

THE HEINZ ENDOWMENTS
AND SUBSIDIARY

AUDITED CONSOLIDATED
FINANCIAL STATEMENTS

Years ended December 31, 2011 and 2010

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 (collectively referred to as the "Endowments") as of December 31, 2011 and 2010, 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 net assets of the Endowments as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Sisterson + Co. LLP

June 26, 2012

THE HEINZ ENDOWMENTS AND SUBSIDIARY

Consolidated Statements of Net Assets
(in thousands)

	December 31,	
	<u>2011</u>	<u>2010</u>
<u>Assets</u>		
Cash and equivalents	\$ 11,109	\$ 20,883
Investment income receivable	324	260
Receivables for investments sold	16,676	28,613
Refundable federal taxes	1,239	1,569
Investments at fair value (Note 3)	1,341,941	1,395,066
Investment properties	11,020	11,020
Program-related investments	18,384	18,384
Rental income receivable and other assets	4,239	4,411
Fixed assets, net of accumulated depreciation and amortization of \$2,725 and \$2,705	<u>956</u>	<u>1,019</u>
Total assets	<u><u>1,405,888</u></u>	<u><u>1,481,225</u></u>
<u>Liabilities and Unrestricted Net Assets</u>		
Grants payable (Note 4)	37,823	36,176
Accrued liability	617	2,569
Deferred federal excise tax (Note 5)	3,593	5,853
Liability for pension benefits (Note 6)	<u>4,685</u>	<u>1,852</u>
Total liabilities	46,718	46,450
Unrestricted net assets	<u>1,359,170</u>	<u>1,434,775</u>
Total liabilities and unrestricted net assets	<u><u>\$ 1,405,888</u></u>	<u><u>\$ 1,481,225</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,	
	<u>2011</u>	<u>2010</u>
Income		
Investment income, net of related management and custodial fees of \$2,552 and \$4,623	\$ 18,316	\$ 10,810
Net gain (loss) on investments	(15,779)	161,099
Rental operations, net	<u>793</u>	<u>839</u>
Total income	<u>3,330</u>	<u>172,748</u>
Expense		
Grants approved (Note 4)	66,979	45,037
Administrative expenses	8,595	8,754
Direct charitable activities	477	350
Accrued pension expense (Note 6)	3,288	141
Federal tax expense (benefit) (Note 5)	<u>(404)</u>	<u>3,004</u>
Total expense	<u>78,935</u>	<u>57,286</u>
Increase (decrease) in unrestricted net assets	(75,605)	115,462
Unrestricted net assets, beginning of year	<u>1,434,775</u>	<u>1,319,313</u>
Unrestricted net assets, end of year	<u>\$ 1,359,170</u>	<u>\$ 1,434,775</u>

See accompanying notes to consolidated financial statements.

THE HEINZ ENDOWMENTS AND SUBSIDIARY

Consolidated Statements of Cash Flows
(in thousands)

	Year ended December 31,	
	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Increase (decrease) in unrestricted net assets	\$ (75,605)	\$ 115,462
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash used in operating activities:		
Net (gain) loss on investments	15,779	(161,099)
Depreciation and amortization expense	140	171
Deferred federal excise tax (benefit) expense	(2,260)	2,792
Increase (decrease) in cash from changes in:		
Investment income receivable	(64)	28
Receivables for investments sold	11,937	(28,613)
Refundable federal taxes	330	212
Rental income receivable and other assets	172	167
Grants payable	1,647	(12,392)
Accrued liability	(1,952)	2,345
Liability for pension benefits	2,833	(409)
	<u>(47,043)</u>	<u>(81,336)</u>
Net cash used in operating activities		
Cash flows from investing activities:		
Purchases of investments	(228,740)	(135,524)
Proceeds from sales and redemptions of investments	266,086	198,636
Net proceeds from program-related investments	--	248
Net purchases of fixed assets	(77)	(275)
	<u>37,269</u>	<u>63,085</u>
Net cash provided by investing activities		
Net decrease in cash and equivalents	(9,774)	(18,251)
Cash and equivalents, beginning of year	<u>20,883</u>	<u>39,134</u>
Cash and equivalents, end of year	<u>\$ 11,109</u>	<u>\$ 20,883</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 as of December 31, 2011 and 2010 include The Heinz Endowments (the "Endowments") and its wholly owned subsidiary, Penn-Liberty Holding Company (the "Company"). All material intra-entity balances and transactions have been eliminated in consolidation.

