



Financial Highlights Report

For the fiscal year ended June 30, 2016

MINNESOTA MANAGEMENT AND BUDGET
MN.GOV/MMB

A note from the Commissioner

Each year when we close our books and prepare our financial reports, we reflect on the state of our financial health. The information presented in our Comprehensive Annual Financial Report (CAFR), combined with our latest budget forecast, show that Minnesota is doing very well these days, and better than many states. Thanks to our hard-working residents and businesses, we have a diverse economy that is stable and strong. Our income and wages are rising. And our budget is balanced – again. We continue to be recognized across the nation as a great place for business, innovation, and learning.

The best part of this success is that it is sustainable, if we stay on our current fiscal path. During his administration, Governor Mark Dayton has employed sound fiscal management, balanced budgets, and smart investments. We will begin 2017 with money on the bottom line, the largest budget reserve in state history, and revenues that exceed spending.

Though there is more to do to help all families in Minnesota share in our state's well-being, I hope this summary of our state's finances demonstrate our values of strong fiscal management. In 2017 we will continue to support long term economic strength by supporting the success of all Minnesotans.

Thank you for your interest and support.

Sincerely,



Myron Frans, Commissioner



About this Report

On the following pages you will learn about the financial strength of the State of Minnesota. You can find details on each topic in the [Comprehensive Annual Financial Report \(CAFR\) on Minnesota Management and Budget's website](#).

The CAFR is prepared in accordance with Generally Accepted Accounting Principles (GAAP). This report includes only select financial information. It excludes fiduciary fund and discretely-presented component unit information, contains condensed financial information, and does not provide all the necessary financial statements and note disclosures required by GAAP.

Find more at mn.gov/mmb.

Accomplishments

Improved Bond Ratings

Fitch Ratings announced in July 2016 an upgrade of Minnesota's credit rating from AA+ to AAA, the highest rating awarded. Fitch Ratings based their upgrade on "Minnesota's solid and broad-based economy, a revenue structure well designed to capture economic growth, a low liability burden, strong control over revenues and spending" and "a sophisticated approach to reserve funding." Fitch Ratings noted that these factors, along with Minnesota's financial flexibility and a projected surplus, positioned the state well to navigate future fluctuations in the economy.

Largest Budget Reserve in State History

Under law, the state must allocate 33% of the November forecast balance to the budget reserve until it reaches Minnesota Management and Budget's recommended reserve level. The 2016 November forecast allocated an additional \$334 million to the budget reserve. This amount, combined with the cash flow account, results in total current budget and cash reserves of \$2.280 billion, the state's largest rainy day fund ever. In 2015, the Pew Charitable Trust praised Minnesota for our strong reserve policy that automatically sets money aside for unexpected deficits or other budget challenges caused by changing economic conditions.

TransparencyMN Website Award

Minnesota's [TransparencyMN website](#) was awarded a University of Minnesota Humphrey School of Public Affairs' State Government Innovation Award as part of the state's commitment to financial accountability. The website provides real time information about state government finances and operations. A section of TransparencyMN called MN Open Checkbook offers access to information on state budgets, payments to vendors, contracts and grants, and employee payroll data. It provides Minnesotans with information on how their tax dollars are being spent in a concise and user friendly format. The information is updated daily, providing users with timely information on state budgeting and spending.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the state of Minnesota for its comprehensive annual financial report for the fiscal year ended June 30, 2015. This was the thirty-first consecutive year that the state has received this prestigious award. To be awarded a Certificate of Achievement, the report must be easily readable and efficiently organized, and satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for one year.

Minnesota State Government Finance Top 5

- Unemployment rate down to 4% in November 2016
- Income per capita grew 3.5% to \$50,871 in calendar year 2015
- General fund balance of \$3 billion; an increase of \$925 million from 2015
- Total revenue of \$39.8 billion in fiscal year 2016; largest amount (31%) from income taxes
- Total expenses of \$38.1 billion in fiscal year 2016; largest amount (41%) for health and human services

Minnesota has a Strong Economy

- Minnesota’s wages grew 3.2 percent in fiscal year 2016 and are expected to:
 - Accelerate to 5.3 percent growth in fiscal year 2017 primarily due to an increase in the average wage
 - Decelerate slightly to 4.7 percent growth in fiscal years 2018 and 2019

