FINANCIAL & NON-FINANCIAL INDICATOR PROCESS

Information for Institutions and Peer Reviewers

Accredited and candidate institutions are required each year to provide data to the Higher Learning Commission (HLC) through the Institutional Update. HLC reviews financial data and non-financial data for specific risk indicators and conducts follow-up with institutions when certain indicators are triggered. The purpose of this process is to identify institutions that may be at risk of not meeting components of the Criteria for Accreditation or Assumed Practices.

FINANCIAL INDICATORS

The financial data submitted in the Institutional Update generate a Composite Financial Index (CFI). For private institutions, HLC uses the financial ratios provided by the U.S. Department of Education and for public institutions, HLC relies on the financial ratios recommended in *Strategic Financial Analysis for Higher Education: Identifying, Measuring & Reporting Financial Risks* (Seventh Edition), by KPMG LLP; Prager, Sealy & Co., LLC; Attain LLC.

HLC has identified ranges, or zones, of CFI values that indicate whether further review is required.

ABOVE THE ZONE

Private Institutions: 1.5 to 3.0
Public Institutions: 1.1 to 10.0

No follow-up is required for institutions with a CFI that falls above the zone.

IN THE ZONE

Private Institutions: 1.0 to 1.4
Public Institutions: 0 to 1.0

First Year

If an institution reports a CFI that falls within the zone for the first time, HLC will issue a Letter of Concern. The institution is required to acknowledge receipt of this letter by submitting an institutional response from the CEO either confirming the financial information that was reported in the Institutional Update or requesting corrections to the financial information submitted. Any corrections to the data require supporting documentation.

Second or Subsequent Year

If an institution reports a CFI that falls within the zone for a second or subsequent consecutive year, HLC will require the institution to submit a report and additional financial documents for review by a panel of HLC peer reviewers. See page 2 for details about the report and other required materials.

BELOW THE ZONE

Private Institutions: -1.0 to 0.9
Public Institutions: -4.0 to -0.1

If an institution reports a CFI that falls below the zone, HLC will require the institution to submit a report and additional financial documents for review by a panel of HLC peer reviewers. In subsequent years, the institution will be required to submit a report for panel review following each Institutional Update until its CFI is above the zone.

REVISED FINANCIAL INDICATOR PROCESS DUE TO COVID-19

In light of the financial and operational pressures caused by COVID-19, HLC is shifting the Financial Indicator process to a more time-sensitive model in 2020. HLC is requesting information from member institutions whose recent CFI score fell either "In the Zone" or "Below the Zone." HLC has developed a short survey that the Chief Financial Officer will be asked to complete on July 1, September 1 and November 2. Each survey is due back to HLC within two weeks.

Following the completion of the September survey, HLC will evaluate the responses, looking at the change between the July and September data. After review of the data, institutions may be required to submit a report. The survey in November will allow HLC to continue to monitor the trend of the institution's finances.

Questions? Contact Michael Seuring at mseuring@hlcommission.org.

INSTITUTIONAL REPORTS ON FINANCIAL INDICATORS

Institutions required to submit a report for panel review will provide a brief financial recovery report that must address the following topics:

- Explain the history of CFIs and the components of the ratios that have contributed to being in the zone or below the zone.
- Determine the revenue and expense components that have had the greatest impact on the institution's financial health (e.g., enrollments, salaries and benefits, annual fund, capital, cash flow, margins, reserves and debt requirements).
- Identify specific strategies that have been implemented to re-establish financial health (i.e., planning, enrollment, etc.). Indicate how and when those strategies were implemented, results achieved, gaps in the results and new strategies planned for continued improvement.
- Identify specific strategies that have been implemented to address revenue and expense components of the institution's financial health (e.g., enrollments, salaries and benefits, annual fund, capital, cash flow, margins, reserves, and debt requirements). Indicate how and when those strategies were implemented, results achieved, gaps in the results, and new strategies planned for continued improvement.

The following supporting documents must accompany the report:

- Audited financials for the past three years
- Three-year budget (proposed, current, and previous fiscal years)
- Board and/or finance committee meeting minutes related to finances for the most recent three years
- Audit Communication Letter and/or Audit Management Letter
- Interim financial statement
- Enrollment trends and plans (retention plan is optional)
- Individual component ratios (please provide only the relevant ratios: primary reserve ratio, net operating revenue/net income ratio, return on net assets ratio, viability ratio, equity ratio)

The report and supporting documents will be due approximately four weeks after receiving the letter from HLC. See page 4 for submission instructions.

See pages 4–5 for information about the review and decision-making processes.

NON-FINANCIAL INDICATORS

The non-financial data submitted in the Institutional Update is reviewed with regard to the following indicators. Note: "Small institutions" are those with fewer than 1,000 students, while "large institutions" are those with 1,000 students or more.

1. **Enrollment Changes:** Three-year increase or decrease of 80 percent or more in enrollment for small institutions or 40 percent or more for large institutions.

   Related HLC Requirements: Core Components 2.B., 3.C., 3.D., 5.B.; Assumed Practices: A.5., A.6., A.7., B.1.f., B.3.a.

