

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE
CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT THEREON
DECEMBER 31, 2006**

**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.....	6-13

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, 2006, 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. The prior year summarized comparative information has been derived from the Organizations' 2005 financial statements and, in our report dated April 24, 2006, we expressed an unqualified opinion in those financial statements.

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, 2006, 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 23, 2007

Shannon & Snyder

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE**
Consolidated Statement of Financial Position
December 31, 2006 with Comparative Totals for 2005

	<u>ASSETS</u>	
	<u>2006</u>	<u>2005</u>
<u>Current Assets</u>		
Cash and cash equivalents	\$ 1,321,999	\$ 1,661,676
Grants and accounts receivable	962,727	462,820
Prepaid expenses	<u>18,675</u>	<u>18,589</u>
Total Current Assets	2,303,401	2,143,085
 <u>Property & Equipment</u>		
Office and other equipment	197,820	152,864
Leasehold improvements	<u>2,350</u>	<u>2,350</u>
Total Property & Equipment	200,170	155,214
Less: accumulated depreciation	<u>(150,175)</u>	<u>(136,189)</u>
Property & Equipment, net	49,995	19,025
 <u>Other Assets</u>		
Grant receivable	-	189,767
Deposits	41,552	41,552
Freedom Scientific Common Stock	<u>-</u>	<u>120,000</u>
Total Other Assets	41,552	351,319
 Total Assets	 <u>\$ 2,394,948</u>	 <u>\$ 2,513,429</u>
 <u>LIABILITIES AND NET ASSETS</u>		
 <u>Current Liabilities</u>		
Accounts payable	\$ 84,709	\$ 72,621
Accrued expenses	32,600	57,725
Accrued employee benefits	217,288	196,015
Deferred revenue	<u>38,773</u>	<u>39,564</u>
Total Current Liabilities	373,370	365,925
 Total Liabilities	 373,370	 365,925
 <u>Net Assets</u>		
Temporarily restricted	752,560	786,892
Unrestricted	<u>1,269,018</u>	<u>1,360,612</u>
Total Net Assets	2,021,578	2,147,504
 Total Liabilities and Net Assets	 <u>\$ 2,394,948</u>	 <u>\$ 2,513,429</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, 2006 with
Comparative Totals for the Year Ended December 31, 2005**

<u>Support, Revenues, and Reclassifications</u>	<u>2006</u>			<u>2005</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
Contributions received	\$ 1,338,201	\$ 1,232,994	2,571,195	\$ 3,589,918
Royalties	239,303	-	239,303	242,701
Engineering consulting fees	71,733	-	71,733	83,537
Donated services/products	11,371	-	11,371	35,864
Bookaccess revenue	-	-	-	94,856
Bookshare revenue	191,242	-	191,242	150,909
HRDAG revenue	15,240	-	15,240	51,990
Martus revenue	22,834	-	22,834	66,101
Miradi revenue	-	-	-	132,501
Interest income	57,317	-	57,317	8,780
Investment income	(120,000)	-	(120,000)	-
Net assets released from restrictions:				
Satisfaction of purpose restrictions	<u>1,267,326</u>	<u>(1,267,326)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue, and Reclassifications	3,094,567	(34,332)	3,060,235	4,457,157
 <u>Expenses and Losses</u>				
Program services:				
Bookshare.org	881,960	-	881,960	591,048
Bookaccess	-	-	-	82,484
Miradi	175,066	-	175,066	100,326
Martus	202,478	-	202,478	408,101
HRDAG	684,777	-	684,777	565,819
Landmine Detector	178,074	-	178,074	85,351
Route 66	119,076	-	119,076	51,856
Engineering services	64,540	-	64,540	79,222
New projects	10,259	-	10,259	21,015
Total Program Services	<u>2,316,230</u>	<u>-</u>	<u>2,316,230</u>	<u>1,985,222</u>
Support services:				
Fundraising	546,306	-	546,306	431,817
Management and general	323,625	-	323,625	246,691
Total Support Services	<u>869,931</u>	<u>-</u>	<u>869,931</u>	<u>678,508</u>
Total Expenses	<u>3,186,161</u>	<u>-</u>	<u>3,186,161</u>	<u>2,663,730</u>
Change in Net Assets	(91,594)	(34,332)	(125,926)	1,793,427
Net Assets, Beginning of Year	<u>1,360,612</u>	<u>786,892</u>	<u>2,147,504</u>	<u>354,077</u>
Net Assets, End of Year	<u>\$ 1,269,018</u>	<u>\$ 752,560</u>	<u>\$ 2,021,578</u>	<u>\$ 2,147,504</u>

