

MEDSHARE INTERNATIONAL, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

MEDSHARE INTERNATIONAL, INC.
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JUNE 30, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
MedShare International, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of MedShare International, Inc. (the Organization), which comprise the statements of financial position as of June 30, 2108 and 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based upon our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Warren Averett, LLC

Atlanta, Georgia
November 16, 2018

MEDSHARE INTERNATIONAL, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS		
	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,758,896	\$ 740,018
Unconditional promises to give, current portion	291,087	877,848
Inventory	12,996,914	10,953,790
Prepaid expenses	158,952	178,849
Other	1,202	13,646
Total current assets	15,207,051	12,764,151
PROPERTY AND EQUIPMENT		
Land	340,552	340,552
Building and improvements	1,932,048	1,932,048
Furniture and equipment	544,926	481,824
Computer software	71,774	71,774
Total property and equipment	2,889,300	2,826,198
Accumulated depreciation	(1,104,314)	(1,006,229)
Total property and equipment – net	1,784,986	1,819,969
OTHER ASSETS		
Unconditional promises to give, net of current portion	-	200,000
Other receivables	617,608	524,055
Investments	1,183,019	1,193,220
Deposits	35,419	51,767
Total other assets	1,836,046	1,969,042
TOTAL ASSETS	\$ 18,828,083	\$ 16,553,162
LIABILITIES AND NET ASSETS		
	2018	2017
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 330,494	\$ 229,561
Deferred revenue	55,250	27,500
Total current liabilities	385,744	257,061
NET ASSETS		
Unrestricted	15,348,688	13,352,386
Temporarily restricted	2,093,651	1,943,715
Permanently restricted	1,000,000	1,000,000
Total net assets	18,442,339	16,296,101
TOTAL LIABILITIES AND NET ASSETS	\$ 18,828,083	\$ 16,553,162

See notes to the financial statements.

MEDSHARE INTERNATIONAL, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(with comparative totals for 2017)

	2018			Total	2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
REVENUE AND SUPPORT					
Grants and contributions	\$ 1,877,915	\$ -	\$ -	\$ 1,877,915	\$ 1,339,164
Contributions for specific projects	-	2,582,467	-	2,582,467	2,484,813
Special events, net of direct expenses	551,855	-	-	551,855	531,211
In-kind contributions					
Equipment and supplies	15,607,347	-	-	15,607,347	20,201,473
Professional services	70,038	-	-	70,038	61,675
(Loss) earnings on investments, net	-	(10,201)	-	(10,201)	100,298
Other income	85,542	-	-	85,542	28,998
Net assets released from restrictions	2,422,330	(2,422,330)	-	-	-
TOTAL REVENUE AND SUPPORT	20,615,027	149,936	-	20,764,963	24,747,632
EXPENSES					
Program expenses	17,360,623	-	-	17,360,623	26,017,816
Fundraising expenses	710,094	-	-	710,094	804,812
Management and general expenses	548,008	-	-	548,008	626,216
TOTAL EXPENSES	18,618,725	-	-	18,618,725	27,448,844
INCREASE (DECREASE) IN NET ASSETS	1,996,302	149,936	-	2,146,238	(2,701,212)
NET ASSETS, BEGINNING OF YEAR	13,352,386	1,943,715	1,000,000	16,296,101	18,997,313
END OF YEAR	\$15,348,688	\$ 2,093,651	\$ 1,000,000	\$18,442,339	\$16,296,101

See notes to the financial statements.

**MEDSHARE INTERNATIONAL, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND SUPPORT				
Grants and contributions	\$ 1,339,164	\$ -	\$ -	\$ 1,339,164
Contributions for specific projects	-	2,484,813	-	2,484,813
Special events, net of expenses	531,211	-	-	531,211
In-kind contributions				
Equipment and supplies	20,201,473	-	-	20,201,473
Professional services	61,675	-	-	61,675
Earnings on investments, net	-	100,298	-	100,298
Other income	28,998	-	-	28,998
Net assets released from restrictions	3,806,984	(3,806,984)	-	-
TOTAL REVENUE AND SUPPORT	<u>25,969,505</u>	<u>(1,221,873)</u>	<u>-</u>	<u>24,747,632</u>
EXPENSES				
Program expenses	26,017,816	-	-	26,017,816
Fundraising expenses	804,812	-	-	804,812
Management and general expenses	626,216	-	-	626,216
TOTAL EXPENSES	<u>27,448,844</u>	<u>-</u>	<u>-</u>	<u>27,448,844</u>
DECREASE IN NET ASSETS	(1,479,339)	(1,221,873)	-	(2,701,212)
NET ASSETS, BEGINNING OF YEAR	<u>14,831,725</u>	<u>3,165,588</u>	<u>1,000,000</u>	<u>18,997,313</u>
NET ASSETS, END OF YEAR	<u>\$13,352,386</u>	<u>\$ 1,943,715</u>	<u>\$1,000,000</u>	<u>\$16,296,101</u>

See notes to the financial statements.

