

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE
CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT THEREON
DECEMBER 31, 2004**

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE
TABLE OF CONTENTS**

Independent Auditors' Report.....	1
Consolidated Statement of Financial Position	2
Consolidated Statement of Activities.....	3
Consolidated Statement of Functional Expenses	4
Consolidated Statement of Cash Flows	5
Notes to Financial Statements.....	6-12



650 North Winchester Boulevard
Suite 6
San Jose, Ca 95128-1511
Telephone 408-241-8700
Facsimile 408-241-8181

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Benetech Initiative
Palo Alto, California

We have audited the accompanying consolidated statement of financial position of Beneficent Technology, Inc. (a nonprofit organization) and Bengineering, Inc. (a for-profit organization) dba The Benetech Initiative ("the organizations"), as of December 31, 2004, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the organizations' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Beneficent Technology, Inc. and Bengineering, Inc. dba The Benetech Initiative as of December 31, 2004, and the changes in the organizations' net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

July 14, 2005

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE
Consolidated Statement of Financial Position
As of December 31, 2004**

ASSETS

Current Assets

Cash and cash equivalents	\$ 208,077	
Grants and accounts receivable	306,895	
Prepaid expenses	17,623	
Total Current Assets		\$ 532,595

Property & Equipment

Office and other equipment	213,388	
Furniture and fixtures	4,598	
Total Property & Equipment	217,986	
Less: accumulated depreciation	(204,603)	
Property & Equipment, net		13,383

Other Assets

Deposits	44,091	
Freedom Scientific Common Stock	120,000	
Total Other Assets		164,091

Total Assets		<u>\$ 710,069</u>
--------------	--	-------------------

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 95,044	
Accrued expenses	26,975	
Accrued employee benefits	190,610	
Deferred revenue	43,363	
Total Current Liabilities		<u>\$ 355,992</u>

Total Liabilities		355,992
-------------------	--	---------

Net Assets

Temporarily restricted	59,798	
Unrestricted	294,279	
Total Net Assets		<u>354,077</u>

Total Liabilities and Net Assets		<u>\$ 710,069</u>
----------------------------------	--	-------------------

See auditors' report and accompanying notes to financial statements

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE
Consolidated Statement of Activities
For the year ended December 31, 2004**

<u>Support, Revenues, and Reclassifications</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Contributions received	\$ 615,211	\$ 947,848	\$ 1,563,059
Royalties	279,912	-	279,912
Engineering consulting fees	95,032	-	95,032
Donated services	14,725	-	14,725
Bookaccess revenue	138,221	-	138,221
Bookshare revenue	107,534	-	107,534
HRDAG revenue	112,939	-	112,939
Interest Income	1,401	-	1,401
Net assets released from restrictions:			
Satisfaction of purpose restrictions	1,213,633	(1,213,633)	-
 Total Support, Revenue, and Reclassifications	 2,578,608	 (265,785)	 2,312,823
 <u>Expenses</u>			
Program services:			
Bookshare.org	666,924	-	666,924
Bookaccess	120,192	-	120,192
Martus	602,533	-	602,533
HRDAG	551,395	-	551,395
Landmine Detector	87,312	-	87,312
Route 66	12,180	-	12,180
Engineering services	95,977	-	95,977
New projects	63,696	-	63,696
Total Program Services	2,200,209	-	2,200,209
 Support services:			
Fundraising	258,045	-	258,045
Management and general	197,025	-	197,025
Total Support Services	455,070	-	455,070
 Total Expenses	 2,655,279	 -	 2,655,279
 Change in net assets	 (76,671)	 (265,785)	 (342,456)
 Net Assets, Beginning of Year	 136,469	 560,064	 696,533
 Net Assets, End of Year	 \$ 59,798	 \$ 294,279	 \$ 354,077

See auditors' report and accompanying notes to financial statements

**BENEFICENT TECHNOLOGY, INC.
& ENGINEERING, INC.
DBA THE BENETECH INITIATIVE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2004**

