

**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, 2017 AND 2016

BENEFICENT TECHNOLOGY, INC. AND BENGINEERING, INC. DBA BENETECH
(A California Nonprofit Public Benefit Corporation)
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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.

Emphasis of Matter

As discussed in Notes 2 and 16 to the financial statements, Beneficent Technology, Inc. early adopted the new accounting guidance required by generally accepted accounting principles from Accounting Standard Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, and changed its classification of net assets and enhanced its disclosures about net assets, expenses, and liquidity in Notes 9, 10, and 11. The change in accounting principle has been applied retrospectively to the prior period presented. Our opinion is not modified with respect to this matter.

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 23 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 3, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Beneficent Technology, Inc.'s 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 Huen and Joyce LLP

May 3, 2018

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

(A California Nonprofit Public Benefit Corporation)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,354,448	\$ 747,775
Receivables:		
Contributions – current portion (Note 3)	487,642	923,117
Accounts receivable (Note 4)	284,238	1,352,103
Prepaid expenses	8,664	29,444
Investments (Note 5)	363,941	954,589
Total current assets	2,498,933	4,007,028
Contributions receivable – net of current portion (Note 3)	-	384,617
Investments (Note 5)	448,513	-
Property and equipment – net (Note 6)	27,242	20,703
Intangible assets – net (Note 7)	179,141	128,118
Deposits	58,595	58,595
Total assets	<u>\$ 3,212,424</u>	<u>\$ 4,599,061</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, 2017 AND 2016

	2017	2016
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 306,998	\$ 225,969
Accrued expenses	53,947	108,624
Accrued employee benefits	563,798	1,111,710
Deferred revenue	99,120	77,834
Total current liabilities	1,023,863	1,524,137
Tenant security deposit (Note 8)	-	5,355
Deferred rent (Note 8)	39,892	73,478
Endowment liability (Note 5)	450,000	350,000
Total liabilities	1,513,755	1,952,970
Net assets:		
Without donor restrictions	371,148	411,247
With donor restrictions (Note 9)	1,327,521	2,234,844
Total net assets	1,698,669	2,646,091
Total liabilities and net assets	\$ 3,212,424	\$ 4,599,061

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, 2017 AND 2016

	2017			2016		
	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
Support and revenue:						
Contributions	\$ 793,147	\$ 462,196	\$ 1,255,343	\$ 506,236	\$ 1,157,073	\$ 1,663,309
Engineering and consulting fees	5	-	5	3,390	-	3,390
Donated services/products	412,078	-	412,078	402,744	-	402,744
Bookshare revenue – net of direct expenses of \$44,837 in 2017 and \$61,371 in 2016	9,439,665	-	9,439,665	10,451,462	-	10,451,462
Human Rights revenue	569,102	-	569,102	800,545	-	800,545
Route 66 revenue	99	-	99	495	-	495
Benetech Labs	70,059	-	70,059	44,208	-	44,208
Interest income	6,413	-	6,413	5,045	-	5,045
Rental income	22,392	-	22,392	64,989	-	64,989
Total support and revenue	11,312,960	462,196	11,775,156	12,279,114	1,157,073	13,436,187
Net assets released from restrictions:						
Satisfaction of purpose restrictions	1,369,519	(1,369,519)	-	1,782,697	(1,782,697)	-
Total support and revenue	12,682,479	(907,323)	11,775,156	14,061,811	(625,624)	13,436,187
Expenses:						
Program services:						
Global literacy	9,007,504	-	9,007,504	9,903,387	-	9,903,387
Human Rights	835,974	-	835,974	1,477,806	-	1,477,806
Bengineering	800	-	800	800	-	800
Benetech Labs	487,990	-	487,990	216,429	-	216,429
Supporting services:						
Management and general	1,456,794	-	1,456,794	1,457,678	-	1,457,678
Fundraising	10,403	-	10,403	4,977	-	4,977
Bid and proposal	923,113	-	923,113	839,913	-	839,913
Total expenses	12,722,578	-	12,722,578	13,900,990	-	13,900,990
Change in net assets	(40,099)	(907,323)	(947,422)	160,821	(625,624)	(464,803)
Net assets, beginning of year	411,247	2,234,844	2,646,091	250,426	2,860,468	3,110,894
Net assets, end of year	\$ 371,148	\$ 1,327,521	\$ 1,698,669	\$ 411,247	\$ 2,234,844	\$ 2,646,091

