

Kansas TEFFI Charitable Activity Legislative Report

December 1, 2022

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**KANSAS TEFFI ECONOMIC GROWTH TRUST
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Month Period Ended September 30, 2022

Independent Auditor's Report

The Trustee
Kansas TEFFI Economic Growth Trust
Hesston, Kansas

Opinion

We have audited the accompanying financial statements of the Kansas TEFFI Economic Growth Trust (the "Trust") and Subsidiary (collectively referred to as the "Organization"), which comprise the consolidated statement of financial position as of September 30, 2022, and the related consolidated statements of activities, and cash flows for the nine months then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of September 30, 2022, and the changes in net assets and its cash flows for the nine months then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Swindoll, Janzen, Hawk & Loyd, LLC

November 29, 2022
Wichita, Kansas

**KANSAS TEFFI ECONOMIC GROWTH TRUST
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2022

ASSETS

Cash and cash equivalents	\$ 494,995
Investment in real estate	1,388,845
Other assets	
Beneficial interest in Funding Trusts - unallocated	1,122,452
Beneficial interest in Funding Trusts for benefit of others:	
Kansas Department of Commerce	197,452
Beneficient Heartland Foundation, Inc.	12,872,302
Total other assets	<u>14,192,206</u>
 TOTAL ASSETS	 <u>\$ 16,076,046</u>

LIABILITIES

Note payable - real estate purchase, related party	<u>\$ 1,388,845</u>
 TOTAL LIABILITIES	 <u>1,388,845</u>

NET ASSETS

Without donor restrictions	1,617,447
With donor restrictions	<u>13,069,754</u>
 TOTAL NET ASSETS	 <u>14,687,201</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 16,076,046</u>

See Notes to Consolidated Financial Statements

**KANSAS TEFFI ECONOMIC GROWTH TRUST
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Nine Month Period Ended September 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total TOTAL</u>
REVENUE, GAINS, AND OTHER SUPPORT			
Contribution of beneficial interests in Funding Trusts	\$ 89,799	\$ 7,144,810	\$ 7,234,609
Change in value of beneficial interests	(596,235)	459,699	(136,536)
Net assets released from restrictions	748,340	(748,340)	-
TOTAL REVENUE, GAINS, AND OTHER SUPPORT	<u>241,904</u>	<u>6,856,169</u>	<u>7,098,073</u>
EXPENSES			
Contribution to Beneficent Heartland Foundation	748,349	-	748,349
Bank fees & service charges	11	-	11
Accounting and professional fees	2,546	-	2,546
TOTAL EXPENSES	<u>750,906</u>	<u>-</u>	<u>750,906</u>
INCREASE (DECREASE) IN NET ASSETS	(509,002)	6,856,169	6,347,167
NET ASSETS, BEGINNING OF PERIOD	<u>2,126,449</u>	<u>6,213,585</u>	<u>8,340,034</u>
NET ASSETS, END OF PERIOD	<u>\$ 1,617,447</u>	<u>\$ 13,069,754</u>	<u>\$ 14,687,201</u>

See Notes to Consolidated Financial Statements

**KANSAS TEFFI ECONOMIC GROWTH TRUST
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Nine Month Period Ended September 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 6,347,167
Adjustments to reconcile changes in net assets to net cash flows from operating activities:	
Contributed beneficial interests in Funding Trusts	(7,234,609)
Change in value of beneficial interests in Funding Trusts	<u>136,536</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>(750,906)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investment in real estate	(1,388,845)
Distributions received from beneficial interest in Funding Trusts	<u>1,245,901</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(142,944)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from issuance of note payable - real estate purchase, related party	<u>1,388,845</u>
NET CASH FLOWS FROM FINANCING ACTIVITIES	<u>1,388,845</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	494,995
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>-</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 494,995</u>

See Notes to Consolidated Financial Statements

**KANSAS TEFFI ECONOMIC GROWTH TRUST
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

Nature of operations - The Kansas TEFFI Economic Growth Trust (“Trust”) is a directed common law trust created under a Trust Agreement dated December 7, 2021, by and among John A. Stahl as Trustee and as Settlor; Beneficient Administration and Clearing Company, L.L.C., as Administrator; and Beneficient Company Holdings, L.P., as Advisor. The fiscal year-end of the Trust has not yet been approved by the Trustee. These consolidated financial statements have been prepared on an interim basis for the period January 1, 2022 through September 30, 2022.

The Beneficient Company Group (USA) L.P. (“Ben”) a Delaware limited partnership, is a holding company of capital and financial services companies. The Administrator and the Advisor to the Trust are affiliates of Ben. Ben’s primary operations pertain to its financing and liquidity products whereby Ben, through its subsidiaries, extends financing collateralized by cash flows from illiquid alternative assets and provides services to the trustees who administer the collateral.

Senate Substitute for Kansas House Bill No. 2074 (“TEFFI Act”) is a Kansas law passed in 2021 which created a new class of trust companies called technology-enabled fiduciary financial institutions (TEFFI).

