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, 2016 AND 2015

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

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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

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, 2016 and 2015, 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.

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AN INDEPENDENT MEMBER FIRM OF BKR INTERNATIONAL WITH ASSOCIATES IN PRINCIPAL CITIES WORLDWIDE

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, 2016 and 2015, 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 22 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 May 25, 2017 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.

Lindquist, von Husen and Joyce LLP

May 25, 2017

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

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 747,775	$ 1,032,850
Receivables:		
Contributions – current (Note 3)	923,117	1,614,785
Accounts receivable (Note 4)	1,352,103	842,221
Prepaid expenses	29,444	23,582
Investments (Note 5)	352,472	-
Total current assets	3,404,911	3,513,438
Contributions receivable – net of current portion (Note 3)	384,617	599,885
Investments (Note 5)	602,117	353,592
Property and equipment – net (Note 6)	20,703	71,069
Intangible assets – net (Note 7)	128,118	281,858
Deposits	58,595	58,595
Total assets	$ 4,599,061	$ 4,878,437

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, 2016 AND 2015

	2016	2015
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 225,969	$ 245,093
Accrued expenses	108,624	86,514
Accrued employee benefits	1,111,710	920,824
Deferred revenue	77,834	78,072
Total current liabilities	1,524,137	1,330,503
Tenant security deposit (Note 8)	5,355	5,355
Deferred rent (Note 8)	73,478	81,685
Endowment liability (Note 5)	350,000	350,000
Total liabilities	1,952,970	1,767,543
Net assets:		
Unrestricted	411,247	250,426
Temporarily restricted (Note 9)	2,234,844	2,860,468
Total net assets	2,646,091	3,110,894
Total liabilities and net assets	$ 4,599,061	$ 4,878,437

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, 2016 AND 2015

	2016			2015		
	Unrestricted	*Temporarily Restricted*	*Total*	*Unrestricted*	*Temporarily Restricted*	*Total*
Support and revenue:						
Contributions	$ 506,236	$ 1,157,073	$ 1,663,309	$ 501,548	$ 2,072,540	$ 2,574,088
Engineering and consulting fees	3,390	-	3,390	3,576	-	3,576
Donated services/products	402,744	-	402,744	271,780	-	271,780
Bookshare revenue – net of direct expenses of $61,371 in 2016 and $79,851 in 2015	10,451,462	-	10,451,462	9,756,435	-	9,756,435
Human rights revenue	800,545	-	800,545	864,978	-	864,978
Miradi revenue	-	-	-	1,950	-	1,950
Route 66 revenue	495	-	495	693	-	693
Benetech Labs	44,208	-	44,208	65,940	-	65,940
Interest income	5,045	-	5,045	7,010	-	7,010
Rental income	64,989	-	64,989	64,260	-	64,260
Total support and revenue	12,279,114	1,157,073	13,436,187	11,538,170	2,072,540	13,610,710
Net assets released from restrictions:						
Satisfaction of purpose restrictions	1,782,697	(1,782,697)	-	1,042,935	(1,042,935)	-
Total support and revenue	14,061,811	(625,624)	13,436,187	12,581,105	1,029,605	13,610,710
Expenses:						
Program services:						
Global Literacy	9,903,387	-	9,903,387	8,673,323	-	8,673,323
Human Rights	1,477,806	-	1,477,806	1,407,732	-	1,407,732
Miradi	-	-	-	1,305	-	1,305
Bengineering	800	-	800	800	-	800
Benetech Labs	216,429	-	216,429	186,504	-	186,504
Supporting services:						
Management and general	1,457,678	-	1,457,678	1,603,778	-	1,603,778
Fundraising	4,977	-	4,977	9,873	-	9,873
Bid and proposal	839,913	-	839,913	766,777	-	766,777
Total expenses	13,900,990	-	13,900,990	12,650,092	-	12,650,092
Change in net assets	160,821	(625,624)	(464,803)	(68,987)	1,029,605	960,618
Net assets, beginning of year	250,426	2,860,468	3,110,894	319,413	1,830,863	2,150,276
Net assets, end of year	$ 411,247	$ 2,234,844	$ 2,646,091	$ 250,426	$ 2,860,468	$ 3,110,894

