

**BENEFICENT TECHNOLOGY, INC.  
& BENGINEERING, INC.  
DBA THE BENETECH INITIATIVE  
CONSOLDIATED FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT THEREON  
DECEMBER 31, 2005**

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

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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



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## 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, 2005, 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' 2004 financial statements and, in our report dated July 14, 2005, 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, 2005, 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.

April 24, 2006

**BENEFICENT TECHNOLOGY, INC.  
& BENGINEERING, INC.  
DBA THE BENETECH INITIATIVE  
Consolidated Statement of Financial Position  
December 31, 2005 with Comparative Totals for 2004**

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
<u>Current Assets</u>		
Cash and cash equivalents	\$ 1,661,676	\$ 208,077
Grants and accounts receivable	462,820	306,895
Prepaid expenses	18,589	17,623
Total Current Assets	2,143,085	532,595
 <u>Property &amp; Equipment</u>		
Office and other equipment	152,864	213,388
Furniture and fixtures	-	4,598
Leasehold improvements	2,350	-
Total Property & Equipment	155,214	217,986
Less: accumulated depreciation	(136,189)	(204,603)
Property & Equipment, net	19,025	13,383
 <u>Other Assets</u>		
Grant receivable	189,767	-
Deposits	41,552	44,091
Freedom Scientific Common Stock	120,000	120,000
Total Other Assets	351,319	164,091
 Total Assets	 \$ 2,513,429	 \$ 710,069
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
 <u>Current Liabilities</u>		
Accounts payable	\$ 72,621	\$ 95,044
Accrued expenses	57,725	26,975
Accrued employee benefits	196,015	190,610
Deferred revenue	39,564	43,363
Total Current Liabilities	365,925	355,992
 Total Liabilities	 365,925	 355,992
 <u>Net Assets</u>		
Temporarily restricted	786,892	294,279
Unrestricted	1,360,612	59,798
Total Net Assets	2,147,504	354,077
 Total Liabilities and Net Assets	 \$ 2,513,429	 \$ 710,069

*See auditors' report and accompanying notes to financial statements*

**BENEFICENT TECHNOLOGY, INC.  
& ENGINEERING, INC.  
DBA THE BENETECH INITIATIVE  
Consolidated Statement of Activities  
For the Year Ended December 31, 2005 with  
Comparative Totals for the Year Ended December 31, 2004**

<u>Support, Revenues, and Reclassifications</u>	<u>2005</u>			<u>2004</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
Contributions received	\$ 1,880,497	\$ 1,709,421	3,589,918	\$ 1,563,059
Royalties	242,701	-	242,701	279,912
Engineering consulting fees	83,537	-	83,537	95,032
Donated services/products	35,864	-	35,864	14,725
Bookaccess revenue	94,856	-	94,856	138,221
Bookshare revenue	150,909	-	150,909	107,534
e-AM Revenue	132,501	-	132,501	-
HRDAG revenue	51,990	-	51,990	112,939
Martus Revenue	66,101	-	66,101	-
Interest Income	8,780	-	8,780	1,401
Net assets released from restrictions:				
Satisfaction of purpose restrictions	<u>1,216,808</u>	<u>(1,216,808)</u>	<u>-</u>	<u>-</u>
Total Support, Revenue, and Reclassifications	3,964,544	492,613	4,457,157	2,312,823
 <b><u>Expenses</u></b>				
Program services:				
Bookshare.org	591,048	-	591,048	666,924
Bookaccess	82,484	-	82,484	120,192
e-AM	100,326	-	100,326	-
Martus	408,101	-	408,101	602,533
HRDAG	565,819	-	565,819	551,395
Landmine Detector	85,351	-	85,351	87,312
Route 66	51,856	-	51,856	12,180
Engineering services	79,222	-	79,222	95,977
New projects	<u>21,015</u>	<u>-</u>	<u>21,015</u>	<u>63,696</u>
Total Program Services	1,985,222	-	1,985,222	2,200,209
Support services:				
Fundraising	431,817	-	431,817	258,045
Management and general	<u>246,691</u>	<u>-</u>	<u>246,691</u>	<u>197,025</u>
Total Support Services	<u>678,508</u>	<u>-</u>	<u>678,508</u>	<u>455,070</u>
Total Expenses	<u>2,663,730</u>	<u>-</u>	<u>2,663,730</u>	<u>2,655,279</u>
Change in Net Assets	1,300,814	492,613	1,793,427	(342,456)
Net Assets, Beginning of Year	<u>59,798</u>	<u>294,279</u>	<u>354,077</u>	<u>696,533</u>
Net Assets, End of Year	<u>\$ 1,360,612</u>	<u>\$ 786,892</u>	<u>\$ 2,147,504</u>	<u>\$ 354,077</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, 2005 with  
Comparative Totals for the Year Ended December 31, 2004**

