THE HEINZ ENDOWMENTS
AND SUBSIDIARY

AUDITED CONSOLIDATED
FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

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 financial statements of The Heinz Endowments and Subsidiary, which comprise the consolidated statements of net assets as of December 31, 2017 and 2016, and the related consolidated statements of changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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.

Auditor's 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 auditor's 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 organization'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 organization'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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the net assets of The Heinz Endowments and Subsidiary as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Sisterson & Co. LLP

June 29, 2018

THE HEINZ ENDOWMENTS AND SUBSIDIARY

Consolidated Statements of Net Assets
(in thousands)

	December 31, 2017	December 31, 2016
Assets		
Cash and equivalents	$ 13,374	$ 71,936
Receivables for investments sold	46,577	77,164
Investments at fair value (Note 3)	1,592,325	1,357,828
Investment properties	1,481	1,498
Program-related investments	27,042	22,827
Other assets	14	22
Fixed assets, net of accumulated depreciation and amortization of $1,786 and $1,145	2,795	3,252
Total assets	1,683,608	1,534,527
Liabilities and Unrestricted Net Assets		
Grants payable (Note 4)	27,721	34,721
Payable federal taxes	45	117
Accrued liabilities	1,306	2
Deferred federal excise tax (Note 5)	10,025	7,386
Liability for pension benefits (Note 6)	2,448	3,214
Total liabilities	41,545	45,440
Unrestricted net assets	1,642,063	1,489,087
Total liabilities and unrestricted net assets	$ 1,683,608	$ 1,534,527

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets
(in thousands)

	Year ended December 31, 2017	2016
Income		
Investment income, net of related management and custodial fees of $1,996 and $1,042	$ 6,174	$ 3,862
Net gain on investments	214,913	53,394
Income and gain (loss) from investment properties, net (Note 8)	(71)	5,278
Total income	221,016	62,534
Expense		
Grants approved (Note 4)	48,612	43,892
Administrative expenses	13,458	13,304
Direct charitable activities	368	605
Accrued pension expense (Note 6)	1,234	353
Federal tax expense	4,368	4,143
Total expense	68,040	62,297
Increase in unrestricted net assets	152,976	237
Unrestricted net assets, beginning of year	1,489,087	1,488,850
Unrestricted net assets, end of year	$ 1,642,063	$ 1,489,087

See accompanying notes to consolidated financial statements.

THE HEINZ ENDOWMENTS AND SUBSIDIARY

Consolidated Statements of Cash Flows
(in thousands)

	Year ended December 31, 2017	2016
Cash flows from operating activities:		
Increase in unrestricted net assets	$ 152,976	$ 237
Adjustments to reconcile increase in unrestricted net assets to net cash used in operating activities:		
Net gain on investments	(214,913)	(53,394)
Gain on disposal of investment properties	--	(8,456)
Loss on program-related investments	275	53
Loss on rental income receivable	--	3,546
Depreciation and amortization expense	641	398
Loss on disposal of fixed assets	--	327
Deferred federal excise tax expense	2,639	2,115
Increase (decrease) in cash from changes in:		
Investment properties	17	--
Refundable federal taxes	--	912
Other assets	8	(17)
Grants payable	(7,000)	(18,684)
Payable federal taxes	(72)	117
Accrued liabilities	1,304	(1)
Liability for pension benefits	(766)	296
Net cash used in operating activities	(64,891)	(72,551)
Cash flows from investing activities:		
Purchases of investments	(338,632)	(168,752)
Proceeds from sales and redemptions of investments	319,048	334,184
Change in receivables for investments sold	30,587	(67,931)
Purchases of investment properties	--	(19)
Proceeds from sale of investment properties	--	18,130
Purchases of program-related investments	(4,490)	--
Net purchases of fixed assets	(184)	(2,510)
Net cash provided by investing activities	6,329	113,102
Net increase (decrease) in cash and equivalents	(58,562)	40,551
Cash and equivalents, beginning of year	71,936	31,385
Cash and equivalents, end of year	$ 13,374	$ 71,936

See accompanying 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, 2017 and 2016 include The Heinz Endowments (the "Endowments") and its wholly owned subsidiary, Penn-Liberty Holding Company (the "Company") (collectively referred to as the "Endowments"). 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(a) of the Internal Revenue Code (the "Code"), as the Endowments is considered an exempt organization under Section 501(c)(3) of the Code. The Endowments has been classified as 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 the provisions of 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 value. Development costs are amortized on the straight-line method over their estimated useful lives of ten years.

