

TORO CO
Form 11-K
June 28, 2016
Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 11-K

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the fiscal year ended December 31, 2015

OR

**TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 1-8649

A.Full title of the plan and address of the plan, if different from that of the issuer named below:

The Toro Company Investment, Savings, and Employee Stock Ownership Plan

The Toro Company

8111 Lyndale Avenue South

Bloomington, MN 55420

Attn: Managing Director, HR & Total Rewards

B.Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

The Toro Company

8111 Lyndale Avenue South

Bloomington, MN 55420

Table of Contents

**THE TORO COMPANY INVESTMENT, SAVINGS,
AND EMPLOYEE STOCK OWNERSHIP PLAN**

Financial Statements

December 31, 2015 and 2014

(With Report of Independent Registered Public Accounting Firm Thereon)

Table of Contents

**THE TORO COMPANY INVESTMENT, SAVINGS,
AND EMPLOYEE STOCK OWNERSHIP PLAN**

Table of Contents

	Page(s)
<u>Report of Independent Registered Public Accounting Firm</u>	1
<u>Statements of Net Assets Available for Benefits</u>	2
<u>Statements of Changes in Net Assets Available for Benefits</u>	3
<u>Notes to Financial Statements</u>	4 9
<u>Schedule H, Line 4i - Schedule of Assets (Held at End of Year)</u>	10
<u>Signatures</u>	11
<u>Exhibits</u>	12

Table of Contents

Report of Independent Registered Public Accounting Firm

The Plan Administrator
The Toro Company Investment, Savings,

and Employee Stock Ownership Plan:

We have audited the accompanying statements of net assets available for benefits of The Toro Company Investment, Savings, and Employee Stock Ownership Plan (the Plan) as of December 31, 2015 and 2014, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2015 and 2014, and the changes in net assets available for benefits for the years then ended, in conformity with U.S. generally accepted accounting principles.

The supplemental information in the accompanying Schedule H, line 4i Schedule of Assets (Held at End of Year) as of December 31, 2015, has been subjected to audit procedures performed in conjunction with the audit of the Plan's 2015 financial statements. The supplemental information is presented for the purpose of additional analysis and is not a required part of the financial statements but include supplemental information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental information is the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental information in the accompanying schedule is fairly stated in all material respects in relation to the financial statements as a whole.

/s/ KPMG LLP

Minneapolis, Minnesota
June 27, 2016

Table of Contents

**THE TORO COMPANY INVESTMENT, SAVINGS,
AND EMPLOYEE STOCK OWNERSHIP PLAN**

Statements of Net Assets Available for Benefits

December 31, 2015 and 2014

	2015		2014
Assets:			
Investments at fair value:			
Interest in the Toro Company Master Trust Fund	\$ 873,090,947	\$	873,531,021
Employer contribution receivable	12,898,811		11,904,355
Employee contribution receivable	71,237		101,886
Notes receivable from participants	27,496		
Total receivables	12,997,544		12,006,241
Net assets available for benefits	\$ 886,088,491	\$	885,537,262

See accompanying notes to financial statements.

Table of Contents

**THE TORO COMPANY INVESTMENT, SAVINGS,
AND EMPLOYEE STOCK OWNERSHIP PLAN**

Statements of Changes in Net Assets Available for Benefits

Years ended December 31, 2015 and 2014

	2015	2014
Additions to net assets:		
Investment income:		
Plan interest in net investment income of the Toro Company Master Trust Fund	\$ 48,650,025	\$ 43,626,667
Net investment income	48,650,025	43,626,667
Employer cash contributions	13,700,120	12,558,301
Employer non-cash stock contributions	3,663,344	3,376,748
Employee contributions	17,114,704	15,470,941
Rollover contributions	4,161,972	1,419,221
Total contributions	38,640,140	32,825,211
Total additions to net assets	87,290,165	76,451,878
Deductions from net assets:		
Benefit payments	(86,371,674)	(67,931,256)
Administrative and other	(367,262)	(181,889)
Total deductions from net assets	(86,738,936)	(68,113,145)
Assets transferred from the Plan		(28)
Net increase in net assets available for benefits	551,229	8,338,705
Net assets available for benefits:		
Beginning of year	885,537,262	877,198,557
End of year	\$ 886,088,491	\$ 885,537,262

See accompanying notes to financial statements.