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

YEAR ENDED DECEMBER 31, 2017

	2017									
	Program Services					Supporting Services				
	Global Literacy	Human Rights	Bengineering	Benetech Labs	Total Program Services	Management and General	Fundraising	Bid and Proposal	Total Supporting Services	Total
Salaries and related expenses	\$ 3,290,503	\$ 391,417	\$ -	\$ 187,880	\$ 3,869,800	\$ 713,094	\$ 5,962	\$ 527,971	\$ 1,247,027	\$ 5,116,827
Employee benefits and payroll taxes	1,108,924	126,818	-	63,786	1,299,528	240,239	2,076	177,870	420,185	1,719,713
Total salaries and related expenses	4,399,427	518,235	-	251,666	5,169,328	953,333	8,038	705,841	1,667,212	6,836,540
Outside services	1,544,435	134,281	-	155,911	1,834,627	113,946	-	849	114,795	1,949,422
Facility and other office expenses	1,227,567	139,761	-	70,947	1,438,275	271,710	2,365	197,109	471,184	1,909,459
Book collection and development	442,279	-	-	-	442,279	-	-	-	-	442,279
Travel	363,507	27,386	-	6,660	397,553	24,603	-	6,705	31,308	428,861
In-kind products and services	400,356	-	-	-	400,356	11,722	-	-	11,722	412,078
Communications	211,816	11,688	-	-	223,504	3,270	-	-	3,270	226,774
Conferences	133,434	1,785	-	1,235	136,454	17,365	-	3,351	20,716	157,170
Supplies and project rent	68,985	981	-	61	70,027	6,866	-	102	6,968	76,995
Subscriptions and dues	48,549	-	-	95	48,644	4,054	-	2,292	6,346	54,990
Miscellaneous	9,999	45	800	729	11,573	8,040	-	4,318	12,358	23,931
D & O insurance	-	-	-	-	-	18,156	-	-	18,156	18,156
Entertainment	8,269	27	-	-	8,296	1,990	-	313	2,303	10,599
Bank charges	4,569	312	-	150	5,031	72	-	-	72	5,103
Total expenses before depreciation and amortization	8,863,192	834,501	800	487,454	10,185,947	1,435,127	10,403	920,880	2,366,410	12,552,357
Amortization	143,055	1,473	-	536	145,064	3,214	-	2,233	5,447	150,511
Depreciation	1,257	-	-	-	1,257	18,453	-	-	18,453	19,710
Total expenses	\$ 9,007,504	\$ 835,974	\$ 800	\$ 487,990	\$ 10,332,268	\$ 1,456,794	\$ 10,403	\$ 923,113	\$ 2,390,310	\$ 12,722,578

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

YEAR ENDED DECEMBER 31, 2016

	2016									
	Program Services					Supporting Services				
	Global Literacy	Human Rights	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	31,938	-	7,026	38,964	431,365
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	3,233	-	9,167	12,400	33,094
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 CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ (947,422)	\$ (464,803)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization	150,511	153,740
Depreciation	19,710	50,366
(Increase) decrease in assets:		
Contributions receivable	820,092	906,936
Accounts receivable	1,067,865	(509,882)
Prepaid expenses	20,780	(5,862)
Increase (decrease) in liabilities:		
Accounts payable	81,029	(19,124)
Accrued expenses	(54,677)	22,110
Accrued employee benefits	(547,912)	190,886
Deferred revenue	21,286	(238)
Tenant security deposit	(5,355)	-
Deferred rent	(33,586)	(8,207)
Total adjustments	1,539,743	780,725
Net cash provided by operating activities	592,321	315,922
Cash flows from investing activities:		
Net decrease (increase) in investments	142,135	(600,997)
Net increase in property and equipment	(26,249)	-
Net increase in intangible assets	(201,534)	-
Net cash used in investing activities	(85,648)	(600,997)
Cash flows from financing activities:		
Proceeds from endowment	100,000	-
Net cash provided by financing activities	100,000	-
Net increase (decrease) in cash and cash equivalents	606,673	(285,075)
Cash and cash equivalents, beginning of year	747,775	1,032,850
Cash and cash equivalents, end of year	\$ 1,354,448	\$ 747,775

