



Responsibility Center Management

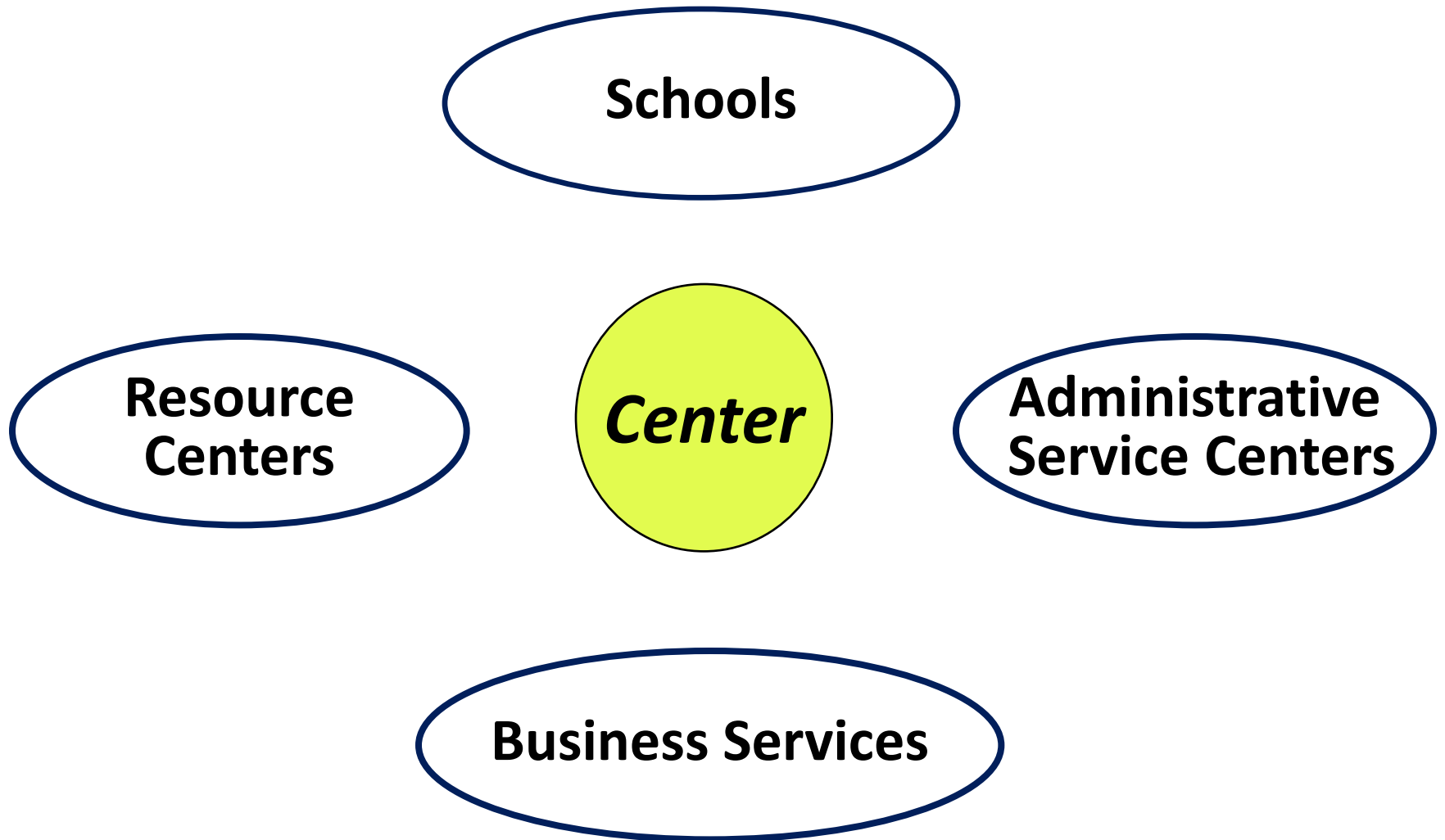
Responsibility Center Management

- Known as RCM, it is the managerial framework for our internal budgeting and financial reporting activities
- Created at Penn in the early 70s when the University was close to bankrupt, RCM was designed to control expense, but has proven to be an even stronger driver of revenue
- RCM seeks to promote the broadest possible stewardship of financial resources and to
 - Enhance Penn’s capacity to generate revenue
 - Encourage and reward innovation and efficiency
- Schools and centers benefit from entrepreneurial activity: incentives are aligned to promote stewardship and revenue generation