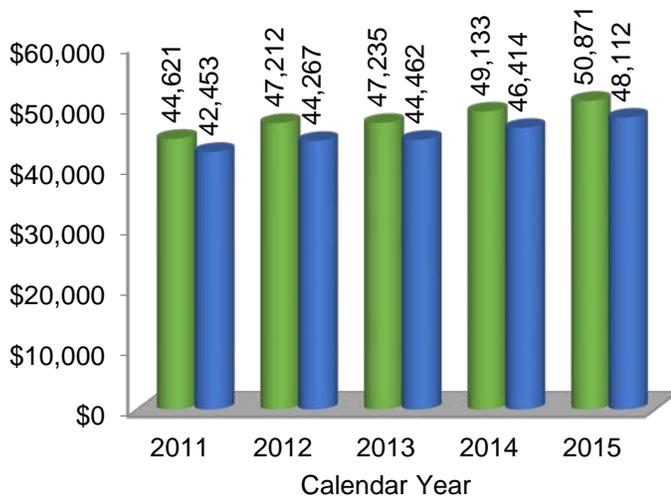
- Minnesota’s unemployment rate was 4 percent on a seasonally adjusted basis in November 2016
 - Minnesota’s unemployment rate was 0.9 percentage points below the U.S. rate
 - Total Minnesota non-farm employment grew 1 percent in fiscal year 2016 and is forecasted to:
 - Accelerate to 1.2 percent growth in fiscal year 2017
 - Decelerate to 0.8 percent in fiscal year 2018
 - Accelerate by 1.0 percent in fiscal year 2019

The charts below show the income per capita and unemployment rates for both Minnesota and the United States (U.S.) for the last five calendar years.



Income Per Capita

■ Minnesota ■ U.S.

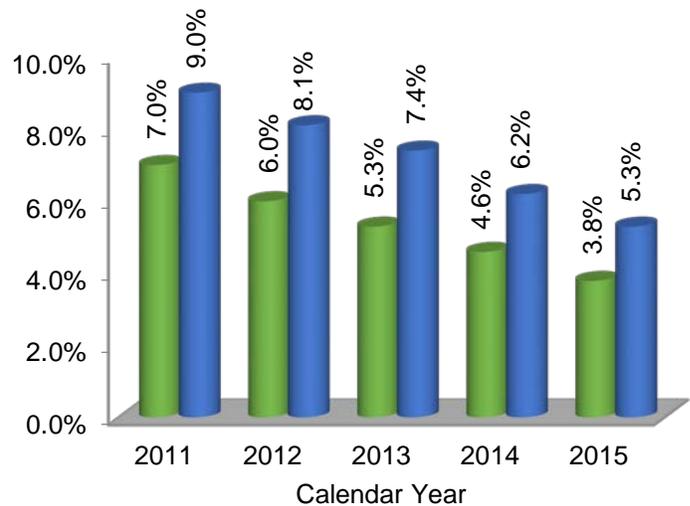


Source: 2016 CAFR and Bureau of Economic Analysis



Unemployment Rate

■ Minnesota ■ U.S.



