

THE HORMEL FOUNDATION

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY AND OTHER INFORMATION**

YEARS ENDED NOVEMBER 30, 2016 AND 2015

**THE HORMEL FOUNDATION
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INDEPENDENT AUDITORS' REPORT

Board of Directors
The Hormel Foundation
Austin, Minnesota

We have audited the accompanying consolidated financial statements of The Hormel Foundation (the Foundation), which comprise the consolidated statements of financial position as of November 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Basis for Qualified Opinion

The Foundation recognizes future interests in trusts at \$1 per trust for a total of \$11 rather than at fair market value. Accounting principles generally accepted in the United States of America require that future interests in trusts be recorded at fair value. The fair value of the future interests in trusts has not been determined.

Qualified Opinion

In our opinion, except for the effects of not recognizing the future interest in trusts at fair value, as discussed in the Basis for Qualified Opinion paragraph, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of The Hormel Foundation as of November 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of approved grants and administrative expenses is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The corporate organization data is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to auditing procedures applied in the audit of the consolidated financial statements, and, accordingly, we do not express an opinion or any assurance on it.



CliftonLarsonAllen LLP

Austin, Minnesota
January 30, 2017

THE HORMEL FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
NOVEMBER 30, 2016 AND 2015

ASSETS	2016	2015
Cash and Cash Equivalents	\$ 4,059,752	\$ 11,966,510
Accounts Receivable	56,063	63,584
Dividends Receivable	4,682,509	3,993,905
Pledge Receivables, Net	237,804	2,178,849
INVESTMENTS		
U.S. Equities	13,827,729	12,719,787
Closed-End Funds	20,700,497	20,272,421
Brokerage Certificates of Deposit	-	3,978,606
U.S. Corporate Bonds	7,500	18,750
Other Investments	37,516	62,781
Corporate Stocks:		
Hormel Foods Corporation	943,112,449	1,031,804,683
Total Investments	977,685,691	1,068,857,028
Property and Equipment, Net	30,552,237	25,731,239
Future Interests in Trusts	11	11
Total Assets	\$ 1,017,274,067	\$ 1,112,791,126

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	<u>2016</u>	<u>2015</u>
LIABILITIES		
Accounts Payable	\$ 281,969	\$ 1,744,169
Accrued Interest	33,075	61,863
Grants Payable	44,015,147	29,030,269
Deposit Payable	20,370	-
Long-Term Debt	1,890,000	3,535,000
Undistributed Income Applicable to Life Interests in Income from Gifts Received:		
Federal Income Tax Withheld from Distributions to Foreign Recipients	90	90
Income Reserve Funds Required by Conditions of Gifts	<u>15,000</u>	<u>15,000</u>
Total Liabilities	<u>46,255,651</u>	<u>34,386,391</u>
NET ASSETS		
Unrestricted:		
Unrestricted	850,616,597	944,794,532
Unrestricted Board Designated	<u>956,698</u>	<u>455,000</u>
Total Unrestricted Net Assets	<u>851,573,295</u>	<u>945,249,532</u>
Temporarily Restricted:		
Capital Contributed with Limited Life Interest Income	119,445,121	130,677,947
Contributions Restricted for Live Learning Center	<u>-</u>	<u>2,477,256</u>
Total Temporarily Restricted Net Assets	<u>119,445,121</u>	<u>133,155,203</u>
Total Net Assets	<u>971,018,416</u>	<u>1,078,404,735</u>
Total Liabilities and Net Assets	<u><u>\$ 1,017,274,067</u></u>	<u><u>\$ 1,112,791,126</u></u>