2. **Degrees Awarded:** Three-year increase or decrease of 75 percent or more in degrees awarded for small institutions and 65 percent or more for large institutions.

   Related HLC Requirements: Core Components 3.C., 3.D., 4.C.; Assumed Practices A.5., A.6., B.1.d., B.1.e., B.1.f., B.3.a.

3. **Full-time Faculty Changes:** Three-year decrease of 75 percent or more for small institutions or 50 percent or more for large institutions in the headcount of full-time faculty (not full-time equivalent).

   Related HLC Requirements: Core Components 3.C., 3.D., 5.B.; Assumed Practices: A.5., B.1.e., B.2., C.3.

4. **Minimal Full-time Faculty:** The headcount of full-time faculty (not full-time equivalent) divided by the number of degree programs offered is less than one.

   Related HLC Requirements: Core Components 3.C., 3.D., 5.B.; Assumed Practices: A.5., B.1.e., B.2., C.3., D.4.

5. **Student to Teacher Ratio:** The number of undergraduate full-time equivalent students divided by the number of undergraduate full-time equivalent faculty is greater than or equal to 35. *Note: Does not apply to graduate-only institutions.*

   Related HLC Requirements: Core Components 3.C., 3.D., 5.B.; Assumed Practices: A.5., B.1.d., B.1.e., B.2., D.4.

6. **Weak Graduation/Persistence Rates Compared to Peers:** The number of full-time equivalent undergraduate students divided by undergraduate degrees awarded places the institution in the bottom five percent of the institution's peers. Peer groups are either 2-year small or large undergraduate institutions or 4-year small or large undergraduate institutions. *Note: Does not apply to graduate-only institutions.*

   Related HLC Requirements: Core Components 3.C., 3.D., 4.A., 5.B.; Assumed Practices: A.5., A.6., B.1.d., B.3.a., D.4.

CONDITIONS REQUIRING A LETTER OF CONCERN

A Letter of Concern is sent when the process identifies that an institution may be at risk of not meeting the Criteria for Accreditation or Assumed Practices, but the triggered indicators do not meet or exceed the conditions that require information or a report be submitted. The letter will state that no information is required from the institution and that HLC will analyze the data submitted in the next Institutional Update to determine whether further review is warranted. The following conditions would result in a Letter of Concern:

- For graduate-only institutions: Any one of indicators 2, 3 or 4 is triggered
- For other institutions: Any two of indicators 2, 3, 4 or 5 are triggered

CONDITIONS REQUIRING STAFF REVIEW

An institution will be required to submit information for HLC staff review when the process identifies that an institution may be at risk of not meeting the Criteria for Accreditation or Assumed Practices and one of the following conditions is met:

- Indicator 1 only
- Indicator 6 only

Page 6 lists the information that is required for each indicator. The information will be due approximately four weeks after receiving the letter from HLC. See page 4 for submission instructions.

HLC staff will review the information submitted, request additional information if necessary, and determine whether the institution requires further

review by HLC peer reviewers. If so, that review will be conducted by a Non-financial Indicator Panel or a peer review team about to go on an upcoming visit to the institution.

CONDITIONS REQUIRING PANEL REVIEW

An institution will be required to submit a report for review by a panel of HLC peer reviewers when the process identifies indicators that the institution may not meet the Criteria for Accreditation. A report and panel review are required when any of the following combinations of indicators are triggered:

- Indicator 1 and at least one of the other five indicators
- Indicator 6 and at least one of the other five indicators
- Three or more of the indicators for non–graduate-only institutions
- Two or more of the indicators for graduate-only institutions

The institution's report should be no more than 10 pages. Institutions should address the reasons the indicators were triggered and include a plan of action to avoid triggering these indicators in the future. The report must address all of the Core Components and Assumed Practices related to each triggered indicator and demonstrate that the institution is in compliance with the Criteria for Accreditation. If the institution triggered indicators 1 or 6, it should also include the information listed on page 6 with its report.

The report and, if applicable, information regarding indicators 1 or 6 will be due approximately four weeks after receiving the letter from HLC.

SUBMISSION INSTRUCTIONS

The institution should submit its report and, if applicable, supporting documents as a single PDF files at hlcommission.org/upload. Select "Indicators" from the list of submission options to ensure the institution's materials are sent to the correct HLC staff member.

Please note: When submitting documents, the institution should carefully consider whether documents containing personally identifiable information (PII) must be included. If the documents must be included for evaluative purposes, please redact the PII where possible. If redaction of the PII will interfere with the evaluative value of the document, please clearly identify the document as containing PII (for example, through a cover page or prominent notation on the document). Institutions are not expected to redact or identify information or documents where the only PII included is employee or Board member names and work contact information.

PII is any information about an individual that allows the individual to be specifically identified. This includes, but is not limited to: name, address, telephone number, birthday, email, social security number, bank information, etc. A document does not include PII if personal information is de-identified (for example, student financial receivables without student names or bank routing information) or is provided in the aggregate (for example, data on faculty qualifications). See HLC's PII Guidelines for more information.