See auditors' report and accompanying notes to financial statements

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2006 with
Comparative Totals for the Year Ended December 31, 2005**

	<u>Program Services</u>							<u>Support Services</u>			<u>2006 Total</u>	<u>2005 Total</u>
	<u>Bookshare.org</u>	<u>Miradi</u>	<u>MARTUS</u>	<u>HRDAG</u>	<u>Landmine Detector</u>	<u>Route 66</u>	<u>Engineering</u>	<u>New Projects</u>	<u>Management & General</u>	<u>Fundraising</u>		
Bank Charges									\$ 619		\$ 619	\$ 357
Book Collection & Development	\$ 10,518										10,518	28,584
Communications	9,444	\$ 324	\$ 1,525	\$ 1,551		\$ 165					13,009	12,728
Depreciation	2,460		71	3,166	\$ 506			11,127	\$ 323		17,653	11,011
Equipment & Supplies	11,121	195	297	4,643	7,684	304		4,429	262		28,935	19,185
Employee Benefits	163,585	11,566	36,564	98,495		25,179	\$ 15,531	\$ 2,140	45,970	123,114	522,144	407,090
Marketing	28,395		559	152	2,441	1,909		705	16,016	5,895	56,072	26,365
Meals and Entertainment	4,886	68	88	3,719	588	205			2,190	2,524	14,268	12,152
Miscellaneous				5,099			833		732	119	6,783	20,536
D&O Insurance									3,880		3,880	4,484
Outside Services	65,876	120,427	43,875	189,388	72,758	5,479	105		88,202	50	586,160	502,869
Salaries and related expenses	387,756	28,058	84,075	227,763	68,272	59,828	35,782	5,036	108,185	288,741	1,293,496	1,179,486
Subscriptions & Dues	4,402		295				360		3,316	3,235	11,608	11,694
Travel	47,674	870	5,664	64,124	5,106	3,319	107	193	3,841	13,622	144,520	87,939
Facility and other office expense	145,843	13,558	29,465	86,677	20,719	22,688	11,822	2,185	35,118	108,421	476,496	339,250
Total Expenses	<u>\$ 881,960</u>	<u>\$ 175,066</u>	<u>\$ 202,478</u>	<u>\$ 684,777</u>	<u>\$ 178,074</u>	<u>\$ 119,076</u>	<u>\$ 64,540</u>	<u>\$ 10,259</u>	<u>\$ 323,625</u>	<u>\$ 546,306</u>	<u>\$ 3,186,161</u>	<u>\$ 2,663,730</u>

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, 2006 with
Comparative Totals for the Year Ended December 31, 2005**

	2006	2005
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (125,926)	\$ 1,793,427
Adjustments to reconcile net change to cash provided (used) by operating activities		
Depreciation	17,653	11,011
Changes in:		
Grants & accounts receivable	(310,140)	(345,692)
Prepaid expenses	(86)	(966)
Deposits	-	2,539
Deferred revenue	(791)	(3,799)
Accounts payable	12,088	(22,423)
Accrued payroll & benefits	21,273	5,405
Accrued expenses	(25,125)	30,750
Net cash (used) provided by operating activities	(411,054)	1,470,252
Cash Flows from Investing Activities:		
Purchases of property & equipment	(48,623)	(16,653)
Worthless securities	120,000	-
Net cash provided (used) by investing activities	71,377	(16,653)
Net (decrease) increase in cash	(339,677)	1,453,599
Cash and Cash Equivalents, Beginning of Year	1,661,676	208,077
Cash and Cash Equivalents, End of Year	\$ 1,321,999	\$ 1,661,676
Supplemental Cash Flow Disclosures		
Taxes paid	\$ 800	\$ 800

See auditors' report and accompanying notes to financial statements

**BENEFICENT TECHNOLOGY, INC.
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DBA THE BENETECH INITIATIVE
Notes to Consolidated Financial Statements
December 31, 2006**

Note 1: Summary of Significant Accounting Policies

Benetech's Business Activity

Beneficent Technology, Inc. (doing business as "Benetech") 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 in the financial statements. Both organizations operated under the Benetech dba and brand name.

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. (the Organizations). 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, 2006**

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, 2006.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2005, from which the summarized information was derived.

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.