THE HORMEL FOUNDATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
YEARS ENDED NOVEMBER 30, 2016 AND 2015

	2016		
	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS (LOSSES), AND INVESTMENT ACTIVITY			
Dividend, Net of Management Fees	\$ 15,273,044	\$ 2,023,311	\$ 17,296,355
Interest, Net of Management Fees	35,240	-	35,240
Realized Gain from Sale of Investments	1,591,496	-	1,591,496
Unrealized Gain (Loss) on Investments - Hormel Foods Corp. Stock	(77,459,408)	(11,232,826)	(88,692,234)
Unrealized Loss on Investments - Other	(919,216)	-	(919,216)
Rental Income	1,156,065	-	1,156,065
Contributions Received	-	693,633	693,633
Miscellaneous Income	939,054	-	939,054
Subtotal	<u>(59,383,725)</u>	<u>(8,515,882)</u>	<u>(67,899,607)</u>
Net Assets Released from Restrictions:			
Contributions Released for Live Learning Center	3,170,889	(3,170,889)	-
Residual Income from Restricted Funds	<u>2,023,311</u>	<u>(2,023,311)</u>	<u>-</u>
Total Revenue, Gains (Losses), and Investment Activity	(54,189,525)	(13,710,082)	(67,899,607)
EXPENSES			
Grants	36,707,920	-	36,707,920
Depreciation	1,228,499	-	1,228,499
Income Distributed	5,240	-	5,240
Management and General	1,407,766	-	1,407,766
Interest Expense	137,287	-	137,287
Total Expenses	<u>39,486,712</u>	<u>-</u>	<u>39,486,712</u>
CHANGE IN NET ASSETS	(93,676,237)	(13,710,082)	(107,386,319)
Net Assets - Beginning of Year	<u>945,249,532</u>	<u>133,155,203</u>	<u>1,078,404,735</u>
NET ASSETS - END OF YEAR	<u>\$ 851,573,295</u>	<u>\$ 119,445,121</u>	<u>\$ 971,018,416</u>

See accompanying Notes to Consolidated Financial Statements.

2015		
Unrestricted	Temporarily Restricted	Total
\$ 13,473,864	\$ 1,744,233	\$ 15,218,097
126,440	-	126,440
24,902,315	-	24,902,315
241,684,763	38,094,049	279,778,812
(1,084,346)	-	(1,084,346)
930,991	-	930,991
-	2,477,256	2,477,256
752,635	-	752,635
<u>280,786,662</u>	<u>42,315,538</u>	<u>323,102,200</u>
-	-	-
1,744,233	(1,744,233)	-
<u>282,530,895</u>	<u>40,571,305</u>	<u>323,102,200</u>
14,896,890	-	14,896,890
1,019,912	-	1,019,912
5,240	-	5,240
1,615,850	-	1,615,850
346,286	-	346,286
<u>17,884,178</u>	<u>-</u>	<u>17,884,178</u>
264,646,717	40,571,305	305,218,022
<u>680,602,815</u>	<u>92,583,898</u>	<u>773,186,713</u>
<u>\$ 945,249,532</u>	<u>\$ 133,155,203</u>	<u>\$ 1,078,404,735</u>

THE HORMEL FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED NOVEMBER 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (107,386,319)	\$ 305,218,022
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Realized Gain from Sale of Investments	(1,591,496)	(24,902,315)
Unrealized (Gain) Loss on Investments - Hormel Foods Corp. Stock	88,692,234	(279,778,812)
Unrealized Loss on Investments - Other	919,216	1,084,346
Depreciation	1,228,499	1,019,912
Changes in Operating Assets and Liabilities:		
Accounts Receivable	7,521	17,859
Dividends Receivable	(688,604)	(444,724)
Pledge Receivables, Net	1,941,045	(1,619,600)
Accounts Payable	(1,462,200)	1,691,144
Accrued Interest	(28,788)	(14,620)
Grants Payable	14,984,878	(6,553,625)
Deposit Payable	20,370	-
Net Cash Used by Operating Activities	(3,363,644)	(4,282,413)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(31,560,794)	(23,803,842)
Sale of Investments	34,712,177	48,260,356
Purchases of Property and Equipment	(6,049,497)	(6,121,167)
Net Cash Provided (Used) by Investing Activities	(2,898,114)	18,335,347
CASH FLOWS FROM FINANCING ACTIVITIES		
Lines of Credit Advances	-	8,136,285
Lines of Credit Payments	-	(14,590,678)
Payments on Long-Term Debt	(1,645,000)	(1,420,000)
Net Cash Used by Financing Activities	(1,645,000)	(7,874,393)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,906,758)	6,178,541
Cash and Cash Equivalents - Beginning of Year	11,966,510	5,787,969
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,059,752	\$ 11,966,510
SUPPLEMENTAL DISCLOSURES		
Cash Paid During the Year for:		
Interest	\$ 166,075	\$ 360,906

See accompanying Notes to Consolidated Financial Statements.