MEDSHARE INTERNATIONAL, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>Program Services</u>	<u>Fundraising</u>	<u>General & Administrative</u>	<u>Total</u>
Year Ended June 30, 2018				
Equipment and supplies shipped	\$ 13,544,927	\$ -	\$ -	\$ 13,544,927
Personnel	2,028,854	518,132	384,117	2,931,103
Shipping	671,797	-	-	671,797
Occupancy	731,635	27,253	16,738	775,626
Professional fees	72,393	11,996	118,450	202,839
Travel	82,418	32,243	301	114,962
Office expenses	82,645	68,988	18,181	169,814
Depreciation expense	93,180	2,942	1,962	98,084
Insurance	51,826	2,010	5,038	58,874
Marketing	-	41,834	-	41,834
Other expenses	948	4,696	3,221	8,865
Total expenses	<u>\$ 17,360,623</u>	<u>\$ 710,094</u>	<u>\$ 548,008</u>	<u>\$ 18,618,725</u>
Year Ended June 30, 2017				
Equipment and supplies shipped	\$ 21,621,007	\$ -	\$ -	\$ 21,621,007
Personnel	2,332,543	595,689	441,613	3,369,845
Shipping	871,428	-	-	871,428
Occupancy	780,140	29,060	17,848	827,048
Professional fees	80,446	13,330	131,626	225,402
Travel	66,205	25,900	242	92,347
Office expenses	120,367	100,477	26,480	247,324
Depreciation expense	91,641	2,893	1,930	96,464
Insurance	53,668	2,081	5,217	60,966
Marketing	-	33,545	-	33,545
Other expenses	371	1,837	1,260	3,468
Total expenses	<u>\$ 26,017,816</u>	<u>\$ 804,812</u>	<u>\$ 626,216</u>	<u>\$ 27,448,844</u>

See notes to the financial statements.

MEDSHARE INTERNATIONAL, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS USED IN OPERATING ACTIVITIES		
Change in net assets:	\$ 2,146,238	\$ (2,701,212)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation expense	98,084	96,464
Realized and unrealized loss (gain) on investments, net	30,083	(79,491)
(Increase) decrease in inventory – donated	(2,025,412)	1,396,470
Change in assets and liabilities:		
Decrease (increase) in pledges receivable	786,761	(434,521)
(Increase) decrease in inventory – purchased	(17,712)	111,699
Decrease in prepaid expense	19,897	11,540
Decrease in other current assets	12,444	3,724
Decrease in deposits	16,348	5,000
Increase in other receivable	(93,553)	(91,497)
Increase (decrease) in accounts payable and accrued expenses	100,933	(153,798)
Increase (decrease) in deferred revenue	27,750	(124,213)
Net cash provided by (used in) operating activities	<u>1,101,861</u>	<u>(1,959,835)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchase of property and equipment	(63,101)	(172,000)
Distributions from investments	-	(38,000)
Reinvestment in investments	(19,882)	55,194
Net cash used in investing activities	<u>(82,983)</u>	<u>(154,806)</u>
NET INCREASE (DECREASE) IN CASH	1,018,878	(2,114,641)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>740,018</u>	<u>2,854,659</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,758,896</u>	<u>\$ 740,018</u>

See notes to the financial statements.

MEDSHARE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

1. DESCRIPTION OF BUSINESS

Description of Business

Incorporated in December 1998, MedShare International, Inc. (“MedShare” or the “Organization”) is a 501c(3) humanitarian aid organization dedicated to improving the quality of life of people, communities, and our planet by sourcing and directly delivering surplus medical supplies and equipment to communities in need around the world. MedShare helps increase health system capacity and drives sustainability by providing biomedical equipment training and service to health care organizations and medical professionals serving populations in need. MedShare's efforts to examine and address global health disparities are reflected by our four programs and one service: Disaster Relief Program, Primary Care Program, Maternal & Child Health Program, Infectious Disease Control & Prevention Program, and Biomedical Equipment Training & Repair Service. Focusing on these areas increases health systems capacity to treat patients and prepares them to respond effectively to natural disasters and epidemics, all while improving the overall quality of care in the developing world. MedShare's deliveries of vital medical supplies and equipment have decreased our nation's carbon footprint and brought health, healing, and the promise of better lives to 100 countries and countless patients.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Organization prepares its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Not-for-Profit Entities Presentation of Financial Statements*. Under FASB ASC 958, the Organization reports 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.

Cash and Cash Equivalents

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

Concentrations and Credit and Market Risk

The Organization maintains its cash in bank deposit accounts at financial institutions. Cash accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to statutory limits. The Organization's cash balances periodically exceed the federally insured limit.

One donor represents 69% of the balance of pledges receivable at June 30, 2018. Two donors represent 95% of the balance of pledges receivable at June 30, 2017.

For the year ended June 30, 2018 approximately 18% of contributions received were attributable to one donor. For the year ended June 30, 2017 approximately 10% of contributions received were attributable to one donor.

MEDSHARE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Inventory

The Organization values its inventory of donated medical supplies and equipment at 50% of the average retail price for the item (or similar items). The average retail price approximates the fair value measurement of the inventory if sold in North America in an orderly transaction between market participants.