Source: 2016 CAFR and Bureau of Labor Statistics

Government-wide Financial Analysis

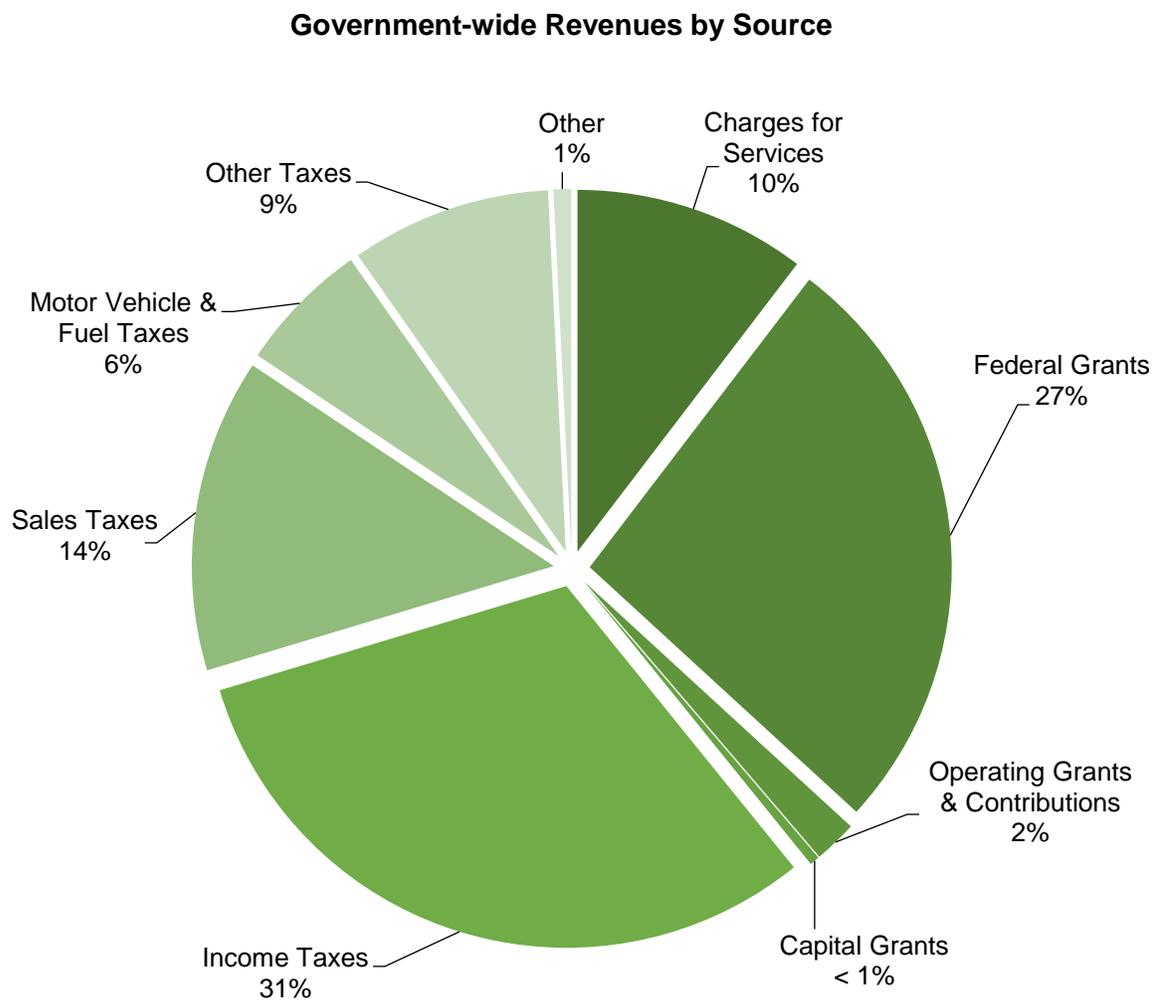
Government-wide activities provide a broad overview of the state's finances similar to private-sector accounting. The government-wide activities present the financial position and operating results of the state. As of June 30, 2016, our balance sheet of governmental activities and business-type activities reflects:

- Assets of \$37.7 billion (a \$1.1 billion increase from the prior year)
- Liabilities of \$19.7 billion (a \$262 million increase from the prior year)
- Net Position of \$16.7 billion (a \$1.7 billion or 12 percent increase from the prior year)

On the Statement of Activities (Operating Statement), total revenue exceeded total expenditures by \$1.7 billion. See Management's Discussion and Analysis in the CAFR for an explanation of the increases and decreases.

Government-wide Revenues

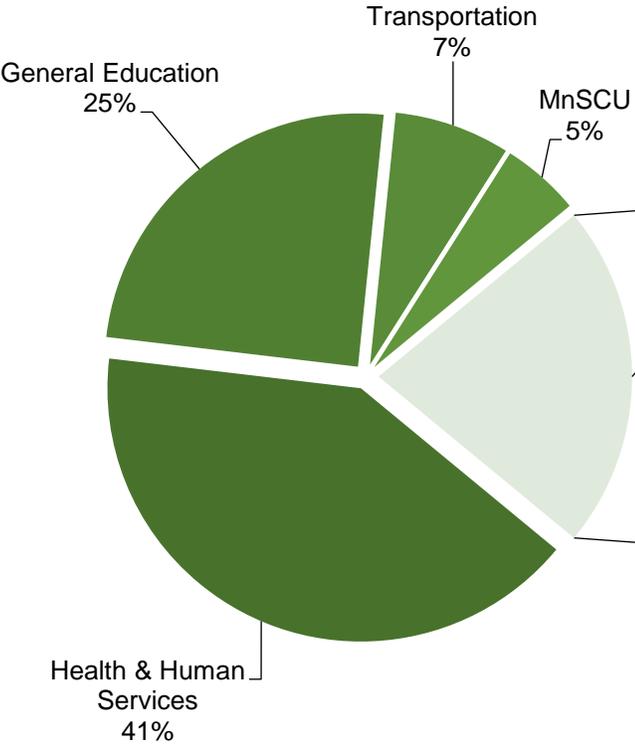
State revenue totaled \$39.8 billion in fiscal year 2016. These revenues and other state assets were used to support government programs. The accompanying chart shows revenues by source.