THE HORMEL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Hormel Foundation (the Foundation) is a public foundation and supports nonprofit organizations located in the Austin, Minnesota area that promote or engage in charitable, scientific, literary, civic, or educational activities. The Foundation owns 27,544,172 shares of Hormel Foods Corporation stock. As a trustee of the Geo. A. Hormel Testamentary Trust, the Jay C. Hormel Trusts (101, 102, 103, 201, 202, 203, 301, 302, and 303), and the George A. Hormel Trusts (5 and 6), the Foundation also votes 228,888,944 shares of Hormel Foods Corporation stock held in trust and has remainder interests in all of the shares held in trust. The remainder interests will be distributed to the Foundation upon the death of Jay C. Hormel's sons for the George A. Hormel Trusts (5 and 6); the remaining trusts interests will be distributed 21 years after the death of the last of Jay C. Hormel's sons.

Basis of Consolidation

The consolidated financial statements include the accounts of The Hormel Foundation, its wholly owned subsidiary, Leaning Tree, LLC, and Science Park Housing, LLC, a wholly owned subsidiary of Leaning Tree, LLC.

Net Assets Classifications

Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired. Unrestricted net assets represent funds that are fully available at the discretion of management and the members for the Foundation to utilize for any of its activities. Designated amounts represent those revenues that the board has set aside for a particular purpose.

Temporarily restricted net assets are comprised of funds that are restricted by donors for specific purposes or time periods. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of financial position released from restriction. Corporate stocks and other investments carried at \$119,445,121 and \$130,667,947 as of November 30, 2016 and 2015, respectively, have been received subject to limited life interest in income only and, accordingly, are classified as temporarily restricted net assets. Contributions received for the Ray Live Learning Center are classified as temporarily restricted net assets until the restrictions are met.

The temporarily restricted net assets of the Foundation are made up of the Riolland, Special Account C, and Special Account D Trusts (the Trusts). A portion of the dividend earnings of the Trusts is distributed to the designated beneficiaries on a quarterly basis as described in the trust agreements. The excess dividends earned over the amounts paid to the beneficiaries are reported in the consolidated statements of activities as net assets released from restriction. Termination of the Trusts will occur upon the death of the designated beneficiaries. Upon termination, the corpus of the Trusts will pass to the Foundation.

Permanently restricted net assets include contributions that donors have specified must be maintained in perpetuity. The related revenue may be expended for such purposes as specified by the donor or, if none, then for any purpose of the Foundation.

THE HORMEL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets Classifications (Continued)

As of November 30, 2016 and 2015, the Foundation only has unrestricted and temporarily restricted net assets.

Cash and Cash Equivalents

The Foundation considers cash and cash equivalents to include those items with original maturities of three months or less when purchased with banks or other financial institutions. At times the balance may exceed federally insured limits.

Accounts Receivable

Accounts receivable consists of amounts due from trusts for administrative costs in which the Foundation is the trustee. The Foundation provides an allowance for bad debts using the allowance method, which is based on management judgment considering historical information. An allowance is provided for accounts when a significant pattern of uncollectibility has occurred. When all collection efforts have been exhausted, the accounts are written off against the related allowance. At November 30, 2016 and 2015, an allowance was not warranted.

Dividends Receivable

Dividends receivable consists of dividends that were declared prior to November 30 of each year but were not yet received.

Pledge Receivables

Pledge receivables that are expected to be collected within one year are recorded at their net realizable value. Pledge receivables that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the promise is received. Conditional promises to give are not included as support until such time as the conditions are substantially met.

Property and Equipment

Property and equipment having a cost greater than \$5,000 and a useful life of more than one year are capitalized at cost when purchased. Donated items are recorded at fair value on the date of the contribution. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted. Depreciation is provided for on the straight-line method over the estimated useful lives of the related assets for financial reporting purposes. Estimated useful lives for assets were as follows:

Building and Improvements	10 to 40 Years
Equipment and Furniture	5-14 Years
Office Furniture and Fixtures	7 Years

**THE HORMEL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are carried at fair value, which generally represents reported market value as of the last business day of the period.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. 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 such changes could materially affect the amounts reported in the consolidated statements of financial position.

Investment Management Fees

Investment management fees are netted against dividend and interest income on the consolidated statements of activities. Investment management fees totaled \$205,464 and \$189,069 in for the years ended November 30, 2016 and 2015, respectively.