Table of Contents

**THE TORO COMPANY INVESTMENT, SAVINGS,
AND EMPLOYEE STOCK OWNERSHIP PLAN**

Notes to Financial Statements

December 31, 2015 and 2014

(1) Summary Description of Plan

The following description of The Toro Company Investment, Savings, and Employee Stock Ownership Plan (the Plan) is provided for general information purposes only. Participants should refer to the plan document amended and restated as of January 1, 2009 for more complete information for calendar years prior to 2012. The Plan document was amended and restated effective January 1, 2012 as part of the regular five-year cycle of amendments and restatements. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Effective January 1, 2002, The Toro Company Employee Stock Ownership Plan was merged into The Toro Company Investment and Savings Plan to become the Plan. However, there continues to be an employee stock ownership (ESOP) portion and a profit sharing portion of the Plan. Effective September 2, 2003, the Exmark Manufacturing Company, Inc. 401(k) Profit Sharing Plan was merged into the Plan. Effective April 4, 2008, the Rain Master Irrigation Systems, Inc. 401(k) Profit Sharing Plan was merged into the Plan.

As determined by the Plan Administrator of the Plan, office exempt and office nonexempt employees of the BOSS professional snow and ice management business of Northern Star Industries, Inc. (NSI) on December 31, 2014, who became employees of The Toro Company (the Company) on January 1, 2015, receive credit for service they completed with NSI prior to 2015 for purposes of determining their eligibility and vesting service under the Plan.

The primary purpose of the ESOP portion of the Plan is to provide employees who become participants in the Plan an opportunity to have their account balances invested in common stock, par value \$1.00 per share (Common Stock), of the Company. The portions of participant accounts that hold Common Stock of the Company are included in the ESOP portion of the Plan. The portions of participant accounts that do not hold such stock are included in the profit sharing portion of the Plan.

Participants may make their own contributions to the Plan. These are initially made to the profit sharing portion of the Plan.

Plan participants are also eligible to have the Company make ESOP and investment fund contributions to the Plan on their behalf. Participants are fully vested in the entire balance of their individual accounts attributable to those contributions except as indicated below. The Company also makes matching contributions to the Plan with respect to participant contributions. Company matching contributions, together with income attributable thereto, vest at a rate of 20% after one year of vesting service, with an additional 20% being accumulated annually thereafter until the participant is 100% vested.

Edgar Filing: TORO CO - Form 11-K

Effective January 1, 2012, the Plan was amended and restated. As part of the amendment and restatement, the following key changes were made: eligibility requirements were all changed to 30 days, automatic enrollment levels increased from 2% to 4%, and a vesting schedule, which is now similar to the vesting schedule for all matching contributions, was established for the investment fund and ESOP contributions for those who become participants on or after January 1, 2012.

Participants may choose to have their accounts including those initially invested in Common Stock of the Company invested in any of the investment funds made available under the Plan or in Common Stock of the Company. All contributions under the Plan are made to a trust that holds all of the assets of the Plan.

Table of Contents

Participants may receive distributions from their vested accounts under the Plan upon termination of service or death in the form of a lump-sum payment or in installments. Additionally, at age 59½, participants are able to take in-service withdrawals. Participants are allowed to withdraw amounts that they previously rolled into the Plan. Withdrawals are also allowed from selected accounts in the event of a defined financial hardship to the extent necessary to satisfy the financial need. To the extent an account is invested in Common Stock of the Company, a withdrawal or distribution can be in the form of Common Stock of the Company or cash.