Ben’s Kansas based company, Beneficial Fiduciary Financial, LLC (“BFF”) is a TEFFI with a Kansas charter issued in December 2021. In connection with Section 9-2311 of the TEFFI Act, a qualified charitable distribution made by TEFFI customers in the amount of 2.5% of TEFFI fiduciary financing transactions (“Fidfin Transactions”) originated each calendar year is allocated to Kansas economic growth zones, Kansas colleges and universities and the Kansas Department of Commerce (collectively, the “Trust Beneficiaries”) through the Trust. Additional amounts are also allocated to the Trust Beneficiaries through the Trust as well.

The Trust is managed for the exclusive benefit of the Trust Beneficiaries which includes the Beneficient Heartland Foundation, Inc. (BHF), a Kansas non-profit corporation, which administers assets for the initial benefit of Hesston, Kansas, the first economic growth zone designated under the TEFFI Act. The purpose of the Trust is to receive the proceeds of the Fidfin Transactions that are allocable to the Charitable Beneficiaries and to allocate such proceeds between the Kansas Department of Commerce and qualified charitable organizations (including BHF) in accordance with the requirements of the TEFFI Act.

Hesston Neighborhoods, LLC (the “LLC”) is a wholly owned subsidiary of the Trust that was formed on July 7, 2022 and purchased by the Trust on September 30, 2022 to invest in real estate for the purpose of redevelopment to further the economic revitalization of Hesston, Kansas. See “investment in real estate” below.

Principles of consolidation - The consolidated financial statements include the accounts of the Trust and the LLC. Only the activity from the date of purchase of the LLC has been included within the consolidated financial statements. These entities are collectively referred to as the “Organization”. Significant inter-company accounts and transactions have been eliminated.

**KANSAS TEFFI ECONOMIC GROWTH TRUST
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Financial statement presentation - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities in two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets with donor restrictions are those which have been limited by donors to a specified time period or purpose or maybe required to be maintained in perpetuity by the Organization.

Basis of accounting - The Organization's consolidated financial statements are presented on the accrual basis of accounting. Accordingly, revenues are recorded when earned, and expenses are recognized when incurred.

Use of estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. The most significant management estimate relates to the value of the beneficial interests in certain funding trusts. Actual results could differ from those estimates.

Income taxes - The Trust is a "pass-through" entity which elected to be treated as a partnership. The Trust files U.S. federal and state tax returns as required for a partnership and all income and expenses of the Trust are passed through to its beneficiaries. Therefore, no provision for income taxes has been made.

Hesston Neighborhoods, LLC is a for-profit subsidiary of the Trust and represents an entity in which profits and losses are passed through to its sole member, the Trust, for income tax purposes.

The Organization has adopted FASB ASC topic 740, *Income Taxes*, related to uncertain tax positions, which prescribes a recognition threshold and measurement attributable for financial statement recognition of uncertain tax positions taken or expected to be taken in a tax return. The Organization did not have any material uncertain tax positions at September 30, 2022. Tax years with open statutes of limitations are 2021 and forward.

Cash equivalents - The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents as of September 30, 2022. Cash deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. From time to time, cash held exceeds the insured thresholds. At September 30, 2022, the Organization held \$244,996 of cash deposits in excess of FDIC insurance limits.

Investment in real estate - The LLC holds real estate for investment in economic development purposes in Hesston, Kansas in accordance with the TEFFI Act. As such, the property is not held for use in operations and is not depreciated.

**KANSAS TEFFI ECONOMIC GROWTH TRUST
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

The property consists of land and retail space acquired through a purchase agreement for \$1,388,845 effective September 30, 2022 between The Beneficient Company Group (USA), LLC and the Trust to acquire Hesston Neighborhoods, LLC (See note 3). The purchase price was allocated 100% to the land and retail space and financed with a long-term note payable in the same amount. See Note 3. The carrying value of the real estate approximates fair value as of September 30, 2022.

Revenue recognition - Contributions are recognized as revenue when received or unconditionally promised. Unconditional contributions are recognized when notification of a beneficial interest is received and is classified as either net assets with donor restrictions or net assets without donor restrictions on the consolidated statement of financial position. Contributions of beneficial interests are recorded at estimated fair value when received.

Restricted and unrestricted revenue - Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

Allocations to beneficiaries – BFF Trusts - The Trust owns beneficial interests in certain fiduciary financing (fidfin) trusts (as defined in the TEFFI Act) (“Funding Trusts”) which are administered by Beneficient Fiduciary Financial (“BFF Trusts”). Initial values equal 2.5% of Fidfin Transactions originated from TEFFI customers through the BFF Trusts (“BFF Transactions”), with such values accounted for as “Beneficial interest in Funding Trusts for benefit of others.”

The Trust received \$6,170,733 and \$299,330 in qualified distributions via the BFF Transactions for the year ended December 31, 2021 (unaudited), and the nine months ended September 30, 2022, respectively.

Section 11 of the TEFFI Act requires that a portion of the Fidfin Transactions originated each calendar year be allocated among the Trust Beneficiaries. Under the TEFFI Act, these qualified distributions are allocated between (i) the Kansas Department of Commerce (KDOC) and (ii) economic growth zones and Kansas colleges and universities in the percentages noted below. The Trust allocates the assets earmarked under the TEFFI Act for the benefit of economic growth zones and Kansas colleges and universities to the Beneficient Heartland Foundation, Inc.

