# 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, 2018 AND 2017**

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

*(A California Nonprofit Public Benefit Corporation)*

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

TABLE OF CONTENTS



* * * *

LINDQUIST
VON HUSEN
& JOYCE LLP



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, 2018 and 2017, 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.



BKR INTERNATIONAL
CERTIFIED PUBLIC ACCOUNTANTS, 90 New Montgomery, 11th Floor, San Francisco, California 94105
Telephone 415 957 9999 Facsimile 415 957 1629 http://www.lvhj.com

*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, 2018 and 2017, 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 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 2, 2019 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.

Lindquist, von Husen and Joyce LLP

May 2, 2019

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

*(A California Nonprofit Public Benefit Corporation)*

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 1,407,006 | $ 1,354,448 |
| Receivables: | | |
| Contributions – current portion (Note 3) | 824,110 | 487,642 |
| Accounts receivable (Note 4) | 1,464,999 | 284,238 |
| Prepaid expenses | 17,400 | 8,664 |
| Investments (Note 5) | 818,128 | 363,941 |
| Total current assets | 4,531,643 | 2,498,933 |
| Contributions receivable – net of current portion (Note 3) | 188,563 | - |
| Investments (Note 5) | - | 448,513 |
| Property and equipment – net (Note 6) | 96,465 | 27,242 |
| Intangible assets – net (Note 7) | 111,963 | 179,141 |
| Deposits | 58,595 | 58,595 |
| Total assets | $ 4,987,229 | $ 3,212,424 |

*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, 2018 AND 2017

| | 2018 | 2017 |
|---|---|---|
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities: | | |
| Accounts payable | $ 368,997 | $ 306,998 |
| Accrued expenses | 87,329 | 53,947 |
| Accrued employee benefits | 1,135,507 | 563,798 |
| Deferred revenue | 170,570 | 99,120 |
| Endowment liability (Note 5) | 450,000 | - |
| Total current liabilities | 2,212,403 | 1,023,863 |
| Deferred rent (Note 8) | 24,943 | 39,892 |
| Endowment liability (Note 5) | - | 450,000 |
| Total liabilities | 2,237,346 | 1,513,755 |
| Net assets: | | |
| Without donor restrictions | 517,139 | 371,148 |
| With donor restrictions (Note 9) | 2,232,744 | 1,327,521 |
| Total net assets | 2,749,883 | 1,698,669 |
| Total liabilities and net assets | $ 4,987,229 | $ 3,212,424 |

*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, 2018 AND 2017

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | *Without Donor Restrictions* | *With Donor Restrictions* | *Total* | *Without Donor Restrictions* | *With Donor Restrictions* | *Total* |
| Support and revenue: | | | | | | |
| Contributions | $ 1,479,087 | $ 1,633,551 | $ 3,112,638 | $ 793,147 | $ 462,196 | $ 1,255,343 |
| Engineering and consulting fees | - | - | - | 5 | - | 5 |
| Donated services/products | 242,357 | - | 242,357 | 412,078 | - | 412,078 |
| Bookshare revenue – net of direct expenses of $30,697 in 2018 and $44,837 in 2017 | 10,517,029 | - | 10,517,029 | 9,439,665 | - | 9,439,665 |
| Human Rights revenue | 93,701 | - | 93,701 | 569,102 | - | 569,102 |
| Route 66 revenue | - | - | - | 99 | - | 99 |
| Benetech Labs | 41,887 | - | 41,887 | 70,059 | - | 70,059 |
| Interest income | 14,759 | - | 14,759 | 6,413 | - | 6,413 |
| Rental income | - | - | - | 22,392 | - | 22,392 |
| Total support and revenue | 12,388,820 | 1,633,551 | 14,022,371 | 11,312,960 | 462,196 | 11,775,156 |
| Net assets released from restrictions: | | | | | | |
| Satisfaction of purpose restrictions | 728,328 | (728,328) | - | 1,369,519 | (1,369,519) | - |
| Total support and revenue | 13,117,148 | 905,223 | 14,022,371 | 12,682,479 | (907,323) | 11,775,156 |
| Expenses: | | | | | | |
| Program services: | | | | | | |
| Global literacy | 9,553,883 | - | 9,553,883 | 9,007,504 | - | 9,007,504 |
| Human Rights | 486,927 | - | 486,927 | 835,974 | - | 835,974 |
| Bengineering | 800 | - | 800 | 800 | - | 800 |
| Tech Matters | 81,193 | - | 81,193 | - | - | - |
| Benetech Labs | 640,850 | - | 640,850 | 487,990 | - | 487,990 |
| Supporting services: | | | | | | |
| Management and general | 1,423,147 | - | 1,423,147 | 1,456,794 | - | 1,456,794 |
| Fundraising | 34,590 | - | 34,590 | 10,403 | - | 10,403 |
| Bid and proposal | 749,767 | - | 749,767 | 923,113 | - | 923,113 |
| Total expenses | 12,971,157 | - | 12,971,157 | 12,722,578 | - | 12,722,578 |
| Change in net assets | 145,991 | 905,223 | 1,051,214 | (40,099) | (907,323) | (947,422) |
| Net assets, beginning of year | 371,148 | 1,327,521 | 1,698,669 | 411,247 | 2,234,844 | 2,646,091 |
| Net assets, end of year | $ 517,139 | $ 2,232,744 | $ 2,749,883 | $ 371,148 | $ 1,327,521 | $ 1,698,669 |

