

**BENEFICENT TECHNOLOGY, INC.
AND BENGINEERING, INC.
DBA BENETECH**

(A California Nonprofit Public Benefit Corporation)

**CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

YEARS ENDED DECEMBER 31, 2010 AND 2009

BENEFICENT TECHNOLOGY, INC. AND BENGINEERING, INC. DBA BENETECH
(A California Nonprofit Public Benefit Corporation)
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

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Board of Directors
Beneficent Technology, Inc.
Palo Alto, California

JAMES M. KRAFT
S. SCOTT SEAMANDS
MARK O. BRITTAIN
ALEXIS H. WONG
CHARLOTTE SIEW-KUN TAY

CATHY L. HWANG
RITA B. DELA CRUZ
STANLEY WOO

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated statement of financial position of Beneficent Technology, Inc., a California nonprofit public benefit corporation and subsidiary, as of December 31, 2010, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of Beneficent Technology, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of Beneficent Technology, Inc. and subsidiary as of December 31, 2009, were audited by other auditors whose report dated May 28, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of Beneficent Technology, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Beneficent Technology, Inc. as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 9, 2011, on our consideration of Beneficent Technology, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards on page 19 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Lindquist, von Huen and Joyce LLP

June 9, 2011

BENEFICENT TECHNOLOGY, INC. AND BENGINEERING, INC. DBA BENETECH

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 631,680	\$ 1,290,054
Receivables:		
Contributions – current (Note 3)	542,269	729,783
Grants and accounts receivable	567,328	314,609
Prepaid expenses	4,975	5,247
Total current assets	1,746,252	2,339,693
Contributions receivable – net of current portion (Note 3)	350,000	400,000
Property and equipment – net (Note 4)	13,519	23,770
Intangible assets – net (Note 5)	640,164	1,231,084
Deposits	53,305	51,834
Total assets	\$ 2,803,240	\$ 4,046,381

The accompanying notes are an integral part of these financial statements.

BENEFICENT TECHNOLOGY, INC. AND BENGINEERING, INC. DBA BENETECH

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 178,558	\$ 328,945
Accrued expenses	189,809	79,700
Accrued employee benefits	546,418	592,506
Deferred revenue	61,627	63,329
Deferred rent – current	25,413	25,413
Total current liabilities	<u>1,001,825</u>	<u>1,089,893</u>
Deferred rent – net of current portion	<u>19,060</u>	<u>44,473</u>
Total liabilities	<u>1,020,885</u>	<u>1,134,366</u>
Net assets:		
Unrestricted	403,381	1,171,731
Temporarily restricted (Note 9)	<u>1,378,974</u>	<u>1,740,284</u>
Total net assets	<u>1,782,355</u>	<u>2,912,015</u>
Total liabilities and net assets	<u>\$ 2,803,240</u>	<u>\$ 4,046,381</u>

The accompanying notes are an integral part of these financial statements.

BENEFICENT TECHNOLOGY, INC. AND BENGINEERING, INC. DBA BENETECH

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Contributions	\$ 371,728	\$ 658,320	\$ 1,030,048	\$ 124,113	\$ 1,091,167	\$ 1,215,280
Royalties	5,844	-	5,844	6,193	-	6,193
Engineering and consulting fees	6,414	-	6,414	30,127	-	30,127
Donated services/products	183,021	-	183,021	105,319	-	105,319
Bookshare revenue	7,339,759	-	7,339,759	6,827,497	-	6,827,497
Human rights revenue	129,580	-	129,580	117,774	-	117,774
Miradi revenue	349,882	-	349,882	417,465	-	417,465
Interest income	2,175	-	2,175	6,192	-	6,192
Total support and revenue	8,388,403	658,320	9,046,723	7,634,680	1,091,167	8,725,847
Net assets released from restrictions:						
Satisfaction of purpose restrictions	819,630	(819,630)	-	1,561,951	(1,561,951)	-
Satisfaction of time restriction	200,000	(200,000)	-	-	-	-
Total support and revenue	9,408,033	(361,310)	9,046,723	9,196,631	(470,784)	8,725,847
Expenses:						
Program services:						
Bookshare	7,224,439	-	7,224,439	6,980,374	-	6,980,374
Human rights	858,722	-	858,722	1,019,100	-	1,019,100
Miradi	347,141	-	347,141	392,636	-	392,636
Route 66	68,607	-	68,607	61,651	-	61,651
Engineering	800	-	800	800	-	800
Supporting services:						
Management and general	1,008,183	-	1,008,183	1,015,577	-	1,015,577
Fundraising	63,055	-	63,055	12,429	-	12,429
Bid and proposal	593,733	-	593,733	204,653	-	204,653
Research and development	11,703	-	11,703	-	-	-
Total expenses	10,176,383	-	10,176,383	9,687,220	-	9,687,220
Change in net assets	(768,350)	(361,310)	(1,129,660)	(490,589)	(470,784)	(961,373)
Net assets, beginning of year	1,171,731	1,740,284	2,912,015	1,662,320	2,211,068	3,873,388
Net assets, end of year	\$ 403,381	\$ 1,378,974	\$ 1,782,355	\$ 1,171,731	\$ 1,740,284	\$ 2,912,015