Future Interests in Trusts

The Foundation is the beneficiary of charitable remainder trusts in which the Foundation also serves as trustee. The assets of these trusts are recorded at \$1 per trust for a total of \$11 rather than at fair market value in the consolidated statements of financial position.

Grants Payable

Unconditional grants are recognized as expenses in the period when approved at their fair values. Grants subject to conditions are recorded when the conditions are substantially met.

Income Taxes

The Foundation is exempt from federal income taxes as a public foundation under Section 501(c)(3) of the Internal Revenue Code.

Accounting principles generally accepted in the United States of America require management to evaluate uncertain tax positions taken by the Foundation. The financial statement effects of a tax position are recognized when the position is more likely than not, based on the technical merits, to be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Foundation, and has concluded that as of November 30, 2016 and 2015, there are no uncertain positions taken or expected to be taken. The Foundation has recognized no interest or penalties related to uncertain tax positions. The Foundation is subject to routine audits by taxing jurisdictions; however, there are no audits for any tax periods in progress. The Foundation's tax returns are subject to review and examination by federal and state authorities.

**THE HORMEL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

New Accounting Pronouncement

During the year ended November 30, 2016, the Foundation early adopted a provision of Financial Accounting Standards Board Accounting Standards Update 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. This provision eliminates the requirement for entities, other than public business entities, to disclose the fair values of financial instruments carried at amortized cost, as previously required by Accounting Standards Codification 825-10-50. As such, the Foundation has omitted this disclosure for the years ended November 30, 2016 and 2015. The early adoption of this provision did not have an impact on the Foundation's financial position or results of operations.

Subsequent Events

The Foundation has evaluated events and transactions for potential recognition or disclosure in the consolidated financial statements through January 30, 2017, the date the consolidated financial statements were available to be issued.

NOTE 2 PLEDGES RECEIVABLE

The Foundation's pledges were discounted at a rates ranging from 2.25% to 4.86% based on imputed interest rates applicable to the year in which the pledge was received and were as follows at November 30, 2016 and 2015:

	2016	2015
In Less than One Year	\$ 66,128	\$ 2,096,736
In One to Five Years	183,845	148,734
Total	<u>249,973</u>	<u>2,245,470</u>
Less: Allowance for Uncollectible Pledges	(4,399)	(60,785)
Less: Unamortized Discount	(7,770)	(5,836)
Total Pledge Receivables, Net	<u>\$ 237,804</u>	<u>\$ 2,178,849</u>

THE HORMEL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2016 AND 2015

NOTE 3 INVESTMENTS AND FAIR VALUE MEASUREMENTS

The aggregate cost and fair value at year-end are as follows:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Hormel Foods Corporation Stock	\$ 35,676,432	\$ 943,112,449	\$ 35,676,432	\$ 1,031,804,683
U.S. Equities	13,497,182	13,827,729	12,576,243	12,719,787
Closed-End Funds	19,679,408	20,700,497	18,153,566	20,272,421
Brokered Certificates of Deposit	-	-	3,980,000	3,978,606
U.S. Corporate Bonds	205,032	7,500	207,545	18,750
Other (Alternative Inv)	37,516	37,516	61,671	62,781
Total	<u>\$ 69,095,570</u>	<u>\$ 977,685,691</u>	<u>\$ 70,655,457</u>	<u>\$ 1,068,857,028</u>

Dividends received on Hormel Foods Corporation stock totaled \$16,664,224 and \$14,522,969 in 2016 and 2015. As of November 30, 2016 and 2015, dividends receivable was \$4,682,509 and \$3,993,905, respectively.

The Foundation follows an accounting standard that defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The accounting standard also establishes a fair value hierarchy that requires assets and liabilities measured at fair value to be categorized into one of three levels based on the inputs used in the valuation. Assets and liabilities are classified in their entirety based on the lowest level of input significant to the fair value measurement. The three levels are defined as follows:

Level 1 – Unadjusted quoted prices in active markets that are accessible to the reporting entity at the measurement date for identical assets and liabilities.

Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets and liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in markets that are not active
- Observable inputs other than quoted prices that are used in the valuation of the assets or liabilities (e.g., interest rate and yield curve quotes at commonly quoted intervals)
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 – Unobservable inputs for the asset or liability (i.e., supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

THE HORMEL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2016 AND 2015

NOTE 3 INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

The Foundation's financial assets that are measured at fair value on a recurring basis as of November 30, 2016 and 2015, and their level within the fair value hierarchy, are as follows:

	Fair Value at November 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at Fair Value:				
Hormel Foods Corporation				
Stock (1)	\$ 943,112,449	\$ 943,112,449	\$ -	\$ -
U.S. Equities (1)	13,827,729	13,827,729	-	-
Closed-End Funds (3)	20,700,497	20,700,497	-	-
Brokered Certificates of Deposit (5)	-	-	-	-
U.S. Corporate Bonds (2)	7,500	-	7,500	-
Other (Alternative Inv) (4)	37,516	-	-	37,516
Total Assets at Fair Value	<u>\$ 977,685,691</u>	<u>\$ 977,640,675</u>	<u>\$ 7,500</u>	<u>\$ 37,516</u>

	Fair Value at November 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at Fair Value:				
Hormel Foods Corporation				
Stock (1)	\$ 1,031,804,683	\$ 1,031,804,683	\$ -	\$ -
U.S. Equities (1)	12,719,787	12,719,787	-	-
Closed-End Funds (3)	20,272,421	20,272,421	-	-
Brokered Certificates of Deposit (5)	3,978,606	3,978,606	-	-
U.S. Corporate Bonds (2)	18,750	-	18,750	-
Other (Alternative Inv) (4)	62,781	-	-	62,781
Total Assets at Fair Value	<u>\$ 1,068,857,028</u>	<u>\$ 1,068,775,497</u>	<u>\$ 18,750</u>	<u>\$ 62,781</u>

- (1) The Foundation holds an investment in the stock of Hormel Foods Corporation and U.S. Equities that are publicly traded in an active market. These securities are classified as Level 1.
- (2) The Foundation holds U.S. corporate bonds that are managed by a third party. These funds have underlying investments that are not actively traded daily and, therefore, these securities are classified as Level 2.
- (3) The Foundation holds an investment in funds that invest in U.S. and International Equities as well as corporate bonds. These funds are traded on an active market and, therefore, can be classified as Level 1 securities.
- (4) The Foundation holds a hedge fund that is not actively traded. The underlying assets, which include cash, are valued using information from the related funds (net asset values) or other sources and are classified as Level 3.
- (5) The Foundation holds an investment in brokered certificates of deposit that are publicly traded in an active market. These securities are classified as Level 1.

THE HORMEL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2016 AND 2015

NOTE 3 INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

A reconciliation of the beginning and ending balance of the investments measured at fair value using significant unobservable inputs (Level 3) is as follows:

	2016	2015
Beginning Balance	\$ 62,781	\$ 62,781
Purchases, Issuances and Settlements	(17,586)	-
Total Gains (Losses) - Realized and Unrealized (1)	(7,679)	-
Ending Balance	<u>\$ 37,516</u>	<u>\$ 62,781</u>

(1) These gains (losses) are included in realized gain from sale of investments and unrealized loss on investments – other in the consolidated statements of activities.

NOTE 4 PROPERTY AND EQUIPMENT, NET

Property and equipment relate to the facilities of the Hormel Institute, which is a research unit of the University of Minnesota, the Ray Live Learning Center and Science Parking Housing development. The facilities were completed to provide more resources and modernized equipment for scientists and researchers. Property and equipment are stated at cost less accumulated depreciation and consist of the following:

	2016	2015
Land	\$ 1,064,764	\$ 998,085
Buildings and Improvements	33,393,317	22,990,544
Equipment	1,107,612	1,107,612
Furniture and Fixtures	963,147	54,074
Property Held for Expansion	3,133,233	2,990,515
Construction in Progress	-	5,471,746
Total	<u>39,662,073</u>	<u>33,612,576</u>
Less: Accumulated Depreciation	9,109,836	7,881,337
Total Property and Equipment, Net	<u>\$ 30,552,237</u>	<u>\$ 25,731,239</u>

Property held for expansion consists of purchases of land and other costs for the future development and expansion of the Hormel Institute. Construction in Progress relates to construction of the Ray Live Learning Center and Science Park Housing development which were completed during 2016. Property held for expansion and construction in progress is not subject to depreciation.

The portion of land in the amount of \$760,270 related to the ground leases discussed in Note 10 is considered to be restricted for the term of the ground leases.

