

**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, 2015 AND 2014

BENEFICENT TECHNOLOGY, INC. AND BENGINEERING, INC. DBA BENETECH
(A California Nonprofit Public Benefit Corporation)
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

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

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INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Beneficent Technology, Inc., a California nonprofit public benefit corporation, which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Beneficent Technology, Inc. as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were 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 21 is presented for purposes of additional analysis, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the consolidated financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued a report dated June 9, 2016 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Beneficent Technology, Inc.'s internal control over financial reporting and compliance.

Sindquist, von Husen and Joyce LLP

June 9, 2016

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

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,032,850	\$ 375,443
Receivables:		
Contributions – current (Note 3)	1,614,785	1,378,113
Accounts receivable (Note 4)	842,221	894,952
Prepaid expenses	23,582	23,582
Total current assets	3,513,438	2,672,090
Contributions receivable – net of current portion (Note 3)	599,885	150,000
Investments (Note 5)	353,592	579,235
Property and equipment – net (Note 6)	71,069	139,299
Intangible assets – net (Note 7)	281,858	435,598
Deposits	58,595	58,595
Total assets	<u>\$ 4,878,437</u>	<u>\$ 4,034,817</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 FINANCIAL POSITION

DECEMBER 31, 2015 AND 2014

	2015	2014
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 245,093	\$ 349,865
Accrued expenses	86,514	160,409
Accrued employee benefits	920,824	876,619
Deferred revenue	78,072	76,800
Total current liabilities	<u>1,330,503</u>	<u>1,463,693</u>
Tenant security deposit (Note 8)	5,355	5,355
Deferred rent (Note 8)	81,685	65,493
Endowment liability (Note 5)	<u>350,000</u>	<u>350,000</u>
Total liabilities	<u>1,767,543</u>	<u>1,884,541</u>
Net assets:		
Unrestricted	250,426	319,413
Temporarily restricted (Note 9)	<u>2,860,468</u>	<u>1,830,863</u>
Total net assets	<u>3,110,894</u>	<u>2,150,276</u>
Total liabilities and net assets	<u>\$ 4,878,437</u>	<u>\$ 4,034,817</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, 2015 AND 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Contributions	\$ 501,548	\$ 2,072,540	\$ 2,574,088	\$ 726,221	\$ 1,394,708	\$ 2,120,929
Engineering and consulting fees	3,576	-	3,576	9,241	-	9,241
Donated services/products	271,780	-	271,780	265,699	-	265,699
Bookshare revenue – net of direct expenses of \$79,851 in 2015 and \$105,152 in 2014	9,756,435	-	9,756,435	9,630,956	-	9,630,956
Human rights revenue	864,978	-	864,978	1,891,222	-	1,891,222
Miradi revenue	1,950	-	1,950	2,666	-	2,666
Route 66 revenue	693	-	693	2,390	-	2,390
Benetech Labs	65,940	-	65,940	75,000	-	75,000
Interest income	7,010	-	7,010	2,256	-	2,256
Rental income	64,260	-	64,260	21,420	-	21,420
Total support and revenue	11,538,170	2,072,540	13,610,710	12,627,071	1,394,708	14,021,779
Net assets released from restrictions:						
Satisfaction of purpose restrictions	1,042,935	(1,042,935)	-	866,544	(866,544)	-
Total support and revenue	12,581,105	1,029,605	13,610,710	13,493,615	528,164	14,021,779
Expenses:						
Program services:						
Bookshare with DIAGRAM	8,665,139	-	8,665,139	8,329,849	-	8,329,849
Route 66	8,184	-	8,184	56,566	-	56,566
Human Rights	1,407,732	-	1,407,732	2,431,764	-	2,431,764
Miradi	1,305	-	1,305	3,418	-	3,418
Bengineering	800	-	800	800	-	800
Benetech Labs	186,504	-	186,504	215,121	-	215,121
Supporting services:						
Management and general	1,603,778	-	1,603,778	1,414,505	-	1,414,505
Fundraising	9,873	-	9,873	13,037	-	13,037
Bid and proposal	766,777	-	766,777	731,955	-	731,955
Total expenses	12,650,092	-	12,650,092	13,197,015	-	13,197,015
Change in net assets	(68,987)	1,029,605	960,618	296,600	528,164	824,764
Net assets, beginning of year	319,413	1,830,863	2,150,276	22,813	1,302,699	1,325,512
Net assets, end of year	\$ 250,426	\$ 2,860,468	\$ 3,110,894	\$ 319,413	\$ 1,830,863	\$ 2,150,276