The accompanying notes are an integral part of these financial statements.

BENEFICENT TECHNOLOGY, INC. AND BENGINEERING, INC. DBA BENETECH

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010											
	Program Services						Supporting Services					Total
	Bookshare	Human Rights	Miradi	Route 66	Engineering	Total Program Services	Management and General	Fundraising	Bid and Proposal	Research and Development	Total Supporting Services	
Salaries and related expenses	\$ 2,365,915	\$ 279,583	\$ 87,984	\$ 18,651	\$ -	\$ 2,752,133	\$ 437,006	\$ 36,089	\$ 294,915	\$ 5,500	\$ 773,510	\$ 3,525,643
Employee benefits	916,921	112,629	34,522	7,144	-	1,071,216	155,823	13,532	116,905	2,108	288,368	1,359,584
Total salaries and related expenses	3,282,836	392,212	122,506	25,795	-	3,823,349	592,829	49,621	411,820	7,608	1,061,878	4,885,227
Outside services	1,321,037	279,302	154,553	32,175	-	1,787,067	183,983	-	58,377	-	242,360	2,029,427
Facility and other office expenses	796,736	98,020	29,850	6,756	-	931,362	138,083	12,402	97,783	1,873	250,141	1,181,503
Book collection and development	478,700	-	-	-	-	478,700	-	-	-	-	-	478,700
Travel	209,752	50,492	2,167	204	-	262,615	23,198	79	19,553	2,177	45,007	307,622
In-kind products and services	105,999	3,225	37,376	-	-	146,600	36,421	-	-	-	36,421	183,021
Communications	161,405	8,938	299	1,266	-	171,908	-	-	-	-	-	171,908
Conferences	149,782	1,475	-	-	-	151,257	8,166	-	1,538	-	9,704	160,961
Supplies and project rent	53,146	88	-	-	-	53,234	3,685	-	1,062	-	4,747	57,981
Miscellaneous	16,067	24,271	390	2,411	800	43,939	3,517	6	968	45	4,536	48,475
Subscriptions and dues	40,302	-	-	-	-	40,302	420	947	2,482	-	3,849	44,151
Entertainment	5,701	699	-	-	-	6,400	6,145	-	150	-	6,295	12,695
D & O insurance	-	-	-	-	-	-	3,827	-	-	-	3,827	3,827
Bank charges	-	-	-	-	-	-	1,825	-	-	-	1,825	1,825
Total expenses before depreciation and amortization	6,621,463	858,722	347,141	68,607	800	7,896,733	1,002,099	63,055	593,733	11,703	1,670,590	9,567,323
Amortization	590,920	-	-	-	-	590,920	-	-	-	-	-	590,920
Depreciation	12,056	-	-	-	-	12,056	6,084	-	-	-	6,084	18,140
Total expenses	\$ 7,224,439	\$ 858,722	\$ 347,141	\$ 68,607	\$ 800	\$ 8,499,709	\$ 1,008,183	\$ 63,055	\$ 593,733	\$ 11,703	\$ 1,676,674	\$ 10,176,383

The accompanying notes are an integral part of these financial statements.