*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, 2018

| | 2018 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Program Services* | | | | | | *Supporting Services* | | | | |
| | *Global Literacy* | *Human Rights* | *Bengineering* | *Tech Matters* | *Benetech Labs* | *Total Program Services* | *Management and General* | *Fundraising* | *Bid and Proposal* | *Total Supporting Services* | *Total* |
| Salaries and related expenses | $ 3,502,678 | $ 259,012 | $ - | $ 43,245 | $ 250,361 | $ 4,055,296 | $ 661,785 | $ 19,231 | $ 403,132 | $ 1,084,148 | $ 5,139,444 |
| Employee benefits and payroll taxes | 1,520,023 | 107,306 | - | 19,238 | 108,836 | 1,755,403 | 231,782 | 8,530 | 171,850 | 412,162 | 2,167,565 |
| Total salaries and related expenses | 5,022,701 | 366,318 | - | 62,483 | 359,197 | 5,810,699 | 893,567 | 27,761 | 574,982 | 1,496,310 | 7,307,009 |
| Outside services | 1,499,823 | 18,115 | - | 300 | 145,578 | 1,663,816 | 172,978 | - | 837 | 173,815 | 1,837,631 |
| Facility and other office expenses | 1,229,066 | 85,556 | - | 10,058 | 86,818 | 1,411,498 | 234,109 | 6,681 | 142,393 | 383,183 | 1,794,681 |
| Book collection and development | 606,176 | - | - | - | - | 606,176 | - | - | - | - | 606,176 |
| Travel | 385,304 | 9,947 | - | 3,968 | 28,075 | 427,294 | 28,965 | - | 12,028 | 40,993 | 468,287 |
| In-kind products and services | 208,820 | - | - | - | - | 208,820 | 33,537 | - | - | 33,537 | 242,357 |
| Communications | 208,243 | 2,336 | - | - | 30 | 210,609 | 3,168 | - | - | 3,168 | 213,777 |
| Conferences | 158,677 | 75 | - | 1,465 | 3,309 | 163,526 | 1,597 | - | 678 | 2,275 | 165,801 |
| Supplies and project rent | 95,450 | 198 | - | - | 2,152 | 97,800 | 6,628 | - | 2,606 | 9,234 | 107,034 |
| Subscriptions and dues | 61,685 | - | - | 2,500 | - | 64,185 | 2,941 | - | 3,897 | 6,838 | 71,023 |
| Miscellaneous | 8,645 | 14 | 800 | - | 11,012 | 20,471 | 7,588 | - | 3,735 | 11,323 | 31,794 |
| D & O insurance | - | - | - | - | - | - | 19,660 | - | - | 19,660 | 19,660 |
| Entertainment | 4,646 | 124 | - | - | 20 | 4,790 | 5,176 | - | 1,520 | 6,696 | 11,486 |
| Bank charges | 3,795 | 42 | - | 15 | 153 | 4,005 | 1,672 | 14 | - | 1,686 | 5,691 |
| Total expenses before depreciation and amortization | 9,493,031 | 482,725 | 800 | 80,789 | 636,344 | 10,693,689 | 1,411,586 | 34,456 | 742,676 | 2,188,718 | 12,882,407 |
| Amortization | 46,033 | 3,181 | - | 398 | 3,270 | 52,882 | 8,756 | - | 5,540 | 14,296 | 67,178 |
| Depreciation | 14,819 | 1,021 | - | 6 | 1,236 | 17,082 | 2,805 | 134 | 1,551 | 4,490 | 21,572 |
| Total expenses | $ 9,553,883 | $ 486,927 | $ 800 | $ 81,193 | $ 640,850 | $ 10,763,653 | $ 1,423,147 | $ 34,590 | $ 749,767 | $ 2,207,504 | $ 12,971,157 |