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, 2017 AND 2016

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 2017 or 2016. 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 read and learn differently: they have a “print disability,” including blindness, low vision, a mobility impairment or a learning disability that affects their ability to read printed material. Operating under an exemption in US copyright law and with the permission of over 850 publishers, Bookshare has delivered over 12,000,000 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 within a variety of formats, including braille, synthetic speech or human-narrated audio, text synchronized with audio, Microsoft Word, and ebook. 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 550,000 eligible members as of March 31, 2018 in the US and over 80 other countries. Through the active participation of thousands of volunteers, partners, universities and over 850 publishers around the world, Bookshare provides people with print disabilities instant access to more than 600,000 books spanning 33 languages, and to 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. Since 2016, DIAGRAM has 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 includes developing and implementing technical standards, providing research and training on best practices (like the development of guidelines for writing and exposing of long descriptions of images in books), and building tools (such as a repository of accessible, multi-modal image content). DIAGRAM continues its strong emphasis on math and STEM 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 provide support for a Born Accessible ecosystem.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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, anyone with a 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, Benetech has implemented the industry’s first third party global certification program for accessible textbooks. This program will enable publishers to produce and promote certified accessible books, and will allow purchasers of educational books to quickly identify and purchase accessible titles. 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 output 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 supports, protects, and amplifies the efforts of human rights defenders with strategic technology interventions. The program is a multidirectional bridge between Silicon Valley and human rights communities: Benetech connects defenders of human rights to leading technology companies and decision-makers, and also helps bring needed technology to challenging environments and grassroots organizations.

Traditionally, the HRP has released tools such as 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.

In addition to building open source software that has not been met by the commercial technology market, the HRP fills a vital “systems change” role for human rights defenders, including both grassroots and large-scale international and intergovernmental human rights organizations, on data-related human rights technology initiatives. The team is currently working on projects related to improving the process of collecting, protecting, processing and organizing video from active conflict areas; building materials and experiences to improve self-guided human rights monitoring and security trainings; and improving verification and remote collaboration experiences for open source investigation.

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: The 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 Benetech’s 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, the Open Referral project can generate tools and practices that yield transformative change for communities that need these services.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Math Editor: Benetech developed an accessible internet-based math editor that will enable all students to work through math problems, recording and showing their math work as they solve problems. Ultimately, Benetech's editor will offer many input and output modes, addressing a large range of students' needs (supporting math manipulations done by typing, handwriting, or speaking math, as well as math outputs rendered via visual display, speech, and braille). This tool can also provide teachers unprecedented access to view how students actually solve math equations and where they make mistakes. By basing Benetech's open source tool on web technologies, Benetech is better positioned to integrate it with popular online learning platforms already in use for teaching. A web-based system will also increase the potential for students to have access to the technology at home on their own devices, so they can work independently outside the classroom in the same environment.

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 early adopted the Accounting Standard Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which requires reporting information regarding its financial position and activities according to two classes of net assets, as applicable: net assets without donor restrictions and net assets with donor restrictions.

- Net assets without donor restrictions 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 net assets without donor restrictions any restricted revenue received in the current period whose restrictions have been met in the current period.

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

(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

- Net assets with donor restrictions 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. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. When a donor restriction expires – that is, when a stipulated time restrictions ends or purpose restriction is accomplished – net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as *net assets released from restrictions*. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates the resources be maintained in perpetuity. The Organization has no net assets with non-expiring donor restrictions as of December 31, 2017 and 2016.