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, 2015 AND 2014

	2015											
	Program Services							Supporting Services				
	Bookshare with DIAGRAM	Route 66	Human Rights	Miradi	Bengineering	Benetech Labs	Total Program Services	Management and General	Fundraising	Bid and Proposal	Total Supporting Services	Total
Salaries and related expenses	\$ 3,104,948	\$ 2,343	\$ 338,056	\$ 421	\$ -	\$ 73,336	\$ 3,519,104	\$ 589,667	\$ 5,181	\$ 397,135	\$ 991,983	\$ 4,511,087
Employee benefits and payroll taxes	1,433,534	1,128	155,300	201	-	33,464	1,623,627	272,555	2,433	183,367	458,355	2,081,982
Total salaries and related expenses	4,538,482	3,471	493,356	622	-	106,800	5,142,731	862,222	7,614	580,502	1,450,338	6,593,069
Outside services	1,425,656	191	648,607	159	-	38,358	2,112,971	179,388	-	5,238	184,626	2,297,597
Facility and other office expenses	1,303,473	931	142,029	164	-	30,778	1,477,375	251,336	2,239	166,573	420,148	1,897,523
Book collection and development	475,376	-	-	-	-	-	475,376	-	-	-	-	475,376
Travel	232,261	75	55,956	-	-	5,038	293,330	19,750	17	8,281	28,048	321,378
In-kind products and services	86,995	2,370	429	-	-	-	89,794	181,986	-	-	181,986	271,780
Communications	187,354	590	8,420	-	-	109	196,473	1,534	-	-	1,534	198,007
Conferences	106,416	-	55,628	-	-	-	162,044	12,057	-	-	12,057	174,101
Supplies and project rent	86,121	-	1,130	-	-	685	87,936	5,423	-	153	5,576	93,512
Miscellaneous	7,627	556	811	360	800	4,246	14,400	2,459	-	3,679	6,138	20,538
Subscriptions and dues	53,489	-	-	-	-	-	53,489	5,517	-	2,095	7,612	61,101
Entertainment	3,538	-	745	-	-	341	4,624	2,789	3	256	3,048	7,672
D & O insurance	-	-	-	-	-	-	-	11,295	-	-	11,295	11,295
Bank charges	2,931	-	621	-	-	149	3,701	1,472	-	-	1,472	5,173
Total expenses before depreciation and amortization	8,509,719	8,184	1,407,732	1,305	800	186,504	10,114,244	1,537,228	9,873	766,777	2,313,878	12,428,122
Amortization	153,740	-	-	-	-	-	153,740	-	-	-	-	153,740
Depreciation	1,680	-	-	-	-	-	1,680	66,550	-	-	66,550	68,230
Total expenses	\$ 8,665,139	\$ 8,184	\$ 1,407,732	\$ 1,305	\$ 800	\$ 186,504	\$ 10,269,664	\$ 1,603,778	\$ 9,873	\$ 766,777	\$ 2,380,428	\$ 12,650,092

