

RCM-GAAP Crosswalk Explanation

Penn uses Responsibility Center Management (RCM) as its managerial framework for internal budgeting and financial reporting activities. RCM promotes the broad stewardship of financial resources and enhances Penn's capacity to generate revenue by encouraging and rewarding innovation and efficiency. To comply with external reporting requirements, Penn's financial performance is reported in accordance with Generally Accepted Accounting Principles (GAAP).

A key distinction in accounting treatment is that RCM measures performance on a cash basis, while GAAP shows results on an accrual basis. The bottom line operating measure in RCM is *Operating Surplus or Deficit*, representing the increase in cash for use in future periods or the use of prior period balances in the current period. In GAAP, the bottom line operating measure is *Increase or Decrease in Net Assets from Operations*.

The primary differences between RCM and GAAP by operating statement category are as follows:

Student aid: RCM treats all student aid as expense. For GAAP purposes, certain grants and scholarships are treated as contra-revenue and other aid is treated as expense. In addition, RCM reports payments for pre-doc trainee and educational fellows as salaries whereas GAAP considers such payments student aid expense.

Contributions (or gift income): RCM recognizes contribution revenue upon the receipt of operating, unrestricted and temporarily restricted endowment, and capital gift payments. For GAAP purposes, contributions include the receipt of unrestricted gifts and the reclassification of restricted operating gifts once payment has been received and donor restrictions have been met. GAAP treats gifts to true endowment and to capital gift funds as non-operating revenue.

Investment income: RCM investment income includes endowment payout distributions and the income earned on other investment funds. GAAP investment income includes unrestricted income and the reclassification of restricted investment income once donor restrictions have been met. GAAP also includes a gross-up to account for the portion of investment income that is used to fund external investment management fees.

Transfers from Health System: RCM considers all Health System transfers as supporting operations. GAAP distinguishes between operating and non-operating transfers.

Total compensation: RCM total compensation includes employee benefits based on employee benefits rates, which take into account prior year over- or under-recovery. Under GAAP, the employee benefits portion of total compensation reflects benefit expenses.

Current expense: RCM current expense includes employee benefits costs that are counted in GAAP total compensation. GAAP current expense includes external investment management fees that are excluded from RCM (corresponding to the gross-up of investment income) and also includes certain expenses that are treated as capital transactions under RCM.

Capital transactions: RCM capital transactions include interest expense, capital equipment purchases, and the funding of capital projects. GAAP capital transactions are limited to interest expense.

Depreciation: RCM recognizes the cost of capital assets when they are funded, and therefore does not include depreciation as an operating expense. GAAP records asset purchases on the Statement of Financial Position and then recognizes annual depreciation expense as a cost of operations on the Statement of Activities.