Allocation of qualified distributions:	<u>KDOC</u>	<u>BHF</u>
From \$0 to \$500,000	90%	10%
From \$500,001 to \$1,000,000	50%	50%
Amounts above \$1,000,000	10%	90%

See below for discussion on the first payments made for transactions closed in 2021.

**KANSAS TEFFI ECONOMIC GROWTH TRUST
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

The Trust holds the beneficial interests for BHF and KDOC in separate accounts until they are liquidated and then sends the related cash distributions to BHF and KDOC. BHF then utilizes the cash distributed directly to it to support economic growth zone initiatives selected by its Board of Directors.

Any amounts allocated to the Trust in excess of the qualified distributions required under the TEFFI Act are used to support the Trust's operating expenses and to provide additional funding for economic growth zone initiatives. Such amounts are accounted for as "Beneficial interest in Funding Trusts - unallocated."

In connection with the BFF Transactions that closed in December 2021, cash associated with that origination was distributed directly to KDOC in place of a beneficial interest, leaving the full beneficial interest from the transaction to be allocated to BHF. These funds, in the amount of \$2,721,359 were distributed by Beneficient Company Group, L.P. to KDOC on behalf of the Trust. Therefore, these amounts are not represented in the accompanying consolidated statement of activity for the nine month period ended September 30, 2022.

As of September 30, 2022, the Trust held beneficial interests in BFF Trusts for the benefit of BHF and KDOC with balances of \$5,937,023 and \$197,452, respectively, and an unallocated beneficial interest in Funding Trusts of \$1,122,452.

Allocations to beneficiaries - Legacy Trusts - The Kansas TEFFI Economic Growth Trust owns beneficial interests in certain Fidfin Transactions that originated prior to the passage of the TEFFI Act and prior to the issuance of a TEFFI charter to BFF (Legacy Transactions) , with such values accounted for as "Beneficial interest in Funding Trusts for benefit of others." These beneficial interests represent 5% of the associated fiduciary financings associated with the Legacy Transactions and are treated as qualified distributions under the TEFFI Act. The amounts associated with the Legacy Transactions are combined with 2022 TEFFI fidfin transaction originations and allocated, in accordance with Section 11 of the TEFFI Act, to the Trust Beneficiaries as follows:

Allocation of qualified distributions:	<u>KDOC</u>	<u>BHF</u>
From \$0 to \$500,000	90%	10%
From \$500,001 to \$1,000,000	50%	50%
Amounts above \$1,000,000	10%	90%

As of September 30, 2022, the Trust held beneficial interests in the Legacy Trusts for the benefit of BHF and KDOC with balances of \$6,935,279 and \$0, respectively. There was no unallocated beneficial interest in Funding Trusts related to the Legacy Trusts.

Investments and investment return - The Trust carries a 2.5% beneficial interest in certain BFF Transactions and a 5.0% beneficial interest in certain Legacy Trusts from contributions made by TEFFI customers. The portion related to BFF Transactions and characterized as qualified distributions held for the benefit of Trust Beneficiaries is governed by the TEFFI Act. The beneficial interests are carried at the fair value of assets held in the funding trusts, with changes in fair value reported in earnings. The Fidfin Transactions, in which the Trust owns beneficial interests, own loans collateralized by a diversified pool of alternative asset funds. Please see the note regarding credit concentration below for further discussion on diversification in the underlying collateral pool.

**KANSAS TEFFI ECONOMIC GROWTH TRUST
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

The investment objective for the alternative asset funds collateralizing the Fidfin Transactions is long-term capital appreciation in excess of what is available in the public markets. Private equity funds generally hold illiquid debt and equity securities of public and / or privately held companies. This asset class includes venture capital, growth, natural resources, real estate and distressed debt. Fidfin transaction values held in the fidfin trusts are adjusted for accrued interest, impairments, allowance for doubtful accounts, distributions, changes in market interest rates, loan payments, and other factors. Ben, through its subsidiaries, as well as the respective fund trustees are responsible for managing, valuing, and administering the assets held in the funding trusts.

The fair value of the respective beneficial interests appears on the Trust's statement of financial position as the sum of beneficial Interests in Funding Trusts for benefit of others and beneficial interest in Funding Trusts – unallocated.

Because of the inherent uncertainty of the valuation of financings collateralized by alternative investments, the market values reflected in the accompanying consolidated financial statements for the beneficial interests in Funding Trusts may differ significantly from realizable values.

Fair value measurement - The Trust follows FASB Accounting Standard Codification (ASC) 820-10, *Fair Value Measurements*. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Trust uses various valuation approaches, including market, income, and / or cost approaches. FASB ASC 820-10 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs, and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability, developed based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumptions used in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels, based on the reliability of inputs, as follows:

Level 1 — Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 — Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

**KANSAS TEFFI ECONOMIC GROWTH TRUST
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

Beneficial interest in Funding Trusts – unallocated -The unallocated beneficial interest held in the Trust was determined by the Trust based upon the estimated market value of the beneficial interests in Funding Trusts held by the Trust. The beneficial interests are recorded at the fair value of the assets held in the Funding Trusts as represented by Ben and its subsidiaries, considering expected future cash flows from distributions. The Trust and Ben and its subsidiaries endeavor to utilize the best available information in measuring fair value. See “investments and investment return” for further description of the beneficial interest. The Organization considers the measurement of its beneficial interest in Funding Trusts – unallocated to be a level 3 measurement within the fair value hierarchy. The unallocated beneficial interests, carried at fair value, measured on a recurring basis, as of September 30, 2022 is \$1,122,452.

