

Financial Indicators

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 for specific risk indicators and conducts follow-up with institutions when certain conditions are met. The purpose of this process, along with the other [risk indicator processes](#), is to identify institutions that may be at risk of not meeting HLC requirements.

Composite Financial Index Zones

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.

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.

Submission Instructions

The institution should submit its report and supporting documents as a single PDF file 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.

Personally Identifiable Information

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

Institutions submitting a report will be reviewed by an indicator panel, 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 HLC requirements.

Peer reviewers can access materials for a panel review in [Canopy](#) after they accept the assignment the assignment and the panel has been set. HLC staff will send reviewers 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:

- **Accept Report.** The Panel concludes that the institution has substantially met its commitment in its report. The issues are addressed at a satisfactory level.
- **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.
- **Require an Interim Report** (due no sooner than three months from the date of action¹). 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.
- **Require a Focused Visit** (to occur no sooner than six months from the date of action¹). 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's recommendations, HLC checks the recommendations 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, HLC staff take action to accept the report. HLC shares the recommendation with the institution and adds it to the institution's administrative record.

If the panel recommends an interim report or focused visit, HLC shares the recommendation with the institution and invites it to submit an institutional response. HLC then submits the institutional report, any supporting materials, the panel recommendation and the institutional response to the Institutional Actions Council (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 panel's recommendations have been processed. After the final action has been taken by HLC staff or IAC, 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.