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, 2016 AND 2015

	2016										
	Program Services						*Supporting Services*				
	Global Literacy	*Human Rights*	*Miradi*	*Bengineering*	*Benetech Labs*	*Total Program Services*	*Management and General*	*Fundraising*	*Bid and Proposal*	*Total Supporting Services*	*Total*
Salaries and related expenses	$ 3,524,228	$ 537,752	$ -	$ -	$ 100,503	$ 4,162,483	$ 638,913	$ 2,713	$ 436,976	$ 1,078,602	$ 5,241,085
Employee benefits and payroll taxes	1,543,041	233,612	-	-	44,091	1,820,744	280,437	1,249	190,125	471,811	2,292,555
Total salaries and related expenses	5,067,269	771,364	-	-	144,594	5,983,227	919,350	3,962	627,101	1,550,413	7,533,640
Outside services	1,580,678	434,963	-	-	24,900	2,040,541	148,775	-	22,233	171,008	2,211,549
Facility and other office expenses	1,361,041	205,798	-	-	39,193	1,606,032	270,749	1,015	167,718	439,482	2,045,514
Book collection and development	470,276	-	-	-	-	470,276	-	-	-	-	470,276
Travel	345,060	46,429	-	-	912	392,401	34,204	-	7,026	41,230	433,631
In-kind products and services	402,301	-	-	-	-	402,301	443	-	-	443	402,744
Communications	210,904	8,485	-	-	1,439	220,828	3,845	-	-	3,845	224,673
Conferences	151,449	4,780	-	-	570	156,799	4,738	-	1,136	5,874	162,673
Supplies and project rent	85,377	4,300	-	-	-	89,677	5,468	-	70	5,538	95,215
Subscriptions and dues	49,569	-	-	-	-	49,569	4,029	-	5,208	9,237	58,806
Miscellaneous	14,372	743	-	800	4,779	20,694	967	-	9,167	10,134	30,828
D & O insurance	-	-	-	-	-	-	12,772	-	-	12,772	12,772
Entertainment	5,993	219	-	-	-	6,212	3,525	-	227	3,752	9,964
Bank charges	3,680	725	-	-	42	4,447	125	-	27	152	4,599
Total expenses before depreciation and amortization	9,747,969	1,477,806	-	800	216,429	11,443,004	1,408,990	4,977	839,913	2,253,880	13,696,884
Amortization	153,740	-	-	-	-	153,740	-	-	-	-	153,740
Depreciation	1,678	-	-	-	-	1,678	48,688	-	-	48,688	50,366
Total expenses	$ 9,903,387	$ 1,477,806	$ -	$ 800	$ 216,429	$ 11,598,422	$ 1,457,678	$ 4,977	$ 839,913	$ 2,302,568	$ 13,900,990

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, 2016 AND 2015

	2015										
	Program Services						*Supporting Services*				
	Global Literacy	*Human Rights*	*Miradi*	*Bengineering*	*Benetech Labs*	*Total Program Services*	*Management and General*	*Fundraising*	*Bid and Proposal*	*Total Supporting Services*	*Total*
Salaries and related expenses	$ 3,107,291	$ 338,056	$ 421	$ -	$ 73,336	$ 3,519,104	$ 589,667	$ 5,181	$ 397,135	$ 991,983	$ 4,511,087
Employee benefits and payroll taxes	1,434,662	155,300	201	-	33,464	1,623,627	272,555	2,433	183,367	458,355	2,081,982
Total salaries and related expenses	4,541,953	493,356	622	-	106,800	5,142,731	862,222	7,614	580,502	1,450,338	6,593,069
Outside services	1,425,847	648,607	159	-	38,358	2,112,971	179,388	-	5,238	184,626	2,297,597
Facility and other office expenses	1,304,404	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	232,336	55,956	-	-	5,038	293,330	19,750	17	8,281	28,048	321,378
In-kind products and services	89,365	429	-	-	-	89,794	181,986	-	-	181,986	271,780
Communications	187,944	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
Subscriptions and dues	53,489	-	-	-	-	53,489	5,517	-	2,095	7,612	61,101
Miscellaneous	8,183	811	360	800	4,246	14,400	2,459	-	3,679	6,138	20,538
D & O insurance	-	-	-	-	-	-	11,295	-	-	11,295	11,295
Entertainment	3,538	745	-	-	341	4,624	2,789	3	256	3,048	7,672
Bank charges	2,931	621	-	-	149	3,701	1,472	-	-	1,472	5,173
Total expenses before depreciation and amortization	8,517,903	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	$ 8,673,323	$ 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 CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	$ (464,803)	$ 960,618
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	50,366	68,230
Amortization	153,740	153,740
(Increase) decrease in assets:		
Contributions receivable	906,936	(686,557)
Grants and accounts receivable	(509,882)	52,731
Prepaid expenses	(5,862)	-
Increase (decrease) in liabilities:		
Accounts payable	(19,124)	(104,772)
Accrued expenses	212,996	(29,690)
Deferred revenue	(238)	1,272
Deferred rent	(8,207)	16,192
Total adjustments	780,725	(528,854)
Net cash provided by operating activities	315,922	431,764
Cash flows from investing activities:		
Net decrease (increase) in investments	(600,997)	225,643
Net cash provided by (used in) investing activities	(600,997)	225,643
Net increase (decrease) in cash	(285,075)	657,407
Cash and cash equivalents, beginning of year	1,032,850	375,443
Cash and cash equivalents, end of year	$ 747,775	$ 1,032,850