	<b>Program Services</b>										<b>Support Services</b>		
	<u>Bookshare.org</u>	<u>Bookaccess</u>	<u>e-AM</u>	<u>MARTUS</u>	<u>HRDAG</u>	<u>Landmine Detector</u>	<u>Route 66</u>	<u>Engineering</u>	<u>New Projects</u>	<u>Management &amp; General</u>	<u>Fundraising</u>	<u>2005 Total</u>	<u>2004 Total</u>
Bank Charges												\$ 357	\$ 882
Book Collection & Development	\$ 7,913	\$ 20,671		\$ 1,543	\$ 2,226							28,584	55,563
Communications	8,959			764	2,553							12,728	13,717
Depreciation	3,148									\$ 774	\$ 774	11,011	14,713
Equipment & Supplies	8,064	651		783	399					7,829	1,459	19,185	15,827
Employee Benefits	94,517	10,002	\$ 14,893	57,029	83,638	\$ 5,119	\$ 11,319	\$ 15,410	\$ 4,450	24,600	86,113	407,090	395,951
Marketing	21,204			2,089					80	584	2,408	26,365	30,177
Meals and Entertainment	2,389	8,098	509	404	3,620	368				1,458	3,404	12,152	13,193
Miscellaneous					9,921	1,190		857		470		20,536	12,933
D&O Insurance										4,484		4,484	8,067
Outside Services	64,635	6,848	30,505	110,904	132,196	60,020	347	765	126	96,301	222	502,869	411,556
Salaries and related expenses	274,272	25,510	40,374	173,420	233,443	13,929	30,644	46,703	12,690	76,717	251,784	1,179,486	1,192,714
Software Licenses				295								-	10,975
Subscriptions & Dues	4,326		2,309	11,357	31,243	983		1,939		3,503	1,631	11,694	6,690
Travel	23,180	3,781						384		3,753	10,949	87,939	113,927
Training / Education												-	16,197
Facility and other office expense	78,441	6,923	11,736	49,513	66,580	3,742	9,546	13,164	3,669	22,863	73,073	339,250	342,197
<b>Total Expenses</b>	<b>\$ 591,048</b>	<b>\$ 82,484</b>	<b>\$ 100,326</b>	<b>\$ 408,101</b>	<b>\$ 565,819</b>	<b>\$ 85,351</b>	<b>\$ 51,856</b>	<b>\$ 79,222</b>	<b>\$ 21,015</b>	<b>\$ 246,691</b>	<b>\$ 431,817</b>	<b>\$ 2,663,730</b>	<b>\$ 2,655,279</b>

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, 2005 with  
Comparative Totals for the Year Ended December 31, 2004**

	<u>2005</u>	<u>2004</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 1,793,427	\$ (342,456)
Adjustments to reconcile net change to cash provided (used) by operating activities		
Depreciation	11,011	14,713
Changes in:		
Grants & accounts receivable	(345,692)	154,093
Prepaid expenses	(966)	5,251
Deposits	2,539	(4,828)
Deferred revenue	(3,799)	18,416
Accounts payable	(22,423)	57,501
Accrued payroll & benefits	5,405	74,788
Accrued expenses	<u>30,750</u>	<u>1,774</u>
Net cash provided (used) by operating activities	1,470,252	(20,748)
Cash Flows from Investing Activities:		
Purchases of property & equipment	<u>(16,653)</u>	<u>(9,041)</u>
Net cash provided (used) by investing activities	<u>(16,653)</u>	<u>(9,041)</u>
Net increase (decrease) in cash	1,453,599	(29,789)
Cash and Cash Equivalents, Beginning of Year	<u>208,077</u>	<u>237,866</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,661,676</u>	<u>\$ 208,077</u>
Supplemental Cash Flow Disclosures		
Taxes paid	\$ 800	\$ 1,600

*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, 2005**

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**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