



HLC Accreditation Evidence

Title: HLC Financial Indicator Process

Office of Origin: Higher Learning Commission



Financial Indicator Process

HLC reviews accredited and candidate institutions' financial information to determine whether an institution operates with integrity in its financial functions (see Criterion 2, Core Component 2.A).

Each year, institutions provide data to HLC through the Institutional Update. The Institutional Update includes financial data, which is reviewed through HLC's Financial Indicator Process.

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 flag an institution for further review.

Above the Zone

Private Institutions: 1.5 to 3.0

Public Institutions: 1.1 to 10.0

No additional 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 undergo the Financial Panel Review process. The process will require the institution to submit additional financial documents that will be reviewed by a Financial Panel 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 undergo the Financial Panel Review process. The process will require the institution to submit additional financial documents that will be reviewed by a Financial Panel who will submit a recommendation to the Institutional Actions Council.

Guidelines for Reports on Finances

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 reports@hlcommission.org. The Financial Panel will review the reports and the results of this analysis will be forwarded to the institution.

Financial Panel Recommendations

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

1. **Accept Report.** The Panel concludes that the institution has substantially met its commitment in its report on finances. 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 on Finances** (due three months from the date of action*). The institution has failed to address the financial concerns adequately, and the current financial position indicates additional information is required in the form of an **interim report** on finances. Failure to make substantial progress could result in a focused visit on finances.

4. **Require a Focused Visit on Finances** (to occur within six months of the date of action*). The institution is required to undergo a **focused evaluation** on its finances, with particular emphasis on continued financial concerns as indicated by the Panel. In preparation for the visit, the institution should complete a focused visit report. The report should follow the “Guidelines for Reports on Finances” and 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.*

The Institutional Actions Council takes final action on Financial Panel recommendations.

Get in Touch With HLC

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