

REVENUE AND EXPENSE ALLOCATION PRACTICES

In thousands of dollars, unless otherwise noted

Case Western Reserve University (the “University”) operates under a decentralized structure with the philosophy that each management center is responsible for the planning and implementation of academic programs, revenue development and expense management. This concept is implemented with all revenue, except Undergraduate tuition revenue, and direct expense flowing to their respective management center. Because not all revenue or expense is directly developed by a school, allocation rules assign certain revenue and indirect expense for support services. The operating principle guiding these rules is that they fairly assign revenue or expense as a proxy for actual direct generation of revenue or occurrence of expense.

ALLOCATION CHANGES

In 2018, the University Budget Committee formulated three changes to the RCM budget model for revenue and expense allocation that were approved for implementation. The changes were recommended to simplify certain aspects of the RCM model, foster collaboration and match revenue with associated expense. The changes focus on the calculation of Undergraduate Tuition revenue allocation, Graduate and Professional Tuition assignment and indirect expense allocation. These changes, as explained below, were implemented over a two-year period beginning in 2019. The full effect of these changes are recognized in 2020.

Undergraduate Tuition Revenue

15% of Undergraduate Tuition revenue will be assigned based on the average proportion of majors awarded during the previous two fiscal years. In the event that a student graduates with multiple majors, each major will represent a portion of a full major, up to three majors per graduate. Previously, 15% of net Undergraduate Tuition revenue was assigned based upon the average proportion of baccalaureate degrees awarded during the previous two fiscal years.

Graduate and Professional Tuition Revenue

Beginning in 2019, credit hours taken in a school outside a student’s home school will be assigned to the school teaching the credit hours for purposes of partial tuition revenue allocation. The rate used to calculate the Tuition assignment will be \$750 per credit hour in 2019, increasing at the same rate as the increase in Graduate Tuition revenue in subsequent years. Historically, Graduate and Professional Tuition revenue was assigned to the school in which the student was registered in a degree program.

Indirect Expense Allocation

Historically, each school is allocated a share of the costs to provide central and support services. These expenditures are categorized as Library, Student Services, Plant Services, Information Technology Services and University Services and are recorded in each budget summary as indirect expense. Each category of Indirect Expense includes several cost drivers and resulting calculations to allocate expenses among the schools. Beginning in 2019, a portion of indirect expenses will be allocated using five historical cost drivers: Undergraduate full-time equivalent enrollment, total student headcount, faculty and staff headcount, square footage of academic buildings, and total direct expenses. Indirect expenses allocated for libraries and utilities will remain consistent with the historical calculation.

REVENUE ASSIGNED

Tuition

Graduate and Professional Tuition is assigned to the schools in which the student is registered as a degree student. Beginning in 2019, certain changes were implemented in Graduate and Professional Tuition assignment, as explained in the Allocation Changes portion of this appendix. Any program exemptions from this model must be approved through a formal process administered by the University Budget Committee.

Undergraduate Tuition is assigned to those schools that teach undergraduates, primarily the College of Arts and Sciences, the Case School of Engineering, Weatherhead School of Management and the Frances Payne Bolton School of Nursing. SAGES tuition is distributed to the units teaching those courses. Tuition revenue, net of unfunded financial aid, is distributed among the schools as follows: 85% is assigned based upon the proportion of undergraduate student credit hours taught by each school in 2017 and 2018; the remaining 15% is assigned based upon the proportion of baccalaureate majors of the graduating students in 2017 and 2018. Beginning in 2019, certain changes were implemented in Undergraduate Tuition assignment, as explained in the Allocation Changes portion of this appendix.