BENEFICENT TECHNOLOGY, INC. AND BENGINEERING, INC. DBA BENETECH

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2009											
	Program Services						Supporting Services					Total
	Bookshare	Human Rights	Miradi	Route 66	Engineering	Total Program Services	Management and General	Fundraising	Bid and Proposal	Research and Development	Total Supporting Services	
Salaries and related expenses	\$ 2,109,177	\$ 371,999	\$ 79,967	\$ 32,624	\$ -	\$ 2,593,767	\$ 402,572	\$ 7,189	\$ 101,394	\$ -	\$ 511,155	\$ 3,104,922
Employee benefits	864,034	153,597	32,942	13,238	-	1,063,811	169,985	3,071	42,159	-	215,215	1,279,026
Total salaries and related expenses	2,973,211	525,596	112,909	45,862	-	3,657,578	572,557	10,260	143,553	-	726,370	4,383,948
Outside services	1,424,865	229,485	215,230	-	-	1,869,580	228,813	-	18,853	-	247,666	2,117,246
Facility and other office expenses	638,179	118,040	24,988	10,952	-	792,159	128,381	2,169	32,714	-	163,264	955,423
Book collection and development	677,259	-	-	-	-	677,259	-	-	-	-	-	677,259
Travel	201,723	109,263	-	-	-	310,986	18,224	-	4,895	-	23,119	334,105
In-kind products and services	44,290	3,107	29,376	4,258	-	81,031	24,288	-	-	-	24,288	105,319
Communications	154,214	8,720	299	579	-	163,812	2,239	-	27	-	2,266	166,078
Conferences	129,863	1,276	-	-	-	131,139	14,044	-	350	-	14,394	145,533
Supplies and project rent	145,474	17,092	9,474	-	-	172,040	8,174	-	-	-	8,174	180,214
Miscellaneous	18,896	3,479	360	-	800	23,535	-	-	398	-	398	23,933
Subscriptions and dues	12,293	200	-	-	-	12,493	975	-	2,527	-	3,502	15,995
Entertainment	5,343	1,874	-	-	-	7,217	3,607	-	-	-	3,607	10,824
D & O insurance	-	-	-	-	-	-	3,819	-	-	-	3,819	3,819
Bank charges	-	-	-	-	-	-	684	-	-	-	684	684
Total expenses before depreciation and amortization	6,425,610	1,018,132	392,636	61,651	800	7,898,829	1,005,805	12,429	203,317	-	1,221,551	9,120,380
Amortization	541,677	-	-	-	-	541,677	-	-	-	-	-	541,677
Depreciation	13,087	968	-	-	-	14,055	9,772	-	1,336	-	11,108	25,163
Total expenses	\$ 6,980,374	\$ 1,019,100	\$ 392,636	\$ 61,651	\$ 800	\$ 8,454,561	\$ 1,015,577	\$ 12,429	\$ 204,653	\$ -	\$ 1,232,659	\$ 9,687,220

The accompanying notes are an integral part of these financial statements.

BENEFICENT TECHNOLOGY, INC. AND BENGINEERING, INC. DBA BENETECH

(A California Limited Partnership)

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Cash flows from operating activities:		
Change in net assets	\$ (1,129,660)	\$ (961,373)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	18,140	25,163
Amortization	590,920	541,677
(Increase) decrease in assets:		
Contributions receivable	237,514	705,642
Grants and accounts receivable	(252,720)	152,735
Prepaid expenses	272	(2,096)
Deposits	(1,470)	(4,301)
Increase (decrease) in liabilities:		
Accounts payable	(150,387)	3,378
Accrued expenses	64,021	155,471
Deferred revenue	(1,702)	16,062
Deferred rent	(25,413)	24,597
Total adjustments	479,175	1,618,328
Net cash provided by (used in) operating activities	(650,485)	656,955
Cash flows from investing activities:		
Purchase of property and equipment	(7,889)	(5,808)
Addition of intangible assets	-	(133,182)
Net cash used in investing activities	(7,889)	(138,990)
(Decrease) increase in cash	(658,374)	517,965
Cash, beginning of year	1,290,054	772,089
Cash, end of year	\$ 631,680	\$ 1,290,054

The accompanying notes are an integral part of these financial statements.

BENEFICENT TECHNOLOGY, INC. AND BENGINEERING, INC. DBA BENETECH

(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Beneficent Technology, Inc. (doing business as “Benetech®”) was incorporated as a nonprofit corporation to develop technology projects, products and services to benefit humanity worldwide.

Beneficent Technology, Inc. has a for-profit subsidiary, Bengineering, Inc. which is involved in providing engineering consulting services. Bengineering, Inc.’s assets, liabilities, revenues and expenses have been consolidated in the financial statements. Bengineering, Inc. did not have any significant activity in 2010 or 2009. Both Beneficent Technology, Inc. and its for profit subsidiary, Bengineering, Inc. (collectively, the “Organization”), operated under the Benetech dba and brand name.

