

**MEDSHARE INTERNATIONAL, INC.
AUDITED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED JUNE 30, 2011**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
MedShare International, Inc.
3420 Clifton Springs Road
Decatur, GA 30034-4608

We have audited the accompanying statement of financial position of MedShare International, Inc. (the Organization) as of June 30, 2011 and the related statements of activities and changes in net assets, functional expenses and cash flows for the years 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 upon 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, 2011 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

R. MICHAEL LABOUNTY & ASSOCIATES, P.C.

Atlanta, Georgia
August 30, 2011

MEDSHARE INTERNATIONAL, INC.
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2011

ASSETS

CURRENT ASSETS:

Cash	\$ 102,203
Money market funds	1,303,244
Pledges receivable	947,450
Inventory	11,217,084
Prepaid expenses	73,056
Other	<u>54,219</u>
Total current assets	<u>13,697,256</u>

PROPERTY AND EQUIPMENT:

Land	340,552
Building	1,789,123
Furniture and equipment	370,504
Accumulated depreciation	<u>(491,027)</u>
Property and equipment - net	<u>2,009,152</u>

OTHER ASSETS:

Pledges receivable	259,000
Other receivable	79,564
Endowment assets	1,070,016
Deposits	<u>20,976</u>
Total other assets	<u>1,429,556</u>
Total Assets	<u>\$ 17,135,964</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MEDSHARE INTERNATIONAL, INC.
STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS OF JUNE 30, 2011

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable and accrued expenses	\$ 185,584
Line of credit	90,000
Deferred revenue	78,477
Deferred rent	<u>27,498</u>
Total current liabilities	<u>381,559</u>

COMMITMENTS AND CONTINGENCIES:

NET ASSETS:

Unrestricted	13,266,207
Temporarily restricted	2,488,198
Permanently restricted	<u>1,000,000</u>
Total net assets	<u>16,754,405</u>
Total liabilities and net assets	\$ <u><u>17,135,964</u></u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MEDSHARE INTERNATIONAL, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, support and gains				
Grants and contributions	\$ 1,323,379	\$ -	\$ -	\$ 1,323,379
Contributions for specific projects	-	2,114,533	-	2,114,533
In-kind contributions				
Equipment and supplies	14,701,964	-	-	14,701,964
Leased Space	211,080	-	-	211,080
Professional services	100,548	-	-	100,548
Earnings on endowment assets, net	-	65,791	-	65,791
Other income	9,194	-	-	9,194
	<u>16,346,165</u>	<u>2,180,324</u>	<u>-</u>	<u>18,526,489</u>
Net assets released from restrictions	<u>2,141,793</u>	<u>(2,141,793)</u>	<u>-</u>	<u>-</u>
Total revenues, support and gains	<u>18,487,958</u>	<u>38,531</u>	<u>-</u>	<u>18,526,489</u>
Expenses:				
Program expenses	16,598,457	-	-	16,598,457
Fundraising expenses	497,574	-	-	497,574
General and administrative expenses	339,007	-	-	339,007
Total expenses and losses	<u>17,435,038</u>	<u>-</u>	<u>-</u>	<u>17,435,038</u>
INCREASE IN NET ASSETS	1,052,920	38,531	-	1,091,451
NET ASSETS, BEGINNING OF YEAR	<u>12,213,287</u>	<u>2,449,667</u>	<u>1,000,000</u>	<u>15,662,954</u>
NET ASSETS, END OF YEAR	<u>\$ 13,266,207</u>	<u>\$ 2,488,198</u>	<u>\$ 1,000,000</u>	<u>\$ 16,754,405</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MEDSHARE INTERNATIONAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Program Services</u>	<u>Fundraising</u>	<u>General & Administrative</u>	<u>Total Supporting Services</u>	<u>Total</u>
Equipment and supplies shipped	\$ 13,789,560	\$ -	\$ -	\$ -	\$ 13,789,560
Personnel	1,339,139	382,496	143,924	526,420	1,865,559
Shipping	502,649	-	-	-	502,649
Occupancy	537,923	1,068	1,068	2,136	540,059
Professional fees	146,262	9,187	170,972	180,159	326,421
Depreciation	102,735	1,048	1,048	2,096	104,831
Office expenses	61,423	27,183	7,625	34,808	96,231
Travel	65,457	67,673	8,682	76,355	141,812
Other expenses	9,614	989	1,757	2,746	12,360
Insurance	41,424	136	3,931	4,067	45,491
Marketing	2,086	7,794	-	7,794	9,880
Interest	185	-	-	-	185
Total expenses	\$ <u>16,598,457</u>	\$ <u>497,574</u>	\$ <u>339,007</u>	\$ <u>836,581</u>	\$ <u>17,435,038</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MEDSHARE INTERNATIONAL, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS (USED BY) OPERATING ACTIVITIES:

Increase in net assets:	\$ 1,091,451
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Depreciation	104,831
Loss on disposal of assets	1,200
(Increase) in pledges receivable	(423,950)
(Increase) in inventory	(854,377)
(Increase) in prepaid expense	(14,600)
Decrease in other current assets	62,685
Increase in accounts payable and accrued expenses	83,946
(Decrease) in line of credit	(60,000)
(Decrease) in deferred revenue	(7,090)
(Decrease) in deferred rent	<u>(13,199)</u>
Net cash (used by) operating activities	<u>(29,103)</u>

CASH FLOWS (USED BY) INVESTING ACTIVITIES:

Earnings on endowment assets, net	(65,791)
Purchase of property and equipment	<u>(229,759)</u>
Net cash (used by) investing activities	<u>(295,550)</u>

CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:

Decrease in long-term receivables	<u>462,381</u>
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NET INCREASE IN CASH 137,728

CASH, BEGINNING OF YEAR 1,267,719

CASH, END OF YEAR \$ 1,405,447

OTHER SUPPLEMENTAL INFORMATION

Interest paid	<u><u>\$ 185</u></u>
Income taxes paid	<u><u>\$ -</u></u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

MEDSHARE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Incorporated in December 1998, MedShare International, Inc. (the "Organization") is dedicated to recycling surplus medical supplies and equipment for use by healthcare institutions primarily in Central America, South America and Africa. To achieve this mission, the Organization collects supplies and equipment in the United States that are still valuable but no longer in demand due to procedural excess, technological change, regulatory requirements or production overage. The Organization 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.

Note 1 - Summary of Significant Accounting Policies

The Organization's Summary of Significant Accounting Policies is presented to assist in understanding its financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the statements' preparation. The financial statements and notes are representations of the Organization's management, who are responsible for their integrity and objectivity.

Basis of Accounting and Presentation - The Organization uses the accrual basis of accounting for its revenues and expenses. Information regarding its financial position and activities is presented under three separate net asset classifications: unrestricted, temporarily restricted and permanently restricted net assets.

Cash and Cash Equivalents - Cash and cash equivalents include all highly liquid investments purchased with an initial maturity of three months or less.

Investments - The Organization classifies its endowment investments as available-for-sale securities. These are debt and equity securities with quoted prices available on exchanges (Level 1 inputs). All gains and losses in value are included in the statement of activities.

Pledges Receivable - Contributions are recognized when the donor makes a written pledge to the Organization. Short-term pledges have a term of less than one year. Long-term pledges have a term of from one to five years. The Organization applies the allowance method to determine uncollectible pledges, with Management evaluating the need for an allowance on an annual basis. Based upon that evaluation, no allowance is considered necessary for the year ended June 30, 2011.

Property and Equipment - Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to expense as incurred. Donated property and equipment are recorded at their estimated fair value at the date of donation. Depreciation is provided using the straight-line method over periods of from three to forty years. Depreciation expense for the year ended June 30, 2011 was \$104,831.

MEDSHARE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Donated Assets, Space and Services - Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation. In the fiscal year ended June 30, 2011 the Organization received a solar power system comprised of 105 solar panels. The value of this in-kind donation is \$111,645.

Donated leased space is recorded as a contribution at its estimated fair value on a monthly basis. In the fiscal year ended June 30, 2011 the Organization received use of 87,950 square feet of warehouse space with month-to-month terms. The value of this in-kind donation is \$211,080.

Donated services are recognized at fair value as contributions and expenses 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 year ended June 30, 2011, 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 did receive professional services that meet these criteria. For the year ended June 30, 2011 the value of these services was \$100,548, with 54% supporting programmatic activities and 46% for administrative activities.

Public Support and Revenue - The Organization is supported primarily by private contributions. Unconditional promises to give are recorded as received. Unconditional grants due within 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.

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 year ended June 30, 2011 the Organization did not have any unrelated business income and, accordingly, no unrelated business income tax. The Financial Accounting Standards Board has issued an Interpretation clarifying when an uncertainty in income taxes should be recognized or disclosed in the Organization's financial statements. As allowed under this Interpretation, the Organization has elected to defer its adoption.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions which 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 year. Actual results could differ from those estimates.

MEDSHARE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

Note 2 – Line of Credit

The Organization has a line of credit with a commercial bank allowing the Organization to borrow up to \$500,000, secured by the Organization's inventory. The interest rate on any borrowing is at prime, with a floor of 4.75%. As of June 30, 2011 the outstanding balance was \$90,000 and the interest rate was 4.75%.

Note 3 – 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, 2011. Management believes that the quality of the financial institutions with which these amounts are deposited render the risk of loss minimal.

Note 4 – Lease Commitment

The Organization leases space for its California operations under the terms of a non-cancelable lease expiring in July 2013. Rent expense for the year ended June 30, 2011 was \$222,141. As of June 30, 2011 future minimum payments over the remaining term of the lease are as follows:

Year Ending June 30,		
2012	\$	237,110
2013		140,707
	\$	377,817

In addition, in-kind rent expense for the donated leased warehouse space was valued at \$211,080 for the year ended June 30, 2011.