Undergraduate tuition assignment is based on: 5,125 students, average for the academic year 29.6 credit hours/student 1,350 first-year students	Undergraduate Tuition Revenue	\$ 244,182
	Less: Contingency	(1,000) *
	Less: Unfunded Student Aid	(113,316) *
	UG Tuition Distributed to Schools	\$ 129,866
	Regular Credit Hour Distribution	\$ 101,104
	SAGES Credit Hour Distribution	9,282
	Majors Granted Distribution	19,480
	Total UG Tuition Distribution	\$ 129,866

* 100% assigned to UGEN

Undergraduate tuition revenue is distributed using the average credit hours taught by the management center in 2017 and 2018 to calculate the percentage distribution. The majors of the graduating students is an average of 2017 and 2018. The data used to generate these averages is available on the Office of Budget and Financial Planning website: case.edu/financialplanning/operating-budget

Undergraduate Tuition Distribution and Total Revenue:

	Regular Credit Hour Distribution	SAGES Credit Hour Distribution	Majors Granted Distribution	Total Tuition Distribution
CAS	\$ 53,748	\$ 3,299	\$ 7,176	\$ 64,223
CSE	27,641	1,279	7,894	36,814
WSOM	11,838	500	2,469	14,807
MSASS	150	-	-	150
LAW	3	119	-	122
DENT	-	58	-	58
NURS	4,222	288	1,189	5,699
CSOM	3,502	55	919	4,476
UGEN	-	3,684	(167)	3,517
TOTAL	\$ 101,104	\$ 9,282	\$ 19,480	\$ 129,866
Unfunded Aid				113,316
Contingency				1,000
TOTAL UNDERGRADUATE TUITION REVENUE				\$ 244,182

Endowment

Endowment funds are classified as belonging to a school or University General, and largely pooled for investment purposes. The amount or payout rate made available from the pool to operations each year is approved by the Trustees and considers not only current operational needs, but also long-term interests of intergenerational equity for future endowment beneficiaries. For 2020, the payout rate for the current year spending pool allocation is 4.70%. In addition, the Trustees approved a continuing supplemental distribution of \$6.0 million. Endowment revenue is allocated based on the market value of funds as of June 30, 2018. Revenue from new gifts and/or additions to existing gifts will be allocated one year after receipt. The revenue from a small number of endowment funds jointly shared by the schools teaching undergraduates is assigned based upon undergraduate credit hours taught. Funds Held by Others (FHBO) and Un-pooled funds are managed outside the University's pooled investment and are not considered in the spending allocation. Income generated by FHBO and Un-pooled funds is sent to the University, then distributed to the appropriate management center(s).

	Current Year Allocation	Prior Year Income *	FHBO	Un-pooled	Less: Unused Current Year Income	Total
CAS	\$ 12,560	\$ 961	\$ 2,930	\$ -	\$ (626)	\$ 15,825
CSE	9,876	690	264	-	(963)	9,867
WSOM	3,474	1,598	361	1,611	(1,874)	5,170
MSASS	2,373	191	-	-	(93)	2,471
LAW	4,056	(17)	572	145	(75)	4,681
DENT	677	65	1,072	-	(76)	1,738
NURS	3,933	211	-	1,491	(70)	5,565
CSOM	17,846	3,022	9,175	-	(1,275)	28,768
UGEN	13,072	2,487	1,785	-	(1,449)	15,895
TOTAL	\$ 67,867	\$ 9,208	\$ 16,159	\$ 3,247	\$ (6,501)	\$ 89,980
Supplemental Distribution - Philanthropic and general support						6,000
TOTAL ENDOWMENT REVENUE						\$ 95,980

* Includes temporarily restricted, funds functioning as endowments and board-designated funds for LAW.

Other Revenue

All other revenue is developed directly by the schools' efforts and the schools receive full credit for sums received. Revenue generated for the University as a whole is attributed to University General. Revenue shown as restricted is only to be used by a particular school or for a particular purpose. Restricted revenue (restricted endowment, research and training grants, and restricted gifts) supports "funded" expense. In these instances, revenue is recognized as the matching expense is incurred. All other revenue is unrestricted and flows directly to the management center that generated the revenue. This revenue is recorded when received and supports a school's unrestricted and "indirect" expense.

INDIRECT EXPENSE ASSIGNED

Each school incurs operating expense that appears in the budget as "Direct Expense." These expenditures include faculty, staff and student salaries, fringe benefits, graduate and professional student aid, and non-salary expense. In addition, each school is allocated a share of the expense to provide central and support services. These expenditures are categorized as Library, Student Services, Plant Services, Information Technology Services and University Services and are recorded in each budget summary as indirect expense.