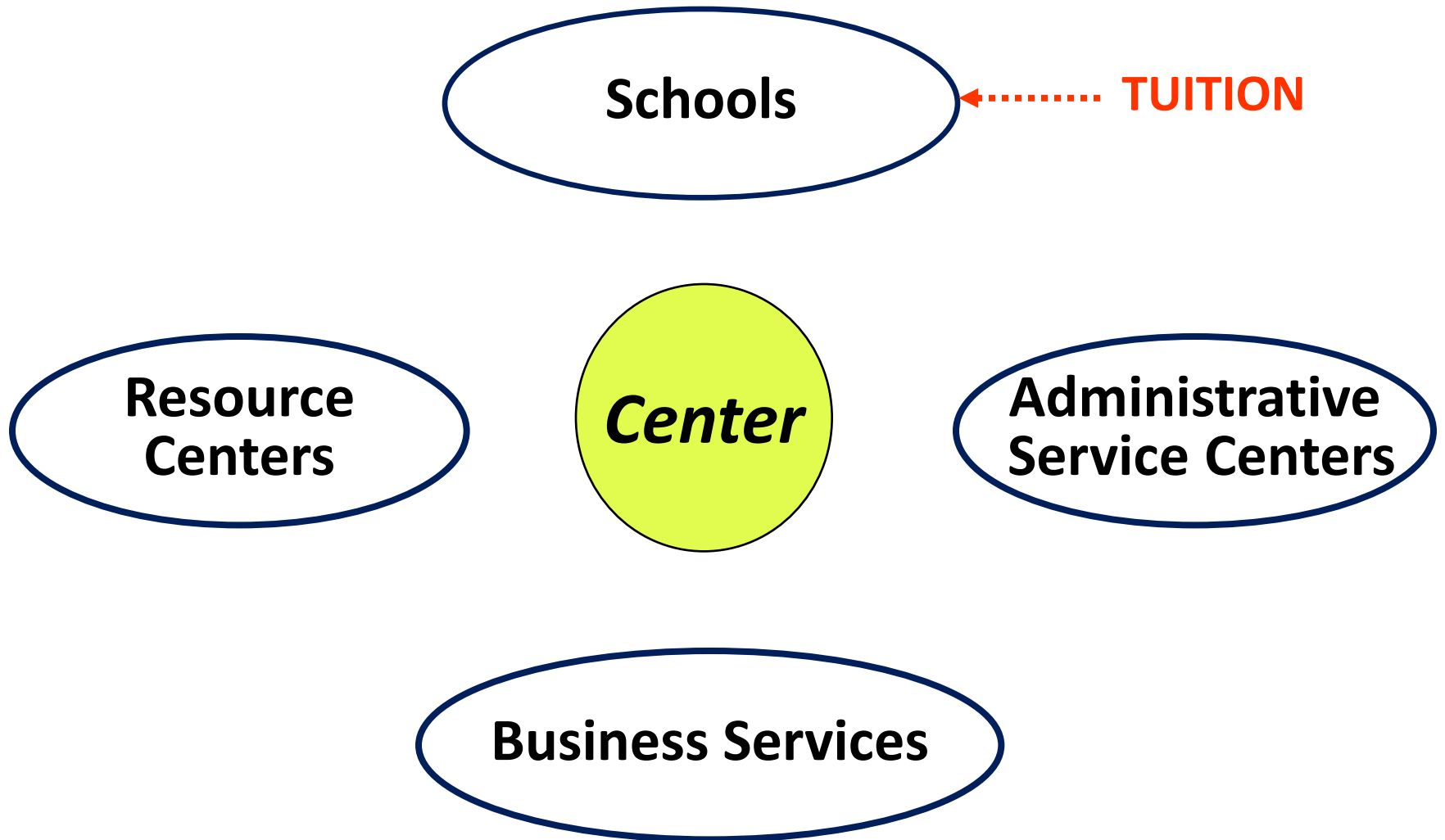
General RCM Principles

- The University is divided into **Responsibility Centers**. There are two basic types of Centers:
 - Revenue-generating: Schools, Resource Centers, Business Services
 - Non-revenue-generating: Administrative Service Centers
- Revenue-generating centers are expected to:
 - fund the direct cost of their own operations
 - cover their share of services provided by the Administrative Service Centers (via Allocated Costs)
 - maintain internal budget balance