Fixed assets - Fixed assets are recorded at cost and depreciated or amortized on the straight-line method over their estimated useful lives of three to ten years. Leasehold improvements are amortized on the straight-line method over the lesser of the lease term or their estimated useful lives.

Rental operations, net - Revenue from rental operations is recognized as cash is received. Expenses are recognized when incurred.

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, 2017 and 2016, such liabilities are not recorded at their present value using a discount rate commensurate with the risks involved because the present value is not materially less than the amounts expected to be paid.

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 on investments in the accompanying consolidated statements of changes in net assets.

Realized gains and losses on disposals of investments are recognized based on trade date 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 related 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. The Endowments recorded an impairment loss of $275,000 and $52,500 for the years ended December 31, 2017 and 2016, respectively, related to two program-related investments. As of December 31, 2017, the Endowments is committed to invest approximately $6,700,000 for a certain program-related investment.

Use of estimates - The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain amounts from the December 31, 2016 consolidated financial statements have been reclassified for comparative purposes.

Recent accounting pronouncements - In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 is intended to provide more useful information to users of financial statements for not-for-profit entities. ASU 2016-14 will reduce the number of net asset classes to two, to “with” or “without” restrictions, on the consolidated statements of net assets, and increase disclosure requirements in some instances; require the presentation of investment income to be presented net of all external and direct investment expenses on the consolidated statements of changes in net assets; require the presentation of expenses by nature and function in the consolidated financial statements; and, will require specific disclosures regarding qualitative and quantitative information about how a not-for-profit entity manages its liquidity and liquidity risk. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 and requires retrospective application. The Endowments continues to evaluate the impacts that this standard will have on the Endowments’ consolidated financial statements.

(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 of fair values are made primarily by using information regarding an investment's net asset value ("NAV") provided by the general partners and fund managers of the investments. Additionally, these estimates are generally computed based on the Endowments' proportionate share of the overall value of the investee, net of estimated profit participation. The Endowments has not adjusted any of the fair values provided by the general partners. 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, except for those measured and reported using NAV, 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 short-term investments, publicly traded equity securities, publicly traded equity funds, and fixed income 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 considers 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. The Endowments was not invested in any Level III investments as of December 31, 2017 or 2016.

The valuations of the Endowments' investments by type are as follows as of December 31 (in thousands):

	2017			
	Level I	Level II	Investments measured at NAV	Total fair value
Short-term investments	$ 14,094	$ --	$ --	$ 14,094
Equity securities				
Domestic	54,042	--	162,103	216,145
Foreign	36,651	--	365,468	402,119
Fixed income	105,694	--	--	105,694
Alternative investments				
Absolute return	--	--	404,837	404,837
Private equity	--	--	359,824	359,824
Inflation hedging	32,121	--	26,062	58,183
Opportunistic	--	--	30,123	30,123
Other investments	--	1,306	--	1,306
	$ 242,602	$ 1,306	$ 1,348,417	$ 1,592,325

	2016			
	Level I	Level II	Investments measured at NAV	Total fair value
Short-term investments	$ 4,808	$ --	$ --	$ 4,808
Equity securities				
Domestic	70,621	--	132,498	203,119
Foreign	44,792	--	269,522	314,314
Alternative investments				
Absolute return	--	--	425,815	425,815
Private equity	--	--	327,177	327,177
Inflation hedging	--	--	61,557	61,557
Opportunistic	--	--	20,014	20,014
Other investments	--	1,024	--	1,024
	$ 120,221	$ 1,024	$ 1,236,583	$ 1,357,828

The following additional information is provided regarding the Endowments' investments valued at NAV included in the above tables.