Revenue Recognition

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 support without donor restrictions or support with donor restrictions, depending on the absence or existence of donor-imposed restrictions as applicable. Contributions with donor restrictions are reported as an increase in support without donor restrictions 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 support with donor restrictions. When the restriction is met, the amount is shown as a reclassification of support with donor restrictions to support without donor restrictions 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 years ended December 31, 2017 and 2016, these products, supplies, legal consulting services and advertising costs in the amount of \$412,078 and \$402,744, 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 \$545,000 and \$546,000 in 2017 and 2016, respectively.

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.

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 \$834,000 as of December 31, 2017. 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

(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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, 2017 and 2016.

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, 2017 and 2016.

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, 2017 AND 2016

Investment Income and Gains

Investment income and gains restricted by donors are reported as increases in net assets without donor restrictions 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 the Bookshare program website and the new corporate website.

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, 2017 and 2016, 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 2013 through 2016 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 costs of providing program services and supporting services are summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs are allocated among program services and supporting services.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Subsequent Events

The Organization evaluated subsequent events for recognition and disclosure through May 3, 2018, the date these consolidated financial statements were available to be issued. Management concluded that no other material subsequent events have occurred since December 31, 2017, that require recognition or disclosure in the consolidated financial statements.

Reclassification

Certain amounts previously reported in the 2016 financial statements were reclassified to conform to the 2017 presentation for comparative purposes.

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are summarized as follows:

	2017	2016
Unconditional promises to give due in:		
Less than one year	\$ 487,642	\$ 923,117
Between one year and five years	-	384,617
Total	<u>\$ 487,642</u>	<u>\$ 1,307,734</u>

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable are summarized as follows:

	2017	2016
Bookshare	\$ 261,199	\$ 1,144,732
Human Rights	23,039	207,371
Total	<u>\$ 284,238</u>	<u>\$ 1,352,103</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 5 – FAIR VALUE MEASUREMENTS

The following financial instruments are valued using Level 1 inputs:

	2017		2016	
	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⁾	\$ 129,311	\$ 129,311	\$ 130,971	\$ 130,971
Certificate of deposits ⁽²⁾	\$ 450,000	\$ 448,513	\$ 352,000	\$ 352,472
Mutual funds	363,941	363,941	602,117	602,117
Investments	\$ 813,941	\$ 812,454	\$ 954,117	\$ 954,589

⁽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. In 2017, Benetech received an additional endowment of \$100,000 with the same term as the original endowment fund. 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. From time to time, the endowment fund may have a fair value less than the amount required to be maintained by the donor. At December 31, 2017, the endowment fund with original gift value of \$450,000, fair value of \$448,513, and deficiency of \$1,487, was reported as *endowment liability* in the accompanying consolidated statements of financial position. The amount is expected to be fully recovered upon maturity.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	2017	2016
Leasehold improvements	\$ 53,330	\$ 53,330
Furniture and equipment	244,889	363,723
	298,219	417,053
Less: accumulated depreciation	(270,977)	(396,350)
Total property and equipment	\$ 27,242	\$ 20,703

Depreciation expense was \$19,710 and \$50,366 for the years ended December 31, 2017 and 2016, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 7 – INTANGIBLE ASSETS

The Organization capitalized costs relating to the design of a website for the Bookshare Program during 2013 and the design of Benetech's website during 2017. The costs that were capitalized for the Bookshare Program website included consulting (\$166,369), salaries (\$161,498), benefits (\$70,717), and shared expenses (\$62,638), for a total of \$461,222. The costs that were capitalized for Benetech's website included consulting (\$124,865), salaries (\$56,965), and benefits (\$19,704), for a total of \$201,534. Amortization is computed using the straight-line method for three years beginning on November 2014 and September 2017 for the Bookshare Program website and for Benetech's website, respectively.

Intangible assets are summarized as follows:

	2017	2016
Web design	\$ 662,756	\$ 461,222
Less: accumulated amortization	(483,615)	(333,104)
Total intangible assets	<u>\$ 179,141</u>	<u>\$ 128,118</u>

Amortization expense was \$150,511 and \$153,740 for the years ended December 31, 2017 and 2016, respectively.

