

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.

UNIVERSITY CONTINGENCY – COVID-19

As a response to the COVID-19 pandemic, the 2021 Operating Budget reflects the tactics utilized to mitigate the financial impact of the COVID-19 pandemic on University operations. Cost improvement measures included in the 2021 budget include the following tactics:

- Management centers included expense improvements of \$56.8 M in the 2021 Operating Budget. The cost improvements are the result of a comprehensive cost improvement initiative completed as part of the 2021 budget process. The cost improvement initiative target was 10% of Unrestricted expense.
- University contributions to the CWRU Faculty & Key Administrative Employees Retirement Plan (Plan A) were suspended beginning July 2021. The impact of \$20.0 M is included in the 2021 Operating Budget.
- A University Contingency of \$28.0 M is included in the 2021 Operating Budget. Although the contingency is allocated to specific line items in the 2021 Operating Budget, in the event it is needed the contingency can be utilized in any area of the 2021 Operating Budget. The University Contingency is not recorded in existing Management Centers, but is recorded at the University level.

Please note that budgeted surplus/deficits by management center do not include potential COVID-19 impacts. The impacts are included in the University Contingency. We fully expect that COVID-19 will impact the University during 2021. However, at this time we do not know where the impact will be reflected in our operations. Thus, budgeted surpluses at the management center level are very likely to decline as 2021 progresses and the COVID-19 impact is realized.

REVENUE ASSIGNED

Tuition

A significant portion of Graduate and Professional Tuition is assigned to the schools in which the student is registered as a degree student. Credit hours taken in a school outside a student's home school are 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 \$799 per credit hour in 2021, increasing at the same rate as the increase in Graduate Tuition revenue in subsequent years. 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 2018 and 2019; the remaining 15% is assigned based upon the proportion of baccalaureate majors of the graduating students in 2018 and 2019.

Undergraduate tuition assignment is based on:

5,165 students, average for the academic year
 27.1 credit hours/student
 1,220 first-year students

Undergraduate Tuition Revenue	\$255,763
Less: Strategic Reserve	(3,750)*
Less: Unfunded Student Aid	(123,571)*
Less: University Contingency	(1,000)
UG Tuition Distributed to Schools	\$127,442
Regular Credit Hour Distribution	\$99,130
SAGES Credit Hour Distribution	9,196
Majors Granted Distribution	19,116
Total UG Tuition Distribution	\$127,442

*100% assigned to UGEN

Undergraduate tuition revenue is distributed using the average credit hours taught by the management center in 2018 and 2019 to calculate the percentage distribution. The majors of the graduating students is an average of 2018 and 2019.

Undergraduate Tuition Distribution and Total Revenue:

	Regular Credit Hour Distribution	SAGES Credit Hour Distribution	Majors Granted Distribution	Total Tuition Distribution
CAS	\$ 53,778	\$ 3,158	\$ 6,334	\$ 63,270
CSE	26,210	1,011	7,927	35,148
WSOM	11,254	503	2,501	14,258
MSASS	107	-	-	107
LAW	2	97	-	99
DENT	-	74	-	74
NURS	4,252	306	1,095	5,653
CSOM	3,527	91	1,259	4,877
UGEN	-	3,956	-	3,956
TOTAL	\$ 99,130	\$ 9,196	\$ 19,116	\$ 127,442
Unfunded Aid				123,571
Strategic Reserve				3,750
University Contingency				1,000
TOTAL UNDERGRADUATE TUITION REVENUE				\$ 255,763

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 2021, the payout rate for the current year spending pool allocation is 4.70%. In addition, the Trustees approved a distribution of 0.8% (\$12.5 million) for administrative expense to administer the endowment. Endowment revenue is allocated based on the market value of funds as of June 30, 2019. 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).