Beneficial interest in Funding Trusts for benefit of others - The beneficial interest held in the Trust for the benefit of others was determined by the Trust based upon the respective beneficiary’s allocable share in the estimated market value of the beneficial interests in Funding Trusts held by the Trust. The beneficial interests are recorded at the fair value of the assets held in the Funding Trusts as represented by Ben and its subsidiaries, considering expected future cash flows from distributions. The Trust and Ben and its subsidiaries endeavor to utilize the best available information in measuring fair value. See “investments and investment return” for further description of the beneficial interest. The Organization considers the measurement of its beneficial interest in Funding Trusts for benefit of others to be a level 3 measurement within the fair value hierarchy. The beneficial interest in Funding Trusts for benefit of others, carried at fair value, measured on a recurring basis, as of September 30, 2022 is \$13,069,754.

It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the Trust’s consolidated financial statements. Furthermore, while management believes its valuation methods are appropriate and consistent, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Recent Accounting Pronouncements - In July 2020, the FASB issued Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosure by Not-For-Profit Entities for Contributed Nonfinancial Assets*. The ASU was adopted by the Trust as required by the standard. The ASU requires the Trust to present contributions of nonfinancial assets separately from contributions of cash and other financial assets on the consolidated statement of activities. The ASU also requires additional disclosures related to the contributions of nonfinancial assets. The adoption of this pronouncement did not have a material impact on the Organization.

The FASB has issued other new accounting guidance or modifications to, or interpretations of, existing accounting guidance. The Organization has considered the new un-adopted guidance and does not believe that any other new or modified guidance will have a material impact on the Organization’s reported financial position or activities in the near term.

**KANSAS TEFFI ECONOMIC GROWTH TRUST
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(2) Fair value measurements

See Note 1 for the valuation methodologies used for assets measured at fair value on a recurring basis and reflected in the accompanying consolidated statement of financial position. The following table presents the investments carried at fair value on the accompanying consolidated statement of financial position at September 30, 2022:

	Level 3
Beneficial interest in Funding Trusts - unallocated	\$ 1,122,452
Beneficial interest in Funding Trusts for benefit of others:	
Kansas Department of Commerce	197,452
Beneficient Heartland Foundation, Inc.	12,872,302
	\$ 14,192,206

The following table sets forth a summary of changes in the fair value of Level 3 assets for the nine months ended September 30, 2022:

	Beneficial Interests
January 1, 2022	\$ 8,340,034
Additional contributions received	7,234,609
Distributions	(1,245,901)
Change in value of beneficial interest	(136,536)
September 30, 2022	\$ 14,192,206

(3) Note payable – real estate purchase, related party

The Organization has a note payable, dated September 30, 2022 with The Beneficient Company Group (USA), LLC (Ben) (the Administrator and Advisor to the Trust are affiliates of Ben) for the purchase of Hesston Neighborhoods, LLC (the LLC) and all of its holdings in the amount of \$1,388,845. The LLC holds investments in real estate which were originally acquired on behalf of and for the benefit of the Trust. Interest accrues at a rate of 2.93% and is added to the unpaid principal annually. The note matures on September 30, 2026, at which time all outstanding principal and all accrued but unpaid interest is due. The note payable is secured by pledged securities (100% of the outstanding membership interest of the LLC) and proceeds of the LLC. See also Note 1.

**KANSAS TEFFI ECONOMIC GROWTH TRUST
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(4) Liquidity and availability of resources

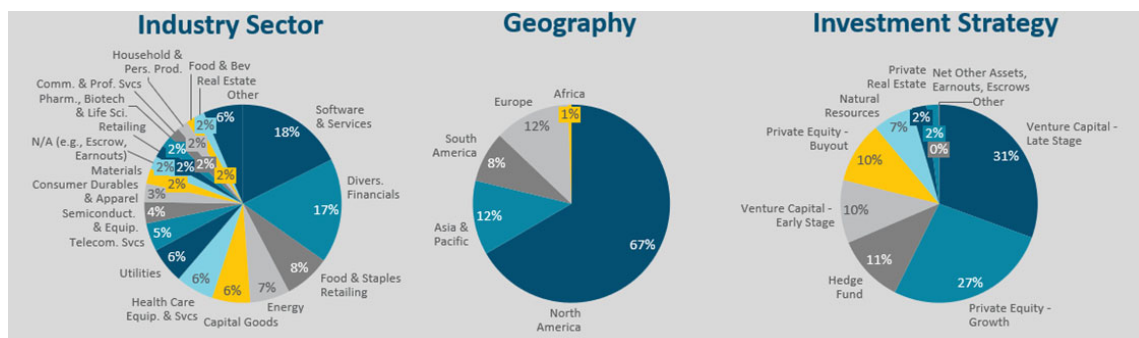
As part of its liquidity management, the Trust structures its financial assets to be available as grants and general expenditures come due for the Trust and the Trust Beneficiaries. As the alternative investments underlying the Fidfin Transactions monetize, 2.5% and 5.0% of the loan payments related to BFF Trusts and Legacy Trusts, respectively, are allocated to the Trust. As cash is distributed from the BFF and Legacy Trusts to the Trust, it is immediately allocated to KDOC and BHF. Amounts distributed above the 2.5% of the TEFFI Loans are held by the Trust to fund Kansas economic growth initiatives.