	Program Services										Support Services		
	Bookshare.org	Bookaccess	MARTUS	HRDAG	Landmine Detector	Route 66	Engineering	New Projects	Management & General	Fundraising	Total		
Bank Charges	\$ 8,820		\$ 2,547	\$ 2,350					\$ 882		\$ 882		
Communications	2,630		1,198	1,419	3,668				5,024	\$ 774	13,717	14,713	
Depreciation	8,199		1,507	5,330						748	15,827	15,827	
Equipment & Supplies	91,144	\$ 17,318	93,551	85,668	\$ 2,658	\$ 2,512	\$ 43	\$ 7,795	26,004	49,234	395,951	16,197	
Employee Benefits							1,500	14,697					
Training / Education													
Marketing	24,211		924	1,032	470			500	575	2,465	30,177	30,177	
Meals and Entertainment	2,955		2,503	3,072	537			1,062	1,042	2,022	13,193	13,193	
Miscellaneous	577		113	10,178	29			76	79	256	12,933	12,933	
D&O Insurance								3,437	4,630		8,067	8,067	
Outside Services	99,035	8,240	99,995	76,088	63,000			6,614	54,106	2,701	411,556	411,556	
Printing and Reproduction	39,133	16,430									55,563	55,563	
Recruitment											0	0	
Salaries and related expenses	285,594	51,230	285,615	252,387	8,105	7,489	53,523	23,356	78,284	147,131	1,192,714	1,192,714	
Software licenses		10,975									10,975	10,975	
Subscriptions & Dues	3,501		783						572	1,834	6,690	6,690	
Travel	18,859	1,894	25,681	41,224	6,500		460	3,040	7,403	8,866	113,927	113,927	
Facility and other office expense	82,266	14,105	86,116	72,647	2,345	2,179	15,545	6,556	18,424	42,014	342,197	342,197	
Total Expenses	\$ 666,924	\$ 120,192	\$ 602,533	\$ 551,395	\$ 87,312	\$ 12,180	\$ 95,977	\$ 63,696	\$ 197,025	\$ 258,045	\$ 2,655,279	\$ 2,655,279	

See auditors' report and accompanying notes to financial statements

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE
Consolidated Statement of Cash Flows
For the year ended December 31, 2004**

Cash Flows from Operating Activities:		
Change in Net Assets	\$	(342,456)
Adjustments to reconcile net change to cash provided (used) by operating activities		
Depreciation		14,713
Changes in:		
Accounts receivable		154,093
Prepaid expenses		5,251
Deposits		(4,828)
Deferred revenue		18,416
Accounts payable		57,501
Accrued payroll & benefits		74,788
Accrued expenses		1,774
		(20,748)
Net cash used by operating activities	\$	(20,748)
Cash Flows from Investing Activities:		
Purchases of property & equipment		(9,041)
		(9,041)
Net cash used by investing activities		(9,041)
Net decrease in cash		(29,789)
Cash and Cash Equivalents, December 31, 2003		237,866
Cash and Cash Equivalents, December 31, 2004	\$	208,077
Supplemental Cash Flow Disclosures		
Taxes paid	\$	1,600

See auditors' report and accompanying notes to financial statements

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE
Notes to Consolidated Financial Statements
December 31, 2004**

Note 1: Summary of Significant Accounting Policies

Business Activity

Beneficent Technology, Inc. ("the organization") was incorporated as a nonprofit corporation to develop technology projects, products and services to benefit humanity worldwide. A merger of Beneficent, Inc. and Beneficent Technology, Inc. was accepted by the California Secretary of State as of January 14, 2004. In prior years Beneficent, Inc. financial information was included in the consolidated financial statements.

Beneficent Technology, Inc. has a for-profit subsidiary, Bengineering, Inc. which is involved in providing engineering consulting services. This consulting revenue is taxable income. Bengineering, Inc.'s assets, liabilities, revenues and expenses have been consolidated into the organizations' financial statements.

Basis of Accounting

The financial statements of the organizations have been prepared on the accrual basis of accounting. Beneficent Technology, Inc. and Bengineering, Inc. are related entities and have elected to present consolidated financial statements.