	Estimated Unused Income Beginning of Year	Current Year Allocation	FHBO	Un-pooled	Total Available	2021 Budget*	Estimated Unused Income End of Year
CAS	\$8,343	\$12,848	\$2,726	\$ -	\$23,917	16,474	\$7,443
CSE	5,842	9,328	887	39	16,096	9,729	6,367
WSOM	2,053	3,585	287	1,622	7,547	5,743	1,804
MSASS	281	2,393	-	-	2,674	2,358	316
LAW	964	4,175	566	131	5,836	5,900	(64)
DENT	1,143	726	578	-	2,447	1,361	1,086
NURS	2,837	3,990	-	-	6,827	4,709	2,118
CSOM	27,648	18,255	8,670	-	54,573	28,641	25,932
UGEN	11,078	13,278	1,800	-	26,156	12,374	13,782
TOTAL	\$60,189	\$68,578	\$15,514	\$1,792	\$146,073	\$87,289	\$58,784
Supplemental Distribution - Administrative support					12,546		
TOTAL ENDOWMENT REVENUE					\$ 99,835		

* 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. 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

	Undergraduate FTE	Student Headcount	Faculty/Staff Count	Square Footage	Direct Expense Percentage	Utilities Non-salary	Library Allocation	Total Allocation
CAS	\$8,086	\$6,793	\$641	\$6,167	\$6,278	\$2,428	\$3,019	\$ 33,412
CSE	4,486	4,605	519	6,248	6,488	3,094	2,092	27,532
WSOM	1,785	3,404	244	1,950	3,719	647	1,471	13,220
MSASS	16	745	183	666	2,134	216	535	4,495
LAW	14	1,340	127	1,273	2,681	378	1,696	7,509
DENT	8	881	249	1,617	2,301	945	419	6,420
NURS	717	1,530	225	856	2,060	482	656	6,526
CSOM	526	4,405	2,489	13,117	26,294	12,763	2,677	62,271
UGEN	474	333	-	-	-	-	771	1,578
TOTAL	16,112	24,036	4,677	31,894	51,955	20,953	13,336	162,963
HEC Expense								8,856
Revenue Offsets								14,640
University Contingency								10,000
TOTAL INDIRECT EXPENSE ALLOCATION								\$ 196,459

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.

Library Expense Assigned, by Management Center:

	University Library	Health Science Library	MSASS Library	Law Library	Total Library Allocation
CAS	\$2,758	\$224	\$37	\$-	\$3,019
CSE	1,911	155	26	-	2,092
WSOM	1,344	109	18	-	1,471
MSASS	167	29	339	-	535
LAW	155	55	8	1,478	1,696
DENT	205	208	6	-	419
NURS	406	241	9	-	656
CSOM	1,312	1,327	38	-	2,677
UGEN	-	-	86	-	86
TOTAL	8,258	2,348	567	1,478	\$ 12,651
Unallocated Library Expense (100% to UGEN):					
					1,076
					319
					(710)
TOTAL LIBRARY	\$8,258	\$2,348	\$567	\$1,478	\$13,336

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 2018 and 2019 fall semester enrollment. The Student Services expense for each management center is determined by student and faculty/staff head count.

Student Numbers used for the 2021 Budget, based on 2018 and 2019 fall semester average enrollment:

	Undergraduate FTE *	Undergraduate Headcount *	Graduate Full-Time	Graduate Part-Time	Professional Full-Time	Professional Part-Time	Total Head Count
CAS	2,619	2,671	480	38	-	-	3,189
CSE	1,453	1,482	597	109	27	-	2,215
WSOM	578	590	62	5	702	240	1,599
MSASS	5	5	30	3	462	109	609
LAW	4	4	-	3	597	25	629
DENT	3	3	112	-	299	-	414
NURS	232	237	46	3	228	206	720
CSOM	170	174	900	193	827	-	2,094
UGEN	154	157	-	-	-	-	157
TOTAL	5,218	5,323	2,227	354	3,142	580	11,626

**Percentage distribution for undergraduate full-time equivalency (FTE) and headcount uses two years' of credit hour data and is equal to the 2021 percentage distribution for net undergraduate tuition in schools. Graduate and Professional numbers are based on the Fall Semester enrollment statistics.*

2021 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	\$6,784	\$828	\$246	\$50	\$39	\$(127)	\$53	\$515	\$8,388
CSE	3,765	561	336	66	40	(41)	43	331	5,101
WSOM	1,498	415	32	98	23	(20)	20	217	2,283
MSASS	13	92	15	33	13	-	15	41	222
LAW	11	164	1	61	17	(4)	10	73	333
DENT	7	107	53	40	14	(3)	21	48	287
NURS	601	186	23	47	13	(13)	19	96	972
CSOM	442	537	519	184	163	(4)	206	203	2,250
UGEN	398	41	-	-	-	(160)	-	27	306
TOTAL	\$13,519	\$2,931	\$1,225	\$579	\$322	\$(372)	\$387	\$1,551	\$20,142
Unallocated Student Services (100% to UGEN)*									8,431
TOTAL STUDENT SERVICES									\$28,573