Investments subject to distribution cannot be redeemed by the Trust, but rather will be distributed upon the monetization of the underlying alternative assets collateralizing the Fidfin Transactions. Distributions are generally expected, but not guaranteed, over the next one to five years.

The Trust received \$1,245,901 in cash distributions from certain BFF Trusts for the nine months ended September 30, 2022. A cash distribution in the amount of \$748,350 was then made on April 4, 2022 to BHF. No cash distributions were received as of September 30, 2022 in connection with the Legacy Trusts. As of September 30, 2022, the Trust has \$494,995 held in a cash account available to meet the short-term needs of the Organization.

(5) Concentrations

The Trust, through its beneficial interests, is exposed to a portfolio of loans collateralized by a highly diversified portfolio of alternative asset funds as described below. As of September 30, 2022 the highest concentration in any single portfolio fund in the collateral pool (as reported by Ben) was 7.5%.



(6) Net assets with donor restrictions

The Organization has net assets with donor restrictions for allocation to KDOC, economic growth zones, and Kansas colleges and universities (including BHF), as required under the TEFFI Act, at September 20, 2022 in the amount of \$13,069,754. Net assets of \$748,340 were released from donor restrictions by incurring contribution expenditures, satisfying the restricted purpose of providing qualified distributions as defined under the TEFFI Act to the Trust Beneficiaries for the nine month period ended September 30, 2022.

**KANSAS TEFFI ECONOMIC GROWTH TRUST
AND SUBSIDIARY**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) COVID-19 pandemic

During the second quarter of 2020, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the Organization as of the date these consolidated financial statements were available to be issued, management believes that a material impact on the Organization's consolidated financial position and results of future operations is reasonably possible.

(8) Subsequent events

An evaluation of subsequent events was completed by management through November 29, 2022, which represents the date the consolidated financial statements were available to be issued. No significant items were noted during this evaluation that would require recognition or disclosure in the consolidated financial statements or accompanying footnotes.

**BENEFICIENT HEARTLAND FOUNDATION INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2022

Independent Auditor's Report

The Board of Directors
Beneficient Heartland Foundation, Inc. and Subsidiary
Hesston, Kansas

Opinion

We have audited the accompanying consolidated statement of financial position of Beneficient Heartland Foundation, Inc. and Subsidiary (collectively referred to as the "Organization"), as of September 30, 2022, and the related notes to the consolidated statement of financial position.

In our opinion, the consolidated statement of financial position referred to above presents fairly, in all material respects, the consolidated financial position of the Organization as of September 30, 2022, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Statement of Financial Position section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Statement of Financial Position

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

In preparing the consolidated statement of financial position, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated statement of financial position is available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Statement of Financial Position

Our objectives are to obtain reasonable assurance about whether the consolidated statement of financial position as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated statement of financial position.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated statement of financial position, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated statement of financial position.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated statement of financial position.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Swindoll, Janzen, Hawk & Loyd, LLC

November 29, 2022
Wichita, Kansas

**BENEFICIENT HEARTLAND FOUNDATION, INC.
AND SUBSIDIARY**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2022

ASSETS

Cash and cash equivalents	\$ 588,060
Real estate investments	151,584
Beneficial interest in Funding Trusts held in the Kansas TEFFI EGT	<u>12,872,302</u>
 TOTAL ASSETS	 <u>\$ 13,611,946</u>

NET ASSETS

Net assets without donor restrictions	<u>\$ 13,611,946</u>
 TOTAL NET ASSETS	 <u>\$ 13,611,946</u>

See Notes to Consolidated Statement of Financial Position

**BENEFICIENT HEARTLAND FOUNDATION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(1) Summary of significant accounting policies

Nature of operations - Beneficient Heartland Foundation Inc. (BHF) is a non-profit corporation under the Kansas General Corporation Code formed on January 20, 2022. BHF is organized and operated exclusively to administer assets initially for the benefit of Hesston, Kansas, the first Economic Growth Zone designated under the Senate Substitute for Kansas House Bill No. 2074 (“TEFFI Act”), a Kansas law passed in 2021 which creates a new class of trust companies called technology-enabled fiduciary financial institutions (TEFFI). More specifically, the assets are used for charitable and educational purposes and to provide grants and other support to benefit growth, development and expansion of opportunities in Hesston, Kansas including job and income growth, Main street revitalization, educational facility improvements, construction and development, healthcare facility enhancements, senior facility improvements, and support for postsecondary institutions. The fiscal year-end of BHF has not been approved by board resolution as of the date of the consolidated statement of financial position. The accompanying consolidated statement of financial position has been prepared and presented as of the interim date of September 30, 2022.

BHF Management, LLC (BHFM) is a Kansas limited liability corporation formed on July 6, 2022 to acquire real estate to be used for economic development purposes in Hesston, Kansas in accordance with the TEFFI Act. BHF is the sole member of BHFM (See “real estate investments”).