The Organization acts as innovators and operators of technology-oriented nonprofit projects. The Organization is involved in the following projects:

Bookshare®: Bookshare provides copyrighted material in accessible digital formats to people with qualifying print disabilities. It is a web-based library of books, periodicals, and newspapers. Millions of people throughout the United States with visual impairments, physical disabilities and severe learning disabilities meet the stringent copyright law exemption that permits reproduction of copyrighted material into specialized formats and distribution for personal use. Around the world, individuals that meet these qualifications have access to freely distributable material and copyrighted books for which Bookshare has worldwide rights. The books and publications can be read with a variety of software applications and hardware devices that produce synthetic speech (text-to-speech), large print, or digital Braille. Bookshare was launched in February 2002 and can now count over 120,000 eligible members as of December 31, 2010. Through the active participation of thousands of volunteers, partners, universities and publishers around the world, Bookshare provides people with print disabilities with instant access to more than 90,000 books and 150 daily newspapers.

Human Rights: The Human Rights Program (HRP) focuses its efforts in two key areas: comprehensive analysis by the Human Rights Data Analysis Group (HRDAG) of large scale human rights violations in post-conflict communities around the world; and, the development of and training in Martus, secure, open source information management software designed for human rights organizations. The HRP uses science and technology to advance the cause of human rights.

The HRDAG team develops data analysis software, information collection strategies and statistical techniques. These scientists measure the magnitude and pattern of human rights violations in order to evaluate claims that violence was the result of state or institutional policies. This technology and analysis is used by truth commissions, international criminal tribunals and non-governmental human rights organizations as they clarify history, and seek to hold people accountable for gross human rights abuses.

Martus provides an easy-to-use tool to assist the human rights sector in collecting, encrypting, backing up, organizing and disseminating information about human rights violations. The Martus software is freely downloadable, is available in ten languages (English, Russian, Spanish, Arabic, French, Thai, Nepali, Burmese, Persian and Khmer) and has been downloaded by thousands of people and organizations in over 120 countries.

BENEFICENT TECHNOLOGY, INC. AND BENGINEERING, INC. DBA BENETECH

(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

Miradi: Miradi is designed to bring quality project management tools to the global environmental conservation community. This project is a joint venture between Benetech and the Conservation Measures Partnership (CMP), a consortium of leading conservation organizations. Miradi provides an easy-to-use, interview-style interface that will walk conservation planners through each step of adaptive environmental project management and assists them in the process of designing, managing and monitoring their project according to the best-practice standards established and tested by the world's major conservation organizations. Miradi's first production version was released in Q-1 2008, and version 3.2 was released in September 2010. Over 4,000 users who are managing complex environmental programs in over 140 different countries have now downloaded Miradi. Fundraising efforts are currently underway for the development of a new Miradi web portal. This web tool will enable uploading of project information to an online database and the sharing of information with other practitioners who are working on similar situations, or grappling with similar challenges.

Route 66: Route 66 is an innovative, web-based service that will ultimately increase and enhance literacy learning in adolescent and young adult students with significant intellectual disabilities. Route 66 Literacy offers instructional strategies that assist and encourage a literate person to become an effective literacy tutor. Currently, the site offers age-appropriate, dynamic content for adolescents and young adults who are reading and writing at beginning levels.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Beneficent Technology, Inc. and its wholly owned corporation, Bengineering, Inc. Management determined that combining Beneficent Technology, Inc. and Bengineering, Inc. provides a more meaningful presentation of the commonly-controlled and financially-dependent companies. All material intercompany transactions have been eliminated in consolidation.

Accounting Method

The financial statements of the Organizations have been prepared on the accrual basis of accounting, which recognizes income in the period earned and expenses when incurred, regardless of the timing of payments.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the Organization. The Organization has elected to report as an increase in unrestricted net assets any temporarily restricted revenue received in the current period whose restrictions have been met in the current period.