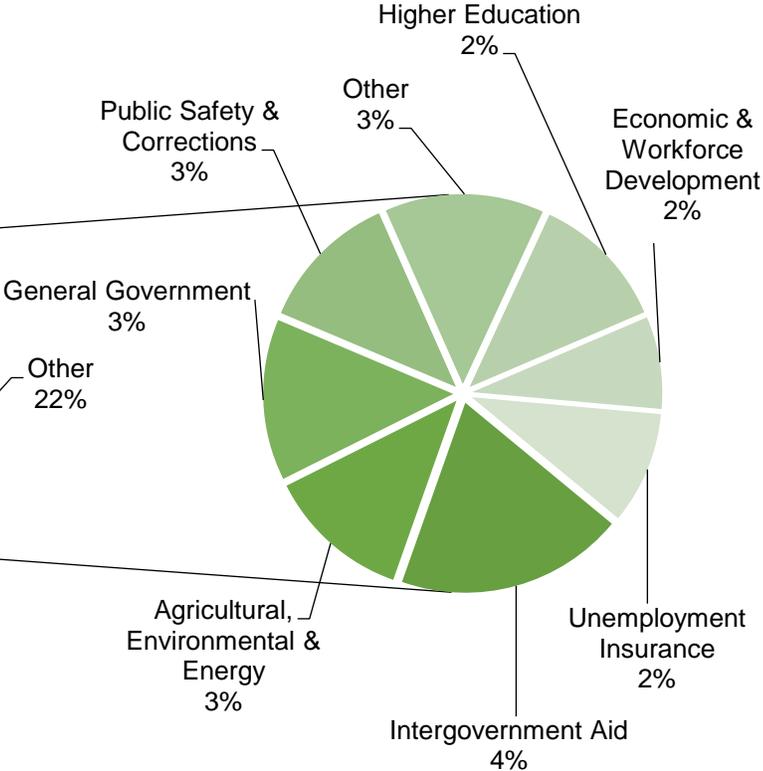
Government-wide Expenses

On a government-wide basis, the state spent \$38.1 billion on important services that Minnesotans depend on every day. The following chart shows government-wide expenses by function. The second chart breaks down the "Other" category by function.

Government-wide Expenses by Function



"Other" by Function



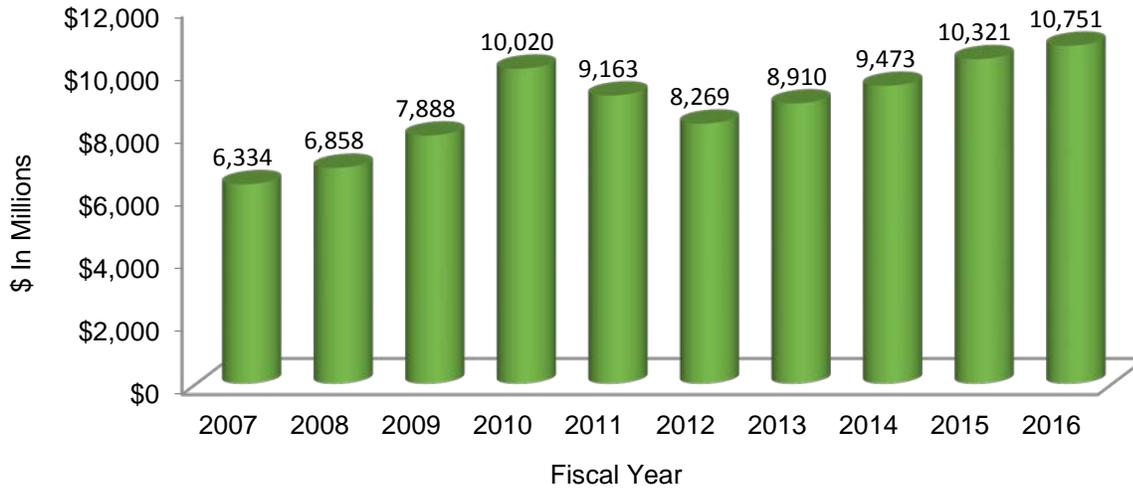
State Debt

The Minnesota Legislature authorizes the issuance of all bond sales and the Commissioner of Management and Budget, by law, is given the responsibility of issuing the state's general obligation bonds. The proceeds from the sale of the bonds are used to pay the cost of capital projects, programs, or purposes that are approved by the Legislature. The state's bond ratings on general obligation bonds are:

- AA+ by Fitch Ratings (July 2016 upgraded to AAA)
- Aa1 by Moody's Investors Service
- AA+ by Standard & Poor's (August 2015 improved outlook to positive)

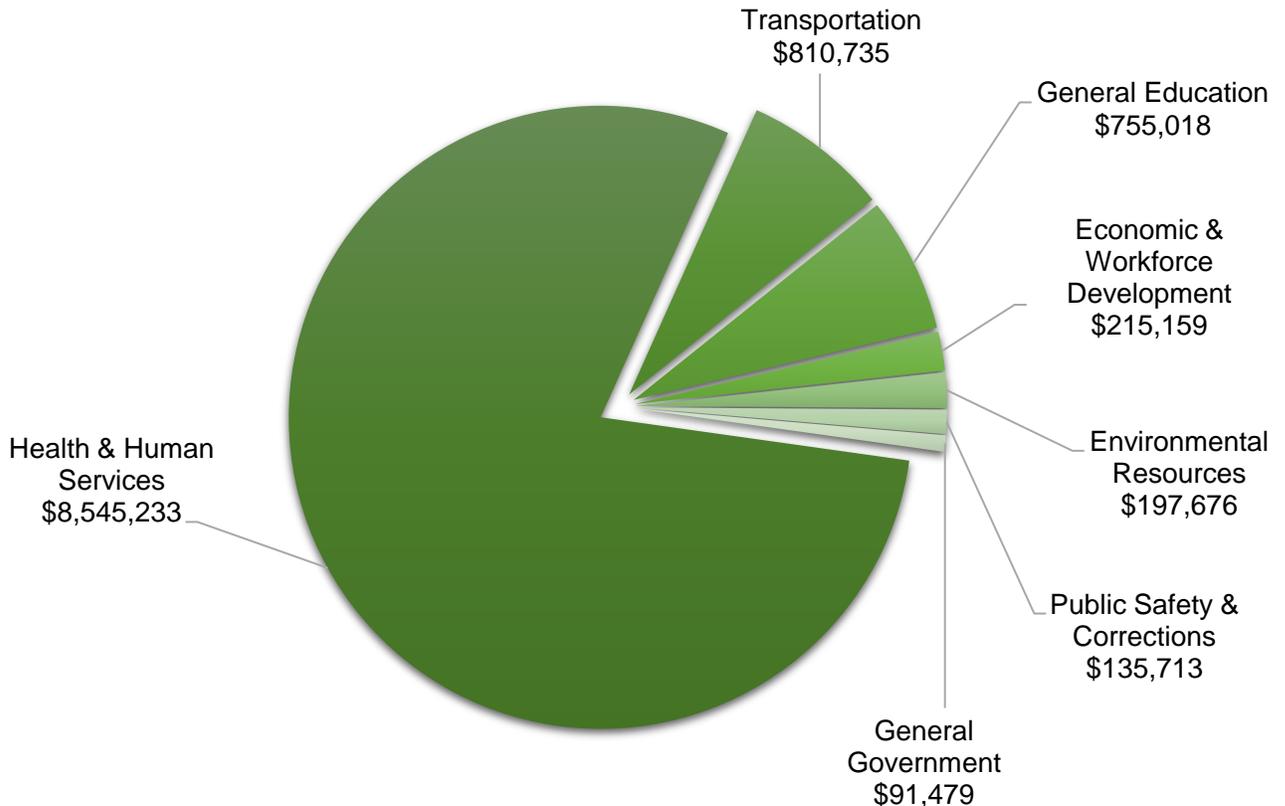
Federal Grant Revenue for Governmental Funds

The federal government gives financial assistance to the state in the form of federal grants. Federal grant revenue increased during the recession and decreased in the years following, as shown below.



Federal Grant Revenue by Function (In Thousands)

The following chart shows federal grant revenue for each group of related activities.