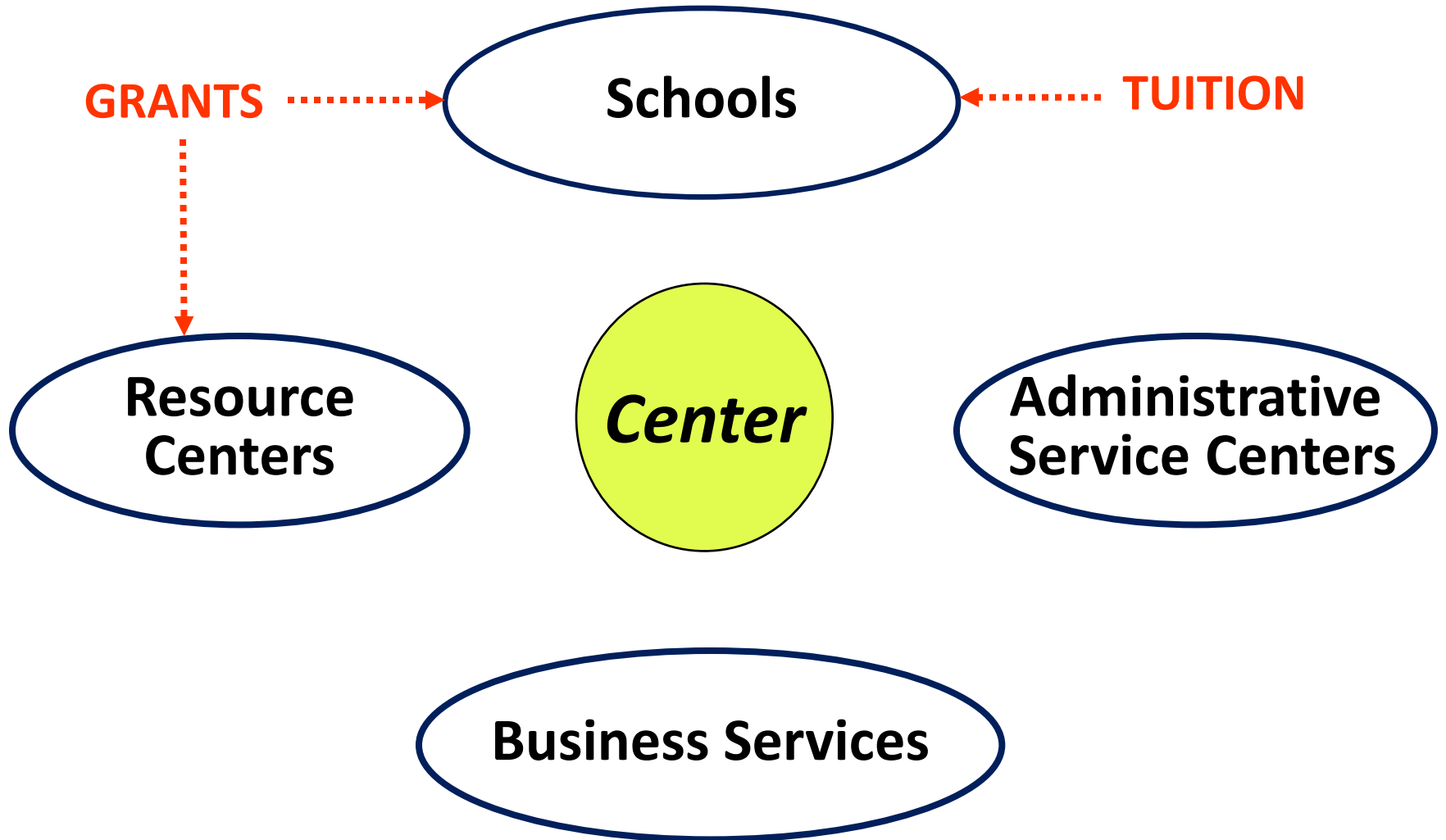
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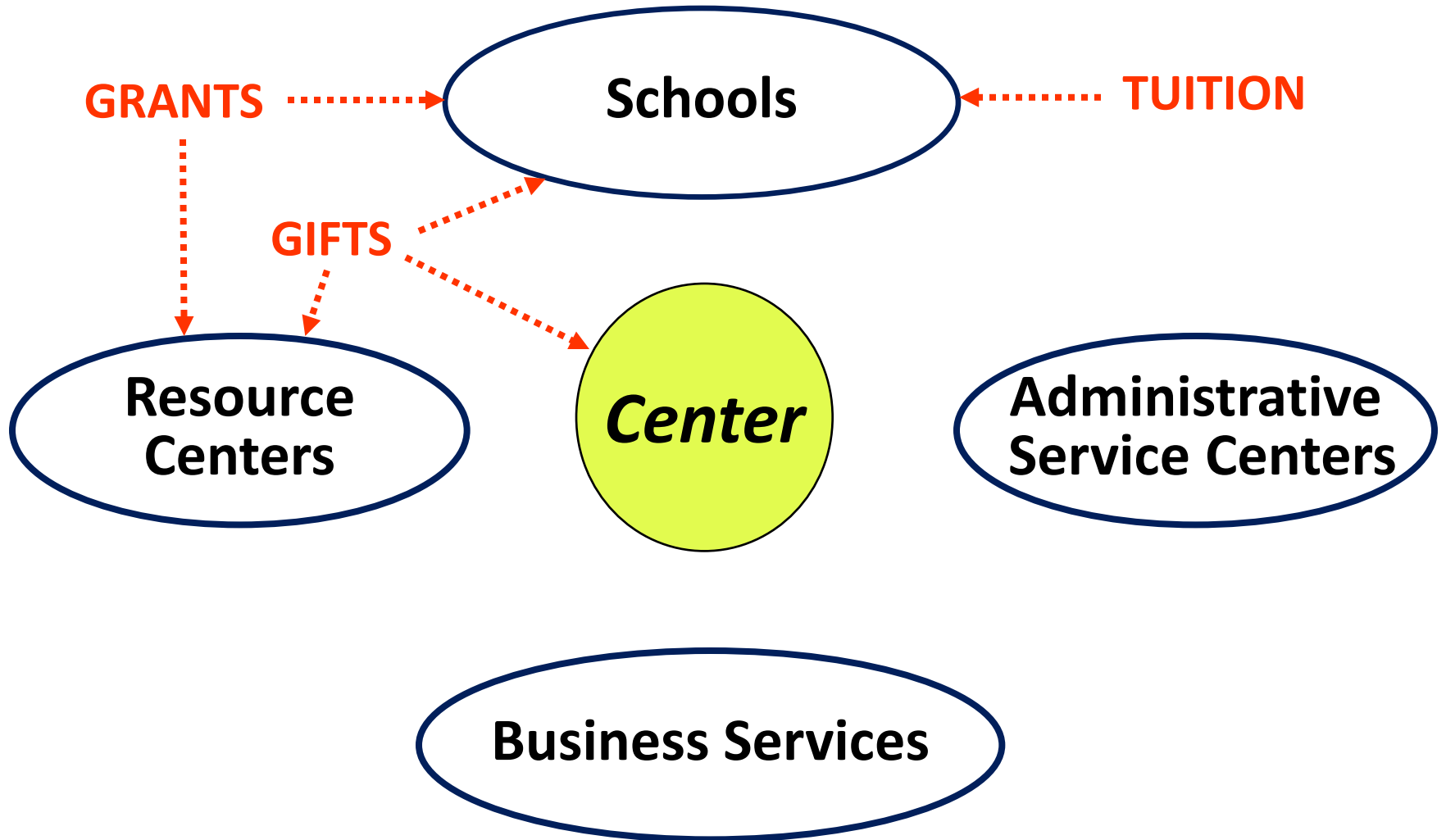
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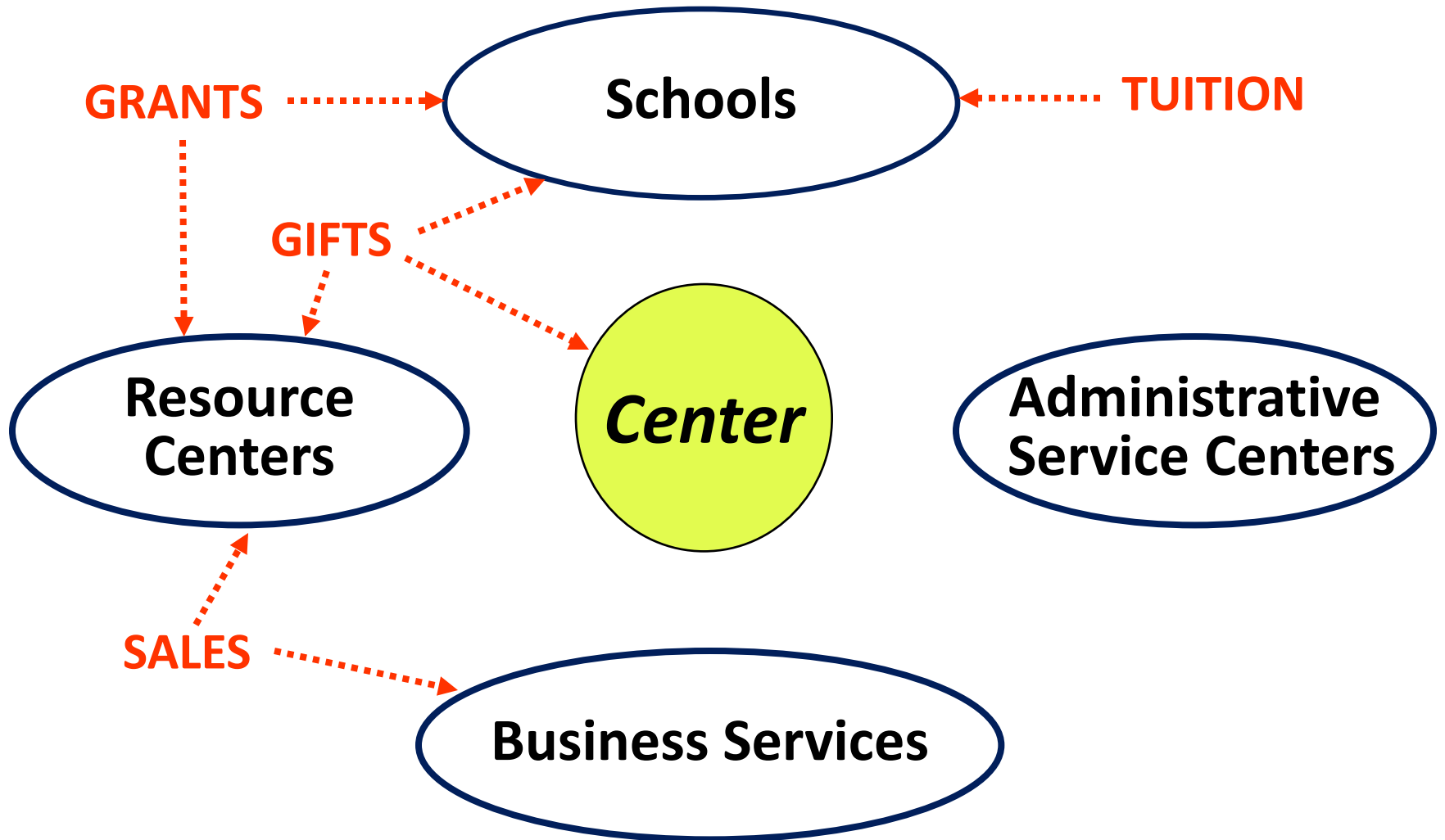