BENEFICENT TECHNOLOGY, INC. AND BENGINEERING, INC. DBA BENETECH

(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

- Temporarily restricted net assets include those assets subject to donor restrictions and for which the applicable restrictions were not met as of the end of the current reporting period. When a donor restriction expires—that is, when a stipulated time restriction ends or purpose restriction is accomplished—temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If donor's restrictions are satisfied in the same period that the contribution is received, the contribution is reported as unrestricted support.
- Permanently restricted net assets include those assets subject to non-expiring donor restrictions, such as endowments, contributions or investments. The Organizations had no permanently restricted net assets as of December 31, 2010 and 2009.

Revenue Recognition

Revenue from royalties and interest is recorded when earned based upon the applicable agreements. Revenue from consulting services is recognized upon performance of the applicable services. Subscription revenue from Bookshare is recognized over the life of the subscription. Unearned subscription revenue is recorded as a liability on the consolidated statements of financial position.

Contributions

Contributions are recognized as revenue when they are unconditionally communicated. Grants represent contributions if resource providers receive no value in exchange for the assets transferred. Cash contributions are recognized when the donor makes a promise to give; that is, in substance, an unconditional promise. Cash contributions are recorded at their fair value as unrestricted, temporarily restricted or permanently restricted, depending on the absence or existence of donor-imposed restrictions and on whether the restrictions are met (that is when a stipulated time restriction ends or purpose restriction is accomplished) in the current period. Restricted contributions are reported as an increase in unrestricted net assets if the restrictions have been met in the current period. If the restrictions have not been met by year end, the amount is reported as an increase in temporarily or permanently restricted net assets. When the restriction is met, the amount is shown as a reclassification of restricted net assets to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Contributions of donated, non-cash assets are recognized and recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. During the year ended December 31, 2010 and 2009, these products, supplies and advertising costs in the amount of \$183,021 and \$105,319, respectively were recorded as both revenue and expense in the consolidated statements of activities. The Organization also received a significant amount of donated services from unpaid volunteers who assisted in fund-raising and other programs of the Organization. These amounts have not been recognized in the consolidated statements of activities because the criteria for recognition have not been satisfied. The Organization estimates such amounts to be approximately \$450,000 in 2010 and 2009.

Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash. Generally, only investments with original maturities of three months or less qualify as cash equivalents. The Organization occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance Corporation coverage limit. The uninsured cash balance, including restricted cash, was approximately \$158,000 as of December 31, 2010.

BENEFICENT TECHNOLOGY, INC. AND BENGINEERING, INC. DBA BENETECH

(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

Contributions Receivable

Unconditional promises to give are recorded as receivables and revenue when received. The Organization distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Bad debts are provided on the allowance method based on historical experience and management evaluation of promises to give. Management has determined that no allowance for uncollectible accounts is deemed necessary at December 31, 2010 or December 31, 2009.

Grants and Accounts Receivable

Grants and accounts receivable are related to program earned income. Bad debts are provided on the allowance method based on historical experience and management evaluation of outstanding grants and accounts receivable. It is the Organization's policy to charge off uncollectible accounts receivable when management determines that receivables will not be collected. Management has determined that no allowance for uncollectible accounts is deemed necessary at December 31, 2010 or December 31, 2009.

Fair Value Measurement

Under generally accepted accounting principles, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date.

Generally accepted accounting principles establish a fair value 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 those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs, if any, reflects the Organization's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

Level 2 – instrument valuations are obtained from readily-available pricing sources for comparable instruments.

Level 3 – instruments valuations are obtained without observable market value and require a high level of judgment to determine the fair value.

The adoption of this statement with respect to the Organization's financial assets and liabilities, did not impact the consolidated results of operations, but required additional disclosure. The following table summarizes the financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 and 2009:

	Balance as of December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)
Money market	\$ 537,093	\$ 537,093

BENEFICENT TECHNOLOGY, INC. AND BENGINEERING, INC. DBA BENETECH

(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

	<i>Balance as of December 31, 2009</i>	<i>Quoted Prices in Active Markets for Identical Assets (Level 1)</i>
Money market	\$ 1,237,353	\$ 1,237,353

As of December 31, 2010 and 2009, the Organization did not have any Level 2 and 3 assets or liabilities.

Property and Equipment and Intangible Assets

Property and equipment are stated at cost if purchased, or estimated fair market value if donated. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Equipment purchases of under \$5,000 are expensed as incurred.

Intangible assets include capitalized costs related to the design of a new website for the Bookshare program.

