SISTERSON
CERTIFIED PUBLIC
ACCOUNTANTS & CONSULTANTS

THE HEINZ ENDOWMENTS
AND SUBSIDIARY

AUDITED CONSOLIDATED
FINANCIAL STATEMENTS

Years ended December 31, 2019 and 2018

310 GRANT STREET, STE 2100
PITTSBURGH, PA 15219

SISTERSON.COM

PHONE: 412.281.2025

THE HEINZ ENDOWMENTS AND SUBSIDIARY

Table of Contents

SISTERSON
CERTIFIED PUBLIC
ACCOUNTANTS & CONSULTANTS

Sisterson & Co. LLP
310 Grant Street, Suite 2100
Pittsburgh, Pennsylvania
15219-2300

Phone 412.281.2025
Fax 412.338.4597
Web www.sisterson.com

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, 2019 and 2018, 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.

Independent Auditor's Report
(continued)

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, 2019 and 2018, 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 22, 2020

THE HEINZ ENDOWMENTS AND SUBSIDIARY

Consolidated Statements of Net Assets
(in thousands)

	December 31, 2019	December 31, 2018
Assets		
Cash and equivalents	$ 5,078	$ 7,602
Receivables for investments sold	37,019	15,061
Investments at fair value (Note 3)	1,718,101	1,574,580
Investment properties	1,448	1,465
Program-related investments	36,004	31,565
Other assets	1	6
Fixed assets, net of accumulated depreciation and amortization of $2,610 and $2,057	4,546	5,148
Total assets	1,802,197	1,635,427
Liabilities and Net Assets Without Restriction		
Grants payable (Note 5)	32,658	30,837
Payable federal taxes	--	314
Deferred federal excise tax (Note 7)	8,699	8,363
Total liabilities	41,357	39,514
Net assets without restriction	1,760,840	1,595,913
Total liabilities and net assets without restriction	$ 1,802,197	$ 1,635,427

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, 2019	2018
Investment return, net	$ 237,066	$ 22,746
Expenses		
Grants approved, net of refunds (Note 5)	58,955	56,602
Direct charitable activities	511	452
Grantmaking expenses	8,507	8,030
Operational support expenses	2,879	2,744
	70,852	67,828
Federal excise and income tax expense (Note 7)	1,287	1,068
Total expenses	72,139	68,896
Increase (decrease) in net assets without restrictions	164,927	(46,150)
Net assets without restriction, beginning of year	1,595,913	1,642,063
Net assets without restriction, end of year	$ 1,760,840	$ 1,595,913

See accompanying notes to consolidated financial statements.

THE HEINZ ENDOWMENTS AND SUBSIDIARY

Consolidated Statements of Cash Flows
(in thousands)

	Year ended December 31, 2019	Year ended December 31, 2018
Cash flows from operating activities:		
Increase (decrease) in net assets without restriction	$ 164,927	$ (46,150)
Adjustments to reconcile increase (decrease) in net assets without restriction to net cash used in operating activities:		
Net realized and unrealized gain on investments	(232,522)	(16,454)
Depreciation and amortization expense	857	753
Loss on disposal of fixed assets	48	52
Deferred federal excise tax expense (benefit)	336	(1,662)
Increase (decrease) in cash from changes in:		
Investment properties	17	16
Other assets	5	8
Grants payable	1,821	3,116
Payable federal taxes	(314)	269
Accrued liabilities	--	(1,306)
Liability for pension benefits	--	(2,448)
Net cash used in operating activities	(64,825)	(63,806)
Cash flows from investing activities:		
Purchases of investments	(171,865)	(267,519)
Proceeds from sales and redemptions of investments	260,866	301,718
Change in receivables for investments sold	(21,958)	31,516
Purchases of program-related investments	(4,439)	(4,523)
Net purchases of fixed assets	(303)	(3,158)
Net cash provided by investing activities	62,301	58,034
Net decrease in cash and equivalents	(2,524)	(5,772)
Cash and equivalents, beginning of year	7,602	13,374
Cash and equivalents, end of year	$ 5,078	$ 7,602

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, 2019 and 2018 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.