**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%	\$7,656	\$676	\$678	\$143
CSE	598,890	19.6%	8,391	698	368	78
WSOM	186,872	6.1%	2,302	400	272	57
MSASS	60,066	2.0%	779	230	44	21
LAW	122,013	4.0%	1,456	289	27	12
DENT	154,952	5.1%	3,000	248	48	121
NURS	81,998	2.7%	1,714	222	99	139
CSOM	1,257,158	41.2%	25,491	2,828	285	714
UGEN	-	0.0%	-	-	-	-
TOTAL	3,053,092	100.0%	\$50,789	\$5,591	\$1,821	\$1,285

	Student Services	Athletic Space	Shared Classroom	SAGES Allocation	Waste Removal (Fixed)	Total Plant Allocation
CAS	\$576	\$1,161	\$286	\$34	\$46	\$11,256
CSE	350	683	159	11	46	10,784
WSOM	154	327	64	5	-	3,581
MSASS	14	38	1	-	-	1,127
LAW	22	55	1	1	-	1,863
DENT	19	46	-	1	-	3,483
NURS	65	145	26	3	-	2,413
CSOM	147	361	22	1	373	30,222
UGEN	32	64	18	42	(465)	(309)
TOTAL	\$1,379	\$2,880	\$577	\$98	-	\$64,420
Unallocated Plant (100% to UGEN)*						2,383
TOTAL PLANT						\$66,803

* 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 \$8.845 per gross square foot. This expense is assigned based upon square footage.

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.

Information Technology Costs Assigned, by cost pool:

	Core Technology	Instructional	Administrative	Infrastructure	Information Services
CAS	\$522	\$945	\$724	\$4,009	\$6,200
CSE	502	642	748	2,797	4,689
WSOM	181	430	429	1,780	2,820
MSASS	61	90	246	477	874
LAW	105	184	309	790	1,388
DENT	130	125	265	1,333	1,853
NURS	84	174	238	1,193	1,689
CSOM	1,088	621	3,032	4,669	9,410
UGEN	2	45	-	175	222
TOTAL	\$2,675	\$3,256	\$5,991	\$17,223	\$29,145
UGEN Strategic Savings Plan (100% to UGEN)					(1,039)
TOTAL INFORMATION TECHNOLOGY SERVICES					\$28,106

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 2021, the average direct expense for 2018 and 2019. 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. Further, the cost of Dental kits purchased and re-sold to students has been deducted from the DENT expense base. Lastly, third party servicing expense for CSE and MSASS distance learning programs have been deducted from the respective 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, University Relations and other areas expense covered by the administrative support distribution from the endowment.

University Services expense is allocated based on the percentage of direct expense averaged over a two-year period.

Direct Expense (adjusted)

	2018	2019	Average 2018-2019	% of Total	University Services
CAS	\$75,257	\$77,889	\$ 76,573	12.1%	\$4,549
CSE	79,047	79,218	79,133	12.5%	4,867
WSOM	46,204	44,500	45,352	7.2%	3,065
MSASS	26,540	25,531	26,036	4.1%	1,737
LAW	32,261	33,152	32,707	5.2%	2,229
DENT	26,613	29,538	28,076	4.4%	2,299
NURS	24,215	26,032	25,124	4.0%	2,232
CSOM	313,345	328,032	320,689	50.6%	20,365
UGEN	-	-	-	0.0%	-
TOTAL	\$623,482	\$643,892	\$633,687	100.0%	\$41,343
Unallocated University Services (100% to UGEN)*					8,298
University Contingency					10,000
TOTAL UNIVERSITY SERVICES					\$59,641

* Includes 100% of the UGEN Strategic Savings Plan.

HEALTH EDUCATION CAMPUS

Operating Expense budgeted to be incurred for the Health Education Campus (HEC) is purposely not included in the overall Indirect Cost allocation calculations for FY 2021. HEC operating costs included in the overall total for Indirect Expense are budgeted to be \$8.856 million and are 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.