PEER REVIEW INFORMATION

Institutions submitting a report will be reviewed by an indicator panel. Financial indicator and non-financial indicator panels are comprised of three peer reviewers who have been trained by HLC in this process. The role of the indicator panel is to review institutional reports and provide a recommendation on whether the institution is at risk of not meeting the Criteria for Accreditation.

Please note: All panelists should complete and submit Confirmation of Objectivity, Conflict of Interest and Professional Confidentiality forms prior to beginning the review. Materials for panel reviews can be accessed in the HLC Portal after you have accepted the assignment and the panel has been set. HLC staff will send a panel confirmation email with information on how to access the materials.

A single panel receives three institutional reports at a time and is given four weeks to complete its review and provide recommendations for all three reports. One panel member is named as the panel lead by HLC.

The panel lead schedules a conference call with the panel members for a discussion of the institutional

reports. If the panel needs more time, the panel lead may request an extension explaining the reason for the extra time.

The panel will either make a recommendation for an institutional report or will decide that additional information is necessary before a recommendation can be made. In the latter event, the panel lead should contact HLC to obtain the additional information. Once a recommendation has been determined, the lead completes the Panel Recommendation Form, answering all applicable questions. The panel lead should ensure that all parts of the panel recommendation form are completed before submitting the report to HLC. Except in rare circumstances, the panel lead is the person responsible for communicating with HLC.

PANEL RECOMMENDATIONS

The peer review panel reviews and evaluates all institutional documents provided (reports and supplementary documents) to make its recommendations to the Institutional Actions Council. The Panel has four recommendation options:

1. **Accept Report.** The Panel concludes that the institution has substantially met its commitment in its report. The issues are addressed at a satisfactory level.
2. **Accept Report With Qualifications.** Overall, the institution addressed the concerns adequately; however, the panel has concerns on the specific matters that the institution should consider in future planning. The institution can be expected to follow up on these matters without monitoring by HLC at this time.
3. **Require an Interim Report** (due three months from the date of action[1]). The institution has failed to address the concerns adequately, and the current position indicates additional information is required in the form of an interim report. Failure to make substantial progress could result in a focused visit.
4. **Require a Focused Visit** (to occur within six months of the date of action[1]). The institution is required to undergo a focused visit, with particular emphasis on continued concerns as indicated by the panel. In preparation for the visit, the institution should complete a focused visit report. The report should address the special concerns noted by the panel.

DECISION MAKING

Following submission of the panel recommendation, HLC checks the recommendation for clarity, completeness and consistency with HLC's policies. In the event of any questions or concerns, the panel lead will be contacted for resolution.

If the panel recommends accepting the report with or without qualifications, the recommendation is shared with the institution and filed in HLC's institutional records. The Institutional Actions Council (IAC) receives the recommendation as an item of information and no action is taken.

If the panel recommends an interim report or focused visit, the recommendation is shared with the institution, which is invited to submit an institutional response. HLC then submits the institutional report, any supporting materials, the panel recommendation and the institutional response to the IAC for review and action. IAC may uphold or change the recommendation of the panel.

Please note: Honoraria are issued to panel members after the Indicator Panel Recommendation has been processed. After the IAC has taken final action or accepted the panel's recommendation as an item of information, panelists should discard all institutional materials, notes, emails and other documents related to the review.

QUESTIONS?

Contact indicators@hlcommission.org

1 HLC staff may adjust this follow-up to be included in upcoming monitoring or a visit already scheduled with the institution.

INFORMATION REQUIRED FOR NON-FINANCIAL INDICATORS 1 AND 6

Institutions that trigger indicators 1 or 6 will be required to submit the information listed below to HLC, whether for staff review or included with their report for panel review.

INDICATOR 1. ENROLLMENT CHANGES

Three-year increase in enrollment of 80 percent or more for small institutions or 40 percent or more for large institutions.

Provide data for the current academic year and the two previous academic years. If the program enrollment information demonstrates significant enrollment growth of greater than 15 percent in one or more programs, and the growth is more than anticipated by, for example, the initiation of a new program or location approved by HLC, please provide an explanation of the reasons for the growth in the program and how the institution's resources are supporting the growth.

Also, provide the following information for the current academic year and the two previous academic years:

1. Fall-to-fall retention by student population.
2. An explanation of the retention/completion data.

Three-year decrease in enrollment of 80 percent or more for small institutions or 40 percent or more for large institutions

Provide data for the current academic year and the two previous academic years.

Also, provide the following information:

1. An explanation of the decrease in enrollment.
2. A description of future trends that might affect enrollment numbers.
3. An explanation of the impact on the current student population.

INDICATOR 6. WEAK GRADUATION/ PERSISTENCE RATES COMPARED TO PEERS.

The number of full-time equivalent undergraduate students divided by undergraduate degrees awarded is in the bottom five percent of the institution's peers. Peer groups are either 2-year small or large undergraduate institutions or 4-year small or large undergraduate institutions.

Provide the following information:

1. Fall-to-fall retention by student population.
2. An explanation of the retention/completion data.