Beneficient Fiduciary Financial, LLC, a Kansas limited liability company, is the sole member of BHF. The Bylaws of BHF delineate the rights, duties, and obligations of the sole member. The Board of Directors is the governing body of BHF and is elected in the manner described in the Bylaws. At the consolidated statement of financial position date, the Board of Directors was comprised of nine community directors, community leaders from the Hesston area, and four directors of The Beneficient Company Group, L.P. (“Ben”), two appointed by the sole member and two by Beneficient Management Counselors, L.L.C as described in the Bylaws. No part of the net earnings of BHF shall inure to the benefit of any member, director, or officer of BHF.

Beneficient Fiduciary Financial, L.L.C. (“BFF”) is a TEFFI with a Kansas charter issued in December 2021 by the State of Kansas. In connection with Section 9-2311 of the TEFFI Act, a charitable donation is made by TEFFI customers in the amount of 2.5% of TEFFI fiduciary financing transactions originated each calendar year is allocated to Kansas charities.

The Kansas TEFFI Economic Growth Trust (“Trust”) is a directed common law trust. The Trust Agreement is dated December 7, 2021, by and among John A. Stahl as Trustee and as Settlor; Beneficient Administration and Clearing Company, L.L.C., as Administrator; and Beneficient Company Holdings, L.P., as Advisor. The Trust administers the charitable contributions of the TEFFI fiduciary financing transactions allocated to BHF.

Principles of consolidation - The consolidated statement of financial position includes the accounts of BHF and BHFM (collectively, the “Organization”). All material inter-organizational balances and transactions have been eliminated in consolidation.

Basis of accounting - The Organization prepares the consolidated statement of financial position on the accrual basis of accounting; consequently, the consolidated statement of financial position reflects all significant receivables, payables, and other liabilities.

**BENEFICIENT HEARTLAND FOUNDATION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(1) Summary of significant accounting policies (continued)

Use of estimates - The preparation of the consolidated statement of financial position in conformity with U.S. generally accepted accounting principles 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 statement of financial position. The most significant management estimate relates to the value of the beneficial interest in Funding Trusts held in the Kansas TEFFI EGT. Actual results could differ from those estimates.

Cash and cash equivalents - The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2022, there were no cash equivalents.

Financial statement presentation - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-205, the Organization is required to report information regarding its financial position and activities in two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets with donor restrictions are those which have been limited by donors to a specified time period or purpose or may be required to be maintained in perpetuity by the Organization.

Income taxes - BHF was organized as a private foundation and is in the process of obtaining an exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). It is subject to a federal excise tax of 1.39% on net investment income, including net realized gains, as defined by the IRC. BHF is also required to report any unrelated business income as defined under IRC Section 511 and 515.

BHF Management LLC is a for-profit subsidiary and represents an entity in which profits and losses are passed through to its sole member, BHF, for income tax purposes.

Due to the accompanying consolidated statement of financial position being presented on an interim date, it was not administratively possible to estimate the Organization's liability for excise or unrelated business income taxes, including any deferred tax assets and liabilities as of September 30, 2022. However, management does not expect the liability for the provision of income tax as of September 30, 2022 to be material to the consolidated statement of financial position.

The Organization follows the provisions of FASB ASC 740-10, *Income Taxes*, which provides guidance on the recognition threshold that a tax position is required to meet before being recognized in the consolidated statement of financial position and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition issues. Management has evaluated and concluded that there were no material uncertain tax positions requiring recognition in the accompanying consolidated statement of financial position. Accrued interest relating to uncertain tax positions would be recorded as a component of interest expense, and penalties relating to uncertain tax positions would be recorded as a component of general and administrative expenses.

**BENEFICIENT HEARTLAND FOUNDATION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(1) Summary of significant accounting policies (continued)

Beneficial interest in Funding Trusts held in the Kansas TEFFI EGT - BHF has been named as a beneficiary of The Kansas TEFFI Economic Growth Trust ("Trust") and allocated a portion of the beneficial interest in certain funding trusts held by the Trust. The beneficial interest is recorded at estimated fair value on the consolidated statement of financial position as "beneficial interest in Funding Trusts held in the Kansas TEFFI EGT". The Trust administers a 2.5% beneficial interest in certain BFF Transactions (see below) and a 5.0% beneficial interest in certain Legacy Trusts (see below).

The portion related to BFF Transactions and characterized as qualified distributions held for the benefit of Trust Beneficiaries is governed by the TEFFI Act. The beneficial interest is carried at estimated fair value with changes in fair value reported in earnings.

The Legacy Trust transactions, in which the Trust owns beneficial interests, own loans collateralized by a diversified pool of alternative asset funds which are required to monetize to cash and repay the loans. Please see the note regarding credit concentration below for further discussion on diversification in the underlying collateral pool.

The investment objective for the alternative asset funds collateralizing the fiduciary financing transactions is long-term capital appreciation in excess of what is available in the public markets and are required to monetize to cash. Private equity funds generally hold illiquid debt and equity securities of public and / or privately held companies. This asset class includes venture capital, growth, natural resources, real estate and distressed debt. Fiduciary financing transaction values held in the fiduciary financing trusts are adjusted for accrued interest, impairments, allowance for doubtful accounts, changes in market interest rates, and loan payments. Ben, through its subsidiaries, as well as the respective fund trustees are responsible for managing, valuing, and administering the assets held in the funding trusts.