Benefit payments and transfers of participants' interests are made by the trustee, Fidelity Investments (the Trustee).

During the years ended December 31, 2015 and 2014, forfeited nonvested accounts totaled \$141,960 and \$96,919, respectively. These amounts are used to offset future Company contributions.

The Company (the administrator of the Plan) designs, manufactures, and markets professional turf maintenance equipment and services, turf irrigation systems, landscaping equipment and lighting, snow and ice management products, agricultural micro-irrigation systems, rental and specialty construction equipment, and residential yard and snow thrower products. The Company absorbs administrative costs of the Plan, with certain exceptions including investment management fees, which are netted against investment income.

(2) **Summary of Significant Accounting Policies**

a) Basis of Financial Statement Presentation

The accompanying financial statements of the Plan are presented in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

b) Investments

The Plan's investments are in a Master Trust held by the Trustee. The investment securities are stated at fair value; fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The fair value of equity securities is based on the last quoted bid price. Common collective trust funds are valued at net asset value (NAV) of the underlying fund as a practical expedient. The NAV is based on the value of the net assets owned by the fund. While the underlying assets are actively traded on an exchange, the fund is not. There are no imposed redemption or liquidation restrictions on participants and the Plan has no further contractual obligations to further invest in the funds.

Purchases and sales of all securities are recorded on a trade-date basis. Interest is recorded on an accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold as well as held during the

year.

The Company maintains one Master Trust for two profit sharing and retirement plans that are sponsored by the Company. The two plans are the Plan and The Toro Company Profit Sharing Plan for Plymouth Union Employees. The purpose of the Master Trust is to pool investment transactions and achieve uniform rates of return on comparable funds under all plans.

The Plan's proportionate share of net investment income from the Master Trust is based upon the percentage of the fair value of the Plan's investment in the Master Trust's net assets. The Plan's percentage interest in the net assets of the Master Trust was approximately 99% as of December 31, 2015 and 2014.

Table of Contents

c) ***Accounting Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires the Company, as the administrator of the Plan, to make estimates and assumptions that affect the reported amounts of net assets available for benefits and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of changes in net assets available for benefits during the reporting period. Actual results could differ from those estimates.

d) ***Concentrations of Risk***

The Plan has investments in a variety of investment funds within the Master Trust. Investments in general are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

The assets held by the Master Trust include the Common Stock of the Company. At December 31, 2015 and 2014, approximately 37% of the investments of the Master Trust were invested in Common Stock of the Company. The underlying value of the Common Stock of the Company is entirely dependent upon the performance of the Company and the market's evaluation of such performance and other factors.

e) ***Fully Benefit-Responsive Investment Contracts***

The Plan indirectly invests in guaranteed investment contracts and security-backed contracts through the Wells Fargo Stable Return Fund G. An investment contract is a contract issued by a financial institution to provide a stated return to the buyer of the contract for a specified period of time. A security-backed contract has similar characteristics as a traditional investment contract and comprises two parts: the first part is a fixed-income security or portfolio of fixed-income securities; the second part is a contract value guarantee (wrapper) provided by a third party. Stable value collective trust funds, which include these investment contracts held by a defined contribution plan, are required to be reported at fair value. The yield earned by the Wells Fargo Stable Return Fund G at December 31, 2015 and December 31, 2014 was 1.83% and 1.40%, respectively.

f) ***New Accounting Pronouncements***

In July 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-12, *Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient*. Part I of this ASU eliminates the requirement to measure fully benefit-responsive investment contracts at fair value. Contract value will be the only required measure for fully benefit-responsive investment contracts. Part II of this ASU eliminates the requirements to disclose individual investments that represent 5% or more of net assets available for benefits. In addition, the disclosure of information about fair value measurements shall be provided by general

Edgar Filing: TORO CO - Form 11-K

type of investment. Part III of this ASU is not applicable to the Plan. The provisions of this ASU are effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The company adopted this guidance for the year ended December 31, 2015.

