

THE HEINZ ENDOWMENTS
AND SUBSIDIARY

AUDITED CONSOLIDATED
FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007

THE HEINZ ENDOWMENTS AND SUBSIDIARY

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Independent Auditor's Report

To the Board of Directors
of The Heinz Endowments

We have audited the accompanying consolidated statements of net assets of The Heinz Endowments and Subsidiary as of December 31, 2008 and 2007, and the related consolidated statements of changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Endowments' management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated net assets of The Heinz Endowments and Subsidiary as of December 31, 2008 and 2007, and the changes in its consolidated net assets and its consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Sisterson + Co. LLP

June 30, 2009

THE HEINZ ENDOWMENTS AND SUBSIDIARY

Consolidated Statements of Net Assets

(In thousands)

	December 31,	
	<u>2008</u>	<u>2007</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 82,416	\$ 45,785
Investment income receivable	372	622
Receivable for investments sold	38,779	22,107
Investments at fair value (Note 3)	1,049,168	1,589,175
Investment properties	11,020	11,020
Program-related investments	18,382	19,432
Rental income receivable and other assets	4,577	4,568
Fixed assets, net of accumulated depreciation of \$2,485 and \$2,426	<u>814</u>	<u>777</u>
Total assets	<u><u>1,205,528</u></u>	<u><u>1,693,486</u></u>
<u>Liabilities and Unrestricted Net Assets</u>		
Grants payable	63,113	53,400
Accounts payable and accrued liabilities	362	564
Deferred federal excise tax	--	7,359
Accrued pension expense	<u>3,434</u>	<u>2,311</u>
	66,909	63,634
Unrestricted net assets	<u>1,138,619</u>	<u>1,629,852</u>
Total liabilities and unrestricted net assets	<u><u>\$ 1,205,528</u></u>	<u><u>\$ 1,693,486</u></u>

See accompanying notes to consolidated financial statements.

THE HEINZ ENDOWMENTS AND SUBSIDIARY

Consolidated Statements of Changes in Net Assets

(In thousands)

	Year ended December 31,	
	2008	2007
	<u> </u>	<u> </u>
Income		
Investment income, net of related management and custodial fees of \$2,166 and \$3,187	\$ 13,376	\$ 30,612
Net gain (loss) on investments	(422,138)	166,783
Rental operations, net	926	923
	<u> </u>	<u> </u>
Total income (loss)	<u>(407,836)</u>	<u>198,318</u>
Expense		
Grants approved	74,713	80,766
Administrative expense	10,821	9,230
Accrued pension expense	1,784	327
Federal excise and income taxes	(3,921)	3,992
	<u> </u>	<u> </u>
Total expense	<u>83,397</u>	<u>94,315</u>
Increase (decrease) in unrestricted net assets	(491,233)	104,003
Unrestricted net assets, beginning of year	<u>1,629,852</u>	<u>1,525,849</u>
Unrestricted net assets, end of year	<u>\$ 1,138,619</u>	<u>\$ 1,629,852</u>

See accompanying notes to consolidated financial statements.

THE HEINZ ENDOWMENTS AND SUBSIDIARY

Consolidated Statements of Cash Flows
(In thousands)

	Year ended December 31,	
	2008	2007
Cash flows from operating activities		
Increase (decrease) in unrestricted net assets	\$ (491,233)	\$ 104,003
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash used in operating activities		
Net (gain) loss on investments	422,138	(166,783)
Depreciation expense	59	125
Increase (decrease) in cash from changes in:		
Investment income receivable	250	632
Receivable for investments sold	(16,672)	(22,107)
Rental income receivable and other assets	(9)	(50)
Grants payable	9,713	22,972
Accounts payable and accrued liabilities	(202)	(3)
Deferred federal excise tax	(7,359)	467
Accrued pension expense	1,123	(344)
	<u>(82,192)</u>	<u>(61,088)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Purchases of investments	(336,993)	(337,495)
Proceeds from sales and redemptions of investments	454,862	388,661
Purchases of program-related investments	--	(2,500)
Proceeds from program-related investments	1,050	175
Net purchases of fixed assets	(96)	(36)
	<u>118,823</u>	<u>48,805</u>
Net cash provided by investing activities		
Net increase (decrease) in cash	36,631	(12,283)
Cash and cash equivalents, beginning of year	<u>45,785</u>	<u>58,068</u>
Cash and cash equivalents, end of year	<u>\$ 82,416</u>	<u>\$ 45,785</u>

See accompanying notes to consolidated financial statements.

THE HEINZ ENDOWMENTS AND SUBSIDIARY

Notes to Consolidated Financial Statements

(1) **Organization**

The Heinz Endowments was formed from the merger of the Howard Heinz Endowment and the Vira I. Heinz Endowment, effective January 1, 2007. The consolidated financial statements at December 31, 2008 and 2007 include The Heinz Endowments (the Endowments) and its wholly owned subsidiary, Penn-Liberty Holding Company (the Company).