Principles of Consolidation

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

Basis of Presentation

The Financial Statements are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, financial statements of nonprofit organizations. Under SFAS No. 117, the organizations are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets include those assets over which the Board of Directors has discretionary control in carrying out the operations of the organizations. The organizations have elected to report as

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE
Notes to Consolidated Financial Statements
December 31, 2004**

an increase in unrestricted net assets any restricted revenue received in the current period whose restrictions have been met in the current period.

- Temporarily restricted net assets include those assets subject to donor restrictions and for which the applicable restrictions were not met as of the end of the current reporting period. When a donor restriction expires--that is, when a stipulated time restriction ends or purpose restriction is accomplished--temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets include those assets subject to non-expiring donor restrictions, such as endowments, contributions or investments. The organizations had no permanently restricted net assets as of December 31, 2004.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition

The organizations recognize revenue on the accrual basis of accounting. Revenue from royalties and interest is recorded when earned based upon the applicable agreements. Revenue from consulting services is recognized upon performance of the applicable services. Revenue from Bookshare.org is recognized over the life of the subscription. Unearned subscription revenue is recorded as a liability on the Statement of Financial Position.

Contributions

Contributions are recognized in accordance with SFAS No. 116. Cash contributions are recognized when the donor makes a pledge to give; that is, in substance, an unconditional promise. Cash contributions are recorded as unrestricted, temporarily restricted or permanently restricted, depending on the nature of donor restrictions and on whether the restrictions are met in the current period. Restricted contributions are reported as an increase in unrestricted net assets if the restrictions have been met in the current period. If the restrictions have not been met by year end, the amount is reported as an increase in temporarily or permanently restricted net assets. When the restriction is met, the

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE
Notes to Consolidated Financial Statements
December 31, 2004**

amount is shown as a reclassification of restricted net assets to unrestricted net assets.

Contributions In-Kind

Contributions of donated, non-cash assets are recognized in accordance with the provision of SFAS No. 116 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.

The organizations received donated professional legal services and engineering services in the amount of \$10,000 and \$4,725, respectively. These services were recorded as both revenue and expense in the statement of activities. The organizations also received a significant amount of donated services from unpaid volunteers who assisted in fund-raising and other programs of the organizations. These amounts have not been recognized in the statement of activities because the criteria for recognition under SFAS No. 116 have not been satisfied.

Cash and Cash Equivalents

Cash and cash equivalents represent cash in demand accounts and highly liquid investments with original maturities of three months or less.

Note 2: Programs

The organizations act as an incubator for, and operators of, technically oriented nonprofit projects. At present the organizations are involved in the following projects:

Bookshare.org: Bookshare.org is an internet-based, book sharing community for people with disabilities that also meets the stringent copyright law exemption for providing accessible electronic books. Bookshare.org was successfully launched in February 2002.

The Martus Project: The Martus Project provides technology tools to assist the human rights sector collect, safeguard, organize and disseminate information about human rights violations. The Martus software was successfully launched in early 2003.

HRDAG: The HRDAG project develops database software, data collection strategies and statistical techniques to measure human rights violations. This

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE
Notes to Consolidated Financial Statements
December 31, 2004**

technology and analysis is used by truth commissions, international criminal tribunals and non-governmental human rights organizations around the world. The analysis identifies the trends and patterns, which is the evidence of crimes of policy.

The Landmine Detector Project: This project will fill the marketability gap between exciting new technologies developed for military and airline use and the needs of humanitarian landmine removal efforts around the world. It should be noted that the organization and its staff are not working with explosive materials and it is not anticipated that this will change during 2005.

Route 66 (previously known as ALL-Link): This project is an innovative prototype Internet service providing best practices reading and writing instruction to beginning adolescent and adult readers, particularly those with significant disabilities.

BookAccess: As a subcontractor to Mississippi Consortium for International Development, BookAccess provides medical and engineering textbooks and e-books, including customized e-book software, to university libraries in northern Iraq.