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, 2015 AND 2014

	2014											
	Program Services							Supporting Services				
	Bookshare with DIAGRAM	Route 66	Human Rights	Miradi	Bengineering	Benetech Labs	Total Program Services	Management and General	Fundraising	Bid and Proposal	Total Supporting Services	Total
Salaries and related expenses	\$ 2,803,021	\$ 11,291	\$ 393,198	\$ 771	\$ -	\$ 27,552	\$ 3,235,833	\$ 558,405	\$ 6,907	\$ 387,135	\$ 952,447	\$ 4,188,280
Employee benefits and payroll taxes	1,419,484	5,099	171,948	306	-	12,147	1,608,984	256,001	2,995	167,631	426,627	2,035,611
Total salaries and related expenses	4,222,505	16,390	565,146	1,077	-	39,699	4,844,817	814,406	9,902	554,766	1,379,074	6,223,891
Outside services	1,577,100	28,458	1,597,064	430	-	158,759	3,361,811	163,529	-	7,490	171,019	3,532,830
Facility and other office expenses	1,234,517	4,328	148,934	287	-	10,292	1,398,358	175,979	2,650	146,517	325,146	1,723,504
Book collection and development	422,830	-	-	-	-	-	422,830	-	-	-	-	422,830
Travel	203,556	1,459	93,334	-	-	5,272	303,621	22,049	303	5,395	27,747	331,368
In-kind products and services	120,974	696	137	1,264	-	-	123,071	142,628	-	-	142,628	265,699
Communications	229,778	1,366	16,028	-	-	-	247,172	2,797	11	-	2,808	249,980
Conferences	117,763	2,874	3,385	-	-	-	124,022	9,084	-	17,549	26,633	150,655
Supplies and project rent	77,435	-	1,685	-	-	359	79,479	5,192	10	-	5,202	84,681
Miscellaneous	31,114	995	5,450	360	800	573	39,292	79	87	238	404	39,696
Subscriptions and dues	58,978	-	86	-	-	-	59,064	4,471	-	-	4,471	63,535
Entertainment	3,191	-	515	-	-	167	3,873	3,535	74	-	3,609	7,482
D & O insurance	-	-	-	-	-	-	-	9,700	-	-	9,700	9,700
Bank charges	-	-	-	-	-	-	-	2,126	-	-	2,126	2,126
Total expenses before depreciation and amortization	8,299,741	56,566	2,431,764	3,418	800	215,121	11,007,410	1,355,575	13,037	731,955	2,100,567	13,107,977
Amortization	25,624	-	-	-	-	-	25,624	-	-	-	-	25,624
Depreciation	4,484	-	-	-	-	-	4,484	58,930	-	-	58,930	63,414
Total expenses	\$ 8,329,849	\$ 56,566	\$ 2,431,764	\$ 3,418	\$ 800	\$ 215,121	\$ 11,037,518	\$ 1,414,505	\$ 13,037	\$ 731,955	\$ 2,159,497	\$ 13,197,015

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 CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 960,618	\$ 824,764
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	68,230	63,414
Amortization	153,740	25,624
(Increase) decrease in assets:		
Contributions receivable	(686,557)	(667,209)
Grants and accounts receivable	52,731	73,831
Prepaid expenses	-	(2,807)
Grant advance	-	59,143
Deposits	-	(5,816)
Increase (decrease) in liabilities:		
Accounts payable	(104,772)	(65,656)
Accrued expenses	(29,690)	97,094
Deferred revenue	1,272	(333)
Deferred rent	16,192	40,552
Tenant security deposit	-	5,355
Total adjustments	(528,854)	(376,808)
Net cash provided by operating activities	431,764	447,956
Cash flows from investing activities:		
Net decrease (increase) in investments	225,643	(229,235)
Purchase of property and equipment	-	(59,559)
Payment of intangible assets	-	(455,292)
Net cash provided by (used in) investing activities	225,643	(744,086)
Net increase (decrease) in cash	657,407	(296,130)
Cash and cash equivalents, beginning of year	375,443	671,573
Cash and cash equivalents, end of year	\$ 1,032,850	\$ 375,443

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, 2015 AND 2014

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 has been 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 2015 or 2014. 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:

Global Literacy

Benetech’s Global Literacy Program addresses unmet needs around access to information and literacy by creating technology and content-based solutions that drive systemic change.