The useful lives of the assets are estimated as follows:

Leasehold improvements	1 year
Furniture and equipment	3 years
Web design	3 years

Income Taxes

Beneficent Technology, Inc. (Benetech) is a nonprofit corporation qualified under IRC code section 501(c)(3) and California R&T code section 23701(d) as such, it is exempt from federal income taxes. Benetech is not classified as a private foundation under IRC code section 509(a). Qualified nonprofit corporations are generally exempt from income tax. Bengineering, Inc. is a for-profit subsidiary of Beneficent Technology, Inc. During the years ended December 31, 2010 and 2009, Bengineering, Inc. did not have any significant activity and no taxable income and therefore was only liable for the California minimum franchise tax of \$800.

Effective January 1, 2009, the Organization began reviewing and assessing tax positions taken or expected to be taken against more-likely-than-not recognition threshold and measurement attributes for financial statement recognition. The Organization's policy for evaluating uncertain tax positions is a two step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more-likely-than-not that the position will be sustained upon audit, including resolution of related appeals or litigations processes, if any. The second step is to measure the tax benefit or liability as the largest amount that is more than 50% likely to be realized or incurred upon settlement. Based on an analysis prepared by the Organization, it was determined that the tax positions taken or expected to be taken had no material effect on the recorded tax assets and liabilities of the Organization. The Organization's federal and state income tax returns for the years 2006 through 2009 are subject to examination by regulatory agencies, generally for three years and four years after they are filed for federal and state respectively.

Functional Expenses Allocation

The Organization allocates all direct expenses attributable to individual functions relating to program and support services. Expenses that are applicable to several programs and/or supporting services are allocated based upon facility square footage or estimate of time devoted by staff to the related functions.

BENEFICENT TECHNOLOGY, INC. AND BENGINEERING, INC. DBA BENETECH

(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

Bid and Proposal

These costs include expenses associated with research for and preparation of bids, proposals and applications to secure funding from both federal and non-federal sources.

Research and Development

The Organization continues to research potential new projects. A project must meet the Organization's mission statement and charter, enhance and complement existing programs, be primarily socially focused, help those who can least help themselves or increase the impact of its current programs.

Subsequent Events

The Organization evaluated subsequent events for recognition and disclosure through June 9, 2011, the date which these consolidated financial statements were available to be issued. Management concluded that no material subsequent events have occurred since December 31, 2010, that require recognition or disclosure in such consolidated financial statements.

Reclassifications

Certain amounts for the year ended December 31, 2009 have been reclassified to conform with the presentation of the December 31, 2010 amounts. The reclassifications have no effect on the consolidated statements of activities for the year ended December 31, 2009.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows:

	<u>2010</u>	<u>2009</u>
Unconditional promises to give due in:		
Less than one year	\$ 542,269	\$ 729,783
Between one year and five years	350,000	400,000
Total	<u>\$ 892,269</u>	<u>\$ 1,129,783</u>

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	<u>2010</u>	<u>2009</u>
Leasehold improvements	\$ 2,350	\$ 2,350
Furniture and equipment	175,653	167,663
	<u>178,003</u>	<u>170,013</u>
Less: accumulated depreciation	(164,484)	(146,243)
Total property and equipment	<u>\$ 13,519</u>	<u>\$ 23,770</u>

Depreciation expense for the years ended December 31, 2010 and 2009 was \$18,140 and \$25,163, respectively.

BENEFICENT TECHNOLOGY, INC. AND BENGINEERING, INC. DBA BENETECH

(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 5 – INTANGIBLE ASSETS

In 2008, pursuant to guidelines provided in ASC 350.50, *Website Development Costs*, the Organization capitalized costs relating to the design of a new website for the Bookshare Program. These costs included consulting (\$968,734), salaries (\$454,252), benefits (\$186,243) and shared expenses (\$163,532) for a total of \$1,772,761. The website launched late January 2009. Amortization is computed using the straight-line method for three years beginning February 2009.

Intangible assets are summarized as follows:

	<u>2010</u>	<u>2009</u>
Web design	\$ 1,772,761	\$ 1,772,761
Less: accumulated amortization	<u>(1,132,597)</u>	<u>(541,677)</u>
Total intangible assets	<u>\$ 640,164</u>	<u>\$ 1,231,084</u>

Amortization expense for the years ended December 31, 2010 and 2009 was \$590,920 and \$541,677, respectively.