Because of the inherent uncertainty of the valuation of financings collateralized by alternative investments, the market values reflected in the accompanying consolidated statement of financial position may differ significantly from realizable values.

BFF Trusts

BHF is a beneficiary of the Trust, which holds and administers beneficial interests in certain trusts associated with Beneficial Fiduciary Financial, L.L.C. (BFF Trusts), with the portion of such interest characterized as qualified distributions defined and governed by the TEFFI Act. Section 11 of the TEFFI Act requires that cumulative beneficial interests in the BFF Trusts associated with 2.5% of new originations from TEFFI customers ("BFF Transactions") characterized as qualified distributions each calendar year be shared between Qualified Charities and postsecondary educational institutions (Charity) and the Kansas Department of Commerce (KDOC). The Kansas TEFFI Economic Growth Trust identified BHF as the Qualified Charity it would support.

**BENEFICIENT HEARTLAND FOUNDATION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(1) Summary of significant accounting policies (continued)

Qualified distributions of beneficial interests are allocated between KDOC and BHF each calendar year as follows:

Allocation of qualified distributions:	<u>KDOC</u>	<u>BHF</u>
From \$0 to \$500,000	90%	10%
From \$500,001 to \$1,000,000	50%	50%
Amounts above \$1,000,000	10%	90%

Legacy Trusts

BHF is a beneficiary of the Trust which also holds and administers beneficial interests in certain fiduciary financing (fidfin) transactions originated prior to the passage of the TEFFI Act and prior to the issuance of a TEFFI charter to BFF (Legacy Transactions). These beneficial interests represent 5.0% of the associated fiduciary financings associated with the Legacy Transactions and are treated as qualified distributions under the TEFFI Act. The amounts associated with Legacy Transactions were combined with 2022 TEFFI Fiduciary Financing originations and allocated in accordance with Section 11 of the TEFFI Act to the Trust Beneficiaries as follows:

Allocation of qualified distributions:	<u>KDOC</u>	<u>BHF</u>
From \$0 to \$500,000	90%	10%
From \$500,001 to \$1,000,000	50%	50%
Amounts above \$1,000,000	10%	90%

The Trust holds the beneficial interests for BHF and KDOC in separate accounts until they are monetized and then sends the related cash distributions to BHF and KDOC. BHF then uses the cash distributed to it to support charities selected by its Board of Directors in accordance with the TEFFI Act. As such, 100% of the beneficial interests held by BHF are accounted for as without donor restrictions. As of September 30, 2022, the beneficial interests allocated to BHF totaled \$12,872,302.

Real estate investments - On July 6, 2022, BHF Management, LLC (BHFM), a Kansas Limited Liability Corporation, was formed with BHF as its sole member. BHFM was formed to acquire real estate to be used for economic development purposes in Hesston, Kansas in accordance with the TEFFI Act. On July 29, 2022, BHFM acquired a retail building located in Hesston Kansas for \$151,584. The transaction was executed without debt. As of September 30, 2022, BHFM held real estate for investment of \$151,584. As such, the property is not held for use in operations and no depreciation has been recorded. The carrying value of the real estate approximates fair value as of September 30, 2022.

Revenue recognition - Contributions are recognized as revenue when received or unconditionally promised. Unconditional contributions are recognized when notification of a beneficial interest is received and is classified as either net assets with donor restrictions or net assets without donor restrictions on the consolidated statement of financial position. Contributions of beneficial interests are recorded at estimated fair value when received.

**BENEFICIENT HEARTLAND FOUNDATION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(1) Summary of significant accounting policies (continued)

Recently adopted accounting pronouncement - In July 2020, the FASB issued Accounting Standards Update (ASU) ASU 2020-07, *Presentation and Disclosure by Not-For-Profit Entities for Contributed Nonfinancial Assets*. The ASU was adopted by the Organization as required by the standard. The ASU also requires the Organization to present contributions of nonfinancial assets separately from contributions of cash and other financial assets on the consolidated statements of activities, when presented. The ASU also requires additional disclosures related to the contributions of nonfinancial assets. The adoption of this pronouncement did not have a material impact on the Organization.

The FASB has issued other new accounting guidance or modifications to, or interpretations of, existing accounting guidance. The Organization has considered the new un-adopted guidance and does not believe that any other new or modified guidance will have a material impact on the Organization's reported financial position or activities in the near term.