The Howard Heinz Endowment was created in 1993 as a Pennsylvania nonprofit corporation, to perform the charitable activities of its predecessor organization, a testamentary charitable trust of the same name established under the Will of Howard Heinz in 1941. The Vira I. Heinz Endowment was created in 1995 as a Pennsylvania nonprofit corporation, to perform the charitable activities of its predecessor organization, a testamentary charitable trust of the same name established under the Will of Vira I. Heinz in 1983.

The Endowments was determined to be exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code of 1986 (the Code) and has been classified as an organization which is a private foundation as defined in Section 509(a) of the Code.

The Company is a "title holding company" organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over the entire amount thereof, less expenses, to the Endowments. The Company is exempt from federal income taxes under Section 501(c)(2) of the Code. In the event of dissolution of the Company, all of its remaining assets shall be distributed to or for the use of the Endowments.

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

Cash and cash equivalents - Cash and cash equivalents consist of cash in banks, money market accounts, and cash reserve accounts, which are highly liquid and have no stated maturity. The Endowments maintains cash in bank accounts which, at times, may exceed federally insured limits. The Endowments does not believe it is exposed to any significant credit risk related to cash.

Investment properties - Investment properties include land and related development costs and are carried at lower of cost or estimated fair values.

Fixed assets - Fixed assets are recorded at cost and depreciated or amortized on the straight-line method over their estimated useful lives of seven or ten years.

THE HEINZ ENDOWMENTS AND SUBSIDIARY

Notes to Consolidated Financial Statements (continued)

Grants - The Endowments recognizes a liability and corresponding expense for grants in the amount expected to be paid when approved by the Board of Directors. At December 31, 2008 and 2007, such liabilities are not recorded at their present values using a discount rate commensurate with the risks involved because the present value is not materially less than the amounts expected to be paid.

Rental operations, net - Revenues from rental operations are recognized on a monthly basis over the lease term. Expenses are recognized when incurred.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments - Investments in equity securities and corporate and foreign obligations with readily determinable fair values are carried at their fair values in the consolidated statements of net assets. The Endowments' alternative investments are also carried at their fair values. These alternative investments include investments in privately-placed nonmarketable equity securities, hedge and other equity funds and partnerships, fine art and other investments. Realized gains or losses on investments, and unrealized gains or losses from changes in the fair values of investments, are included in net gain (loss) on investments in the consolidated statements of changes in net assets.

The fair values of alternative investments are estimated in good faith by management due to the absence of quoted market values. These estimates are made primarily by using information provided by general partners and by taking into consideration valuations reported by the Endowments' independent investment advisor. However, because of the inherent uncertainty of valuation, those estimated fair values may differ significantly from the values that would have been used had a ready market for those investments existed, and the differences could be material.

The fair values of investments are subject to changes in market conditions, and as such, future fair values may differ significantly from those reported in the consolidated financial statements. Investments considered to be permanently impaired in value are written down to their estimated net realizable value and the write down is recorded as a realized loss on investments.

THE HEINZ ENDOWMENTS AND SUBSIDIARY

Notes to Consolidated Financial Statements

(continued)

Realized gains and losses on disposals of investments are determined by the specific identification method, except for certain equity securities for which the cost of shares sold is determined by the average cost method.

Interest and dividend income are recognized on the accrual basis. Distributions from partnerships are recognized as income to the extent of the Endowments' share of undistributed income of such partnerships.

Reclassifications - Certain items in the 2007 consolidated financial statements have been reclassified to conform with 2008 classifications.

(3) **Investments**

Following is a summary of the cost and fair value of investments (in thousands) as of December 31:

	2008		2007	
	Cost	Fair value	Cost	Fair value
Equity securities				
Domestic	\$ 248,943	\$ 189,440	\$ 347,679	\$ 412,721
Foreign	217,256	191,280	250,899	402,511
Corporate and foreign obligations	58,000	74,593	144,101	158,630
Alternative investments				
Absolute return	258,440	305,489	174,417	279,759
Private equity	197,240	161,347	169,221	173,730
Inflation hedging	125,086	126,039	133,918	160,845
Other investments	980	980	979	979
 Total investments	 \$ 1,105,945	 \$ 1,049,168	 \$ 1,221,214	 \$ 1,589,175

Following is a summary of net gain (loss) on investments (in thousands) for the years ended December 31:

	2008	2007
Net realized gain on investments	\$ 2,600	\$ 143,226
Change in unrealized appreciation (depreciation) of investments	(424,738)	23,557
	\$ (422,138)	\$ 166,783

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Notes to Consolidated Financial Statements
(continued)

Fair value measurements

The Endowments adopted SFAS No. 157, *Fair Value Measurements*, as of January 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about investments that are measured and reported at fair value. SFAS No. 157 establishes a fair value hierarchy that distinguishes between (a) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (*observable inputs*) and (b) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (*unobservable inputs*). This fair value hierarchy in SFAS No. 157 prioritizes the inputs by valuation technique, and investments are to be classified in one of the following categories:

Level I – Inputs are quoted prices in active markets for identical assets as of the reporting date. The types of investments included in Level I include listed equities.