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 and the world 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 international permissions. The books and publications can be read with a variety of software applications and hardware devices that produce synthetic speech (text-to-speech), with synchronized text, large print, or Braille. This includes a number of tools provided by Benetech, including readers for iOS, Android, and major web browsers. Bookshare was launched in February 2002 and has over 391,000 eligible members as of December 31, 2015 in the US and over 65 other countries. Through the active participation of thousands of volunteers, partners, universities and over 590 publishers around the world, Bookshare provides people with print disabilities with instant access to more than 385,000 books spanning 27 languages and 150 daily newspapers.

DIAGRAM Center: A complementary initiative to Bookshare, the Digital Image and Graphic Resources for Accessible Materials (DIAGRAM) Center began as a research and development center committed to making it easier, cheaper, and faster to create and use accessible images. In 2015, DIAGRAM was awarded new federal awards to expand its mandate to identifying and building new technologies for accessible educational materials for students with a broad range of disabilities. DIAGRAM accomplishes this work through a combination of developing technical standards, providing research and training on best practices (like the Top Tips for Accessible EPUB 3), and building tools (such as Poet, an open source, web-based image description tool). DIAGRAM has a strong emphasis on math as well, including tools that make it easier for content creators to create accessible math and users to find tools to access math. DIAGRAM has assembled the nation’s top community of cross-sector experts in the field of image accessibility; developed innovative open source software tools, including Poet; provided trainings to over 1,000 unique webinar attendees; and influenced the alignment of the standards for web accessibility, mainstream digital book creation, and discoverability of online content.

Route 66 Literacy: Route 66 Literacy is a web-based program that makes it easy for any literate person to teach adolescent and adult beginning readers with developmental disabilities to read. The program combines engaging, age-appropriate lessons, exercises and effective feedback with a unique teacher-tutor model-one that requires no special training. By incorporating expert pedagogy and one to one interaction, Route 66 Literacy creates new pathways for beginning readers to gain independence and to pursue further educational and vocational opportunities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

Human Rights Program

Benetech's Human Rights Program (HRP) advances the global human rights movement by providing and supporting effective, secure, and open information management and data collection technology for rights defenders, fieldworkers, researchers, and journalists.

Martus: Martus enables grassroots non-governmental organizations to securely catalogue and store their records on off-site servers with easy-to-use software, preserving crucial evidence for research, investigation and prosecutions. The application was developed by Benetech, is available in thirteen languages (English, Russian, Spanish, Arabic, French, Thai, Nepali, Burmese, Armenian, Farsi/Dari, Khmer, Vietnamese, and Chinese (Mandarin, Simplified)) and is made available at no cost for human rights defenders. Martus automatically encrypts the information and copies it to a network of secure servers around the world. The system is designed so that only the user who created it—not even Benetech—is given access to the encrypted data. Since the data is backed up, users can retrieve their information when and where it is safe to do so. Martus helps those who collect this valuable human rights information stay safe, while also protecting the identities of those who would otherwise face violence and repression for telling their stories. The Martus software has been downloaded by people and organizations in over 100 countries and is available for Windows, Mac OS, and Linux. In addition to the desktop application, the Martus ecosystem also includes Mobile Martus—Benetech's free, open source secure Android-based mobile documentation application, built on the Martus technology. Mobile Martus brings secure data collection, storage and backup one step closer to the field. It allows a user to send data from the field – including photos, videos, audio or text – to a desktop Martus account. In addition to developing software for the human rights field, the Benetech Human Rights Program team provides training and support to users in over 50 countries.

Environment

Benetech's Environment Program explores tech solutions to help communities address sustainability challenges.

Miradi: Miradi is an open source desktop application that allows nature conservation practitioners to design, manage, monitor, and learn from their projects to more effectively meet their conservation goals. In 2014, Benetech successfully exited Miradi, turning continued management and maintenance of this open source software project to the conservation community. The project had reached sustainability, and Benetech's commitment to open source made this transition easy.