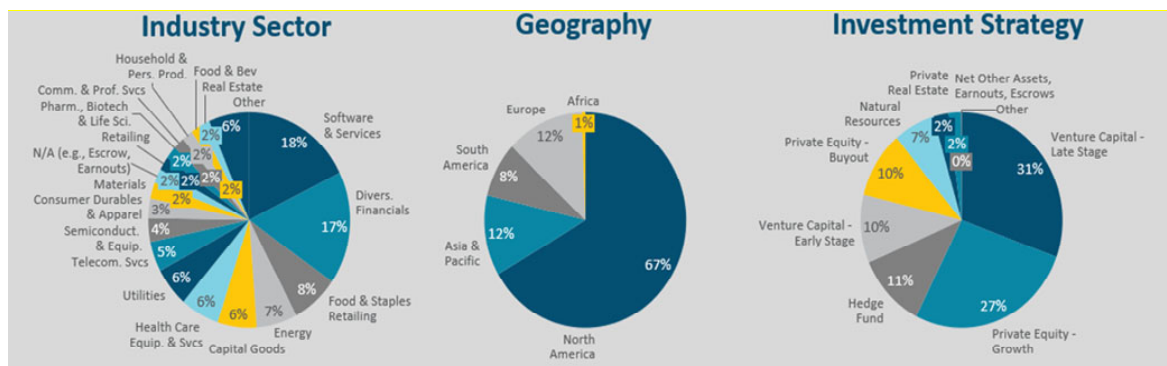
(2) Liquidity and funds availability

As part of its liquidity management, BHF structures its financial assets to be available as grants and other support and general expenditures come due. As the alternative investments underlying the TEFFI fidfin transactions monetize, 2.5% and 5.0% of the fidfin payments related to BFF Trusts and Legacy Trusts, respectively, are allocated to the Trust. The Trust allocates a portion of the fidfin payments to BHF, with such allocations defined and governed by the TEFFI Act. Investments subject to distribution cannot be redeemed by BHF, but rather will be distributed from the Trust upon the monetization of the underlying alternative assets collateralizing the fidfin transactions held by the BFF and Legacy Trusts. Distributions are generally expected, but not guaranteed, over one to five years.

BHF received \$748,349 in cash distributions from the Trust during March 2022. At September 30, 2022, financial assets and liquid resources available within one year for general expenditures, such as operating expenses equals cash and cash equivalents of \$588,060.

(3) Concentrations

The Organization, through its beneficial interest in Funding Trusts held in the Kansas TEFFI EGT, is exposed to a portfolio of loans collateralized by a highly diversified portfolio of alternative asset funds as described below. As of September 30, 2022 the highest concentration in any single portfolio fund in the collateral pool (as reported by Ben) was 7.5%.



**BENEFICIENT HEARTLAND FOUNDATION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(4) Fair value measurements

The Organization follows FASB Accounting Standard Codification (ASC) 820-10, *Fair Value Measurements*. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the BHF uses various valuation approaches, including market, income, and / or cost approaches. FASB ASC 820-10 establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability, developed based on market data obtained from sources independent of the Organization. Unobservable inputs reflect the Organization's assumptions used in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels, based on the reliability of inputs, as follows:

Level 1 — Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the BHF has the ability to access.

Level 2 — Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 — Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Beneficial interest in Funding Trusts held in the Kansas TEFFI EGT - The beneficial interest in Funding Trusts held in the Kansas TEFFI EGT was determined by the Trust based upon BHF's allocable share in the estimated market value of the respective beneficial interests in funding trusts held by the Trust. The respective beneficial interests in funding trusts held by the Trust are recorded at the fair value of the assets held in the Funding Trusts as represented by the Trust and The Beneficient Company Group, L.P. ("Ben") and its subsidiaries, considering expected future cash flows from distributions. The Trust and Ben and its subsidiaries endeavor to utilize the best available information in measuring fair value. The Organization considers the measurement of its beneficial interest in Funding Trusts held in the Kansas TEFFI EGT to be a level 3 measurement within the fair value hierarchy. The beneficial interest in Funding Trusts held in the Kansas TEFFI EGT carried at fair value, measured on a recurring basis, as of September 30, 2022 is \$12,872,302.

It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the Organization's consolidated statement of financial position. Furthermore, while Management believes its valuation methods are appropriate and consistent, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**BENEFICIENT HEARTLAND FOUNDATION, INC.
AND SUBSIDIARY**

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(5) Economic development initiatives

Economic development initiatives are commenced upon approval by the Board of Directors of BHF, payable upon the performance of specified conditions, and paid when the specified conditions are satisfied. As of September 30, 2022 the BHF Board of Directors was considering a significant grant to support economic development in downtown Hesston, Kansas, with final decisions expected by December 31, 2022. No other economic development initiatives had been approved as of September 30, 2022.

(6) Related party transactions

Beneficial Fiduciary Financial, L.L.C. (BFF), the sole member of BHF, administers charitable donations collected from its customers in the amount of 2.5% of TEFFI and 5.0% of Legacy Trust fiduciary financing transactions originated each calendar year to BHF through the Trust, which is recorded as “beneficial interest in Funding Trusts held in the Kansas TEFFI EGT” on the consolidated statement of financial position.

(7) Commitments and contingencies

The Organization’s deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. From time to time, cash held exceeds the insured thresholds. At September 30, 2022, the Organization held \$338,060 of cash deposits in excess of FDIC Insurance limits.

(8) COVID-19 pandemic

During the second quarter of 2020, local, U.S., and world governments have encouraged self-isolation to curtail the spread of the global pandemic, coronavirus disease (COVID-19), by mandating temporary work stoppage in many sectors and imposing limitations on travel and size and duration of group meetings. Most industries are experiencing disruption to business operations and the impact of reduced consumer spending. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the Organization as of the date the consolidated statement of financial position was available to be issued, management believes that a material impact on the Organization’s consolidated statement of financial position is reasonably possible.

(9) Subsequent events

An evaluation of subsequent events was completed by management through November 29, 2022, which represents the date the consolidated statement of financial position was available to be issued. No significant items were noted during this evaluation that would require recognition and disclosure in the consolidated statement of financial position or accompanying footnotes.