Indirect Expense Simplification

Beginning in 2019, certain changes were implemented in Indirect Expense assigned, as explained in the Allocation Changes portion of this appendix. The change reduced the number of cost drivers to five and retained the current Library allocation and the current Utilities Non-salary cost allocation. In summary, Indirect Expense is allocated using the following cost drivers:

Cost Driver	Indirect Expense Proportion
Undergraduate FTE	9.8% of Remaining Indirect Expense
Student Head Count	14.7% of Remaining Indirect Expense
Faculty/Staff Count	2.9% of Remaining Indirect Expense
Square Footage	19.4% of Remaining Indirect Expense
Direct Expense Percentage	31.7% of Remaining Indirect Expense
Current Utilities Non-salary Allocation	Historical Calculation
Current Library Allocation	Historical Calculation

The data used to calculate the expense allocation represent a sub-set of existing cost drivers historically used to calculate the Indirect Expense allocation. The final Indirect Expense allocation, as shown below, is not reported in the Operating Statement as a single line item for each management center. For comparability with prior years, we have retained the former Indirect Expense allocation, as described within this appendix. Any reconciling differences between the historical Indirect Expense allocation and the below Indirect Expense allocation are reflected in the University Services cost pool on the Operating Statement.

Indirect Expense Allocation									
	Under-grad	Student	Faculty/	Square	Direct Expense	Utilities	Library	Total	
	FTE	Headcount	Staff Count	Footage	Percentage	Non-salary	Allocation	Allocation	
CAS	\$ 9,475	\$ 7,838	\$ 692	\$ 7,130	\$ 7,241	\$ 2,596	\$ 3,373	\$ 38,345	
CSE	5,228	5,258	555	7,224	7,812	3,308	2,313	31,698	
WSOM	2,018	3,931	271	2,254	4,530	692	1,649	15,345	
MSASS	23	1,097	244	770	2,315	231	663	5,343	
LAW	16	1,488	139	1,472	3,176	404	2,841	9,536	
DENT	5	1,009	314	1,869	2,608	1,010	461	7,276	
NURS	851	1,805	273	989	2,272	516	731	7,437	
CSOM	505	5,014	2,918	15,164	29,947	13,645	2,915	70,108	
UGEN	504	347	-	-	-	-	86	937	
TOTAL	18,625	27,787	5,406	36,872	59,901	22,402	15,032	186,025	
HEC Expense								7,618	
Revenue Offsets								26,855	
TOTAL INDIRECT EXPENSE ALLOCATION								\$ 220,498	

Library

Library includes the operation of the University Library, Health Science Library, Law Library, and the MSASS Library. 75% of the University Library expense is distributed to the core colleges – CAS, CSE, WSOM and a small portion to NURS to recognize support of the BSN program. The remaining 25% is distributed to the other schools. 75% of the Health Science Library expense is distributed to CSOM, DENT, and NURS, with 25% assigned to the other schools. MSASS supports 75% of its Library with the balance distributed to the other schools. LAW pays 100% of its own Library's expense; however, its share of the other Library expense is calculated without the inclusion of estimated materials expense in those Libraries because LAW covers the full expense for its own extensive materials collection. The allocation uses un-weighted student, faculty, and staff counts.

The data used to determine each Library expense is available on the Office of Budget and Financial Planning website: case.edu/financialplanning/operating-budget

Library Expense Assigned, by Management Center:

	University Library	Health Science Library	MSASS Library	Law Library	Total Library Allocation
CAS	\$ 3,093	\$ 238	\$ 42	\$ -	\$ 3,373
CSE	2,121	163	29	-	2,313
WSOM	1,512	117	20	-	1,649
MSASS	226	39	398	-	663
LAW	159	62	8	2,612	2,841 *
DENT	228	226	7	-	461
NURS	456	265	10	-	731
CSOM	1,444	1,427	44	-	2,915
UGEN	-	-	86	-	86
TOTAL	9,239	2,537	644	2,612	\$ 15,032
Unallocated Library Expense (100% to UGEN):					
Endowment Support					989
Revenue Offsets					401
UGEN Strategic Savings					(344)
TOTAL LIBRARY	\$ 9,239	\$ 2,537	\$ 644	\$ 2,612	\$ 16,078

* Law School contribution to other libraries is calculated using the non-materials portion of library budgets.

