

# FINANCIAL & NON-FINANCIAL INDICATOR PROCESS

Information for Institutions and Peer Reviewers

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## Introduction

Accredited and candidate institutions are required each year to provide data to 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 occur. The purpose of this process is to identify changes at institutions that may be at risk of not meeting components of the Criteria for Accreditation.

## 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.

## CFI Ranges

HLC has identified Composite Index Ratio zones that indicate a need for further review.

### 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 and/or modifications to the financial information submitted. Any modifications to the data require supporting documentation.

### Second Year

If an institution reports a CFI that falls within the zone for the second consecutive year, HLC will require the institution to submit a report and undergo a Panel Review process. The process will require the institution to submit additional financial documents that will be reviewed by peer reviewers who will submit a recommendation to the Institutional Actions Council.

## 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 undergo a Panel Review process. The process will require the institution to submit additional financial documents that will be reviewed by peer reviewers who will submit a recommendation to the Institutional Actions Council.

## Institutional Reports on Financial Indicators

Institutions undergoing the Financial Panel Review process are required to submit a brief financial recovery report that must:

- 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/finance committee meeting minutes related to finances for the most recent three years
- Audit Communication Letter/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)

All materials should be submitted as a single PDF file to [indicators@hlcommission.org](mailto:indicators@hlcommission.org).

## Non-financial Indicators

The non-financial data submitted in the Institutional Update is reviewed with regard to the following indicators. *Note: Indicator Conditions 6 and 7 do not apply to graduate-only institutions. "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 Core Components: 2.B., 3.C., 3.D., 5.A., 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 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 Core Components: 3.C., 3.D., 5.A., Assumed Practices: A.5., B.1.e., B.2., C.3.*
4. Student Default Rates—Three-year student loan default rate of 30 percent or more for 2-year institutions or 25 percent or more for other institutions. *Related Core Components: 2.B., 3.D.,*

4.A., 5.D., *Assumed Practices: A.5., A.6., B.2., B.3.a., D.4.*

5. 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 Core Components: 3.C., 3.D., 5.A., Assumed Practices: A.5., B.1.e., B.2., C.3., D.4.*
6. 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. *Related Core Components: 3.C., 3.D., 5.A., Assumed Practices: A.5., B.1.d., B.1.e., B.2., D.4.*
7. Weak Graduation/Persistence Rates Compared to Peers—The number of full-time equivalent undergraduate students divided by undergraduate degrees awarded is in the top percentages of the institution's peers. Peer groups are either 2-year small or large undergraduate institutions or 4-year small or large undergraduate institutions. *Related Core Components: 3.C., 3.D., 4.A., 5.A., Assumed Practices: A.5., A.6., B.1.d., B.3.a., D.4.*

## Non-financial Indicators Triggering a Letter of Concern to the Institution

A Letter of Concern is sent when the non-financial indicator process identifies that an institution may be at risk of not meeting the Criteria for Accreditation. These indicators do not meet or exceed the conditions that require a report. The indicators resulting in a Letter of Concern are:

- Indicator 1—three-year **decrease** in enrollment of 80 percent or more for small institutions or 40 percent or more for large institutions.
- Indicator 4.
- Indicator 7 at 5 percent.
- Any two indicators.
- Any one indicator for a graduate-only institution.

If the Letter of Concern requests specific information, the institution should submit only that information, such as when an institution triggers on Indicators 1, 4 and/or 7. In some cases, the letter may state that no information or response from the institution is required. HLC will

also analyze the data submission in the next Institutional Update to determine whether further review is warranted.

## Non-financial Indicators Requiring the Institution to Submit a Report

A letter requiring a report is sent to an institution when the process identifies indicators that the institution may not meet the Criteria for Accreditation. The indicators resulting in a letter requiring a report are:

- Indicator 1—three-year **increase** in enrollment of 80 percent or more for small institutions or 40 percent or more for large institutions.
- Indicator 1 or 4 and at least one of the other six indicators.
- Three or more of the indicators (two or more for graduate-only institutions).
- Indicator 7 at 3 percent.
- Indicator 7 at 5 percent and at least one of the six other indicators.

## Institutional Reports on Non-financial Indicators

The institution's report should be no more than 10 pages. Institutions should address the reasons the indicator(s) triggered the report, and include a plan of action to avoid these indicator(s) in the future. In the letter to the institution, HLC may specify additional reporting requirements.

The report must address all of the Core Components and Assumed Practices identified for the specified indicator. The report needs to demonstrate to HLC that the indicator(s) do not put the institution out of compliance with the Criteria for Accreditation.

All materials should be submitted as a single PDF file to [indicators@hlcommission.org](mailto:indicators@hlcommission.org).

## Additional Reporting Requirements

If the Letter of Concern requests specific information, the institution should submit only that information. The information required for Indicator 1, 4 and 7 are listed here:

## Indicator 1. Enrollment Changes.

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

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

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

## Indicator 4. Student Default Rates.

*Three-year student default rate of 30% or more for 2-year institutions or 25% or more for other institutions.*

1. Identify the factors causing the default rate to exceed the threshold.
2. Establish measurable objectives and the steps the institution will take to improve the cohort default rate.
3. Specify the actions to be taken to improve student loan repayment, including counseling student repayment options.
4. Provide fall-to-fall retention by student population.
5. An explanation of the retention/completion data.

6. Provide as complete a profile as possible of the students who default. For example, information on:

- Particular areas of study, transfer or non-transfer students, dependent or independent of parents.
- Student withdrawal rates and when they withdrew during the degree program.
- Loan balances upon leaving.
- Student progress toward graduation.
- Any other relevant information.

## Indicator 7. Weak Graduation/Persistence Rates Compared to Peers.

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

Please provide the following information:

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

HLC staff will review the report, request additional information if necessary, and will determine whether the submission requires further review by a peer review team about to go on an upcoming visit, or by a specially appointed peer review panel.

## Peer Review Information

Institutions submitting a report will be reviewed by an indicator panel or as embedded monitoring in an upcoming HLC visit.

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 that have been submitted after being flagged for HLC follow-up and provide a recommendation on whether the institution is a 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 an email with information on how to access the materials in the panel confirmation email.

One panel member is named as the panel lead by HLC. 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. If the panel needs more time, the panel lead may request an extension explaining the reason for the extra time.

The panel lead schedules a conference call with the panel members for a discussion of the institutional reports. The panel will either make a recommendation for an application 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\*). 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\*). The institution is required to undergo a focused evaluation, 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.

\*HLC staff may adjust this follow-up to be included in upcoming monitoring/visits already scheduled with the institution.

## 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 by the panel and resubmission. The panel recommendation is shared with the institution who 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 Institutional Actions Council (IAC) for review and action. If monitoring was recommended, the IAC may uphold or change the recommendation of the panel.

Please note: Honorarium is issued after the Indicator Panel Recommendation has been processed. After the IAC has taken final action, panelists should discard all institutional materials, notes, emails and other documents related to the review.

## Questions?

Contact [indicators@hlcommission.org](mailto:indicators@hlcommission.org)