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 (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 equivalents - Cash and 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 its 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 and equivalents.

Investment properties - Investment properties include land and related development costs and are carried at the 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.

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. As of December 31, 2011 and 2010, 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.

THE HEINZ ENDOWMENTS AND SUBSIDIARY

Notes to Consolidated Financial Statements

(continued)

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

Investments - Investments are reported at fair value on the accompanying consolidated statements of net assets. Changes in the fair value of investments as well as realized gains and losses are included in net gain (loss) on investments in the accompanying consolidated statements of changes in net assets.

Realized gains and losses on disposals of investments are determined by the specific identification method, except for certain equity investments 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 alternative investments are recognized as income to the extent of the Endowments' share of undistributed income of such alternative investments. Investment income in the accompanying consolidated statements of changes in net assets is shown net of investment management and custodial fees.

Program-related investments – The fair value of program-related investments approximate their cost. Determination of fair value of these investments would require significant management judgment or estimation. These investments are anticipated to have a less than fair value return.

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 as of 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.

Subsequent events - The Endowments evaluates events and transactions occurring subsequent to the date of the consolidated financial statements. The accompanying consolidated financial statements consider events through June 26, 2012, the date on which the consolidated financial statements were available to be issued.

Reclassifications - Certain amounts previously reported in the 2010 consolidated financial statements have been reclassified for comparative purposes.

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Notes to Consolidated Financial Statements

(continued)

(3) **Investments**

The fair values of investments for which market quotations are available are based on the quoted market prices of such investments.

The fair values of all other 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 the 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.

Investments measured and reported at fair value are classified and disclosed in one of the following categories based on the extent of market price observability.

Level I – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include publicly traded equity securities and equity funds.

Level II – Pricing inputs are other than quoted market prices included within Level I, however, are observable, either directly or indirectly for the investment. The Endowments include funds redeemable at net asset value or its equivalent as of the reporting date or in the near term and other investments generally including fine art and land rights in Level II.

Level III – Pricing inputs are unobservable for the investment and includes 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. Investments in this category include the Endowments' non-redeemable fund investments and fund investments redeemable at net asset value or its equivalent beyond the near term.

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Notes to Consolidated Financial Statements
(continued)

The valuations of the Endowments' investments by the above fair value hierarchy levels and the corresponding cost of the investments are as follows as of December 31 (in thousands):

	2011				
	Level I	Level II	Level III	Total fair value	Cost
Equity securities					
Domestic	\$ 152,635	\$ 45,774	\$ --	\$ 198,409	\$ 150,839
Foreign	30,868	174,935	24,725	230,528	175,188
Fixed income	--	103,965	--	103,965	94,101
Alternative investments					
Absolute return	--	250,464	157,213	407,677	310,961
Private equity	--	--	210,520	210,520	247,538
Inflation hedging	19,942	70,083	99,816	189,841	182,653
Other investments	--	1,001	--	1,001	1,001
	<u>\$ 203,445</u>	<u>\$ 646,222</u>	<u>\$ 492,274</u>	<u>\$ 1,341,941</u>	<u>\$ 1,162,281</u>
	2010				
	Level I	Level II	Level III	Total fair value	Cost
Equity securities					
Domestic	\$ 174,048	\$ 43,316	\$ --	\$ 217,364	\$ 151,450
Foreign	64,001	232,450	--	296,451	190,034
Fixed income	--	65,077	--	65,077	55,001
Alternative investments					
Absolute return	--	297,190	108,423	405,613	280,412
Private equity	--	--	201,713	201,713	229,877
Inflation hedging	24,728	83,962	99,177	207,867	194,677
Other investments	--	981	--	981	981
	<u>\$ 262,777</u>	<u>\$ 722,976</u>	<u>\$ 409,313</u>	<u>\$ 1,395,066</u>	<u>\$ 1,102,432</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>Foreign</u>	<u>Fixed income</u>	<u>Absolute return</u>	<u>Private equity</u>	<u>Inflation hedging</u>	<u>Total</u>
January 1, 2010	\$ --	\$ 19,231	\$ 74,542	\$ 180,726	\$ 61,756	\$ 336,255
Gains						
Realized	--	--	7	7,174	394	7,575
Unrealized	--	--	6,843	5,265	7,052	19,160
Cash flows						
Purchases	--	--	4,200	21,967	32,297	58,464
Dispositions	--	--	(2,510)	(13,419)	(2,322)	(18,251)
Reclassifications	--	(19,231)	19,231	--	--	--
Transfer into Level III out of Level II	<u>--</u>	<u>--</u>	<u>6,110</u>	<u>--</u>	<u>--</u>	<u>6,110</u>
December 31, 2010	--	--	108,423	201,713	99,177	409,313
Gains (losses)						
Realized	--	--	--	9,603	1,141	10,744
Unrealized	(275)	--	(5,599)	(8,854)	3,694	(11,034)
Cash flows						
Purchases	25,000	--	56,455	26,339	16,213	124,007
Dispositions	<u>--</u>	<u>--</u>	<u>(2,066)</u>	<u>(18,281)</u>	<u>(20,409)</u>	<u>(40,756)</u>
December 31, 2011	<u>\$ 24,725</u>	<u>\$ --</u>	<u>\$ 157,213</u>	<u>\$ 210,520</u>	<u>\$ 99,816</u>	<u>\$ 492,274</u>