*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* | *Tech Matters* | *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 CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

| | 2018 | 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ 1,051,214 | $ (947,422) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Amortization | 67,178 | 150,511 |
| Depreciation | 21,572 | 19,710 |
| (Increase) decrease in assets: | | |
| Contributions receivable | (525,031) | 820,092 |
| Accounts receivable | (1,180,761) | 1,067,865 |
| Prepaid expenses | (8,736) | 20,780 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 61,999 | 81,029 |
| Accrued expenses | 33,382 | (54,677) |
| Accrued employee benefits | 571,709 | (547,912) |
| Deferred revenue | 71,450 | 21,286 |
| Tenant security deposit | - | (5,355) |
| Deferred rent | (14,949) | (33,586) |
| Total adjustments | (902,187) | 1,539,743 |
| Net cash provided by operating activities | 149,027 | 592,321 |
| Cash flows from investing activities: | | |
| Net decrease (increase) in investments | (5,674) | 142,135 |
| Purchase of property and equipment | (90,795) | (26,249) |
| Purchase of intangible assets | - | (201,534) |
| Net cash used in investing activities | (96,469) | (85,648) |
| Cash flows from financing activities: | | |
| Proceeds from endowment | - | 100,000 |
| Net cash provided by financing activities | - | 100,000 |
| Net increase in cash and cash equivalents | 52,558 | 606,673 |
| Cash and cash equivalents, beginning of year | 1,354,448 | 747,775 |
| Cash and cash equivalents, end of year | $ 1,407,006 | $ 1,354,448 |

*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 2018 or 2017. 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:

<u>*Global Literacy*</u>

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.

<u>*Bookshare®:*</u> 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 14,000,000 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 638,000 eligible members as of March 31, 2019 in the US and over 80 other countries. Through the active participation of hundreds 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 150 daily newspapers, in ways that work for them.

<u>*DIAGRAM Center:*</u> 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 STEM, including developing tools for improving the interaction of students and teachers with mathematical expressions, and hosting an event for developers to spend a day coding software together to address math challenges. DIAGRAM also continues to provide critical 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, 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 books. 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 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, training, 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, as well as building materials and experiences to improve self-guided human rights monitoring and security trainings.

*Tech Matters*

Benetech concluded its first fiscal sponsorship agreement during 2018 with Jim Fruchterman, Benetech's founder and former CEO, to launch Tech Matters, a new technology for good social enterprise, as of January 1, 2019. Tech Matters is a nonprofit provider of strategic technology services to maximize impact, not profit. It applies the Benetech model to more social problems, where the opportunity exists to use technology to help drive large scale positive social change. During 2018, the Tech Matters project was in its planning stages and received initial funding for new projects to support the global child helpline movement, assisting regional level sustainability programs and helping reduce forced labor and unethical labor practices in the global supply chain.

*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:

> *Benetech Service Net:* The Benetech Service Net platform makes it easier to share and maintain information on local services for people that need them the most. These critical services can include food, shelter, healthcare, job training, child care, legal, and family support services. This data exchange solution enables resource data to be shared in real-time across service providers. By successfully coordinating data among multiple stakeholders, Service Net can generate tools and practices that yield transformative change for communities that need these services.

> *Benetech Math Share:* 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, which is not available in most online learning environments. 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.

<u>*Basis of Presentation*</u>

The Organization 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.

- 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, 2018 and 2017.

<u>*Revenue Recognition*</u>

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, 2018 and 2017, these products, supplies, legal consulting services and advertising costs in the amount of $242,357 and $412,078, 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 $148,450 and $545,000 in 2018 and 2017, 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 $1,003,000 as of December 31, 2018. 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 as of December 31, 2018 and 2017.