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 investment return, net 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 return, net in the accompanying consolidated statements of changes in net assets is shown net of related external and direct internal investment expenses. Direct internal investment expenses include salaries, benefits, and travel costs associated with the staff responsible for the direct conduct and direct supervision of the execution of investment strategy. Such expenses also include an allocation of costs such as occupancy and depreciation based on estimated time spent on internal investment management.

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.

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. As of December 31, 2019, the Endowments is committed to invest approximately $2,500,000 for program-related investments.

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.

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, 2019 and 2018, 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.

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, 2018 consolidated financial statements have been reclassified for comparative purposes.

(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 an investment in a real estate limited partnership and its fine art collection to be Level II investments.
>
> 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, 2019 or 2018.

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

2019	Level I	Level II	Investments measured at NAV	Total fair value
Short-term investments	$ 7,205	$ --	$ --	$ 7,205
Equity securities				
Domestic	16,390	--	192,663	209,053
Foreign	23,453	--	420,796	444,249
Fixed income	180,322	--	--	180,322
Alternative investments				
Absolute return	--	--	338,133	338,133
Private equity	--	--	498,433	498,433
Opportunistic	--	--	28,472	28,472
Other investments	--	12,234	--	12,234
	$ 227,370	$ 12,234	$ 1,478,497	$ 1,718,101

2018	Level I	Level II	Investments measured at NAV	Total fair value
Short-term investments	$ 8,895	$ --	$ --	$ 8,895
Equity securities				
Domestic	21,226	--	136,998	158,224
Foreign	26,951	--	344,856	371,807
Fixed income	130,519	--	--	130,519
Alternative investments				
Absolute return	--	--	370,655	370,655
Private equity	--	--	435,303	435,303
Inflation hedging	32,310	--	27,163	59,473
Opportunistic	--	--	27,469	27,469
Other investments	--	12,235	--	12,235
	$ 219,901	$ 12,235	$ 1,342,444	$ 1,574,580

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, 2019	2018	Redemption frequency (if currently eligible)	Redemption notice period
Global long short equity (a)	$ 485,588	$ 438,646	monthly, quarterly semi-annually, annually, tri-annually	5 – 180 days
Non-directional (b)	166,124	215,764	monthly, quarterly, semi-annually, annually	5 – 90 days
Opportunistic (c)	95,897	82,324	monthly, quarterly, annually	45 – 90 days
US long short equity (d)	222,819	163,263	monthly, quarterly, annually	31 – 90 days
Strategic private investments (e)	430,959	359,382	non-redeemable	--
Real assets (f)	67,474	75,920	non-redeemable	--
Opportunistic (c)	9,457	6,838	non-redeemable	--
Non-directional (b)	134	225	non-redeemable	--
US long short equity (d)	45	82	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, 2019, the Endowments is committed to invest approximately $11,439,000 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, 2019, the Endowments is committed to invest approximately $253,721,000 for these investments.

(f) Real assets is primarily comprised of limited partnership interests in real estate, energy, timber and sustainable assets. As of December 31, 2019, the Endowments is committed to invest approximately $38,817,000 for these investments.

The nature of the investments classified in (e), (f), and the non-redeemable portions of (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) Liquidity and Availability

The Endowments' financial assets available within one year of December 31, 2019 and 2018 (in thousands) to meet operating needs include:

	2019	2018
Cash and equivalents	$ 5,078	$ 7,602
Receivables for investments sold	37,019	15,061
Short-term investments	7,205	8,895
Equity securities	615,708	530,031
Fixed income investments	180,322	130,519
Alternative investments	273,575	347,864
Opportunistic investments	25,972	26,445
Available financial assets	$ 1,144,879	$ 1,066,417

The Endowments structures its financial assets to be available as its grants, general expenditures, liabilities, and other obligations, including commitments for investments, come due. To achieve this, the Endowments forecasts its future cash flows and monitors its liquidity on a monthly basis. In addition, as part of its liquidity management, the Endowments invests cash in excess of daily requirements in various short-term investments, including money market accounts and short-term treasury instruments.