NOTE 6 – LEASE COMMITMENTS

In 2007, the Organization elected to exercise its option to extend the lease for office space for an additional three years. This lease which was due to expire on October 31, 2010 was terminated, and a new lease began on November 1, 2009. The new lease which expires on September 30, 2013 has an option to terminate as of September 30, 2012 with a six month notice. The lease is amortized over the life of the lease using the straight-line method. Rental expense was \$383,350 and \$369,694 for the years ending December 31, 2010 and 2009, respectively.

Future minimum lease payments are as follows:

2011	\$ 397,141
2012	397,141
2013	<u>297,856</u>
	<u>\$ 1,092,138</u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are for the following purposes or periods:

	<u>2010</u>			
	<u>December 31,</u> <u>2009</u>	<u>Contributions</u>	<u>Releases from</u> <u>Restrictions</u>	<u>December 31,</u> <u>2010</u>
Bookshare	\$ 184,130	\$ 215,675	\$ (181,662)	\$ 218,143
General and administrative	600,000	-	(200,000)	400,000
Route 66	84,663	-	(75,656)	9,007
Human Rights	871,491	442,645	(562,312)	751,824
	<u>\$ 1,740,284</u>	<u>\$ 658,320</u>	<u>\$ (1,019,630)</u>	<u>\$ 1,378,974</u>

BENEFICENT TECHNOLOGY, INC. AND BENGINEERING, INC. DBA BENETECH

(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

	2009			
	December 31, 2008	Contributions	Releases from Restrictions	December 31, 2009
Bookshare	\$ 483,307	\$ 175,000	\$ (474,177)	\$ 184,130
General and administrative	-	600,000	-	600,000
Route 66	50,000	84,663	(50,000)	84,663
Human Rights	1,677,761	231,504	(1,037,774)	871,491
	<u>\$ 2,211,068</u>	<u>\$ 1,091,167</u>	<u>\$ (1,561,951)</u>	<u>\$ 1,740,284</u>

NOTE 8 – GRANTS AND OTHER FEDERAL AWARDS

During the years ended December 31, 2010 and 2009, revenues received from government agencies through awards and grants representing 10% or more of the Organization's revenue consisted of the following amounts:

	2010	2009
U.S. Department of Education	<u>\$ 7,153,248</u>	<u>\$ 6,684,563</u>

Included in receivables at 2010 and 2009 is approximately \$402,808 and \$144,582 from this award, respectively.

The above federal awards made up approximately 79% and 77% of the Organization's total support and revenue for the years ended December 31, 2010 and 2009, respectively. The U.S. Department of Education award period is October 1, 2007 through September 30, 2012. A schedule of federal awards is included as part of these consolidated financial statements.

NOTE 9 – LINE OF CREDIT

The Organization has a \$250,000 unsecured line of credit with The Private Bank with no outstanding borrowings as of December 31, 2010. The line of credit matures on November 3, 2011.

NOTE 10 – RETIREMENT PLAN

The Organization maintains a 401(k) defined contribution plan. Eligible employees can defer up to \$22,000 for participants over the age of 50 years for 2010 and 2009. The Organization matches 50% of employee contributions up to a maximum of 2% of the employees' gross salary. Employer contributions for 2010 and 2009 were \$59,029 and \$51,824, respectively.

BENEFICENT TECHNOLOGY, INC. AND BENGINEERING, INC. DBA BENETECH

(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 11 – COMMITMENTS AND CONTINGENCIES AND OTHER MATTERS

The Organization is involved in operating and maintaining a website to deliver a special format of electronic books online to disabled individuals using its Bookshare.org Program. Many of these books are under copyright, so that the program is operated in a manner that complies with Section 121 of the U.S. Copyright Act, which entails delivering the materials in a special format for the blind and ensuring that the individuals served qualify as blind or print disabled. Management worked closely with other organizations for the blind and with the Association of American Publishers in developing the Bookshare.org system. In the process, considerable legal resources were devoted to ensuring compliance with the law, for which reason management is satisfied that there is little risk of any copyright infringement claims by copyright owners. Since establishment of the system, an increasing number of authors and publishers have volunteered the use of their books for the system, reducing the probability that any claims will occur.

The Organization is involved in providing technology tools (software) to assist the international human rights sector in collecting, safeguarding, organizing and disseminating information about human rights violations. Because of a concern over potential litigation about the accuracy of information that may be collected and stored by third party users of these tools, the Organization does not itself operate any of the collection or storage facilities used in this process. Furthermore, in order to minimize liability, the Organization has a licensing arrangement intended to protect the Organization as much as possible from such liability and litigation. Management has determined that due to the low probability of actual legal liability and the inability to estimate any future potential liabilities, no loss reserve at year-end has been accrued.