The transfer into Level III out of Level II relates to a fund manager designating certain redemption proceeds as illiquid. Transfers are recognized as of the end of the reporting period.

The following additional information is provided regarding the Endowments' Level II and Level III fund investments valued at net asset value or its equivalent included in the above tables.

<u>Type</u>	<u>Fair value (in thousands)</u>		<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
	<u>December 31, 2011</u>	<u>2010</u>		
Non-directional (a)	\$ 446,270	\$ 457,764	daily, monthly, quarterly, annually	5 – 180 days
Global long short equity (b)	374,512	381,098	monthly, quarterly, semi-annually, annually, bi-annually	6 – 90 days
Strategic private investment funds (c)	210,520	201,713	non-redeemable	--
Real assets (d)	99,816	83,885	non-redeemable	--
Non-directional (a)	3,830	6,848	non-redeemable	--
Global long short equity (b)	2,547	--	non-redeemable	--

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Notes to Consolidated Financial Statements

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- (a) Non-directional primarily comprises of strategies investing in debt instruments, securities, and derivatives in developed, event driven, multi-strategy, credit, distressed and long short markets.
- (b) Global long short equity primarily comprises of strategies investing in equity securities.
- (c) Strategic private investment funds is comprised of passive investments in private equity funds which invest in a wide range of industries. As of December 31, 2011, the Endowments is committed to invest approximately \$91,509,000 for these investments.
- (d) Real assets comprise of limited partnership interests in real estate, energy and timber funds. As of December 31, 2011, the Endowments is committed to invest approximately \$42,386,000 for these investments.

The nature of the investments classified in (c), (d), and the non-redeemable portions of (a) and (b) above are such that distributions are received by the Endowments upon the liquidation of the underlying assets of the funds. It is estimated that underlying assets of the funds are typically liquidated over 2 to 10 years. Additionally, the nature of certain redeemable investments classified in (a) and (b) above is such that they may not be readily available for redemption due to initial lock-up periods ranging from 12 to 36 months.

(4) Grants Payable

Program Area	Payable as of 12/31/2010	2011		Payable as of 12/31/2011
		Approved	Paid	
Arts and Culture	\$ 11,377	\$ 19,319	\$ 17,643	\$ 13,053
Children, Youth and Families	3,071	12,040	11,250	3,861
Education	3,815	9,279	10,231	2,863
Environment	10,197	17,246	12,950	14,493
Innovation Economy	7,716	9,095	13,258	3,553
	<u>\$ 36,176</u>	<u>\$ 66,979</u>	<u>\$ 65,332</u>	<u>\$ 37,823</u>

Grants payable as of December 31, 2011 are due to be paid as follows: \$24,932,000 in 2012; \$6,956,000 in 2013; \$935,000 in 2014; \$5,000,000 in 2015; and \$0 for all years thereafter.

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Notes to Consolidated Financial Statements
(continued)

(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 for the years ended December 31, 2011 and 2010 was approximately (\$2,260,000) and \$2,792,000, respectively.