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

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 2016 or 2015. 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 strives to make literacy available to everyone. This is done through three initiatives:

- Bookshare, the world's largest accessible online library;
- The DIAGRAM center, addressing challenges beyond text; and
- Born Accessible, driving systemic change in the publishing industry and education procurement process.

Bookshare®: Bookshare is the world's largest online library of books and newspapers accessible to people who have print disability – blindness, low vision, a mobility impairment or a learning disability that affects their ability to read printed material. Operating under an exemption in copyright law and with the permission of over 800 publishers, Bookshare has delivered over 11,000,000 copies of books around the world. Millions of people that meet the stringent copyright law exemption qualification requirements have access to freely distributable material and copyrighted books for which Bookshare has distribution permission. 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. Bookshare materials are available on iOS and Android phones and tablets, Mac OS and Windows computers, Chromebooks, MP3 players, and on specialty reading devices. Bookshare was launched in February 2002 and has over 456,000 eligible members as of December 31, 2016 in the US and over 70 other countries. Through the active participation of thousands of volunteers, partners, universities and publishers around the world, Bookshare provides people with print disabilities instant access to more than 540,000 books spanning 33 languages and 150 daily newspapers, in ways that work for them.

DIAGRAM Center: A complementary initiative to Bookshare, the Digital Image and Graphic Resources for Accessible Materials (DIAGRAM) Center is dedicated to revolutionizing how students with disabilities access educational content, especially science, technology, engineering and math (STEM) materials. In 2016, DIAGRAM expanded its work by growing its community of cross-sector experts in assistive technology, education for students with disabilities, and publishing of educational content. Its work included developing technical standards, providing research and training on best practices (like the development of braille guidelines for 3D-printed models), and building tools (such as a repository of accessible, multi-modal image content). DIAGRAM continues its strong emphasis on math as well, including developing tools for improving the automatic transcription of visual mathematic expressions, and hosting an event for developers to spend a day coding software together to address math challenges. DIAGRAM also continues to offer trainings to over 1,000 unique webinar attendees and provide support for a Born Accessible ecosystem.

Born Accessible: The Born Accessible initiative is driving systemic change in the publishing industry by helping publishers create accessible books from the start. This is where the next equilibrium change will be seen – when companies begin to publish books in an accessible fashion, and anyone with disability will be able to access them in the same way as their peers, without having to look for a remediated copy. To achieve that goal, the Born Accessible initiative is working with educational procurement offices at the state and district level, with the publishers, and with the tools vendors. The Born Accessible team works with publishers to evaluate their titles and provide recommendations on how to modify each title, and the production process to produce appropriately formatted content. Benetech works with educational institutions to help them understand what to look for in the procurement process, and with teachers to help them produce accessible content in the classroom. Finally, in conjunction with Benetech's partners, reading systems are evaluated to ensure that accessible content can be displayed properly. When content is created in an accessible format, reliance on retrofitting books for people to read can be reduced, and there is assurance that publishers around the world are creating content that is Born Accessible.