Benetech Labs

Benetech Labs (Labs) was established in order to create new scalable technology enterprises for social impact. In partnership with communities of field leaders and stakeholders, technologists, and social entrepreneurs, the Labs is where the Benetech team builds high-impact technology solutions that change lives. Some examples of projects include:

Code Alliance: Founded as SocialCoding4Good in 2011, Code Alliance was relaunched in 2015 with a fresh approach to dramatically reshape the tech volunteer landscape. There are many nonprofits and social-good programs in the world that need the help of professional technologists, but their resources do not often allow for it. As a result, the causes they are working on, from civic engagement and education to poverty alleviation and the environment, suffer. At the same time, professional technologists are eager to help work on these important social challenges, but often struggle to find the right match for both their passion and skills. In order to address these challenges, new standard operating procedures were built around technology for high social impact. Code Alliance is focused on building capacity for nonprofit organizations to better make use of hi-tech volunteers, providing a new framework of opportunities to better leverage corporate volunteering programs, as well as engaging and matching highly skilled and motivated volunteers in a more curated and targeted way.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

SecureApp: In response to the increasing demand from partners in the human rights field, Benetech is in the process of creating its own mobile surveying tool. At its core, SecureApp enables an organization to devise a custom mobile survey template, with a variety of question types (including drop-down, free-form, radio buttons) and collect information privately and securely. In line with Benetech's experience working with human rights activists, the tool emphasizes security, building encryption into the back end. Through many years of engagement with international and grassroots human rights defenders, security and privacy are key components of a usable tool for these populations, for whom data is their most valuable asset.

Beneficent Technology, Inc. is vulnerable to the inherent risks associated with revenue that is substantially dependent on government funding, public support, and contributions. The continued growth and well-being of Beneficent Technology, Inc. is contingent upon successful achievement of its long-term revenue-raising goals.

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 significant intercompany transactions and balances 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 consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated 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, as applicable: 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.
- 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 consolidated statements of activities as *net assets released from restrictions*. If donor restrictions are satisfied in the same period that the contribution is received, the contribution is reported as unrestricted support.

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

(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

- Permanently restricted net assets include those assets subject to non-expiring donor restrictions. The Organization had no permanently restricted net assets as of December 31, 2015 and 2014.

Revenue Recognition

Revenue from interest is recorded when earned. Revenue from program 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 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. Conditional promises to give are recognized when the conditions on which they depend are substantially met. 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*.

Awards from governmental agencies which are funded on a cost-reimbursement basis are generally deemed to be exchange transactions and are therefore not treated as contributions. Revenues from such activities are shown as unrestricted revenue in the consolidated statements of activities.

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, 2015 and 2014, these products, supplies, legal consulting services and advertising costs in the amount of \$271,780 and \$265,699, 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 were not recognized in the consolidated statements of activities because the criteria for recognition were not satisfied. The Organization estimates such amounts to be approximately \$400,000 and \$450,000 in 2015 and 2014, respectively.

Cash and Cash Equivalents

Cash is defined as cash in demand deposit accounts as well as cash on hand. The Organization occasionally maintains cash on deposit at a bank in excess of the Federal Deposit Insurance Corporation limit. The uninsured cash balance was approximately \$310,000 as of December 31, 2015. The Organization has not experienced any losses in such accounts.

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.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

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, 2015 and 2014.

Accounts Receivable

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, 2015 and 2014.

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 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at measurement date. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on significant inputs that are observable, either directly or indirectly or quoted prices in markets that are not active, that is, markets in which there are few transactions, the prices are not current or price quotations vary substantially either over time or among market makers.

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

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

Investment Income and Gains

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (that is when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Property and Equipment and Intangible Assets

Property and equipment are stated at cost of acquisition or construction, or estimated fair market value if donated. The cost of maintenance and repairs is charged to expense as incurred. Depreciation is computed based 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:

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, 2015 and 2014, 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.

The Organization reviews and assesses 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 2011 through 2014 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.

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.