Type	Fair value (in thousands) December 31, 2017	2016	Redemption frequency (if currently eligible)	Redemption notice period
Global long short equity (a)	$ 646,652	$ 523,307	monthly, quarterly, semi-annually, annually, bi-annually, tri-annually	10 – 90 days
Non-directional (b)	206,755	265,360	daily, monthly, quarterly, annually	5 – 90 days
Opportunistic (c)	78,421	62,450	monthly, quarterly, annually	45 – 90 days
US long short equity (d)	47,111	53,485	quarterly, annually	90 days
Strategic private investment funds (e)	281,655	248,937	non-redeemable	--
Real assets (f)	78,169	78,240	non-redeemable	--
Opportunistic (c)	9,179	--	non-redeemable	--
Non-directional (b)	475	3,583	non-redeemable	--
Global long short equity (a)	--	990	non-redeemable	--
US long short equity (d)	--	231	non-redeemable	--

(a) Global long short equity is primarily comprised of strategies investing in global equity securities.

(b) Non-directional is primarily comprised of strategies investing in debt instruments, securities, and derivatives in developed, event driven, multi-strategy, credit, distressed and long short markets.

(c) Opportunistic is comprised of value strategies that search for undervalued or underperforming investment opportunities. As of December 31, 2017, the Endowments is committed to invest approximately $25,817,000 for these investments.

(d) US long short equity is primarily comprised of strategies investing in domestic equity securities.

(e) Strategic private investment funds is primarily comprised of passive investments in private equity funds which invest in a wide range of industries. As of December 31, 2017, the Endowments is committed to invest approximately $185,300,000 for these investments.

(f) Real assets is primarily comprised of limited partnership interests in real estate, energy and timber funds. As of December 31, 2017, the Endowments is committed to invest approximately $25,069,000 for these investments.

The nature of the investments classified in (e), (f), and the non-redeemable portions of (a), (b), (c), and (d) 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), (b), (c), and (d) 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 12/31/2016	2017 Approved	2017 Paid	Payable as of 12/31/2017
Arts and Culture	$ 16,356	$ 10,788	$ 13,680	$ 13,464
Children, Youth and Families	2,655	13,096	9,253	6,498
Community and Economic Development	7,311	8,058	10,775	4,594
Education	4,597	5,104	9,243	458
Environment and Health	3,802	11,566	12,661	2,707
	$ 34,721	$ 48,612	$ 55,612	$ 27,721

Grants payable as of December 31, 2017 are due to be paid as follows: $18,621,414 in 2018; $5,582,896 in 2019; $2,466,667 in 2020; and $1,050,000 in 2021.

(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 in the deferred federal excise tax liability relating to the net unrealized gain for the years ended December 31, 2017 and 2016 was approximately $2,639,000 and $2,115,000, 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 expects to make sufficient minimum distributions during 2018 to satisfy this requirement. The Endowments' tax returns for tax years 2014 and beyond remain subject to examination by the Internal Revenue Service ("IRS").

(6) Defined Benefit Pension Plan

The Endowments sponsored a qualified defined benefit pension plan covering only full-time employees hired prior to January 1, 2008. The benefits were based on years of service and the employee's highest average annual compensation during five of the last ten years of service before retirement. Effective January 1, 2016, the Endowments amended the plan to freeze the accrual of benefits.

The Endowments terminated the plan effective December 31, 2016. The Endowments filed termination notices with the IRS and the Pension Benefit Guaranty Corporation ("PBGC") on April 28, 2017. During 2017, the plan purchased annuities in the amount of $6,128,000 for retired participants receiving benefits in order to settle their respective obligations. On July 1, 2017, the annuity provider began servicing these participants' benefits.

During 2018, the Endowments settled the obligations of the remaining retired, vested and active participants. First, the plan paid lump sum distributions to certain participants totaling $6,288,559 on March 15, 2018. Then, on May 10, 2018, the plan purchased annuities in the amount of $3,167,839 to settle the remaining obligations of certain participants. On July 1, 2018, the annuity provider will begin servicing these participants' benefits.