Note 5 – Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised primarily of contributions subject to donor-imposed restrictions and income earned on endowment fund assets. The composition of these assets as of June 30, 2011 is:

Container Sponsorships & Operating Grants	\$	1,500,133
Capital Campaign		758,476
Earnings on endowment fund, net		70,016
Other		159,573
Total temporarily restricted net assets	\$	2,488,198

Net assets totaling \$2,141,793 were released from donor restrictions during the year ended June 30, 2011.

MEDSHARE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

Note 6 – Endowed Net Assets

The Organization established the MedShare Building Maintenance Endowment Fund (the endowment) from capital campaign contributions for the purpose of providing funds for the maintenance and repair of its headquarters building in Decatur, GA. The endowment consists of this one fund and includes only donor-restricted funds. As required by GAAP, net assets associated with endowment funds, including funds designated by the Organization's Board of Trustees to function as endowments, are classified and reported based upon the existence or absence of donor-imposed restrictions. The Organization's endowment net asset composition as of June 30, 2011 is as follows:

Temporarily Restricted	\$	70,016
Permanently Restricted		<u>1,000,000</u>
 Total funds	 \$	 <u>1,070,016</u>

The permanently restricted net assets are comprised of \$157,500 of pledges receivable and \$842,500 of funds invested as of June 30, 2011.

Changes in the Organization's endowment for the year ended June 30, 2011 are as follows:

	Temporarily Restricted	Permanently Restricted	Total
Beginning Balance	\$ 4,225	\$ 1,000,000	\$ 1,004,225
Interest and dividends	13,502	-	13,502
Investment gains/losses			-
Realized	2,276	-	2,276
Unrealized	56,129	-	56,129
Management fees	<u>(6,116)</u>	<u>-</u>	<u>(6,116)</u>
Ending Balance	<u>\$ 70,016</u>	<u>\$ 1,000,000</u>	<u>\$ 1,070,016</u>

MEDSHARE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

Note 6 – Endowed Net Assets (Continued)

As of June 30, 2011 the Organization’s endowment is comprised of the following investments:

	Cost	Gross Unrealized Gain	Fair Value
Available-for-sale equity securities	\$ 502,300	\$ 55,170	\$ 557,470
Available-for-sale debt securities	259,170	959	260,129
Cash and money market funds	94,917	-	94,917
Total	\$ 856,387	\$ 56,129	\$ 912,516

Interpretation of Relevant Law

The Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gift(s) donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization.

MEDSHARE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

Note 6 – Endowed Net Assets (Continued)

Investment Policy

In June 2010, the Organization's Board of Trustees adopted an investment and spending policy for endowment assets which attempts to provide a predictable stream of funding to support building maintenance while seeking to maintain the purchasing power of the endowment assets. Under this policy as approved by the Board of Trustees, the endowed assets were invested in a manner which was intended to maximize the results while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average annual rate of return of approximately 5-7%. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation which places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy

The Organization has a policy of appropriating for distribution each year 0.0% to 4.5% of its endowment fund's average fair value over the prior 12 quarters through the fiscal year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, the Organization expects the current spending policy to allow its endowment to grow over the long-term at an average of 0.5% to 7%. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return. There were no disbursements during the year ended June 30, 2011.

Note 7 – Economic Environment

During fiscal year ended June 30, 2011 and through August 30, 2011, the United States and global credit markets continue to be impacted by the financial crisis which occurred in 2008, resulting 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. 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.

MEDSHARE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

Note 8 – Retirement Plan

The Organization has a retirement savings plan which is qualified under Section 401 of the Internal Revenue Code. Employees are eligible to participate if they are age twenty-one or older and have completed three consecutive full calendar months of employment. Employees can elect salary deferrals to their Plan account up to the legally allowed amount. The Organization can, at its discretion, make contributions on behalf of employees. As of June 30, 2011, the Organization has not elected to make a contribution.

Note 9 – Founder’s Welfare Benefit Plan

The Organization sponsors a welfare benefit plan for the benefit of a key executive which allows the executive to purchase life insurance to provide post-employment benefits. Each premium or contribution provided by the Organization on behalf of the executive is treated for tax purposes and financial purposes as a premium loan from the Organization to the executive. These premium loans are established as a long-term loan receivable as required by IRC Section 26 C.F.R. Section 1.7872-15 on the Organization’s financial statements and the receivable is required to be repaid by the executive, including cumulative interest at a rate established by the Internal Revenue Service. The Organization holds a permanent and primary interest in the death benefit of a life insurance policy that will provide a full repayment of the accumulated loan receivable at the death of the executive.

Note 10 – Subsequent Events

Management has evaluated events and transactions which occurred through August 30, 2011, which was the date the financial statements were available to be issued. As a result of this evaluation, management has determined that no events or transactions are required to be disclosed.