

**MEDSHARE INTERNATIONAL, INC.
AUDITED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED
JUNE 30, 2009
INDEPENDENT AUDITOR'S REPORT**

R MICHAEL LABOUNTY & ASSOCIATES, P.C.
Certified Public Accountants
2750 Buford Highway, Suite 247
Atlanta, GA 30324

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M
L

R. Michael LaBounty
& Associates, P.C.
Certified Public Accountants

2750 Buford Highway
Suite 247
Atlanta, GA 30324
ph. 404.636.6272 fax. 404.636.6271

INDEPENDENT AUDITOR'S REPORT

Board of Directors
MedShare International, Inc.
3240 Clifton Springs Road
Decatur, GA 30034

We have audited the accompanying Statement of Financial Position of MedShare International, Inc. (a non-profit organization) as of June 30, 2009 and the related Statements of Activities and Changes in Net Assets, and Cash Flows for the six months then ended. These financial statements are the responsibility of MedShare International, Inc.'s 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 financial position of MedShare International, Inc. as of June 30, 2009 and the results of its operations and cash flows for the six months then ended, in conformity with accounting principles generally accepted in the United States of America.

R. Michael LaBounty & Associates, P.C.

Atlanta, Georgia
October 5, 2009

MEDSHARE INTERNATIONAL, INC.
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2009

ASSETS

CURRENT ASSETS:

Cash	\$ 149,073
Money market funds	930,669
Pledges receivable	1,633,288
Inventory	9,067,093
Prepaid expenses	57,859
Other	<u>59,373</u>
 Total current assets	 <u>11,897,355</u>

PROPERTY & EQUIPMENT (NOTE 1):

Land	340,552
Building	1,585,723
Furniture and equipment	322,499
Accumulated depreciation	<u>(294,915)</u>
 Property & equipment - net	 <u>1,953,859</u>

OTHER ASSETS:

Deposits	<u>20,976</u>
 Total Assets	 \$ <u><u>13,872,190</u></u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MEDSHARE INTERNATIONAL, INC.
STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS OF JUNE 30, 2009

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 87,319
Line of credit	300,000
Deferred reveue	83,360
Deferred rent	48,396
Current portion of long-term debt	<u>11,246</u>

Total current liabilities 530,321

LONG - TERM DEBT

364,383

Total liabilities

894,704

NET ASSETS:

Unrestricted	10,818,379
Temporarily restricted	<u>2,159,107</u>

Total net assets 12,977,486

Total liabilities and net assets \$ 13,872,190

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MEDSHARE INTERNATIONAL, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE SIX MONTHS ENDED JUNE 30, 2009

Changes in Unrestricted Net Assets:

Revenues and Support		
Grants & Contributions	\$	425,401
In-Kind Contributions		
Equipment and Supplies		4,958,959
Professional Services		72,569
Other Income		<u>5,053</u>
Total Revenues and Support		<u>5,461,982</u>
Net Assets Released from Restrictions		<u>575,268</u>
Operating Expenses:		
Program Expenses		5,155,411
Fundraising Expenses		221,744
General & Administrative Expenses		<u>115,952</u>
Total Operating Expenses		<u>5,493,107</u>
Increase in Unrestricted Net Assets		<u>544,143</u>
Changes in Temporarily Restricted Net Assets		
Contributions for Specific Projects		871,863
Net Assets Released from Restrictions		<u>(575,268)</u>
Increase (Decrease) in Temporarily Restricted Net Assets		<u>296,595</u>
Increase in Net Assets		840,738
Net Assets at Beginning of Period		<u>12,136,748</u>
Net Assets at End of Period	\$	<u><u>12,977,486</u></u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MEDSHARE INTERNATIONAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE SIX MONTHS ENDED JUNE 30, 2009

	Program Services	Fundraising	General & Administrative	Total Supporting Services	Total
Equipment & supplies shipped	\$ 4,097,991	\$ -	\$ -	\$ -	\$ 4,097,991
Personnel	547,539	163,400	59,219	222,619	770,158
Shipping	162,170	-	-	-	162,170
Occupancy	147,686	431	1,185	1,616	149,302
Professional fees	41,535	30,265	48,265	78,530	120,065
Depreciation	51,665	527	527	1,054	52,719
Office expenses	33,190	7,426	1,502	8,928	42,118
Travel	15,864	12,966	3,690	16,656	32,520
Other expenses	25,843	789	205	994	26,837
Insurance	21,769	45	1,294	1,339	23,108
Marketing	3,750	5,830	-	5,830	9,580
Interest	6,409	65	65	130	6,539
Total expenses	\$ 5,155,411	\$ 221,744	\$ 115,952	\$ 337,696	\$ 5,493,107

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MEDSHARE INTERNATIONAL, INC.
STATEMENT OF CASH FLOWS
AS OF JUNE 30, 2009

Cash Flows Provided by Operating Activities:	
Increase in Net Assets:	\$ 840,738
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities	
Depreciation	52,719
(Increase) in pledges receivable	(122,492)
(Increase) in inventory	(836,977)
(Increase) in prepaid expense	(25,621)
Decrease in other current assets	57,701
(Decrease) in accounts payable	(24,860)
Increase in line of credit	300,000
Increase in deferred revenue	13,160
Increase in deferred rent	<u>26,398</u>
Cash Provided by Operating Activities	<u>280,766</u>
Cash Flows (Used by) Investing Activities:	
Purchase of Property and Equipment	<u>(47,635)</u>
Cash Flows (Used by) Financing Activities:	
(Decrease) in Long Term Debt	<u>(5,567)</u>
Net Increase in Cash	<u>227,564</u>
Cash at Beginning of Period	<u>852,178</u>
Cash at End of Period	<u>\$ 1,079,742</u>
Other Supplemental Information	
Interest Paid	<u>\$ 6,539</u>
Income Taxes Paid	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MEDSHARE INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2009

Note 1 - Summary of Significant Accounting Principles

This Summary of Significant Accounting Policies of MedShare International, Inc. is presented to assist in understanding its financial statements.