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.

The HRP's flagship tool is Martus, which enables grassroots non-governmental organizations to securely collect, 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 additional tools such as Mobile Martus – Benetech's free, open source secure Android-based mobile documentation application, built on Martus technology – and secureApp, a customizable, secure data collection tool. In addition to developing software for the human rights field, the Benetech Human Rights Program team provides training and support to grassroots and institutional partners 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) creates new scalable technology enterprises for social impact. In partnership with communities of field leaders and stakeholders, technologists, and social entrepreneurs, Labs is where the Benetech team experiments and prototypes high-impact technology solutions that change lives. Some examples of projects include:

> *Service Referral:* Our service referral project makes it easier to share and maintain information on local services that are available for people that need them the most. These critical services can include food, shelter, healthcare, job training, child care, legal, and family support services. At the heart of our model is an open standards data exchange platform (Open Referral) that enables resource data to be shared in real-time across pretty much any tool the on-the-ground service providers may be using. By successfully coordinating data among multiple stakeholders, our Open Referral project can generate tools and practices that yield transformative change for communities that need these services.
>
> *Digital Security Training Alternate Reality Games:* Our Digital Security Training ARG (Alternate Reality Games) asks training participants to investigate and complete fictitious tasks through their real-world devices and interactions with each other. Our conceptual ARG would allow leadership at human rights organizations to enroll their field workers into a simulated training and assessment environment. The platform can include several exercises that guide users to complete tasks within the digital security space. Modules could include: identifying phishing, malware prevention, creating strong passwords, secure phone calls, Off the Record chat, secure email, removing identifying metadata from media, HTTPS cert checking, using Tor, etc.

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.

- 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, 2016 and 2015.

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, 2016 and 2015, these products, supplies, legal consulting services and advertising costs in the amount of $402,744 and $271,780, 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 $546,000 and $400,000 in 2016 and 2015, 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 $356,000 as of December 31, 2016. 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.

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, 2016 and 2015.

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, 2016 and 2015.

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.

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, 2016 and 2015, 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 2012 through 2015 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.

Subsequent Events

The Organization evaluated subsequent events for recognition and disclosure through May 25, 2017, the date these consolidated financial statements were available to be issued. Management concluded that no other material subsequent events have occurred since December 31, 2016, that require recognition or disclosure in the consolidated financial statements.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows:

	2016	2015
Unconditional promises to give due in:		
Less than one year	$ 923,117	$ 1,614,785
Between one year and five years	384,617	599,885
Total	$ 1,307,734	$ 2,214,670

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable are summarized as follows:

	2016	2015
Bookshare	$ 1,144,732	$ 670,205
Human rights	207,371	158,992
Environmental	-	1,337
Miscellaneous	-	11,687
Total	$ 1,352,103	$ 842,221

NOTE 5 – FAIR VALUE MEASUREMENTS

The following financial instruments are valued using Level 1 inputs:

	2016		2015	
	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)]	$ 130,971	$ 130,971	$ 498,040	$ 498,040
Certificate of deposits [(2)]	$ 352,000	$ 352,472	$ 352,000	$ 352,082
Mutual funds	602,117	602,117	1,510	1,510
Investments	$ 954,117	$ 954,589	$ 353,510	$ 353,592

(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:

	2016	2015
Leasehold improvements	$ 53,330	$ 53,330
Furniture and equipment	363,723	363,723
	417,053	417,053
Less: accumulated depreciation	(396,350)	(345,984)
Total property and equipment	$ 20,703	$ 71,069

Depreciation expense for the years ended December 31, 2016 and 2015 was $50,366 and $68,230, respectively.

NOTE 7 – INTANGIBLE ASSETS

The Organization capitalized costs relating to the design of a website for the Bookshare Program during 2013. These costs 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:

	2016	2015
Web design	$ 461,222	$ 2,233,983
Less: accumulated amortization	(333,104)	(1,952,125)
Total intangible assets	$ 128,118	$ 281,858

In 2016, fully amortized costs of website design amounting to $1,772,761 were written off. Amortization expense was $153,740 annually for the years ended December 31, 2016 and 2015.