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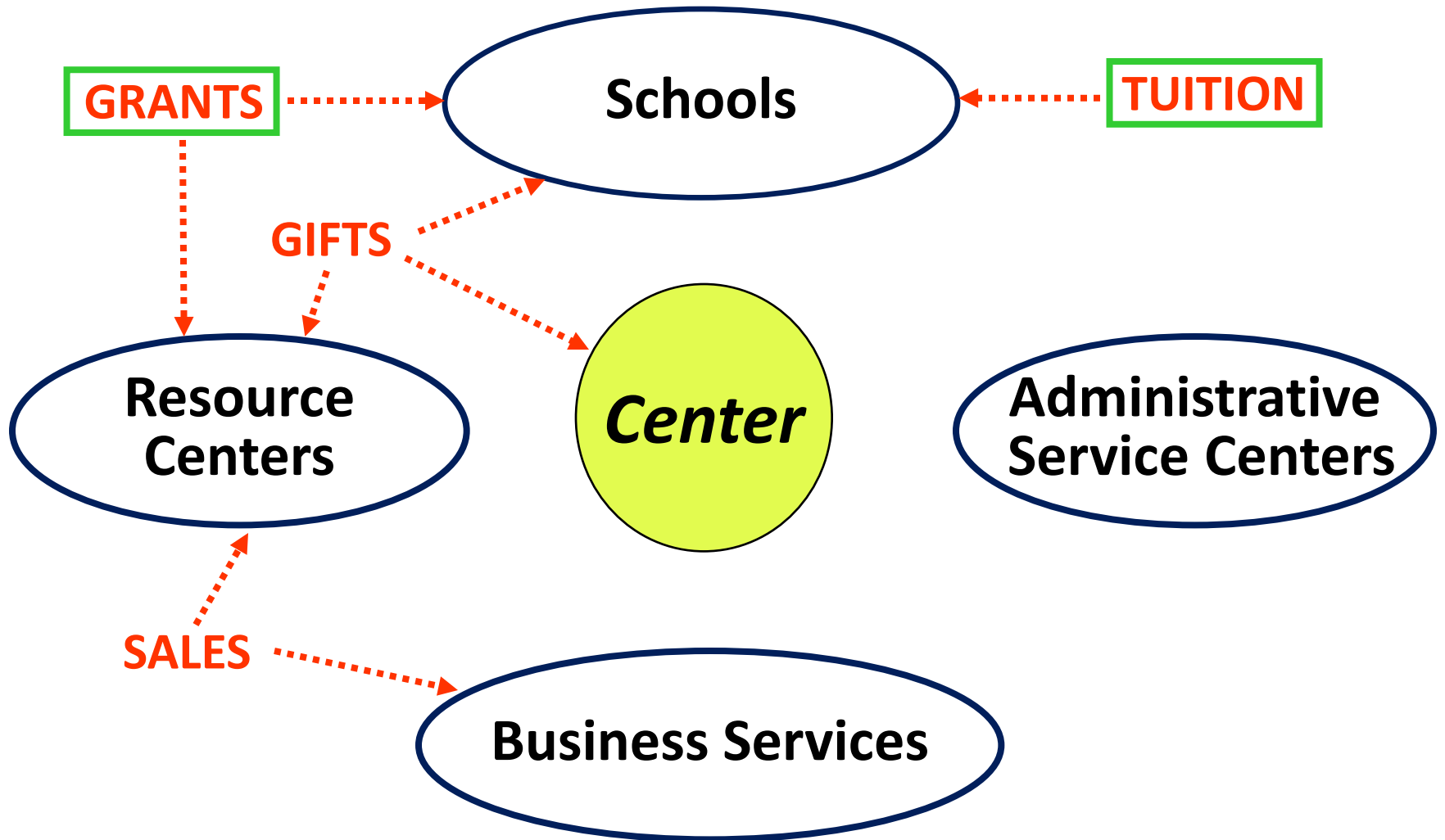
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Tuition Allocation Under RCM

