CAFR

The Comprehensive Annual Financial Report for the State of South Dakota (CAFR) is prepared and submitted by the Bureau of Finance and Management annually as is required in SDCL 4-4-6. The financial statements include those of the Regental Institutions, and are prepared in accordance with generally accepted accounting principles. The statements are audited by the Department of Legislative Audit.

Consolidated Financial Statements

The financial statements of all Regental Institutions and the portion of the South Dakota Building Authority that is attributed to the BOR are consolidated into one set of financial statements for reporting in the State's CAFR. The intention of consolidating the financial information is to provide a picture of the Regental system as a single entity. When consolidating the financial statements, all inter-regental transactions are eliminated. These transactions must be eliminated to avoid double-counting of revenues and expenditures. The consolidated financial statements also include all necessary component units of the institutions, such as foundations.

Campus Management Reports

Individual campus financial statements and management reports are prepared annually after the statements have been audited by the Department of Legislative Audit. The reports are intended to provide a comprehensive record of the finances of each individual university and its related foundation. The reports include financial highlights for the year completed and discussion of future projections.

Financial Ratios

Financial ratios have been used internally by university administration and externally by boards and oversight agencies for many years in higher education to better understand and interpret financial statements. Financial ratios can be useful tools for measuring and analyzing financial performance, understanding and communicating financial information, planning activities for improving financial performance, and as indicators of overall financial health of an organization.

The Business Affairs Council agreed to use ratios that were familiar to the universities and already in use by the Higher Learning Commission (HLC), in addition to other financial indicators. The HLC ratios are referred to as the four core ratios: 1) Primary Reserve Ratio, 2) Net Operating Revenues Ratio, 3) Return on Net Assets Ratio, and the 4) Viability Ratio. These higher-level ratios provide information on the overall financial health of the institution and answer four financial questions:

- Primary Reserve Ratio: Are resources sufficient and flexible enough to support the mission?
- Net Operating Revenues Ratio: Do operating results indicate the institution is living within available resources?
- Return on Net Assets Ratio: Does asset performance and management support the strategic direction?
- Viability Ratio: Are resources, including debt, managed strategically to advance the mission?

In addition to the four key ratios, a Composite Financial Index (CFI) is calculated based on the four ratios. The index uses a prescribed weighting of the ratios to allow a weakness or strength in one ratio to be offset by another ratio. The CFI reflects a picture of overall financial health of the institution for a point in time.