Student Services

Student Services include the expense associated with the following operations: Enrollment Management, Undergraduate Studies, Financial Aid, Registrar, Student Affairs, Career Planning, Educational Support Services, Thwing Center, International Students, Education Abroad, Minority Programs, Physical Education and Athletics, UCITE, SOURCE and the Dean of Graduate Studies. The expense associated with the SAGES program (net of the tuition generated by non-school based lecturers) is included in this category and is allocated on the basis of SAGES credit hours taught.

Most Student Services expense is assigned on the basis of the students benefiting from the program or service. Several programs are believed to have an overall University purpose and are assigned using the two-year average direct expense methodology. The student numbers used in the assignment are an average of the 2017 and 2018 enrollment.

The Student Services expense for each management center is determined by student and faculty/staff head count. The data used to determine each Student Service expense is available on the Office of Budget and Financial Planning website: case.edu/financialplanning/operating-budget

Student Numbers used for the 2020 Budget, based on 2017 and 2018 average enrollment:

	Undergraduate FTE *	Undergraduate Headcount *	Graduate Full-Time	Graduate Part-Time	Professional Full-Time	Professional Part-Time	Total Head Count
CAS	2,591	2,649	497	44	-	-	3,190
CSE	1,430	1,461	598	113	34	1	2,207
WSOM	552	564	71	4	692	270	1,601
MSASS	6	6	32	3	523	116	680
LAW	4	4	-	3	578	20	605
DENT	1	2	108	-	302	-	412
NURS	233	238	50	4	211	232	735
CSOM	138	141	876	185	884	-	2,086
UGEN	138	141	-	-	-	-	141
TOTAL	5,093	5,206	2,232	356	3,224	639	11,657

*Percentage distribution for undergraduate full-time equivalency (FTE) and headcount uses two years' of credit hour data and is equal to the 2020 percentage distribution for net undergraduate tuition in schools. Graduate and Professional numbers are based on the Fall Semester enrollment statistics.

2020 Student Services Expense Assigned, by Allocation Methodology:

	Undergraduate FTE	Student Head Count	Graduate Student Head Count	Graduate/ Professional Head Count	University Services	SAGES	Faculty/ Staff Count	Weighted Average Student Headcount	Total
CAS	\$ 7,415	\$ 914	\$ 266	\$ 59	\$ 40	\$ 211	\$ 56	\$ 524	\$ 9,485
CSE	4,092	613	349	73	43	82	45	334	5,631
WSOM	1,580	458	36	112	25	32	22	221	2,486
MSASS	17	128	17	48	14	-	20	53	297
LAW	12	174	1	65	18	8	11	72	361
DENT	3	118	53	44	14	4	26	49	311
NURS	667	210	27	54	13	18	22	100	1,111
CSOM	396	584	521	206	165	3	238	200	2,313
UGEN	393	40	-	-	-	235	-	24	692
TOTAL	\$ 14,575	\$ 3,239	\$ 1,270	\$ 661	\$ 332	\$ 593	\$ 440	\$ 1,577	\$ 22,687
Unallocated Student Services (100% to UGEN)*									9,610
TOTAL STUDENT SERVICES									\$ 32,297

*Includes 100% of the UGEN Strategic Savings Plan.

Note: Graduate and Professional numbers are based on the Fall Semester enrollment statistics.

Plant Services

Plant Services include the expense for utilities (electricity, steam/gas, water/sewer, chilled water, and other services) and plant operations (custodial, building maintenance, security, and environmental health and safety). Utilities expense is assigned based on a weighted utilities rate. The rate is adjusted for the budget year to account for estimated changes in utility rates. An adjusted cost per square foot for utilities is calculated and multiplied by the gross square footage in each building.

Non-utility expense is assigned based upon the average remaining operating cost for all academic buildings in the University. The average cost per square foot is multiplied by the number of gross square feet assigned to each school or function. Utility and non-utility expense for parts of buildings used for indirect or support services (e.g. libraries, student services, or University administrative services), are first allocated to the support service and then reallocated through the appropriate basis.