Allocation of Tuition

20%	Subvention Pool
20%	Home School
60%	Allocated to Schools based on Course Units taken (Teaching School)

Allocation of Student Aid Expense

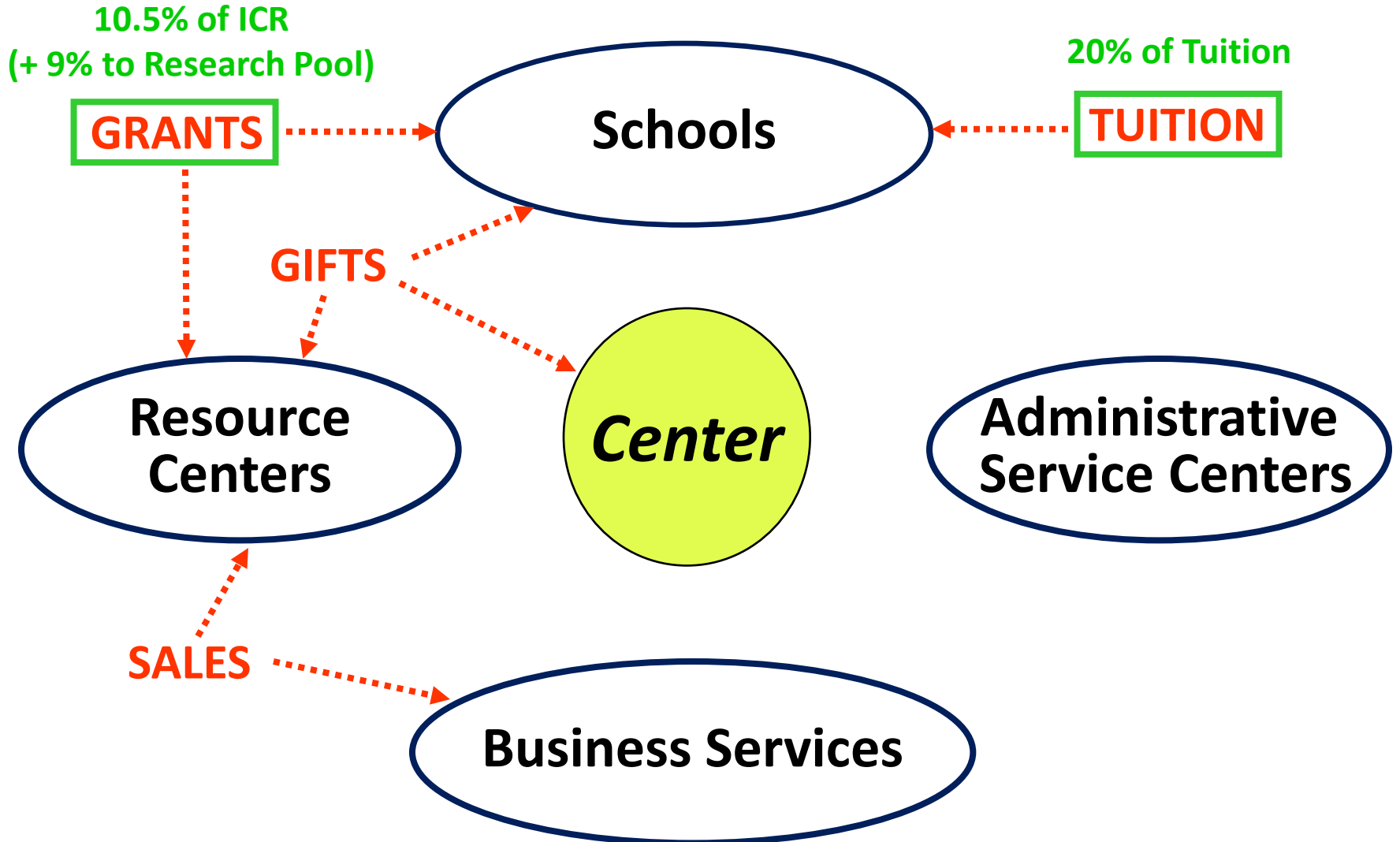
For Undergraduates, a financial aid discount (34.5% in FY2012) is subtracted from the home school and teaching school portions of the distributed tuition to fund financial aid.

For Graduate and Professional Students, student aid is determined by the home school and the expense is retained by the home school.