In May 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value Per Share (Or Its Equivalent)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) as a practical expedient. It also removes the requirement to make certain disclosures for all investments valued using NAV as a practical expedient. The company adopted this guidance for the year ended December 31, 2015.

Table of Contents

The company adopted Part I and Part II of ASU 2015-12 and ASU 2015-07 as it believes it will simplify Plan accounting and its presentation in the financial statements. As such, the accounting and disclosures in these financial statements and related notes follow Part I and Part II of ASU 2015-12 and ASU 2015-07. The guidance was retrospectively applied, and previously reported financial information pertaining to 2014 has been revised to present that information on a comparable basis.

(3) Funding Policy, Contributions, and Plan Transfers

For the ESOP portion of the Plan, the Company, at its discretion, may choose to make an annual contribution to a qualified employee's or participant's account in the form of Common Stock of the Company. To the extent that a contribution is made for a plan year, it is contributed based on a percentage of the participant's eligible compensation for the plan year.

For the profit sharing portion of the Plan, the Company, at its discretion, may choose to make an annual contribution to a qualified employee's or participant's account in the form of cash. This contribution is allocated to a participant's account based on a participant's allocation of funds under the 401(k) feature. To the extent that a contribution is made for a plan year, it is contributed based on a percentage of the participant's eligible compensation for the plan year plus a percentage of the participant's eligible compensation above the Social Security taxable wage base.

Participants can also elect salary reduction elections under a 401(k) feature and rollover funds from other qualified plans. The Company may, at its discretion, make a matching contribution to employee contributions to the Plan.

Transfers to/from other funds represent participant elected rollovers to/from plans of other employers or other transfers to/from other plans.

(4) Party-in-interest Transactions

The Trustee and the Company are parties in interest with respect to the Plan. The Plan's investments are held by the Trustee, and some of the investment funds available to participants include mutual funds managed by the Trustee. Transactions between the Plan and the Trustee are exempt from being considered as prohibited transactions under the ERISA Section 408(b).

At December 31, 2015 and 2014, the Plan held 4,386,368 and 5,012,002 shares, respectively, of common stock of The Toro Company, the sponsoring employer, with a cost basis of approximately \$80.8 million for both periods. During the year ended December 31, 2015, the Plan recorded The Toro Company common stock dividend income of \$3.9 million.

(5) Plan Termination

The Company has voluntarily agreed to make contributions to the Plan. Although the Company has not expressed any intent to terminate the Plan, it may do so at any time. Each participant's interest in the Plan is 100% vested at all times, except for portions vested in a different manner described above. Upon termination of the Plan, interests of active participants in the Plan fully vest.

(6) Master Trust Fund

Under the terms of the trust agreement, the Trustee manages investment funds on behalf of the Plan. The Trustee has been granted discretionary authority concerning the purchases and sales of the investments of the investment funds, except to the extent the Trustee is subject to the discretion of participants, other fiduciaries, or the Company. In accordance with the trust agreement, the assets of the Plan are held together with assets of other plans sponsored by the Company in the Master Trust. Investment income

Edgar Filing: TORO CO - Form 11-K

Table of Contents

related to the Master Trust is allocated to the individual plans based upon beginning of the month balances invested in the Plan. Transactions involving Toro Company stock qualify as party-in-interest transactions, which are exempt from the prohibited transaction rules under ERISA.