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

(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

Subsequent Events

The Organization evaluated subsequent events for recognition and disclosure through June 9, 2016, the date these consolidated financial statements were available to be issued. Management concluded that no other material subsequent events have occurred since December 31, 2015, that require recognition or disclosure in the consolidated financial statements.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows:

	2015	2014
Unconditional promises to give due in:		
Less than one year	\$ 1,614,785	\$ 1,378,113
Between one year and five years	599,885	150,000
Total	<u>\$ 2,214,670</u>	<u>\$ 1,528,113</u>

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable are summarized as follows:

	2015	2014
Bookshare	\$ 670,205	\$ 697,663
Human rights	158,992	176,053
Environmental	1,337	1,337
Miscellaneous	11,687	19,899
Total	<u>\$ 842,221</u>	<u>\$ 894,952</u>

NOTE 5 – FAIR VALUE MEASUREMENTS

The following financial instruments are valued using Level 1 inputs:

	2015		2014	
	Cost	Quoted Prices in Active Markets for Identical Assets (Level 1)	Cost	Quoted Prices in Active Markets for Identical Assets (Level 1)
Money market ⁽¹⁾	\$ 498,040	\$ 498,040	\$ 184,140	\$ 184,140
Certificate of deposits ⁽²⁾	\$ 352,000	\$ 352,082	\$ 352,000	\$ 350,583
Mutual funds	1,510	1,510	228,652	228,652
Investments	\$ 353,510	\$ 353,592	\$ 580,652	\$ 579,235

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

- (1) The amount is included in *cash and cash equivalents* in the accompanying consolidated statements of financial position.
- (2) Included in the certificate of deposits is an endowment fund of \$350,000 that Benetech received in March 2014 to support its programs for a term of five years. Any income generated from the endowment fund will be used only for program expenses. The principal of the endowment fund shall never be used unless agreed upon in writing. The provider reserves the right to reassign the principal of the endowment fund, creating a liability, to any qualified charitable institution (1) upon the expiration of the term, (2) when the Organization ceases to exist or is no longer a qualified charitable organization, or (3) fails to maintain the scope, quantity, and quality of the Organization's programs. The amount is shown as *endowment liability* in the accompanying consolidated statements of financial position.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	2015	2014
Leasehold improvements	\$ 53,330	\$ 53,330
Furniture and equipment	363,723	363,723
	417,053	417,053
Less: accumulated depreciation	(345,984)	(277,754)
Total property and equipment	<u>\$ 71,069</u>	<u>\$ 139,299</u>

Depreciation expense for the years ended December 31, 2015 and 2014 was \$68,230 and \$63,414, respectively.

NOTE 7 – INTANGIBLE ASSETS

The Organization capitalized costs relating to the design of a website for the Bookshare Program during 2008. 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 was computed using the straight-line method for three years beginning February 2009. In 2013, costs relating to the design of an additional website included consulting (\$166,369), salaries (\$161,498), benefits (\$70,717) and shared expenses (\$62,638) for a total of \$461,222. Amortization is computed using the straight-line method for three years beginning November 2014.

Intangible assets are summarized as follows:

	2015	2014
Web design	\$ 2,233,983	\$ 2,233,983
Less: accumulated amortization	(1,952,125)	(1,798,385)
Total intangible assets	<u>\$ 281,858</u>	<u>\$ 435,598</u>

Amortization expense for the years ended December 31, 2015 and 2014 was \$153,740 and \$25,624, respectively.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 8 – LEASE COMMITMENTS

The Organization has entered into two office lease agreements. The first lease, originally dated December 4, 2001, was amended on March 17, 2014 to include additional office space as well as extend the lease term to expire on September 30, 2018. The second lease, originally dated November 2012, was amended during 2013 to also extend the term to September 30, 2018.

Total payments due under the lease are amortized monthly over the life of the new lease using the straight-line method. Rental expense was \$639,074 and \$616,688 for the years ending December 31, 2015 and 2014, respectively. The difference between the recognition of rental expense under the straight-line method and actual cash payments is reflected as *deferred rent* in the accompanying consolidated statements of financial position and has a balance of \$81,685 and \$65,493 as of December 31, 2015 and 2014, respectively.