The Endowments filed the PBGC Form 501, Post-Distribution Certification, on June 21, 2018 and anticipates filing the final Form 5500 during 2018.

Since the underfunded projected benefit obligation as of December 31, 2017 was not settled until 2018, a liability for pension benefits in the amount of $2,447,505 is presented on the December 31, 2017 consolidated statement of net assets.

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

	2017	2016
Projected benefit obligation	$ 9,831,445	$ 14,615,283
Plan assets at fair value	7,383,940	11,401,769
Liability for pension benefits (underfunded)	$ 2,447,505	$ 3,213,514
Accumulated benefit obligation	$ 9,831,445	$ 14,615,283
Employer contributions	2,000,000	57,500
Benefits paid	202,162	397,742

Accrued pension expense recognized by the Endowments in the consolidated statements of changes in net assets during 2017 and 2016 was $1,233,991 and $352,929, respectively. The accrued pension expense of $1,233,991 for the year ended December 31, 2017 includes net periodic pension expense of $1,809,610 and actuarial gain of ($575,619). The Endowments expects to recognize approximately ($151,000) of net periodic pension expense during 2018.

As of December 31, 2017, the plan had a deferred actuarial loss of approximately $2,477,000 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:

	2017	2016
Discount rate	3.50%	4.00%
Rate of compensation increase	N/A	N/A

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

	2017	2016
Discount rate	4.00%	4.15%
Expected return on plan assets	6.00%	8.00%
Rate of compensation increase	N/A	N/A

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:

	2017	2016
Equity security mutual funds	$ 2,708,337	$ 4,888,133
Fixed income mutual funds	2,467,137	6,437,599
Cash and equivalents	2,208,466	76,037
	$ 7,383,940	$ 11,401,769

The Endowments contributed to the plan $2,000,000 in 2017 and $2,043,511 in 2018 to settle the obligations of remaining participants.

(7) Defined Contribution Plans

The Endowments sponsored both a 401(a) defined contribution plan for employees hired on or after January 1, 2008 and a 403(b) defined contribution plan for which all employees were eligible to participate. Effective January 1, 2016, the Endowments terminated the 401(a) plan and rolled the provisions of that plan into the 403(b) plan, described below. The participants in the 401(a) plan were entitled to receive a distribution of the total balance of the vested amount.

The amended 403(b) plan removed the hire date qualification of on or after January 1, 2008, but added a minimum age requirement of 21 to be eligible to participate. The 403(b) plan provides for employer contributions totaling 13% of the employees' annual compensation starting the first of the month following hire date. Additionally, the 403(b) plan permits employees to make deferred salary contributions up to the maximum amount allowable by the IRS and, after one year of service, the Endowments matches 100% of the employees' contribution up to 2% of salary and up to statutory limits. The Endowments made contributions totaling $655,525 and $635,806 into the plans during the years ended December 31, 2017 and 2016, respectively.

(8) Investment Properties, Net

On July 1, 2016, the Company sold one of its properties and received net proceeds totaling $18,130,000. As a result, the Company recognized a gain on disposal of investment properties in the amount of $8,460,000, which is included in income and gain (loss) from investment properties, net on the consolidated statement of changes in net assets for the year ended December 31, 2016. In addition, prior to the sale of the property, the Company held an operating lease on the property. The Company recognized rental revenue on the property on a straight-line basis over the lease term. In connection with the sale, the Company reversed its rental income receivable and recorded a loss on rental income receivable of $3,545,673, which is included in income and gain (loss) from investment properties, net on the consolidated statement of changes in net assets for the year ended December 31, 2016.

(9) Commitments

The Endowments has an operating lease for office space that expires on January 31, 2025. Future base lease payments are approximately $909,000 in 2018; $784,000 in 2019; $795,000 in 2020; $807,000 in 2021; $820,000 in 2022; and $1,747,000 cumulative for all years thereafter. Rent expense for the operating lease for the years ended December 31, 2017 and 2016 was approximately $775,000 and $767,000, 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, 2017 were approximately $2,700,000, $1,546,000 and $107,000.

(10) 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 29, 2018, the date on which the consolidated financial statements were available to be issued.