Fair values of Master Trust investments at December 31, 2015 and 2014 were as follows:

	2015	2014
Mutual funds	\$ 274,921,858	\$ 288,320,321
Common collective trust funds	262,001,860	253,610,711
Money market funds	3,955,951	2,755,202
Self-Directed Brokerage	13,814,321	10,970,232
The Toro Company Common Stock	322,340,390	321,857,743
Total Master Trust investments	\$ 877,034,380	\$ 877,514,209
Plan interest in Master Trust	\$ 873,090,947	\$ 873,531,021

Net investment income for the Master Trust for the years ended December 31, 2015 and 2014 was as follows:

	2015	2014
Net realized and unrealized appreciation (depreciation) in fair value of investments:		
Mutual funds	\$ (11,478,371)	\$ 14,794,371
Common collective trust funds	(545,909)	11,343,677
Money Market	137	
Self-Directed Brokerage		390,034
The Toro Company Common Stock	43,822,076	912,293
Net realized and unrealized appreciation	31,797,933	27,440,375
Dividends and Interest	17,147,887	16,380,608
Master Trust net investment income	\$ 48,945,820	\$ 43,820,983

The Master Trust categorizes its assets and liabilities into one of three levels based on the assumptions (inputs) used in valuing the asset or liability. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. The three levels are defined as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Master Trust's investments in money market funds, brokerage, mutual funds, including investments in small, mid and large cap equities, in the United States and internationally, as well as investments in Common Stock of the Company are classified as Level 1 assets in the fair value hierarchy. The Master

Table of Contents

Trust's investments in common collective trust funds are valued using the NAV, as provided by the administrator of the fund.

Master Trust assets measured at fair value as of December 31, 2015 and 2014 are summarized below:

2015	Fair Value	Level 1	Level 2	Level 3
Mutual funds	\$ 274,921,858	\$ 274,921,858	\$	\$
Money market funds	3,955,951	3,955,951		
Brokerage	13,814,321	13,814,321		
The Toro Company Common Stock	322,340,390	322,340,390		
Total assets in fair value hierarchy	615,032,520	615,032,520		
Investments measured at net asset value(a)	262,001,860			
Investments at fair value	\$ 877,034,380	\$ 615,032,520	\$	\$

2014	Fair Value	Level 1	Level 2	Level 3
Mutual funds	\$ 288,320,321	\$ 288,320,321	\$	\$
Money market funds	2,755,202	2,755,202		
Brokerage	10,970,232	10,970,232		
The Toro Company Common Stock	321,857,743	321,857,743		
Total assets in fair value hierarchy	623,903,498	623,903,498		
Investments measured at net asset value(a)	253,610,711			
Investments at fair value	\$ 877,514,209	\$ 623,903,498	\$	\$

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share have not been classified in the fair value hierarchy. The Master Trust has the ability to redeem its interest in the investments measured at net asset value in the fair value hierarchy within 90 days of the measurement date with no liquidity restrictions.

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2015 and 2014.

(7) Federal Income Taxes

The Internal Revenue Service (IRS) has determined and informed the Company by a letter dated October 17, 2013, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (IRC). Although the Plan has been amended since receiving the determination letter, the Company, as the administrator of the Plan, believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC and, therefore, believes that the Plan is qualified and the related trust is tax-exempt.

U.S. GAAP requires the Plan's sponsor to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The Plan is subject to routine audits by taxing

jurisdictions; however, there are currently no audits for any tax periods in progress. The Company believes that the Plan is no longer subject to income tax examinations for years prior to 2012.

Table of Contents

Schedule 1

**THE TORO COMPANY INVESTMENT, SAVINGS,
AND EMPLOYEE STOCK OWNERSHIP PLAN**

Schedule H, line 4i Schedule of Assets (Held at End of the Year)

December 31, 2015

Description	Cost	Current value
Plan's interest in Master Trust	\$	873,090,947
Notes receivable from participants*		27,496
Total	\$	873,118,443

*Party-in-interest as defined by ERISA. 3 loans outstanding with 5 year terms and interest rates of 4.25%.

See accompanying report of independent registered public accounting firm.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

The Toro Company Investment, Savings, and
Employee Stock Ownership Plan

Date: June 27, 2016

By /s/ Renee J. Peterson
Renee J. Peterson
Vice President, Treasurer and
Chief Financial Officer
of The Toro Company

Table of Contents

Exhibit Index

Exhibit Number	Description
23.1	Consent of Independent Registered Public Accounting Firm