THE HORMEL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2016 AND 2015

NOTE 5 GRANTS PAYABLE

Grants authorized but unpaid at year-end are reported as liabilities. Unpaid grants at November 30, 2016 and 2015, represent the present value of multiyear grants that are payable from 2015 to 2017. Present value is determined using a discount rate ranging from 1.18% to 2.25%. The following is a summary of grants authorized and payable at November 30:

	2016	2015
Less than One Year	\$ 17,985,819	\$ 22,880,559
One Year to Five Years	26,586,875	6,374,000
Present Value Discount	(557,547)	(224,290)
Total	<u>\$ 44,015,147</u>	<u>\$ 29,030,269</u>

NOTE 6 LONG-TERM DEBT

Long-term debt consists of the following:

<u>Description</u>	<u>2016</u>	<u>2015</u>
General Obligation Economic Development: Variable Revenue Bonds Due to the Austin Port Authority, Minnesota, Payments Made Semi-Annually at Increasing Interest Rates (4% at November 30, 2013), Maturity on March 1, 2017	<u>\$ 1,890,000</u>	<u>\$ 3,535,000</u>

The Foundation has an outstanding loan of \$1,890,000 from the Austin Port Authority, Minnesota. The loan was funded by \$10,000,000 of general obligation economic development revenue bonds, which the Foundation will pay semi-annually in increasing installments until maturity on March 1, 2017. The interest rate is 4.00% from the date of issue until March 1, 2016, at which time it increased to 7.00% until maturity. Interest expense was \$137,287 and \$261,650 for 2016 and 2015, respectively.

The agreement contains various restrictive covenants, including requirements to issue audited financial statements.

The aggregate principal payments due on long-term debt as of November 30, 2016 are as follows:

<u>Year Ending November 30,</u>	<u>Amount</u>
2017	<u>\$ 1,890,000</u>

THE HORMEL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2016 AND 2015

NOTE 7 LINES OF CREDIT

During 2016 and 2015, the Foundation has a line of credit available, which is secured by cash and investments of the Foundation. The borrowing capacity of this line of credit is \$25 million and has interest rate options of a variable rate based on the 30-day LIBOR plus 0.75%, a fixed rate based on a set maturity, or a blend of both. Outstanding borrowings were \$-0- as of November 30, 2016 and 2015.

The Foundation has another line of credit available, which is secured by investments of the Foundation. The line of credit will expire on October 18, 2018. The borrowing capacity of this line of credit is \$30 million and has an interest rate based on the LIBOR daily floating rate plus 0.75%. Outstanding borrowings were \$-0- as of November 30, 2016 and 2015.

Interest expense for the lines of credit was \$-0- and \$84,636 for the years ended November 30, 2016 and 2015, respectively.

NOTE 8 OPERATING LEASES

The Foundation entered into a lease agreement for office space for an initial term of five years in September 2010, effective December 1, 2010. The Foundation amended the lease agreement to extend the term of the lease to December 31, 2020, with the ability to terminate the lease with 120 days notice after December 31, 2018. The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year:

<u>Year Ending November 30,</u>	<u>Amount</u>
2017	\$ 8,280
2018	3,450
Total Minimum Payments Required	<u>\$ 11,730</u>

THE HORMEL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2016 AND 2015

NOTE 9 RENTAL INCOME

During 2011, the Foundation signed a formal lease agreement with the University of Minnesota (the University) for the use of the Hormel Institute. The lease was amended in 2014. The lease term is from July 1, 2011 through June 30, 2110; however, can be terminated at any time by either the Foundation or the University by giving 24 months prior written notice. The following is a schedule by years of future minimum rental receipts contracted to be received under the agreement:

<u>Year Ending November 30,</u>	<u>Amount</u>
2017	\$ 1,015,627
2018	1,015,627
2019	1,015,627
2020	1,015,627
2021	1,015,627
Thereafter	10,169,272
Total Contractual Minimum Payments	<u>\$ 15,247,407</u>

The value of property and equipment held for rent is summarized as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 1,064,764	\$ 998,085
Buildings and Improvements	24,098,156	24,098,156
Total	25,162,920	25,096,241
Less: Accumulated Depreciation	(8,850,752)	(7,835,125)
Total Property and Equipment, Net	<u>\$ 16,312,168</u>	<u>\$ 17,261,116</u>