(5) Grants Payable

	In thousands			
	Payable as of	2019		Payable as of
Program Area	12/31/2018	Approved	Paid	12/31/2019
Creativity	$ 12,799	$ 17,001	$ 14,989	$ 14,811
Learning	10,269	18,075	18,808	9,536
Sustainability	7,769	22,931	22,592	8,108
Other	--	948	745	203
	$ 30,837	$ 58,955	$ 57,134	$ 32,658

Grants payable as of December 31, 2019 are due to be paid as follows: $23,538,315 in 2020; $6,319,834 in 2021; $1,750,000 in 2022; and $1,050,000 in 2023.

(6) Natural and Functional Expenses

The tables below present expenses by both their nature and function (in thousands):

	2019			
	Direct charitable	Grantmaking	Operational support	Total expenses
Grants approved, net of refunds	$ --	$ 58,955	$ --	$ 58,955
Salary, benefits and taxes	176	5,006	1,888	7,070
Legal, accounting and professional fees	169	242	46	457
Programmatic consulting	--	1,040	--	1,040
Depreciation and amortization	--	600	218	818
Occupancy	--	605	220	825
Travel, conferences and meetings	--	363	65	428
Media and public affairs	--	139	59	198
Printing and publications	166	--	--	166
Other general administrative	--	512	383	895
	$ 511	$ 67,462	$ 2,879	$ 70,852

	2018			
	Direct charitable	Grantmaking	Operational support	Total expenses
Grants approved, net of refunds	$ --	$ 56,602	$ --	$ 56,602
Salary, benefits and taxes	175	4,976	1,852	7,003
Legal, accounting and professional fees	157	309	58	524
Programmatic consulting	--	803	--	803
Depreciation and amortization	--	528	190	718
Occupancy	--	728	262	990
Travel, conferences and meetings	--	333	41	374
Media and public affairs	--	178	76	254
Printing and publications	120	--	--	120
Other general administrative	--	471	373	844
Accrued pension expense	--	(296)	(108)	(404)
	$ 452	$ 64,632	$ 2,744	$ 67,828

The Endowments' expenses have been allocated between direct charitable activities, grantmaking, and operational support activities based on estimates made by management of time spent by employees on various activities. Direct charitable activities promote the charitable purpose of the Endowments and are conducted in whole or in part by the Endowments staff. Grantmaking activities pertain to the general grantmaking activities of the Endowments, such as reviewing proposals and awarding, monitoring, and evaluating grants. Operational support expenses are the management and general expenses of the Endowments.

(7) 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) for the years ended December 31, 2019 and 2018 was approximately $336,000 and ($1,662,000), 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 2020 to satisfy this requirement. The Endowments' tax returns for tax years 2016 and beyond remain subject to examination by the Internal Revenue Service ("IRS").

(8) 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 $720,652 and $697,665 into the plan during the years ended December 31, 2019 and 2018, respectively.

(9) Commitments

The Endowments has an operating lease for office space that expires on January 31, 2025. Future base lease payments are approximately $795,000 in 2020; $807,000 in 2021; $820,000 in 2022; $832,000 in 2023; $844,000 in 2024; and $71,000 for 2025. Rent expense for the operating lease for the years ended December 31, 2019 and 2018 was approximately $810,000 and $993,000, respectively. Rent expense in 2018 included $199,000 of temporary relocation costs.

The Endowments is the loan guarantor on two separate notes for one unrelated nonprofit corporation. The balances of the loans as of December 31, 2019 were approximately $2,100,000 and $846,000.

(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 22, 2020, the date on which the consolidated financial statements were available to be issued.

The Endowments recorded an impairment loss in 2020 related to the forgiveness of $13,000,000 in program-related loans. These notes accrued no interest and had no stated maturity date.

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic. COVID-19 is adversely impacting global commercial activity and has contributed to significant volatility in financial markets. The global response to the outbreak had disrupted supply chains and is expected to have a continued adverse impact on the economy. The extent and the duration is highly uncertain and the impact on the Endowments' investments cannot be reasonably predicted or estimated.