Note 3: Stock Held for Investment

As part of the sale of Beneficent, Inc.'s assets relating to the marketing and sale of the Arkenstone reading machine enterprise in June 2000, the organization acquired 40,000 shares of common stock in Freedom Scientific, Inc., which were transferred to Beneficent Technology, Inc. with the merger. Stock in Freedom Scientific, Inc. is not traded on any major stock exchanges nor are there any established market makers for this stock. The value was determined by reference to the sales price among private investors.

Note 4: Related Party Transactions

The organizations are related through common management and an individual who is an officer and director of both organizations. The organizations share common facilities and share the use of certain employees. In addition, a member of the board donated legal services to the organizations (See note 1).

The organization also has a resource sharing agreement whereby property and equipment, office space, employees and other operating resources are shared by the related entities.

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE
Notes to Consolidated Financial Statements
December 31, 2004**

Note 5: Grants and Accounts Receivable

Grants and accounts receivable reflected in the financial statements are related to royalty receivables, rental income, Bookshare subscriptions, grants and engineering consulting fees. One grant agreement noted that the grantor would invest some of the grant funds, guaranteeing the principal amount of the grant while providing any investment returns as additional grant funds. No provision for doubtful accounts has been recorded, because all of the grants and accounts receivable have been collected as of the date of the report.

Note 6: Property and Equipment

Property and equipment are stated at cost if purchased or estimated fair market value if donated. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Equipment purchases of under \$1,500 are expensed as incurred.

Note 7: Retirement Plan

During the year the organizations maintained a 401(k) defined contribution plan. Eligible employees can defer up to \$13,000. The organizations match 50% of employee contributions up to a maximum of 2% of the employees' gross salary. Employer contributions for 2004 were \$24,977.

Note 8: Income taxes

Beneficent Technology, Inc. is a nonprofit corporation qualified under IRC code section 501(c)(3) and California R&T code section 23701(d). The organization 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 year ended December 31, 2004, Bengineering, Inc. did not have taxable income and therefore was only liable for the California minimum franchise tax of \$800.

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE
Notes to Consolidated Financial Statements
December 31, 2004**

Note 9: Lease Commitments

The organizations are obligated under a facility lease that expires January 31, 2006 with an option to renew for an additional two years at 95% of fair market rent. Additionally, the organizations sublease a portion of the facility on a month-to-month basis. Rental expense for the year was \$185,228 and rental income received was \$56,601. Therefore, net rental expense was \$128,627. Future minimum lease payments are shown below:

Year ended December 31, 2005	\$ 180,406
Year ended December 31, 2006	<u>15,034</u>
Total	\$ 195,440

Note 10: Contingencies

The organizations have deposited funds in a number of accounts with traditional public financial institutions. The amounts on deposit in these accounts are over the federally insured limit and therefore are subject to some risk of loss if the financial institution were to become insolvent. No loss contingency has been accrued for this possibility due to the extremely low probability of such an occurrence. As of December 31, 2004, the uninsured balance was \$48,723.

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

Beneficent Technology, Inc. is involved in providing technology tools (software) to assist the international human rights sector in collecting, safeguarding, organizing and disseminating information about human rights violations. Because of a concern over potential litigation about the accuracy of information that may be collected and stored by third party users of these tools, the organization does

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE
Notes to Consolidated Financial Statements
December 31, 2004**

not itself operate any of the collection or storage facilities used in this process. Furthermore, in order to minimize liability, the organization has a licensing arrangement intended to protect the organization as much as possible from such liability and litigation. 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.

Note 11: Temporarily Restricted Assets

The organizations began the year with \$560,064 in temporarily restricted net assets. During the year, the organizations received donations from unrelated entities in the amount of \$947,848. Guidelines for these donations restricted their use to specific purposes. During the year the organization incurred expenses of \$1,213,633 to meet these purposes; accordingly, the remaining balance of \$294,279 is considered temporarily restricted until the organizations meet the obligations of these grants. Temporarily restricted programs had the following balances at December 31, 2004:

Bookshare	<u>\$117,237</u>
HRDAG	87,732
Landmine	10,343
Martus	<u>78,967</u>
Total	\$ 294,279