Governmental Expenditures

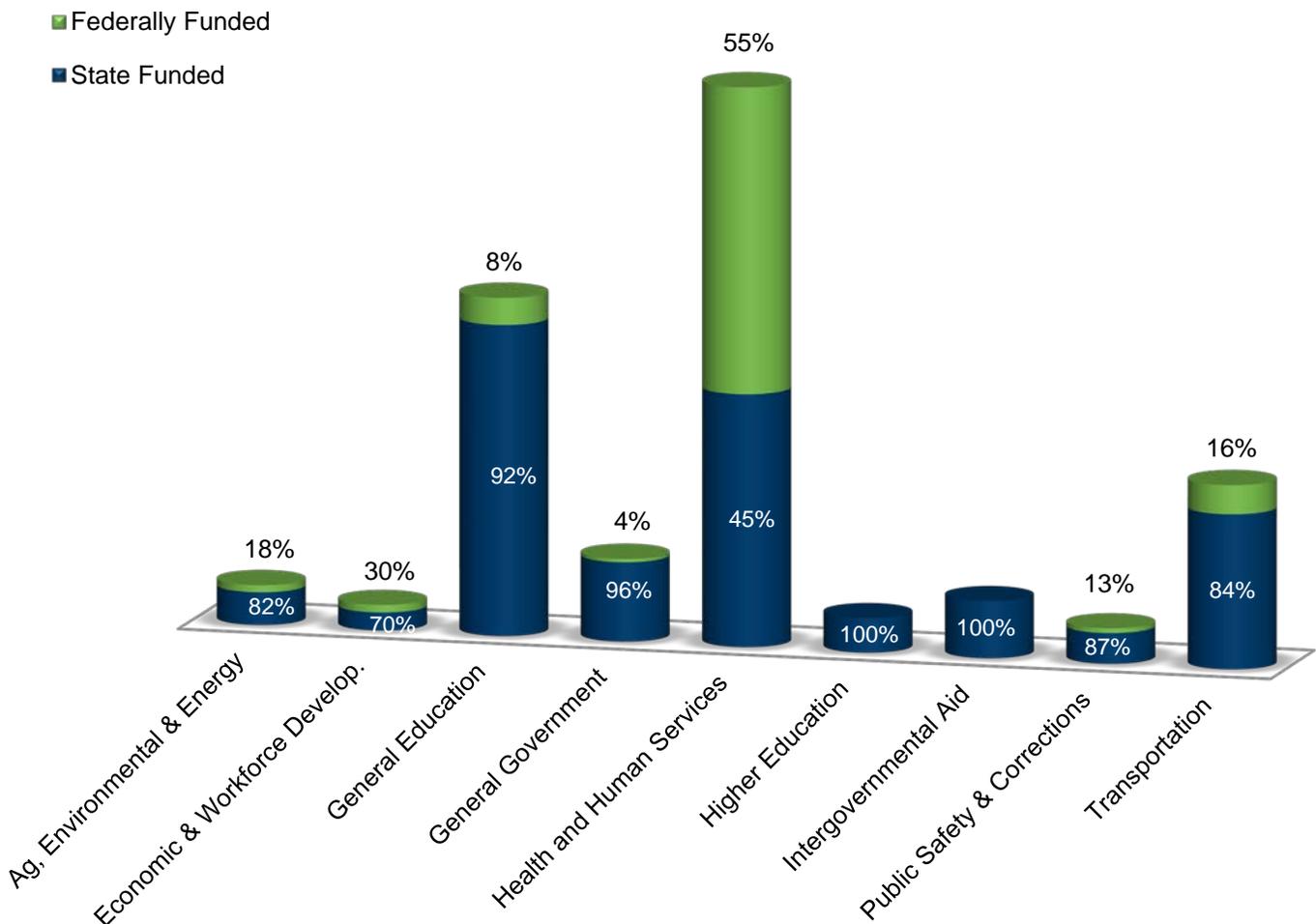
Governmental fund expenditures totaled \$36.4 billion for fiscal year 2016. These expenditures include:

- \$31.4 billion for costs related to operating services and other charges
- \$2.8 billion for payroll and related employee costs
- \$1.2 billion for capital outlay
- \$1.0 billion for debt service

The sources of funding for these expenditures include:

- \$25.6 billion in state funding
- \$10.8 billion in federal funding

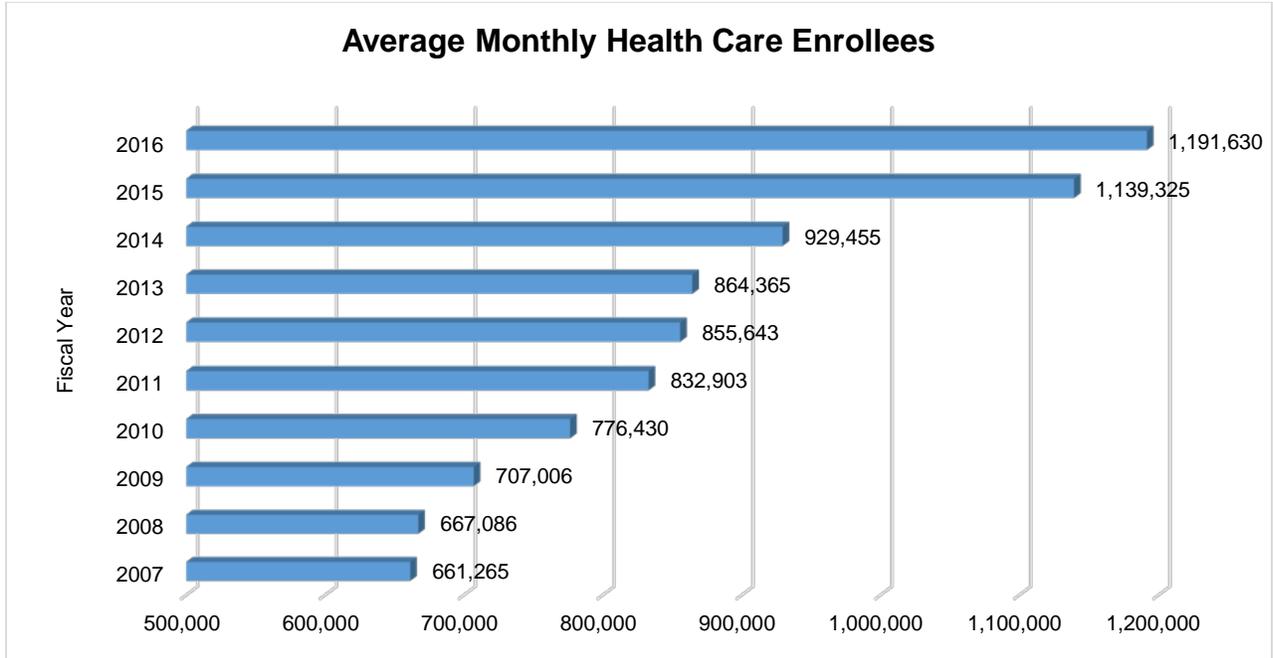
Percentage of State Funded Expenditures to Federally Funded Expenditures for Governmental Funds by Category





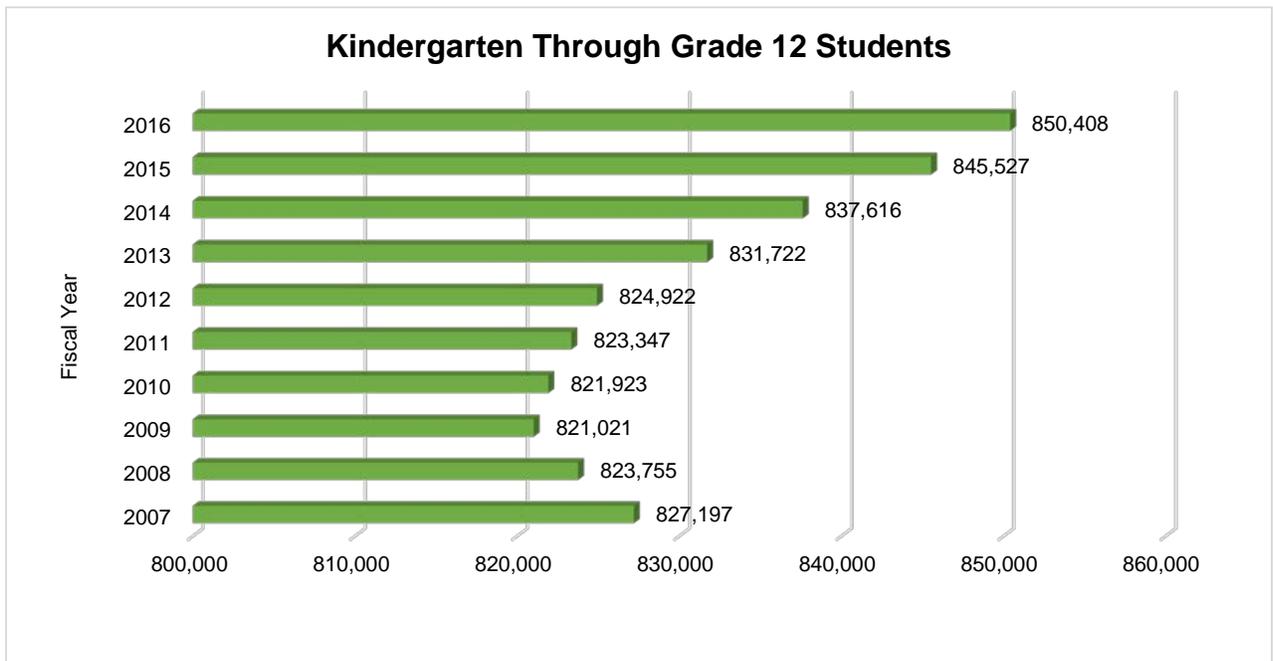
Health and Human Services

A major factor in Health and Human Services' expenditures is the number of health care enrollees. The number of enrollees has increased each year as shown below.