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 $641,656 and $639,074 for the years ended December 31, 2016 and 2015, 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 $73,478 and $81,685 as of December 31, 2016 and 2015, respectively.

Future minimum lease payments are as follows:

2017	$ 659,802
2018	509,553
Total	$ 1,169,355

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. In 2015, the lease was renewed for another twelve months at the end of the initial term. In 2016, the lease was extended through October 31, 2016, after which the lease shall extend on a month-to-month basis until termination of either party. Rental income was $64,989 and $64,260 for the years ended December 31, 2016 and 2015, respectively.

NOTE 9 – TEMPORARILY RESTRICTED NET ASSETS

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

	2016			
	December 31, 2015	*Contributions*	*Releases from Restrictions*	*December 31, 2016*
Bookshare	$ 1,168,524	$ 770,742	$ (747,310)	$ 1,191,956
Route 66	41,237	-	(3,048)	38,189
Human Rights	1,469,063	-	(910,923)	558,140
Benetech Labs	181,644	386,331	(121,416)	446,559
	$ 2,860,468	$ 1,157,073	$ (1,782,697)	$ 2,234,844

	2015			
	December 31, 2014	*Contributions*	*Releases from Restrictions*	*December 31, 2015*
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
Benetech Labs	79,700	155,365	(53,421)	181,644
	$ 1,830,863	$ 2,072,540	$ (1,042,935)	$ 2,860,468

NOTE 10 – GRANTS AND OTHER FEDERAL AWARDS

During the years ended December 31, 2016 and 2015, revenues received from government agencies through awards and grants representing 10% or more of the Organization's revenue consisted of the following amounts:

	2016	2015
U.S. Department of Education	$ 8,953,758	$ 8,279,812

Included in receivables at 2016 and 2015 is approximately $818,000 and $384,000 from this government agency, respectively.

The above amounts consist of 3 federal awards for both the years ended December 31, 2016 and 2015, and made up approximately 67% and 61% of the Organization's total support and revenue for the same period, respectively. One of the federal awards from the U.S. Department of Education, Bookshare and Innovation for Education, with 2016 expenditures totaling $7,876,985 and remaining award budget amounting to approximately $3,560,000, 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 2016 and 2015.

NOTE 12 – RETIREMENT PLAN

The Organization maintains a 401(k) defined contribution plan. Eligible employees can defer up to $24,000 for participants over the age of 50 years for both 2016 and 2015. The Organization matches 50% of employee contributions up to a maximum of 2% of the employees' gross salary. Employer contributions for 2016 and 2015 were $147,284 and $98,881, 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.

In 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. During 2016, the Organization expended the full excess income on allowable Bookshare expenditures.

SUPPLEMENTARY INFORMATION

BENEFICENT TECHNOLOGY, INC.

(A California Nonprofit Public Benefit Corporation)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2016

Federal Grantor/Pass-Through Grantor/ Program Title	*Federal CFDA Number*	*Agency or Pass-Through Number*	*Federal Expenditures*	*Expenditures to Subrecipients*
U.S. Department of Education:				
Special Education – Education Technology, Media, and Materials for Individuals with Disabilities:				
Direct award	84.327B	H327B100001	$ 95,160	$ -
Direct award	84.327B	H327B150001	981,613	-
Direct award	84.327D	H327D120002	7,876,985	-
Total U.S. Department of Education			8,953,758	-
U.S. Department of State:				
International Programs to Support Democracy, Human Rights and Labor:				
Direct award	19.345	S-LMAQM-15-GR-1176	286,558	168,256
Direct award	19.345	S-LMAQM-15-CA-1300	418,511	-
Total U.S. Department of State			705,069	168,256
U.S. Agency for International Development:				
Cooperative Development Program:				
Pass-through award from World Vision, Inc.	98.002	AID-OAA-A-13-00074	127,567	-
TOTAL FEDERAL AWARDS			$ 9,786,394	$ 168,256

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, 2016, 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, 2016

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.

LINDQUIST
VON HUSEN
& JOYCE LLP

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

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, 2016, 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 May 25, 2017.

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.

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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

May 25, 2017

LINDQUIST
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& JOYCE LLP

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

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, 2016. 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.

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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, 2016.

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.

Lindquist, von Husen and Joyce LLP

May 25, 2017