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 \$640,015 and \$641,656 for the years ended December 31, 2017 and 2016, 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 \$39,892 and \$73,478 as of December 31, 2017 and 2016, respectively. Future minimum lease payment in 2018 is \$509,553.

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. In April 2017, the lease was terminated. Rental income was \$22,392 and \$64,989 for the years ended December 31, 2017 and 2016, respectively.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are for the following purposes or periods:

	2017			
	<i>December 31, 2016</i>	<i>Contributions</i>	<i>Releases from Restrictions</i>	<i>December 31, 2017</i>
Bookshare	\$ 1,191,956	\$ 78,549	\$ (590,081)	\$ 680,424
Route 66	38,189	-	(5,181)	33,008
Human Rights	558,140	195,363	(366,427)	387,076
Benetech Labs	446,559	188,284	(407,830)	227,013
	<u>\$ 2,234,844</u>	<u>\$ 462,196</u>	<u>\$ (1,369,519)</u>	<u>\$ 1,327,521</u>

	2016			
	<i>December 31, 2015</i>	<i>Contributions</i>	<i>Releases from Restrictions</i>	<i>December 31, 2016</i>
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
	<u>\$ 2,860,468</u>	<u>\$ 1,157,073</u>	<u>\$ (1,782,697)</u>	<u>\$ 2,234,844</u>

NOTE 10 – LIQUIDITY AND AVAILABILITY

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments and has various sources of liquidity at its disposal, including cash and cash equivalents, and highly liquid investments. The Organization receives significant contributions and promises to give restricted by donors which are generally not available for general expenditures. Financial assets sourced from programs which are ongoing, major and central to the Organization's annual operations are considered available to meet cash needs for general expenditures. The Organization also has a \$250,000 line of credit for use in case of emergencies. The Organization has not needed to use this line of credit.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization strives to maintain liquid financial assets sufficient to cover between one to three months of payroll expenses. As of December 31, 2017 and 2016, financial assets available for general expenditures covered approximately two and three months of payroll expenses, respectively.

The following table reflects the Organization's financial assets as of December 31, 2017 and 2016, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions. In addition to financial assets available to meet general expenditures over the next 12 months, the Organization anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

Financial assets available for general expenditures within one year of the balance sheet date are comprised of the following:

	2017	2016
Financial assets at end of year available within one year:		
Cash and cash equivalents	\$ 1,354,448	\$ 747,775
Contributions receivable	487,642	923,117
Accounts receivable	284,238	1,352,103
Investments	363,941	954,589
	<u>2,490,269</u>	<u>3,977,584</u>
Less financial assets not available for general expenditures:		
Cash subject to expenditure for specific purpose	(899,879)	(332,493)
Contributions receivable for specific purpose	(427,642)	(915,617)
Investments for specific purpose	-	(602,117)
Donor-restricted endowments	-	(352,472)
	<u>-</u>	<u>(352,472)</u>
Financial assets available for general expenditures within one year	<u>\$ 1,162,748</u>	<u>\$ 1,774,885</u>

NOTE 11 – FUNCTIONAL ALLOCATION OF EXPENSES

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Certain categories of expenses are attributed to more than one program or supporting function that require consistent allocation on a reasonable basis. Expenses that are allocated include employee benefits and payroll taxes, outside services, facility and other office expenses, travel, communications, supplies, and miscellaneous expenses. These expenses have been allocated on the basis of salaries per function over total salaries of all functions.

NOTE 12 – GRANTS AND OTHER FEDERAL AWARDS

During the years ended December 31, 2017 and 2016, revenues received from government agencies through awards and grants representing 10% or more of the Organization's revenue consisted of the following amounts:

	2017	2016
U.S. Department of Education	<u>\$ 8,057,602</u>	<u>\$ 8,953,758</u>

Included in receivables at December 31, 2017 and 2016 is approximately \$-0- and \$818,000 from this government agency, respectively.