Plant Services costs are distributed using ten separate allocation methodologies:

Category	Allocation Methodology
Direct Plant	Utilities and Space Charges
Administrative Space	University Service (Two-Year Average Direct Expense)
University Library	Total University Library Allocation
Health Science Library	Total Health Science Library Allocation
Student Services	Student Service Allocation Excluding Physical Education and SAGES Allocation
University Center	Total Headcount
Athletic Space	Total Physical Education Space Allocation
Shared Classroom	Undergraduate FTE Ratio
SAGES	Two-Year Average SAGES Credit Hours Taught
Waste Removal	Fixed Amount

Plant Services Allocation:

	Square Footage	% of Total	Total Direct Plant	Administrative Space	University Library	Health Science Library
CAS	591,143	19.4%	\$ 8,370	\$ 738	\$ 743	\$ 156
CSE	598,890	19.6%	9,157	797	404	85
WSOM	186,872	6.1%	2,517	462	298	62
MSASS	60,066	2.0%	854	253	47	23
LAW	122,013	4.0%	1,598	324	29	13
DENT	154,952	5.1%	2,681	266	53	131
NURS	81,998	2.7%	1,683	232	109	152
CSOM	1,257,158	41.2%	27,494	3,053	312	777
UGEN	-	0.0%	-	-	-	-
TOTAL	3,053,092	100.0%	\$ 54,354	\$ 6,125	\$ 1,995	\$ 1,399

	Student Services	University Center	Athletic Space	Shared Classroom	SAGES Allocation	Waste Removal (Fixed)	Total Plant Allocation
CAS	\$ 639	\$ 381	\$ 1,284	\$ 318	\$ 38	\$ 46	\$ 12,713
CSE	385	261	748	178	15	46	12,076
WSOM	168	186	352	71	6	-	4,122
MSASS	19	63	51	1	-	-	1,311
LAW	23	72	57	-	1	-	2,117
DENT	20	63	51	-	1	-	3,266
NURS	74	95	162	28	3	-	2,538
CSOM	152	399	381	17	1	373	32,959
UGEN	32	15	64	18	42	(465)	(294)
TOTAL	\$ 1,512	\$ 1,535	\$ 3,150	\$ 631	\$ 107	\$ -	\$ 70,808
Unallocated Plant (100% to UGEN)*							1,140
TOTAL PLANT							\$ 71,948

* Includes 100% of the UGEN Strategic Savings Plan.

The Plant Services expense for each school or area is determined by each building's utilities rate and square footage. Utility expense is assigned based on a weighted utilities rate. The estimated annual expense is assigned based on square footage. The cost for Plant Services other than utilities is \$9.768 per gross square foot. This expense is assigned based upon square footage. The data used to determine each total is available on the Office of Budget and Financial Planning website: case.edu/financialplanning/operating-budget

Information Technology Services (ITS)

Information Technology Services include the expense associated with establishing, maintaining, and providing services through the campus network, central information processing, research and academic computing, as well as the operations of the ITS division and the ERP Finance office. ITS expense is separated into four cost pools, each with its own distribution formula. The first pool, **Core Technology**, covers core network and infrastructure equipment, wiring and maintenance. It includes the debt service related to the deployment of this technology and is distributed on a square footage allocation, including a school's share of indirect space such as Library and Student Services space.

The **Instructional** component of the ITS budget is allocated using the two-year average student count. It includes support for academic technologies including Blackboard and Courseware lecture capture, the Student Information System, online learning programs and MOOCs, Active Learning Faculty Fellows, instructional design and other curriculum support. This component also includes the design, upgrade and operation of Technology Enhanced Classrooms and Active Learning Spaces, as well as the related debt service.

The expense associated with **Core Administrative** systems includes providing enterprise applications such as the HCM system, ERP Financial systems, Web Content Management, Identity Management and the software center. This component is distributed using the University Services distribution (a percentage of direct expense) and also includes related debt service on ERP system upgrades.