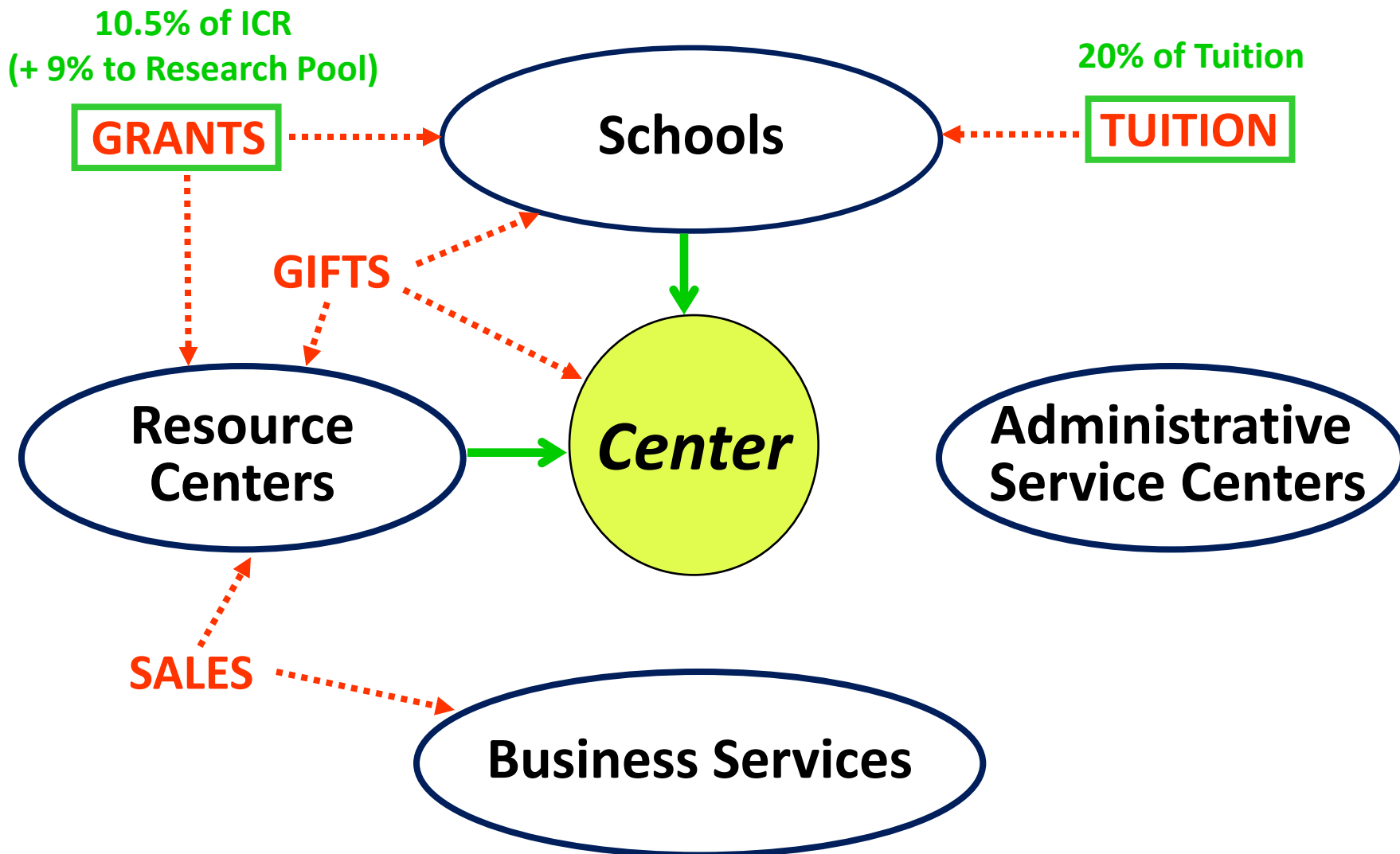
Indirect Cost Recovery Allocation Under RCM

- For each \$1 of direct expenditures under federal grants, Penn currently receives an additional 60¢ to cover its research overhead.
- Many non-federal grants do not provide full indirect cost recovery (ICR)
- Research ICR income is allocated at Penn as follows:
 - 80.5% Dean's office of the school receiving the grant
 - 10.5% Subvention Pool
 - 9.0% Central Research Support Services
 - Office of the Vice Provost for Research
 - Office of Research Services
 - Office of Environmental Health/Radiation Safety
 - Office of Regulatory Affairs
 - University Lab Animal Resources (ULAR)
 - Research Facilities Development Fund (RFDF)

