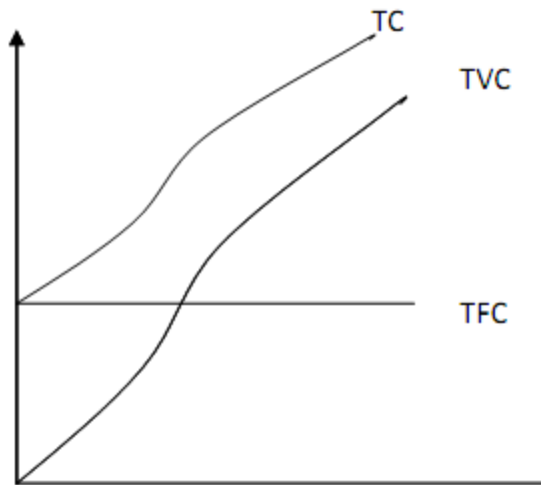
HOSPITALS: DENTAL CLINICS COST ACCOUNTING AND REPORTING

I. INTRODUCTION

This chapter sets forth the uniform procedures for recording and reporting the fiscal operating results of the on-campus and community dental clinics operated by the Los Angeles and San Francisco campuses. It is intended that financial accounting for the clinics be conducted in accordance with chapter H-576, Hospitals and Clinics, which provides general guidelines for cost determination, establishment of patient service charges, use of State appropriations, e.g., the Dental Teaching Fund (DTF), and use of the fund balance (Equity in Current Assets). These fiscal policies: (1) are based on generally accepted accounting principles, including the accrual method of accounting; (2) require that cost analysis be performed to determine full costs (including direct and indirect costs) of providing services to patients; and (3) specify that, where possible, rates of charge established for commodities and services provided to patients be based on full costs.

What do we need to consider? ...or do we??

- The realities of cost curves...



What do we need to consider? ...or do we??

- Direct Costs
 - Indirect Costs
 - Fixed Costs
 - Variable Costs
-
- Do we need to look at the next present value of risk?
 - Do we need to look at the way capital reserves are handled in the privates versus the publics?

So how do we determine “net revenue”

- Direct costs are those readily identifiable costs directly associated with the operation of the dental clinics. These costs may include any of the following types of cost:
 - 1) Salaries and wages, including associated employee benefits
 - 2) Supplies and other general expenses
 - 3) Malpractice insurance
 - 4) Laundry and linen
 - 5) Equipment and building depreciation
 - 6) Interest
 - 7) Recharges from other University functions

Page 2 ...So how do we determine “net revenue”

- Indirect costs are those costs, that can be identified as indirectly benefiting dental clinic operations. Such costs are generally recorded in a dental school, teaching hospital, or general campus general ledger account. Some examples are the following:
 - 1) Plant operation and maintenance costs, e.g., costs of utilities, security, repairs, elevators, and refuse disposal.
 - 2) Housekeeping costs, e.g., costs of general cleaning and waxing.
 - 3) Transportation costs, e.g., costs of shuttle operations between University locations.
 - 4) Administration costs, e.g., costs of personnel office, accounting, purchasing, data processing.
- Indirect costs shall be allocated to patient service centers in accordance with generally accepted cost allocation procedures.

WHAT ARE THE FIXED COSTS?

- Fixed costs are those costs that remain constant regardless of the volume of services rendered.
- What does the fixed cost curve look like for most of our dental schools?
- Do we have incrementally increasing fixed costs assigned to the clinics based on usage?

How do we allocate costs once we have identified them?

- **Allocation of Overhead Costs**
 - Determine the amount of the cost amount.
 - Determine the cost driver.
 - Identify the recipients of the overhead service and the amount of service provided.
 - Calculate the allocation rate.
 - Determine the allocation amount.

Examples of allocation-

- ❑ Public safety costs-
- ❑ Housekeeping costs-
- ❑ Capital improvement costs-
 - ❑ what drives the expense?
 - ❑ how do you allocate the cost to a unit/activity within the school of Dentistry?
 - ❑ Is this a constant allocation method?

So where is your “apple”



- “apples to apples” comparisons are very difficult.
- Net revenue is difficult to determine.
- There are 64 dental schools and while we may all be “apples” we cannot seem to find our “pear”....!

A closer look at the “apple”



- Total revenue produced by the predoctoral clinics.
- Supervision costs of preceptor clinician faculty.
- Materials, lab fees, supplies, etc.
- Allocation of central expenses using a variety of allocation formulas based on square footage, number of clock hours, relative time spent in the academic program, etc.
- Clinical support staff – allocation of costs based on transaction numbers.
- Malpractice costs, based on transaction numbers.
- Expressed as a factor relative to collected revenue.
- - conservatively calculated to be = to 2.80