General Education

For General Education expenditures, a major factor is the number of students. The number of students has increased each year since 2009 as shown below.



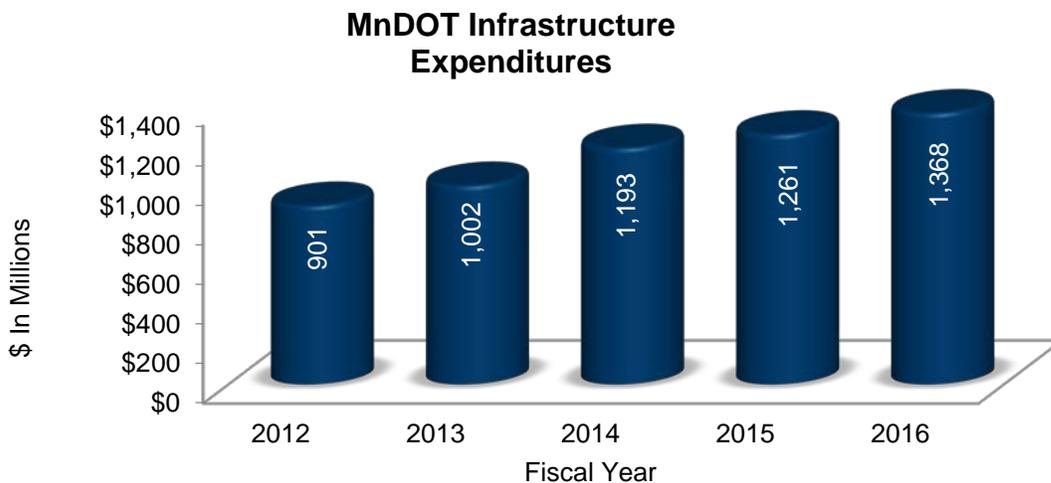


Transportation

Minnesota reports selected infrastructure assets under the “modified approach” following GAAP. Under this approach, the state expenses certain maintenance and preservation costs and does not report depreciation. The state maintains approximately:

- 3,000 bridges and tunnels
- 29,000 lane miles of roads and streets

The Minnesota Department of Transportation (MnDOT) evaluates the structural condition of roads, bridges, and tunnels to determine the serviceable level and to plan for future construction and maintenance needs. The following chart illustrates MnDOT’s actual spending for the capitalization, preservation, and maintenance of the infrastructure assets under the modified approach.



Conclusion

Thank you for your interest in Minnesota’s financial information. We hope this snapshot of our state finances has helped convey the important aspects of our fiscal year. We continue to see the results of our strong fiscal management and remain committed to supporting economic growth and better government for a better Minnesota.

This report includes condensed and simplified information from the 2016 Comprehensive Annual Financial Report (CAFR). The data in this report is unaudited. You can view the CAFR online at mn.gov/mmb and click on “Reports.”

Glossary of Terms

Assets: Resources with present service capacity that the government presently controls.

Capital outlay: Money spent to acquire, maintain, repair, or upgrade capital assets, which include equipment, land, buildings, infrastructure, intangible assets, and art and historical treasures.

Debt Service: Payment of principal and interest due on an existing debt.

Deferred inflows of resources: An acquisition of net position by the government that is applicable to a future reporting period.

Function: Group of related activities aimed at accomplishing a major service or regulatory program for which a government is responsible. Public Safety and Transportation are two examples of functions.

Fund balance: Net position of a governmental fund. The difference between assets plus deferred outflows of resources less liabilities plus deferred inflows of resources.

Generally Accepted Accounting Principles (GAAP): Conventions, rules, and procedures that serve as the norm for the fair presentation of financial statements.

Liabilities: Present obligations to sacrifice resources that the government has little or no discretion to avoid.

Net Position: The residual balance of all other financial statement elements presented in a statement of financial position. It is the difference between (1) assets and deferred outflows of resources, and (2) liabilities and deferred inflows of resources.

Primary Government: The state of Minnesota, as a primary government, includes state departments, agencies, institutions, and organizational units that are controlled by or dependent upon the Minnesota Legislature or its constitutional officers.