The above amounts consist of 3 federal awards for both the years ended December 31, 2017 and 2016, and made up approximately 68% and 67% of the Organization's total support and revenue for the same period, respectively. The award period for one of the federal awards from the U.S. Department of Education, Bookshare and Innovation for Education, with 2017 expenditures totaling \$5,560,363, expired on October 31, 2017. Starting November 1, 2017, the Organization received a new five-year award from the U.S. Department of Education named Benetech Unlocks Individualized Learning Delivery (BUILD). The amount of the new award for the first year was \$8,500,000. In 2017, the Organization had a total of \$1,163,164 in expenditures for the new award. A schedule of expenditures of federal awards is included as part of these consolidated financial statements.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 13 – LINE OF CREDIT

In March 2016, the Organization had a \$250,000 unsecured line of credit with Avidbank with an expiry date of March 3, 2018. The line of credit was renewed on February 15, 2018 and expires on March 3, 2020. There were no advances drawn during 2017 and 2016.

NOTE 14 – 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 2017 and 2016. The Organization matches 50% of employee contributions up to a maximum of 2% of the employees' gross salary. Employer contributions were \$124,962 and \$147,284 for 2017 and 2016, respectively.

NOTE 15 – 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.

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

(A California Nonprofit Public Benefit Corporation)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

NOTE 16 – CHANGE IN ACCOUNTING PRINCIPLE

In prior years, the Organization classified net assets in three classes: unrestricted, temporarily restricted, and permanently restricted. In 2017, the Organization early adopted the new accounting guidance from Accounting Standard Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Organization began reporting net assets in two classes: net assets without donor restrictions and net assets with donor restrictions. The change in accounting principle was applied retrospectively to the prior period presented. The change resulted in net assets reclassification and had no effect on previously reported net assets or change in net assets. The following financial statement line items as of December 31, 2016 were affected by the change in accounting principle:

	<i>Before Retrospective Application</i>	<i>Retrospective Application</i>	<i>As Presented</i>
Temporarily restricted net assets	\$ 2,234,844	\$ (2,234,844)	\$ -
Net assets with donor restrictions	-	2,234,844	2,234,844

SUPPLEMENTARY INFORMATION

BENEFICENT TECHNOLOGY, INC.
(A California Nonprofit Public Benefit Corporation)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017

<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	H327B150001	\$ 1,334,075	\$ -
Direct award	84.327D	H327D120002	5,560,363	-
Direct award	84.327D	H327D170002	1,163,164	-
Total U.S. Department of Education			8,057,602	-
<u>U.S. Department of State:</u>				
International Programs to Support Democracy, Human Rights and Labor:				
Direct award	19.345	S-LMAQM-15- GR-1176	14,750	6,875
Direct award	19.345	S-LMAQM-15- CA-1300	489,373	-
Total U.S. Department of State			504,123	6,875
<u>U.S. Agency for International Development:</u>				
Cooperative Development Program:				
Pass-through award from World Vision, Inc.	98.002	AID-OAA-A-13- 00074	127,006	-
TOTAL FEDERAL AWARDS			\$ 8,688,731	\$ 6,875

BENEFICENT TECHNOLOGY, INC.

(A California Nonprofit Public Benefit Corporation)

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2017

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, 2017, 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 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – 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, 2017

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	<u> X </u> No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	<u> X </u> None reported
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____ Yes	<u> X </u> No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	_____ Yes	<u> X </u> 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. BRITAIN
ALEXIS H. WONG
CHARLOTTE SIEW-KUN TAY
CATHY L. HWANG
RITA B. DELA CRUZ
STANLEY WOO
SCOTT K. SMITH
CRISANTO S. FRANCISCO

**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, 2017, 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 3, 2018.

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 Huen and Joyce LLP

May 3, 2018



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

JAMES M. KRAFT
S. SCOTT SEAMANDS
MARK O. BRITAIN
ALEXIS H. WONG
CHARLOTTE SIEW-KUN TAY
CATHY L. HWANG
RITA B. DELA CRUZ
STANLEY WOO
SCOTT K. SMITH
CRISANTO S. FRANCISCO

**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, 2017. 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, 2017.

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

May 3, 2018