NOTE 10 HORMEL INSTITUTE EXPANSION

During 2014, the Foundation granted the right to use land for the expansion of The Hormel Institute through two ground leases with the Austin Port Authority. This land will be used for the expansion of The Hormel Institute as well as an adjacent parking lot. The expansion of The Hormel Institute, which will be constructed and owned by the Austin Port Authority, is funded by a \$13,500,000 grant from the State of Minnesota to the Austin Port Authority, and a \$13,500,000 matching grant from the Foundation to the Austin Port Authority. The Austin Port Authority has leased the use of the expansion, once completed, to the Foundation. There is no rent paid on these leases between the Foundation and the Austin Port Authority; however, the Foundation is responsible for the utilities and repairs and maintenance of the expansion. The Foundation will be subleasing the expansion to the University of Minnesota and the Memorandum of Sublease dated August 29, 2014 is silent with respect to payment of rent by the University of Minnesota. The original lease term is for a period of 20 years, with two renewal options, for a total lease term of up to 50 years. The Austin Port Authority has the right to end the lease if the building is no longer needed to carry out the government program that is operated at The Hormel Institute, but must allow the Foundation the first right refusal to purchase the building at market value before selling the expansion building to another party. The expansion of the Hormel Institute was substantially completed during 2016.

THE HORMEL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2016 AND 2015

NOTE 10 HORMEL INSTITUTE EXPANSION (CONTINUED)

These leasing arrangements are treated as operating leases and no amounts have been recorded in the financial statements as a result.

NOTE 11 FUNCTIONAL EXPENSE

The Foundation's functional expenses are classified as follows:

	2016	2015
Program Expenses	\$ 38,078,946	\$ 16,268,328
Management and General	1,407,766	1,615,850
Total	<u>\$ 39,486,712</u>	<u>\$ 17,884,178</u>

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THE HORMEL FOUNDATION
SCHEDULE OF APPROVED GRANTS AND ADMINISTRATIVE EXPENSES
YEAR ENDED NOVEMBER 30, 2016
(SEE INDEPENDENT AUDITORS' REPORT)

	<u>Grants</u>	<u>Administrative</u>
Austin Area Foundation	\$ 60,855	\$ -
Austin Community Charitable Fund	420,100	-
Austin Community Growth Ventures	25,250,000	-
Austin Community Scholarship Committee	25,000	-
Austin School District	2,363,446	-
Cedar Valley Services, Inc., Austin, Minnesota	178,433	-
City of Austin	728,361	-
City of Austin - Fire Department	5,000	-
City of Austin - JC Hormel Nature Center	43,723	-
City of Austin - Public Library	11,440	-
City of Austin - Parks and Recreation	345,000	-
Mayo Clinic Health Systems - Austin, Minnesota	40,000	-
Riverland Community College	506,000	-
The Salvation Army	199,500	-
United Way of Mower County	950,920	-
University of Minnesota - Hormel Institute	5,702,800	-
YMCA Austin, Minnesota	210,599	-
Present Value Discount	(333,257)	-
Miscellaneous Expense	-	1,109,690
Legal Fees	-	298,076
Total Expenditures	<u>\$ 36,707,920</u>	<u>\$ 1,407,766</u>

THE HORMEL FOUNDATION
CORPORATE ORGANIZATION DATA (UNAUDITED)
NOVEMBER 30, 2016
(SEE INDEPENDENT AUDITORS' REPORT)

State of Incorporation	Minnesota
Date of Incorporation	December 4, 1941
Duration of Charter	Perpetual
Nature of Activities	Non-Profit organization to promote or engage in religious, charitable, scientific, literary, or educational activities

Officers:

G. J. Ray	Chair
B. B. Rietz	Vice Chair
S. T. Rizzi, Jr.	Secretary
J. A. Anfinson	Treasurer
S. S. Dankert	Assistant Secretary and Assistant Treasurer

Directors:

D. D. Amick
J. A. Anfinson
A.O. Atewologun
D.B. Baker
M. R. Ciota
T. J. Dankert
Z. Dong
J. M. Ettinger
C. W. Johnson
J. W. Johnson
R. J. Kramer
D. M. Krenz
T. M. Maxfield
R. R. Pavsek
L. J. Pfeil
G. J. Ray
B. B. Rietz
S. T. Rizzi, Jr.
M. C. Ruzek