Level II – Inputs are other than quoted market prices included within Level I, however, are observable, either directly or indirectly. The Endowments includes its investments in corporate and foreign obligations in Level II since the values are based on recently executed transactions, market price quotations (where observable), and valuations models.

Level III – Inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. The Endowments includes its investments in absolute return, private equity, and inflation hedging in Level III since the assets are nonmarketable.

The valuations of the Endowments' investments by the above SFAS No. 157 fair value hierarchy levels as of December 31, 2008 are as follows (in thousands):

Investments, at fair value	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Equity securities				
Domestic	\$ 189,440	\$ --	\$ --	\$ 189,440
Foreign	191,280	--	--	191,280
Corporate and foreign obligations	--	74,593	--	74,593
Alternative investments				
Absolute return	--	--	305,489	305,489
Private equity	--	--	161,347	161,347
Inflation hedging	--	--	126,039	126,039
Other investments	--	980	--	980
Total investments	<u>\$ 380,720</u>	<u>\$ 75,573</u>	<u>\$ 592,875</u>	<u>\$ 1,049,168</u>

THE HEINZ ENDOWMENTS AND SUBSIDIARY

Notes to Consolidated Financial Statements

(continued)

The changes in investments measured at fair value for which the Endowments has used Level III inputs to determine fair value are as follows (in thousands):

	<u>Absolute return</u>	<u>Private equity</u>	<u>Inflation hedging</u>	<u>Total</u>
Balance, January 1, 2008	\$ 279,759	\$ 173,730	\$ 160,845	\$ 614,334
Gains (losses)				
Realized	(1,286)	4,969	(10,347)	(6,664)
Unrealized	(58,293)	(40,403)	(25,973)	(124,669)
Cash flows				
Purchases and acquisitions	130,000	31,373	24,980	186,353
Sales, dispositions and returns	<u>(44,691)</u>	<u>(8,322)</u>	<u>(23,466)</u>	<u>(76,479)</u>
Balance, December 31, 2008	<u>\$ 305,489</u>	<u>\$ 161,347</u>	<u>\$ 126,039</u>	<u>\$ 592,875</u>

(4) **Grants Payable**

<u>Program Area</u>	<u>Payable at 12/31/2007</u>	<u>2008</u>		<u>Payable at 12/31/2008</u>
		<u>Approved</u>	<u>Paid</u>	
Arts and Culture	\$ 23,316	\$ 19,505	\$ 18,847	\$ 23,974
Children, Youth and Families	6,120	12,948	11,290	7,778
Education	3,775	15,803	11,960	7,618
Environment	1,620	16,930	10,671	7,879
Innovation Economy	<u>18,569</u>	<u>9,527</u>	<u>12,232</u>	<u>15,864</u>
	<u>\$ 53,400</u>	<u>\$ 74,713</u>	<u>\$ 65,000</u>	<u>\$ 63,113</u>

Grants payable at December 31, 2008 are due to be paid as follows: \$26,624,618 in 2009; \$16,867,704 in 2010; \$4,495,932 in 2011; \$6,625,000 in 2012; \$4,500,000 in 2013; and \$4,000,000 cumulative for all years thereafter.

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Notes to Consolidated Financial Statements

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(5) **Federal Taxes**

In accordance with the applicable provisions of the Code, the Endowments is subject to an excise tax on net investment income, including net realized gains. The Endowments provides for deferred excise taxes resulting from net unrealized gains, which become taxable in the year they are realized. The increase (decrease) in the deferred federal excise tax liability relating to the net unrealized gain (loss) at December 31, 2008 and 2007 was (\$7,359,208) and \$467,479. As a private foundation, the Endowments is also required to make certain minimum distributions in accordance with a specified formula and within one year of the close of the tax year. The Endowments must distribute approximately \$14,470,000 by December 31, 2009 to satisfy this requirement.

(6) **Defined Benefit Pension Plan**

The Endowments sponsors a qualified defined benefit pension plan covering only full-time employees hired prior to January 1, 2008. The benefits are based on years of service and the employee's highest average annual compensation during five of the last ten years of service before retirement.