Additionally, the Endowments is obligated to pay income taxes on its unrelated business income (as defined), if any.

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 \$13,800,000 by December 31, 2012 to satisfy this requirement. The Endowments' tax returns for tax years 2008 and beyond remain subject to examination by the Internal Revenue Service ("IRS").

(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 as of December 31:

	<u>2011</u>	<u>2010</u>
Projected benefit obligation	\$ 13,817,672	\$ 11,070,101
Plan assets at fair value	<u>9,132,776</u>	<u>9,217,754</u>
Liability for pension benefits (underfunded)	<u>\$ 4,684,896</u>	<u>\$ 1,852,347</u>
Accumulated benefit obligation	\$ 12,528,717	\$ 9,978,572
Employer contributions	455,394	550,271
Benefits paid	237,824	416,568

Accrued pension expense recognized by the Endowments in the consolidated statements of changes in net assets during 2011 and 2010 was \$3,287,943 and \$141,468, respectively. The accrued pension expense of \$3,287,943 for the year ended December 31, 2011 includes net periodic pension cost of \$95,568 and actuarial loss of \$3,192,375. The Endowments expects to recognize approximately \$374,973 of net periodic cost during 2012.

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Notes to Consolidated Financial Statements
(continued)

As of December 31, 2011, the plan had a deferred actuarial loss of approximately \$3,941,318 not yet recognized as a component of net periodic pension cost.

Weighted-average assumptions used to determine benefit obligations are as follows as of December 31:

	<u>2011</u>	<u>2010</u>
Discount rate	4.25%	5.50%
Rate of compensation increase	3.50%	3.50%

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

	<u>2011</u>	<u>2010</u>
Discount rate	5.50%	5.75%
Expected return on plan assets	8.00%	8.50%
Rate of compensation increase	3.50%	3.50%

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. The fair values of these mutual funds are readily determinable from quoted prices available in active markets and can be sold to fund benefit payment obligations as they become payable. Accordingly, all plan assets are categorized in Level I (as defined in Note 3).

Fair value of the plan assets were as follows as of December 31:

	<u>2011</u>	<u>2010</u>
Equity securities mutual funds	\$ 5,649,676	\$ 5,987,297
Fixed income mutual funds	3,186,586	3,121,391
Cash and equivalents	<u>296,514</u>	<u>109,066</u>
	<u>\$ 9,132,776</u>	<u>\$ 9,217,754</u>

THE HEINZ ENDOWMENTS AND SUBSIDIARY

Notes to Consolidated Financial Statements

(continued)

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 \$614,385 to the plan during 2012.

Based on the December 31, 2011 actuarial report, the benefits projected to be paid in each year 2012-2016 are \$674,478, \$536,994, \$650,799, \$605,885 and \$612,246, respectively. The aggregate benefits expected to be paid in the five years from 2017-2021 are \$5,018,257. The benefits projected to be paid are based on the same assumptions as those used to measure the Endowments' benefit obligation as of December 31, 2011, and include employees' estimated future service and retirement at the plan's normal retirement date of 65 years of age.

(7) Defined Contribution Plans

The Endowments sponsors a 401(a) defined contribution plan for which only employees hired on or after January 1, 2008 are eligible. The Endowments contributes 13% of the employees' annual compensation to the plan. The Endowments made contributions of \$110,734 and \$125,691 during the years ended December 31, 2011 and 2010, respectively.

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 \$57,607 and \$63,420 during the years ended December 31, 2011 and 2010, respectively.

(8) Rental Operations, Net

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 \$1,050,000 in each of the years 2012-2016; and \$20,825,000 cumulative for all years thereafter.

(9) Commitments

The Endowments has an operating lease for office space that expires on April 30, 2018. Future base lease payments are approximately \$455,000 in 2012; \$477,000 in 2013; \$492,000 in 2014; \$501,000 in 2015; \$510,000 in 2016; and \$692,000 cumulative for all years thereafter. Rent expense for the operating lease during 2011 and 2010 was approximately \$461,000 and \$453,000, respectively.

The Endowments is the loan guarantor on three separate notes for two unrelated nonprofit corporations. The balances of the loans as of December 31, 2011 were approximately \$3,500,000, \$675,000 and \$554,000.