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE
Notes to Consolidated Financial Statements
December 31, 2006**

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 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 in the amount of \$10,000. The Organizations also received donated products in the amount of \$1,371. These services and products 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, technology-oriented nonprofit projects. The Organizations are involved in the following projects:

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE
Notes to Consolidated Financial Statements
December 31, 2006**

Bookshare.org: Bookshare.org provides digital accessible copyrighted material to people with qualifying print disabilities. It is a web-based library of books, periodicals, and newspapers for people with print and visual disabilities who meet the stringent copyright law exemption permitting reproduction of publications into specialized formats for the print disabled. These publications can be accessed through synthetic voice, Braille or large print. Bookshare.org was launched in February 2002. Through the active participation of hundreds of volunteers, Bookshare.org provides print disabled people with instant access to over 30,000 books and 100 daily newspapers.

Miradi (previously known as eAM): Miradi is designed to bring quality project management tools to the global environmental conservation community. This project is a joint venture between Benetech and the Conservation Measures Partnership (CMP), a consortium of leading conservation organizations. Miradi provides an easy-to-use, interview-style interface that will walk a project team through each step of the process of designing, managing and monitoring their project according to the best-practice standards established and tested by the world's major conservation organizations. First beta was released in Q-1 2007. In the future, project teams will be able to upload the results of their project to a database on the Internet and enable the sharing of findings with other practitioners who are working on similar situations or grappling with similar challenges.

HRDAG: The HRDAG project uses science and technology to advance the cause of human rights. The project team develops database software, data collection strategies and statistical techniques to measure the magnitude and pattern of human rights violations in order to evaluate claims that violence was the result of state or institutional policies. This technology and analysis is used by truth commissions, international criminal tribunals and non-governmental human rights organizations as they write history and find people responsible for gross human rights abuses.

The Martus Project: The Martus Project provides an easy-to-use tool to assist the human rights sector collect, safeguard, organize and disseminate information about human rights violations. The Martus software is freely downloadable, is available in seven languages (English, Russian, Spanish, French, Thai, Nepali and Arabic) and has been downloaded by people in over 70 countries.

The Landmine Detector Project: The goal of this project was to 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. All work on this project to date has been research. Due to complex issues in bringing this product to market, the project was temporarily suspended in 2007.

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE
Notes to Consolidated Financial Statements
December 31, 2006**

Route 66 Literacy: This project is an innovative internet based service providing best practices reading and writing instruction to beginning adolescent and adult readers, particularly those with significant developmental disabilities. The software has an integrated feature which helps any literate person become an effective literacy tutor. Route 66 is not yet a released product, but is available in demonstration form from the Benetech website.

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. On or around April 23, 2007, Freedom Scientific Holdings Corp. (Parent) and Freedom Scientific, Inc. (Subsidiary) entered into an Agreement and Plan of Merger. Under the terms of the Merger Agreement, each outstanding share of common stock was cancelled for no consideration. As a result, Benetech recognized an investment loss of \$120,000 during the year ended December 31, 2006.

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.

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. No provision for doubtful accounts has been recorded, because all of the grants and accounts receivable have either been collected as of the date of the report or are expected to be collected within the following year.

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE
Notes to Consolidated Financial Statements
December 31, 2006**

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

The Organizations maintain a 401(k) defined contribution plan. Eligible employees can defer up to \$15,000. The Organizations match 50% of employee contributions up to a maximum of 2% of the employees' gross salary. Employer contributions for 2006 were \$26,583.

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, 2006, Bengineering, Inc. did not have taxable income and therefore was only liable for the California minimum franchise tax of \$800.

Note 9: Lease Commitments

The Organizations are obligated under a facility lease that expires January 31, 2008 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 \$156,805 and rental income received was \$51,851. Therefore, net rental expense was \$104,954. Future minimum lease payments are shown below:

Year ended December 31, 2007	\$ 208,924
Year ended December 31, 2008	<u>17,455</u>
Total	\$ 226,379

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

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE
Notes to Consolidated Financial Statements
December 31, 2006**

accrued for this possibility due to the extremely low probability of such an occurrence. As of December 31, 2006, the uninsured balance was \$1,065,459.

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 authors and 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 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 \$786,892 in temporarily restricted net assets. During the year, the Organizations received donations from unrelated entities in the amount of \$1,232,994. Guidelines for these donations restricted their use to specific purposes. During the year the Organization incurred expenses of \$1,267,326 to meet these purposes; accordingly, the remaining balance of \$752,560 is considered temporarily restricted until the Organizations meet the obligations of these grants. Temporarily restricted programs had the following balances at December 31, 2006:

**BENEFICENT TECHNOLOGY, INC.
& BENGINEERING, INC.
DBA THE BENETECH INITIATIVE
Notes to Consolidated Financial Statements
December 31, 2006**

	<u>2006</u>
Bookshare	\$ 485,625
Miradi	120,357
Landmine	116,321
Martus	<u>30,257</u>
Total	<u>\$ 752,560</u>