SUPPLEMENTARY INFORMATION

BENEFICENT TECHNOLOGY, INC.
(A California Nonprofit Public Benefit Corporation)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2010

<i>Federal Grantor/Pass-Through Grantor/Program Title</i>	<i>Federal CFDA Number</i>	<i>Agency or Pass- Through Number</i>	<i>Federal Expenditures</i>
<u>U.S. Department of Education:</u>			
Direct awards:			
Special Education –Technology and Media Services for Individuals with Disabilities Grant Program	84.327K	H327K070001	\$ 6,772,226
Special Education –Technology and Media Services for Individuals with Disabilities	84.327B	H327B100001	381,022
Pass-through award from:			
University of Wisconsin: Universal Interface and Information Technology Access Rehabilitation Engineering Research Center Grant	84.133	095K583	29,824
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>7,183,072</u>
<u>U.S. Department of State:</u>			
Pass-through award from:			
National Endowment of Democracy: Promoting Democracy in Burma	19.000	210-116.00	<u>33,373</u>
TOTAL U.S. DEPARTMENT OF STATE			<u>33,373</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 7,216,445</u></u>

BENEFICENT TECHNOLOGY, INC.

(A California Nonprofit Public Benefit Corporation)

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2010

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activities of Beneficent Technology, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic consolidated financial statements. The purpose of the Schedule is to present a summary of those activities of Beneficent Technology, Inc. for the year ended December 31, 2010, which have been financed by the U.S. Government. For purposes of the Schedule, federal awards include all federal assistance entered into directly and indirectly between Beneficent Technology, Inc. and the federal government.

NOTE 2 – DESCRIPTION OF MAJOR PROGRAM

Special Education – National Activities-Technology and Media Services

The Special Education-Technology and Media Services for Individuals with Disabilities program is administered by the U.S. Department of Education. The purpose of this program is to: (1) improve results for children with disabilities by promoting the development, demonstration, and use of technology; (2) support educational media services activities designed to be of value in the classroom setting to children with disabilities; and (3) provide support for captioning and video description that is appropriate for use in the classroom setting. Funding to Beneficent Technology, Inc. is provided directly from U.S. Department of Education.

BENEFICENT TECHNOLOGY, INC.
(A California Nonprofit Public Benefit Corporation)
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED DECEMBER 31, 2010

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified that are not considered
to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified that are not considered
to be material weakness(es)? _____ Yes X None reported

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in
accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs: Name of Federal Program or Cluster

CFDA #84.327 Special Education-Technology and Media
Services for Individuals with Disabilities
Grant Program

Dollar threshold used to distinguish between
Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement Findings

None noted.

Section III – Federal Awards Findings and Questioned Costs

None noted.



Board of Directors
Beneficent Technology, Inc.
Palo Alto, California

JAMES M. KRAFT
S. SCOTT SEAMANDS
MARK O. BRITTAIN
ALEXIS H. WONG
CHARLOTTE SIEW-KUN TAY

CATHY L. HWANG
RITA B. DELA CRUZ
STANLEY WOO

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

We have audited the financial statements of Beneficent Technology, Inc., a California nonprofit corporation, as of and for the year ended December 31, 2010, and have issued our report thereon dated June 9, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Beneficent Technology, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Beneficent Technology, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Beneficent Technology, Inc.'s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Beneficent Technology, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lindquist, von Huen and Joyce LLP

June 9, 2011



Board of Directors
Beneficent Technology, Inc.
Palo Alto, California

JAMES M. KRAFT
S. SCOTT SEAMANDS
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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of Beneficent Technology, Inc., a California nonprofit public benefit corporation, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Beneficent Technology, Inc.'s major federal programs for the year ended December 31, 2010. Beneficent Technology, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Beneficent Technology, Inc.'s management. Our responsibility is to express an opinion on Beneficent Technology, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Beneficent Technology, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Beneficent Technology, Inc.'s compliance with those requirements.

In our opinion, Beneficent Technology, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

The management of Beneficent Technology, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Beneficent Technology, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of Beneficent Technology, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lindquist, von Husen and Joyce LLP

June 9, 2011