Future minimum lease payments are as follows:

2016	\$ 634,422
2017	659,802
2018	<u>509,553</u>
Total	<u>\$ 1,803,777</u>

In 2014, the Organization entered into a sublease agreement to lease out a portion of its office space for twelve months, commencing September 1, 2014, with a security deposit amounting to \$5,355. During 2015, the lease was renewed for another twelve months at the end of the initial term. Future minimum lease payment due to the Organization in 2016 is \$42,840. Rental income was \$64,260 and \$21,420 for the years ended December 31, 2015 and 2014, respectively.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

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

	2015			
	<i>December 31, 2014</i>	<i>Contributions</i>	<i>Releases from Restrictions</i>	<i>December 31, 2015</i>
Bookshare	\$ 504,344	\$ 1,028,791	\$ (364,611)	\$ 1,168,524
Route 66	46,385	-	(5,148)	41,237
Human Rights	1,200,434	888,384	(619,755)	1,469,063
SocialCoding4Good	50,000	-	(36,310)	13,690
Benetech Labs	29,700	155,365	(17,111)	167,954
	<u>\$ 1,830,863</u>	<u>\$ 2,072,540</u>	<u>\$ (1,042,935)</u>	<u>\$ 2,860,468</u>

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

(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

	2014			
	<i>December 31, 2013</i>	<i>Contributions</i>	<i>Releases from Restrictions</i>	<i>December 31, 2014</i>
Bookshare	\$ 593,397	\$ 114,573	\$ (203,626)	\$ 504,344
Route 66	106,846	-	(60,461)	46,385
Human Rights	488,351	1,200,435	(488,352)	1,200,434
SocialCoding4Good	83,771	50,000	(83,771)	50,000
CityOptions	777	-	(777)	-
Benetech Labs	29,557	29,700	(29,557)	29,700
	<u>\$ 1,302,699</u>	<u>\$ 1,394,708</u>	<u>\$ (866,544)</u>	<u>\$ 1,830,863</u>

NOTE 10 – GRANTS AND OTHER FEDERAL AWARDS

During the years ended December 31, 2015 and 2014, revenues received from government agencies through awards and grants representing 10% or more of the Organization's revenue consisted of the following amounts:

	2015	2014
U.S. Department of Education	<u>\$ 8,279,812</u>	<u>\$ 8,446,046</u>

Included in receivables at 2015 and 2014 is approximately \$383,500 and \$479,000 from this government agency, respectively.

The above amounts consist of 3 and 2 federal awards for the years ended December 31, 2015 and 2014, respectively, and made up approximately 61% and 60% of the Organization's total support and revenue for the same period. One of the federal awards from the U.S. Department of Education, Bookshare and Innovation for Education, with 2015 expenditures totaling \$7,135,320, has an award period that expires on September 30, 2017. A schedule of expenditures of federal awards is included as part of these consolidated financial statements.

NOTE 11 – LINE OF CREDIT

In September 2014, the Organization renewed a \$250,000 unsecured line of credit with Avid Bank that expired on March 3, 2016. The line of credit was renewed in March 7, 2016 and expires on March 3, 2018. There were no advances drawn during 2015 and 2014.

NOTE 12 – RETIREMENT PLAN

The Organization maintains a 401(k) defined contribution plan. Eligible employees can defer up to \$24,000 and \$23,000 for participants over the age of 50 years for 2015 and 2014, respectively. The Organization matches 50% of employee contributions up to a maximum of 2% of the employees' gross salary. Employer contributions for 2015 and 2014 were \$98,881 and \$107,959, respectively.