Nature of Activities

MedShare International, Inc. (the "Organization") was incorporated in December, 1998. The Organization is dedicated to recycling surplus medical supplies and equipment for use by healthcare institutions primarily in Central America and Africa. To achieve this mission, MedShare International, Inc. collects supplies and equipment that are still valuable but no longer in demand in the United States due to procedural excess, technological change, regulatory requirements, or production overage. MedShare International, Inc. then arranges for the shipment and distribution of these items to healthcare facilities in the targeted developing countries. The Organization operates out of a 48,500 square foot warehouse facility in Decatur, Georgia and a 32,472 square foot warehouse facility in San Leandro, California.

Basis of Accounting

These financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Public Support and Revenue

Unconditional promises to give are recorded as received. Unconditional grants due in the next year are reflected as receivables and are recorded at their net realizable value. Contributions of non-cash assets are recorded at their fair values in the period received. The Organization is supported primarily by private contributions.

Donated Assets

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

MEDSHARE INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE SIX MONTHS ENDED JUNE 30, 2009

Note 1 - Summary of Significant Accounting Principles (Continued)

Inventory

Inventory is stated at the lower of cost or market on a specific identification basis.

Property and Equipment

Property and equipment are carried at cost. Depreciation is provided using a straight-line method over periods from five to forty years. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense for the six months ended June 30, 2009 was \$52,718.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). Income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. For the six months ended June 30, 2009, the Organization did not have any unrelated business income, and accordingly, no unrelated business income tax.

Donated Services

Donated services are recognized as contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. During the six months ended June 30, 2009, many individuals volunteered their time in support of the Organization's programs. The individuals' time did not meet the above criteria to be recorded as contributions in the financial statements. However, the Organization does receive professional services that meet these criteria. The value of these services was \$72,569 for the six months ended June 30, 2009.

MEDSHARE INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE SIX MONTHS ENDED JUNE 30, 2009

Note 1 - Summary of Significant Accounting Principles (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting six months. Actual results could differ from those estimates.

Note 2 – Building Purchase

In January 2007, the Organization purchased its warehouse facility in Decatur, Georgia for \$1,843,000 plus closing costs. The Organization borrowed \$500,000 from a local bank and used Capital Campaign funds to pay for the building. The loan payments are being amortized over 25 years at prime plus 0.25%. The interest rate is 3.5% at June 30, 2009. The loan agreement was paid in full in August 2009.

Note 3 – Line of Credit

The Organization has a line of credit with a commercial bank that allows the Organization to borrow up to \$300,000. Any amounts borrowed are secured by the Organization's inventory. The interest rate on any borrowing is prime plus 0.25 percent. As of June 30, 2009, there was a \$300,000 outstanding balance. The interest rate was 4.75% at June 30, 2009.

Note 4 – Lease Commitment

As of August 2008 the Organization leases space for its operations in California under the terms of a non-cancelable lease agreement expiring July 2013. Rent expense for the six months ended June 30, 2009 was \$78,988. Future minimum lease payments over the remaining term of the leases as of June 30, 2009 are as follows:

Year Ending June 30,		
2010	\$	223,500
2011		230,204
2012		237,110
2013		<u>140,707</u>
	\$	<u>831,521</u>

MEDSHARE INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE SIX MONTHS ENDED JUNE 30, 2009

Note 5 Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of contributions the Organization has received subject to donor-imposed restrictions consisting of the following at June 30, 2009:

Container Sponsorships & Operating Grants	\$ 1,176,089
Capital Campaign	937,409
Other	<u>45,609</u>
Total temporarily restricted net assets	\$ <u>2,159,107</u>

Net assets totaling \$575,268 were released from donor restrictions during the six months ended June 30, 2009.

Note 6 – Concentration of Credit Risks

The Organization maintains cash balances at several financial institutions. The account balances (as reflected in the Organization's records) are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). There were no balances in excess of the FDIC limit at June 30, 2009. Management believes that the quality of the financial institutions with which these amounts are deposited render the risk of loss minimal.

Note 7 – Accounting for Income Taxes

Management has elected to defer the application of FAS FIN 48, Accounting for Uncertain Tax Positions in accordance with FSP 48-3. The Organization will continue to follow FAS 5, Accounting for Contingencies until it adopts FIN 48.

Note 8 – Economic Environment

During 2008, the United States and global credit markets became illiquid. This has resulted in several high-profile investment and commercial bank failures. These problems have affected the broader U.S. and global markets, as well as consumer confidence. The U.S. stock market has fallen significantly from its September 2008 level. It is uncertain how this downturn in the financial markets and consumer confidence may affect the operations, funding and contribution income of nonprofit organizations in the near future.