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■ To Subvention

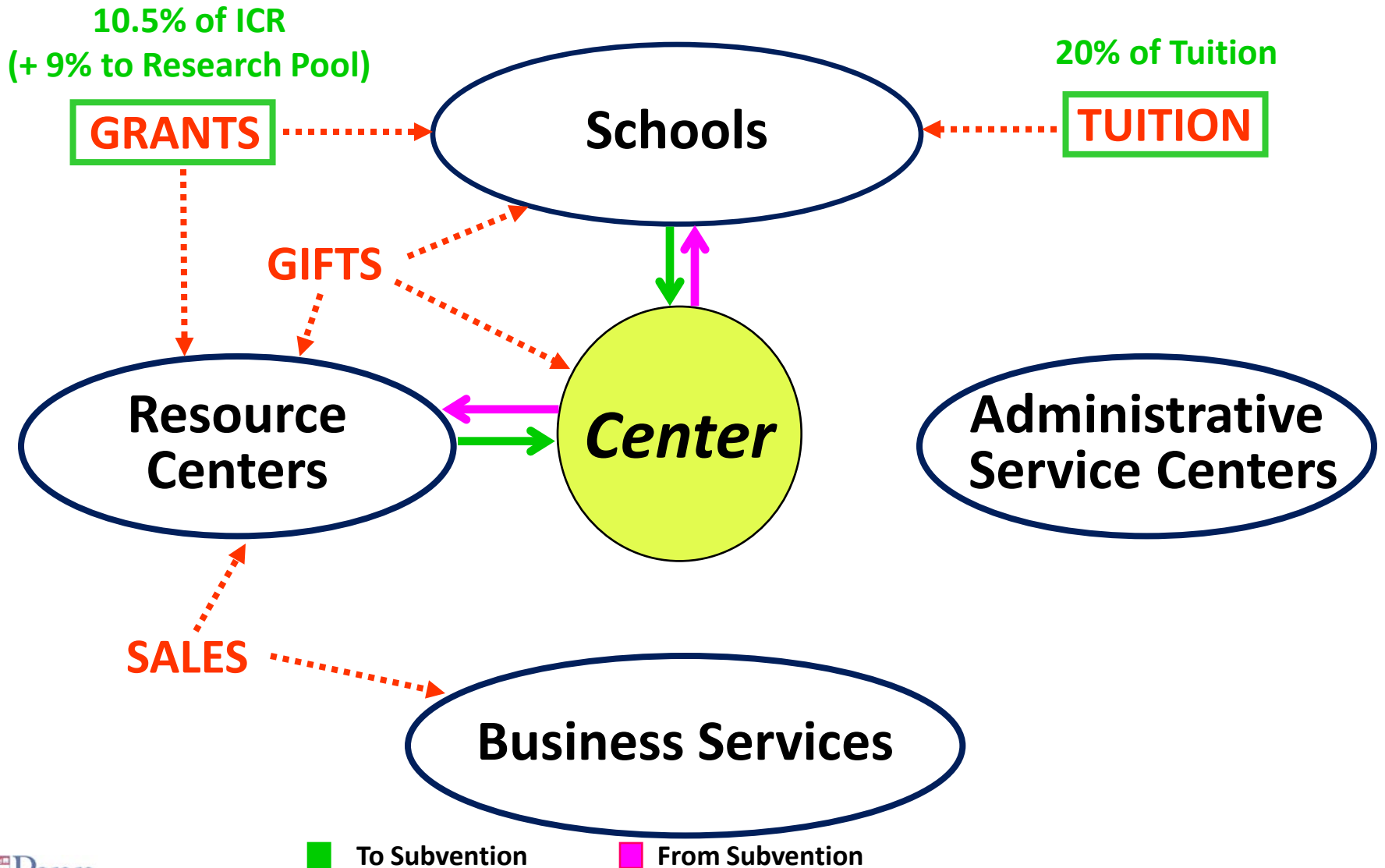
Treatment of Other Revenue

- All Revenue other than Tuition and Indirect Cost Recovery remains in the school or center which generated the revenue
- Sales and Service Revenue and Other Income (e.g. clinical revenue) cover the costs of the good or service provided, with any balance used to support School operating expenses
- Income from restricted endowment and program gifts are typically subject to an indirect cost recovery policy which provides that a portion of these gifts be retained by the school or center, to be applied to offset the full costs associated with the specific restricted gift purpose. No more than 20% of gift or spendable endowment revenue is used by the school to support the indirect expenses of the program while 80% is used to fund the direct expenses of the program.

The Subvention Pool

- Funded primarily through 20% of tuition income and 10.5% of grant overhead.
- Allocated by the Provost and the President.
- Is directed back to the Schools, the Resource Centers, and academic initiatives as directed by the President's Office and the Provost's Office. The majority of the subvention pool is committed as program regular subvention and graduate student support to the schools.
- Gives the Provost and President some ability to influence and direct the development and implementation of academic priorities at Penn

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Funding the Administrative Centers

- In order to maximize efficiency and lower administrative costs, Penn provides a number of services centrally for the benefit of the schools and resource centers. Those services are paid for either through direct internal charges, or via Allocated Cost and Space Charges.
 - Internal Charges: direct charge for services whenever possible (telephone, network connections, building security guards)
 - Allocated Cost and Space Charges: When measuring the discrete delivery of services by the Administrative Centers is conceptually difficult or prohibitively costly, Administrative services are funded through the use of formulas that allocate a total cost pool among the service recipients.

Allocated Cost and Space Charges at Penn

Allocated Cost Charges

- **University Services**

Allocated based on average direct expenditures of the paying Schools/Centers over the past 4 years

- **Development & Alumni Relations**

Allocated based on fundraising receipts over the past 3 years and number of living alumni at the end of the fiscal year

- **Library**

Allocated based on the relative number of faculty and graduate/professional students in each School and the number of UG course units taught by each Responsibility Center

Space Charges

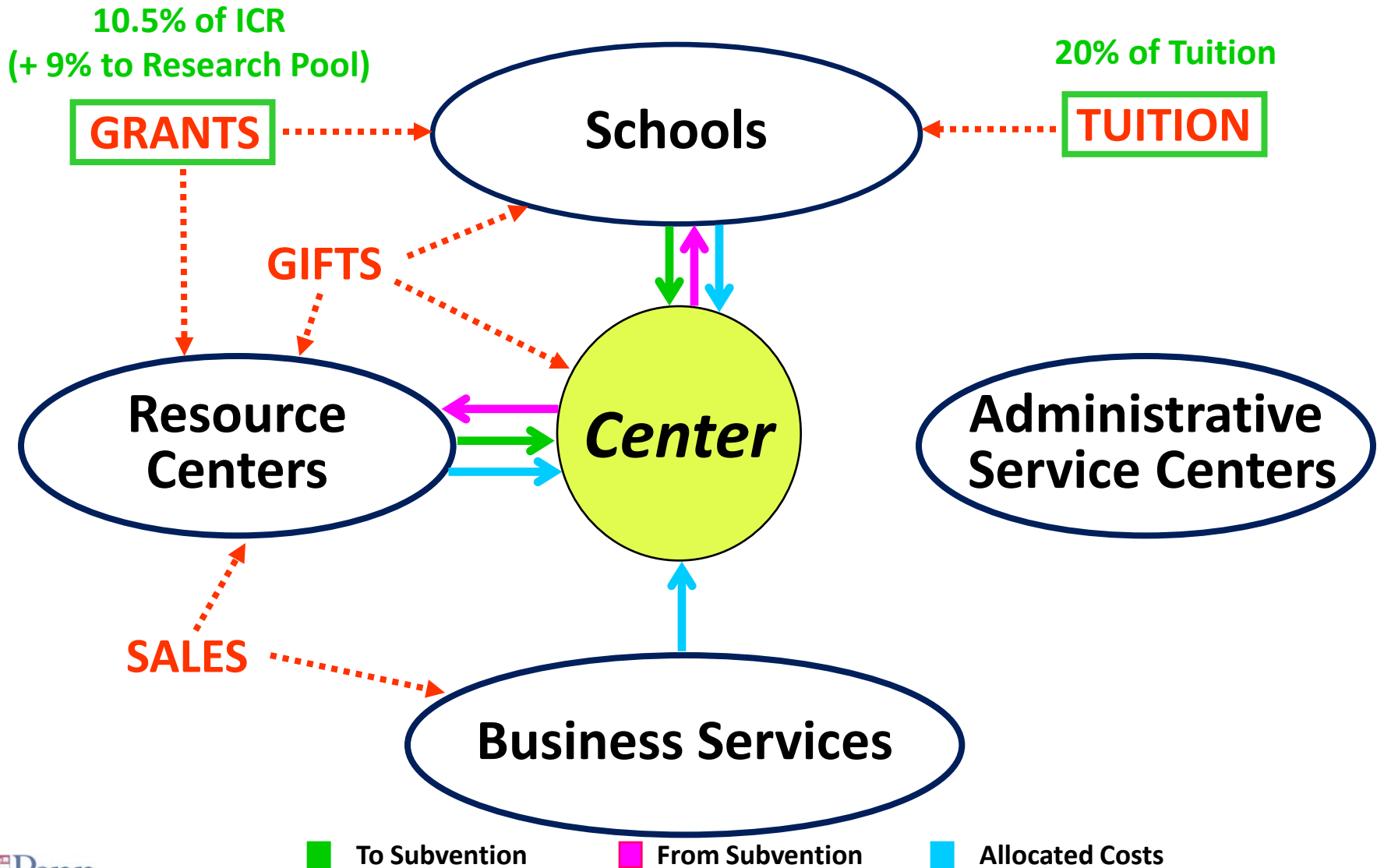
- **Operations and Maintenance, including Utilities**