NOTE 13 – COMMITMENTS AND CONTINGENCIES AND OTHER MATTERS

The Organization is involved in operating and maintaining a website to deliver electronic books online to individuals with disabilities using its Bookshare 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 specialized formats exclusively to individuals served who 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 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 works with schools and school districts to make Bookshare available to students in kindergarten through 12th grade. Some states have recently enacted, or are in the process of enacting, new laws concerning student privacy that may apply to the Bookshare Program. The Organization is working with outside counsel to analyze and respond to these new laws. Because of the nature of the services that the Organization provides, and because the laws are still in the process of being implemented, management is satisfied that there is little risk of any legal claims under these new laws.

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 security of information that may be collected and stored by users of these tools, the Organization utilizes multiple servers at various locations to store information collected. The redundancy of utilizing multiple servers provides additional safeguards against data loss. 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.

During 2015, the subscription revenue generated from Bookshare was greater than the expenditures incurred during the year by \$70,730. In accordance with the U.S. Department of Education's federal award agreement, the Organization is to utilize the excess income for future allowable Bookshare expenditures not covered by the federal award.

SUPPLEMENTARY INFORMATION

BENEFICENT TECHNOLOGY, INC.
(A California Nonprofit Public Benefit Corporation)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2015

<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>	<i>Expenditures to Subrecipients</i>
<u>U.S. Department of Education:</u>				
Special Education – Education Technology, Media, and Materials for Individuals with Disabilities:				
Direct award	84.327B	H327B100001	\$ 1,092,696	\$ -
Direct award	84.327B	H327B150001	51,796	-
Direct award	84.327D	H327D120002	7,135,320	-
Total U.S. Department of Education			8,279,812	-
<u>U.S. Department of State:</u>				
International Programs to Support Democracy, Human Rights and Labor:				
Direct award	19.345	S-LMAQM-11-CA-645	180,377	-
Direct award	19.345	S-LMAQM-13-GR-1049	265,364	137,266
Direct award	19.345	S-LMAQM-15-CA-1300	78,347	2,450
Total U.S. Department of State			524,088	139,716
<u>Institute of Museum and Library Services:</u>				
Laura Bush 21st Century Librarian Program:				
Direct award	45.313	RE-00-1400096014	86,686	-
<u>U.S. Agency for International Development:</u>				
Cooperative Development Program:				
Direct award	98.002	AID-OAA-A-13-00074	154,422	-
TOTAL FEDERAL AWARDS			\$ 9,045,008	\$ 139,716

BENEFICENT TECHNOLOGY, INC.

(A California Nonprofit Public Benefit Corporation)

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2015

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the 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, 2015, 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. Beneficent Technology, Inc. did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 2 – DESCRIPTION OF MAJOR PROGRAMS

Special Education – Education Technology, Media, and Materials for Individuals with Disabilities Grant Program

The Special Education – Education Technology, Media, and Materials for Individuals with Disabilities Grant 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, 2015

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified

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: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 200.516 of the Uniform Guidance? _____ Yes X No

Identification of major programs: Name of Federal Program or Cluster

CFDA #84.327 Special Education – Education Technology, Media, and Materials for Individuals with Disabilities Grant Program

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

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
SCOTT K. SMITH

**INDEPENDENT AUDITOR'S 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to consolidated financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Beneficent Technology, Inc., which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 9, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Beneficent Technology, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Beneficent Technology, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Beneficent Technology, Inc.'s internal control.

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 consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Beneficent Technology, Inc.'s consolidated financial statements are free from 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Beneficent Technology, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Beneficent Technology, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lindquist, von Husen and Joyce LLP

June 9, 2016



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

JAMES M. KRAFT
S. SCOTT SEAMANDS
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Report on Compliance for Each Major Federal Program

We have audited Beneficent Technology, Inc.'s compliance, with the types of compliance requirements described in the *OMB 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, 2015. 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.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Beneficent Technology, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination on Beneficent Technology, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Beneficent Technology, Inc. complied, in all material respects, with the types of compliance 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, 2015.

Report on Internal Control Over Compliance

Management of Beneficent Technology, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Beneficent Technology, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 a 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Sindquist, von Husen and Joyce LLP

June 9, 2016