The table below sets forth the financial status of the plan at December 31:

	<u>2008</u>	<u>2007</u>
Projected benefit obligation	\$ 9,303,064	\$ 9,332,891
Plan assets at fair value	<u>5,869,408</u>	<u>7,021,916</u>
Underfunded status	<u>\$ 3,433,656</u>	<u>\$ 2,310,975</u>
Accumulated benefit obligation	\$ 7,924,464	\$ 7,227,821
Employer contributions	661,431	670,476
Benefits paid	--	285,394

Accrued pension expense recognized by the Endowments in the consolidated statements of changes in net assets during 2008 and 2007 was \$1,784,112 and \$326,598. The accrued pension expense of \$1,784,112 at December 31, 2008 includes net periodic pension cost of \$379,880. The Endowments expect to recognize approximately \$377,000 of net periodic cost during 2009.

Weighted-average assumptions used to determine benefit obligations are as follows:

	<u>2008</u>	<u>2007</u>
Discount rate	6.25%	6.00%
Rate of compensation increase	3.50	5.00

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Notes to Consolidated Financial Statements

(continued)

Weighted-average assumptions used to determine net periodic pension cost for the years ended December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Discount rate	6.00%	6.00%
Expected return on plan assets	9.00	9.00
Rate of compensation increase	5.00	5.00

The expected long-term rate of return on plan assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The expected return is based exclusively on long-term historical returns.

The Endowments' investment policies and strategies for the plan use target allocation ranges of 40-70% for equity securities and 30-60% for fixed income securities. The Endowments' investment goals are to maximize returns subject to specific risk management policies. The Endowments addresses diversification by the use of mutual fund investments whose underlying investments are in domestic fixed income securities and domestic or international equity securities. These mutual funds are readily marketable and can be sold to fund benefit payment obligations as they become payable.

The Endowments reviews the percentage allocation to each asset class periodically. The plan's assets as of December 31, 2008 and 2007 are allocated as follows:

	<u>2008</u>	<u>2007</u>
Equity securities	53%	67%
Fixed income securities	44	31
Other	3	2

The Endowments makes contributions to the plan that are at least sufficient to meet the federally legislated minimum funding requirements for defined benefit pension plans. Under this method, the Endowments expects to contribute \$1,083,974 to the plan in 2009.

Based on the December 31, 2008 actuarial report, the benefits projected to be paid in each year 2009-2013 are \$564,825, \$483,482, \$415,090, \$443,629, and \$456,127. The aggregate benefits expected to be paid in the five years from 2014-2018 are \$3,252,490. The benefits projected to be paid are based on the same assumptions used to measure the Endowments' benefit obligation at December 31, 2008 and 2007, and include employees' estimated future service and retirement at the Plan's normal retirement date of 65 years of age.

THE HEINZ ENDOWMENTS AND SUBSIDIARY

Notes to Consolidated Financial Statements
(continued)

(7) Defined Contribution Plans

Effective January 1, 2008, the Endowments began to sponsor a 401(a) defined contribution plan, eligible only to employees hired on or after January 1, 2008. The Endowments contributes 13% of the employees' annual compensation to the plan. The Endowments made contributions of \$40,734 during the year ended December 31, 2008.

The Endowments sponsors a 403(b) defined contribution plan, in which employees may make deferred salary contributions up to the maximum amount allowable by the IRS. Employees must have thirty days of continuous service to be eligible to participate. After one year of continuous service, the Endowments matches 100% of the first 2% of an employee's contribution up to the statutory limitation. The Endowments made matching contributions of \$56,750 and \$63,317 during the years ended December 31, 2008 and 2007.

(8) Rental Operations

One of the Company's investment properties holds an operating lease with a term of 52 years beginning November 1, 1984, with eight ten-year renewal options and an additional ninth renewal option with an eight-year term. Future annual lease revenues amount to \$880,000 in 2009; \$1,050,000 in 2010, 2011, 2012, and 2013; and \$23,975,000 cumulative for all years thereafter.

(9) Commitments

The Endowments participates in certain alternative asset investment partnerships and has an investment commitment level of \$518,034,000. As of December 31, 2008, the remaining outstanding commitment was approximately \$179,900,000.

The Endowments has an operating lease for office space that expires on April 30, 2018. Future base lease payments are \$432,000 in 2009; \$440,000 in 2010; \$447,000 in 2011; \$455,000 in 2012; \$477,000 in 2013; and \$2,194,000 cumulative for all years thereafter. Rent expense for the operating lease during 2008 and 2007 was \$498,000 and \$503,000.

The Endowments is a loan guarantor on a \$3,000,000 note for an unrelated nonprofit corporation. The balance of the loan as of December 31, 2008 was \$1,600,000.

(10) Subsequent Event

On April 3, 2009, the Endowments entered into a loan guarantee agreement on a \$718,000 note for an unrelated nonprofit corporation.