*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 as of December 31, 2018 and 2017.

*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 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 new corporate website.

The useful lives of the assets are estimated as follows:

| | |
|---|---|
| Leasehold improvements | 5 years |
| Furniture and equipment | 3 to 5 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, 2018 and 2017, 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 2014 through 2017 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.

*Subsequent Events*

The Organization evaluated subsequent events for recognition and disclosure through May 2, 2019, the date these consolidated financial statements were available to be issued. Management concluded that no other material subsequent events have occurred since December 31, 2018, that require recognition or disclosure in the consolidated financial statements.

**NOTE 3 – CONTRIBUTIONS RECEIVABLE**

Contributions receivable are summarized as follows:

| | 2018 | 2017 |
|---|---|---|
| Unconditional promises to give due in: | | |
| Less than one year | $ 824,110 | $ 487,642 |
| Between one year and five years | 188,563 | - |
| Total | $ 1,012,673 | $ 487,642 |

**NOTE 4 – ACCOUNTS RECEIVABLE**

Accounts receivable are summarized as follows:

| | 2018 | 2017 |
|---|---|---|
| Bookshare | $ 1,457,141 | $ 261,199 |
| Human Rights | 7,858 | 23,039 |
| Total | $ 1,464,999 | $ 284,238 |

**NOTE 5 – FAIR VALUE MEASUREMENTS**

The following financial instruments are valued using Level 1 inputs:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | *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] | $ 149,850 | $ 149,850 | $ 129,311 | $ 129,311 |
| Certificate of deposits [2] | $ 450,000 | $ 448,687 | $ 450,000 | $ 448,513 |
| Mutual funds | 369,441 | 369,441 | 363,941 | 363,941 |
| Investments | $ 819,441 | $ 818,128 | $ 813,941 | $ 812,454 |

(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. As of December 31, 2018, the endowment fund with original gift value of $450,000, fair value of $448,687, and deficiency of $1,313, 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:

| | 2018 | 2017 |
|---|---|---|
| Leasehold improvements | $ 98,600 | $ 53,330 |
| Furniture and equipment | 290,414 | 244,889 |
| | 389,014 | 298,219 |
| Less: accumulated depreciation | (292,549) | (270,977) |
| Total property and equipment | $ 96,465 | $ 27,242 |

Depreciation expense was $21,572 and $19,710 for the years ended December 31, 2018 and 2017, respectively.

**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:

| | 2018 | 2017 |
|---|---|---|
| Web design | $ 201,534 | $ 662,756 |
| Less: accumulated amortization | (89,571) | (483,615) |
| Total intangible assets | $ 111,963 | $ 179,141 |

In 2018, fully amortized web design costs of $461,222 were written off. Amortization expense was $67,178 and $150,511 for the years ended December 31, 2018 and 2017, respectively.

**NOTE 8 – LEASE COMMITMENTS**

The Organization entered into two office lease agreements. The first lease, originally dated December 4, 2001, was amended on May 18, 2018 to reduce office space as well as extend the lease term to expire on September 30, 2023. The second lease, originally dated November 2012, was amended on July 19, 2018 to also extend the term to September 30, 2023.

Total payments due under the lease are amortized monthly over the life of the new lease using the straight-line method. Rental expense was $622,287 and $640,015 for the years ended December 31, 2018 and 2017, 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 $24,943 and $39,892 as of December 31, 2018 and 2017, respectively.

Future minimum lease payments are as follows:

| | |
|---|---|
| 2019 | $ 525,102 |
| 2020 | 545,861 |
| 2021 | 567,442 |
| 2022 | 589,881 |
| 2023 | 455,402 |
| Total | $ 2,683,688 |

The Organization had a sublease agreement to lease out a portion of its office space, which was terminated in April 2017. Rental income was $22,392 for the year ended December 31, 2017.

## NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS

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

| | 2018 | | | |
|---|---|---|---|---|
| | *December 31, 2017* | *Contributions* | *Releases from Restrictions* | *December 31, 2018* |
| Bookshare | $ 680,424 | $ 452,069 | $ (265,223) | $ 867,270 |
| Route 66 | 33,008 | - | (275) | 32,733 |
| Human Rights | 387,076 | 30,499 | (383,890) | 33,685 |
| Tech Matters | - | 205,000 | - | 205,000 |
| Benetech Labs | 227,013 | 945,983 | (78,940) | 1,094,056 |
| | $ 1,327,521 | $ 1,633,551 | $ (728,328) | $ 2,232,744 |

| | 2017 | | | |
|---|---|---|---|---|
| | *December 31, 2016* | *Contributions* | *Releases from Restrictions* | *December 31, 2017* |
| 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 |
| Tech Matters | - | - | - | - |
| Benetech Labs | 446,559 | 188,284 | (407,830) | 227,013 |
| | $ 2,234,844 | $ 462,196 | $ (1,369,519) | $ 1,327,521 |

## 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, 2018 and 2017, financial assets available for general expenditures covered approximately three and two months of payroll expenses, respectively.

The following table reflects the Organization's financial assets as of December 31, 2018 and 2017, 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.

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

| | 2018 | 2017 |
|---|---|---|
| Financial assets at end of year available within one year: | | |
| Cash and cash equivalents | $ 1,407,006 | $ 1,354,448 |
| Contributions receivable | 824,110 | 487,642 |
| Accounts receivable | 1,464,999 | 284,238 |
| Investments | 818,128 | 363,941 |
| | 4,514,243 | 2,490,269 |
| Less financial assets not available for general expenditures: | | |
| Cash subject to expenditure for specific purpose | (1,051,943) | (899,879) |
| Contributions receivable for specific purpose | (624,110) | (427,642) |
| Investments for specific purpose | (369,441) | - |
| Donor-restricted endowment | (448,687) | - |
| Financial assets available for general expenditures within one year | $ 2,020,062 | $ 1,162,748 |

**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, 2018 and 2017, revenues received from government agencies through awards and grants representing 10% or more of the Organization's revenue consisted of the following amounts:

| | 2018 | 2017 |
|---|---|---|
| U.S. Department of Education | $ 9,078,475 | $ 8,057,602 |

Included in receivables as of December 31, 2018 and 2017 is approximately $1,009,000 and $-0- from this government agency, respectively.

The above amounts consist of two and three federal awards for the years ended December 31, 2018 and 2017, respectively, and made up approximately 65% and 68%, respectively, of the Organization's total support and revenue. 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. On 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 Organization had $8,120,106 and $1,163,164 in expenditures for BUILD in 2018 and 2017, respectively. A schedule of expenditures of federal awards is included as part of these consolidated financial statements.

**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 2018 and 2017.

**NOTE 14 – RETIREMENT PLAN**

The Organization maintains a 401(k) defined contribution plan. Eligible employees can defer up to $24,500 and $24,000 for participants over the age of 50 years for 2018 and 2017, respectively. The Organization matches 50% of employee contributions up to a maximum of 2% of the employees' gross salary. Employer contributions were $124,410 and $124,962 for 2018 and 2017, 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.

## SUPPLEMENTARY INFORMATION

BENEFICENT TECHNOLOGY, INC.

*(A California Nonprofit Public Benefit Corporation)*

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2018

| *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 | H327B150001 | $ 958,369 | $ - |
| Direct award | 84.327D | H327D170002 | 8,120,106 | - |
| Total U.S. Department of Education | | | 9,078,475 | - |
| U.S. Department of State: | | | | |
| International Programs to Support Democracy, Human Rights and Labor: | | | | |
| Direct award | 19.345 | SLMAQM18 CA2050 | 7,857 | - |
| Total U.S. Department of State | | | 7,857 | - |
| **TOTAL FEDERAL AWARDS** | | | $ 9,086,332 | $ - |

**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, 2018, 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, 2018

**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, 2018, 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 2, 2019.

*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.



BKR INTERNATIONAL CERTIFIED PUBLIC ACCOUNTANTS, 90 New Montgomery, 11th Floor, San Francisco, California 94105
Telephone 415 957 9999 Facsimile 415 957 1629 http://www.lvhj.com

*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 2, 2019

LINDQUIST
VON HUSEN
& JOYCE LLP

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

CRISANTO S. FRANCISCO
JOE F. HUIE

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, 2018. 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.



BKR INTERNATIONAL
CERTIFIED PUBLIC ACCOUNTANTS, 90 New Montgomery, 11th Floor, San Francisco, California 94105
Telephone 415 957 9999 Facsimile 415 957 1629 http://www.lvhj.com

*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, 2018.

*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 2, 2019