Allocated based on average actual O&M expenditures per building (including pro-rated share of public spaces and Facilities central overhead costs) over the past 4 years

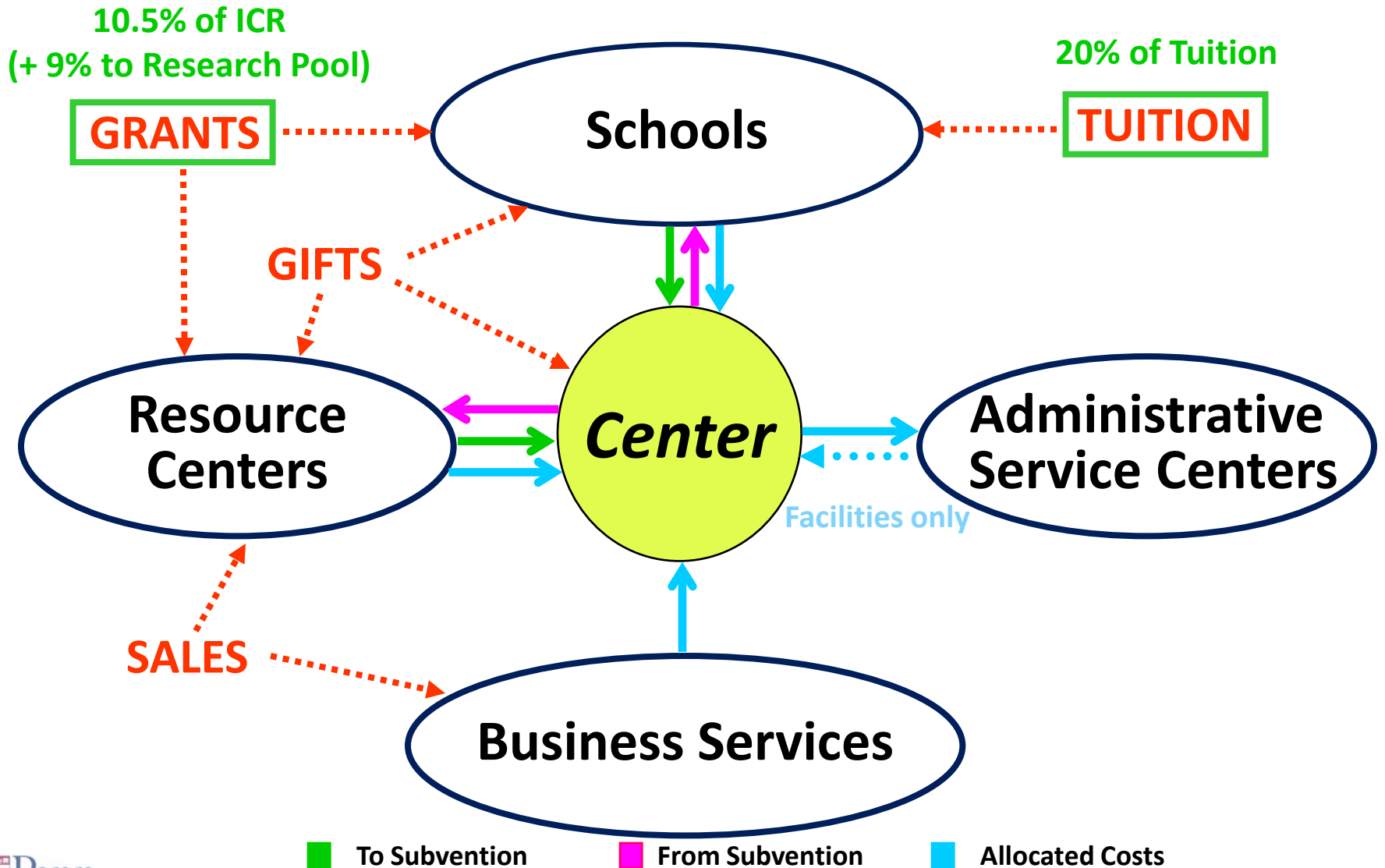
- **Facilities Renewal**

Allocated based on estimated replacement value of each building occupied by a paying School/Center

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What Are The Benefits of RCM?

- RCM promotes
 - Disciplined financial decision making
 - Schools are responsible for their own bottom line
 - Entrepreneurial activity
 - Schools retain the majority of the revenue they generate, and reinvest it in their highest priorities
 - Shared Fundraising
 - Deans are actively engaged in fundraising for school and cross-University priorities
 - A Culture of Accountability
 - Tuition revenue is distributed in large measure based on course units taught
 - Space charges are directly tied to occupancy and costs
 - Administrative units are funded via transparent algorithms
 - Schools recognize the full costs of their programs

How do RCM and GAAP differ?

	RCM	GAAP
Gifts	Recorded as revenue at time of payment	Recorded as revenue at time of pledge
Capitalized equipment	Fully expensed in year of acquisition	Depreciated over useful life
Depreciation on buildings	Not recognized	Recorded as expense of operations
Debt service	Interest and principal payments treated as expense	Only external loan interest is expensed
Capital project funding transfers	Treated as expense of operations	Not recognized
Transfers between Responsibility Centers *	Impact operating performance through addition or diminution of resources	Not recognized

* e.g., EB Pool charges, Allocated Cost and Space charges/funding, Subvention Pool contributions/receipts

In Conclusion, Some Things to Ponder

- How does Penn compete with our better endowed peers?
- How do we manage to rank in the top 10 when we are 57th in endowment per student?
- How do we have almost the same undergraduate tuition as Harvard when we fund 85% of our financial aid with unrestricted dollars, and Harvard funds 71% of its aid with endowment?

A very likely answer is

RCM