The remaining cost pool, referred to as **Infrastructure**, covers basic technology services including security, internet, email, servers, storage, voice and video communications, Help Desk and other network services. These services also include the support of research computing systems such as the High Performance Computing Cluster and the Secured Research Environment, as well as the related debt service. This expense is distributed using a faculty/staff/student count and utilizes the same counts used for the Library distribution.

The data used to determine each component of ITS expense is available on the Office of Budget and Financial Planning website: case.edu/financialplanning/operating-budget

Information Technology Costs Assigned, by cost pool:

	Core Technology		Instructional	Administrative	Infrastructure	Information Services
CAS	\$	522	\$ 892	\$ 382	\$ 5,475	\$ 7,271
CSE		503	600	413	3,784	5,300
WSOM		182	401	239	2,414	3,236
MSASS		62	110	131	827	1,130
LAW		106	169	168	1,049	1,492
DENT		129	117	137	1,461	1,844
NURS		84	164	120	1,260	1,628
CSOM		1,084	580	1,582	5,857	9,103
UGEN		3	39	-	221	263
TOTAL	\$	2,675	\$ 3,072	\$ 3,172	\$ 22,348	\$ 31,267
UGEN Strategic Savings Plan (100% to UGEN)						760
TOTAL INFORMATION TECHNOLOGY SERVICES						\$ 32,027

University Services

University Services include the general administrative expense associated with the following operations: Office of the President, Office of the Provost, International Affairs, Division of Finance, Office of Administration, Development and University Relations, Planning and Institutional Research, General Counsel, Technology Transfer and Research Administration and the Office of Inclusion, Diversity and Equal Opportunity. In addition, insurance expense, auditing, and other expense general to the operations of the University and not related specifically to programs of a particular school or function are charged in University Services to be allocated using the percentage of direct expense methodology. A two-year average, using the second and third years preceding the budget year, is used in the calculation; e.g. for Budget 2020, the average direct expense for 2017 and 2018. It should be noted that for this calculation, R&T expenditures based in the Cleveland Clinic Lerner College of Medicine (CCLCM), tuition expenditures associated with the CCLCM and expenditures related to CSOM off-campus locations have been deducted from the CSOM expense base. In addition, the cost of Dental kits purchased and re-sold to students has been deducted from the DENT expense base.

Certain University Services expense is not allocated to the schools because there are revenue streams that support the expense. This includes the portion of Development and University Relations expense covered by the supplemental distribution for campaign support.

University Services expense is allocated based on the percentage of direct expense averaged over a two-year period. Average direct expense data is available on the Office of Budget and Financial Planning website: case.edu/financialplanning/operating-budget

Direct Expense (adjusted)						University Services
	2017	2017	Average 2015-2016	% of Total		
CAS	\$ 72,357	\$ 75,257	\$ 73,807	12.1%	\$	5,503
CSE	80,211	79,047	79,629	13.0%		6,378
WSOM	46,164	46,204	46,184	7.5%		3,852
MSASS	24,004	26,540	25,272	4.1%		1,942
LAW	32,517	32,261	32,389	5.3%		2,725
DENT	26,560	26,613	26,587	4.3%		2,298
NURS	22,101	24,215	23,158	3.8%		2,216
CSOM	297,144	313,345	305,245	49.9%		24,521
UGEN	-	-	-	0.0%		-
TOTAL	\$ 601,058	\$ 623,482	\$ 612,270	100.0%	\$	49,435
Unallocated University Services (100% to UGEN)*						18,713
TOTAL UNIVERSITY SERVICES					\$	68,148

* Includes 100% of the UGEN Strategic Savings Plan.

HEALTH EDUCATION CAMPUS

Operating Expense budgeted to be incurred for the new Health Education Campus (HEC) is purposely not included in the calculated portion of the simplified allocation changes for FY 2020. HEC operating costs included in the overall total for Indirect Expense are budgeted to be \$7.618 million and are largely concentrated in the Plant, ITS and University Services categories of Indirect Expense.

USE OF RETAINED SURPLUSES

Schools and auxiliaries are permitted to retain the excess of revenue over expense in a reserve account. Expenditures against the reserve account require the approval of the Provost and Chief Financial Officer. As all schools and auxiliaries are expected to operate in a financial equilibrium over the long run, current year losses must be charged against the reserve account.