Contributions and Unconditional Promises to Give

Contributions are recorded and presented in accordance with professional standards. Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional promises to give are recorded as received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value which is measured at the present value of the future cash flows with discounts computed using risk-adjusted rates commensurate with the associated risk. Discounts on pledges receivable are amortized and recorded as additional contribution revenue in accordance with any donor-imposed restriction.

The Organization uses the allowance method to determine the uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises received. Since all pledges receivable were deemed to be collectible there is no allowance for doubtful pledges at June 30, 2018 or 2017.

Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

Noncash Contributions

Noncash contributions received and made, other than donated medical supplies and equipment, are recorded at amounts that approximate their fair value at the date received or distributed.

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 years ended June 30, 2018 and 2017, 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 meeting these criteria. During the years ended June 30, 2018 and 2017, the value of these services was \$70,038 and \$61,675, respectively.

Deferred Revenue

Deferred revenue represents sponsorships for events to be held in the subsequent year.

MEDSHARE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Investments

Investments are carried at fair value in accordance with FASB ASC 958, *Investments – Debt and Equity Securities for Not-for-Profit Organizations*. Under FASB ASC 820, *Fair Value Measurements and Disclosures*, fair value measurements are disclosed by level within the fair value hierarchy.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level II: Valuations based on quoted prices in markets that are not active or based on valuation models for which all significant inputs are observable, either directly or indirectly.

Level III: Valuations based on inputs that are unobservable and significant to the overall fair value measurement. Level III investments include situations where there is little, if any, market activity for the investments. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

All of the Organization's investments are Level I investments and are U.S. investments.

Endowment

In accordance with FASB ASC 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*, the Board of Directors determined that all of the Organization's permanently restricted net assets meet the definition of endowment funds under the Georgia Prudent Management of Institutional Funds Act (GPMIFA).

Property and Equipment

The Organization capitalizes all expenditures for property, furniture and equipment in excess of \$5,000. Property and equipment are recorded at cost or fair value, if donated, and are depreciated using the straight line method as follows:

Building and improvements	30 years
Furniture and equipment	5 years
Computer software	3 years

Depreciation expenses in the amount of \$98,084 and \$96,464 have been charged to operations for the years ended 2018 and 2017, respectively.

MEDSHARE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (IRC) and is classified as an organization which is not a private foundation under Section 509(a) of the IRC. The Organization qualifies for the charitable contribution deduction.

Fair Value of Financial Instruments

Financial instruments, primarily cash and cash equivalents, investments, accounts payable, and the line of credit are reported at values which the Organization believes are not significantly different from fair values. The Organization believes no significant credit risk exists with respect to any of its financial instruments.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of 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.

New Accounting Pronouncements

In August 2016 FASB issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 (1) reduces the number of net asset classes presented from three to two; (2) requires the presentation of expense by functional and natural classification in one location; (3) requires quantitative and qualitative disclosures about liquidity and availability of financial assets; and (4) requires additional policy disclosures regarding board designated funds. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Organization expects to implement the provisions of ASU 2016-14 in the year ending June 30, 2019. The Organization is evaluating the impact of the new standard on its current policies and reporting methodologies.

Events Occurring After Report Date

Management has evaluated events and transactions that occurred between June 30, 2018 and November 16, 2018, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

MEDSHARE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

3. LINE OF CREDIT

The Organization has a line of credit with a commercial bank allowing the Organization to borrow up to \$1,000,000, secured by substantially all of the Organization's assets. The credit line bears interest at the prime rate with a 4.75% floor and matures on March 30, 2019. There were no outstanding balances at June 30, 2018 and 2017.

4. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give at June 30, 2018 and 2017 are receivable as follows:

	<u>2018</u>	<u>2017</u>
Year ending June 30,		
2018	\$ -	\$ 877,848
2019	291,087	200,000
	<u>\$ 291,087</u>	<u>\$ 1,077,848</u>

5. INVESTMENTS

The Organization's investments are endowment fund investments and (See Note 8) are comprised of the following:

	<u>2018</u>	<u>2017</u>
Cash	\$ 34,099	\$ 12,955
Common stock	58,235	52,843
Mutual funds – bonds	331,806	317,425
Mutual funds – equities	180,062	271,570
Exchange traded funds	578,817	538,427
Total investments	<u>\$ 1,183,019</u>	<u>\$ 1,193,220</u>

Investment return for the years ended June 30, 2018 and 2017 is comprised of:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 31,840	\$ 32,180
Net realized gain (loss) on investments	(57,110)	38,268
Unrealized gain on investments	27,027	41,223
Brokerage fees	(11,958)	(11,373)
	<u>\$ (10,201)</u>	<u>\$ 100,298</u>

MEDSHARE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

6. LEASE COMMITMENTS

The Organization has obligations under various non-cancelable operating leases for office and warehouse space that expire at various dates through 2023. In most cases, management expects that in the normal course of business, the leases set to expire will be renewed or replaced by other leases. Future minimum lease payments for the years ending June 30 are as follows:

Year ending June 30,		
2019	\$	581,061
2020		576,870
2021		521,640
2022		541,000
2023		464,000

Rent expense under operating leases for the years ended June 30, 2018 and 2017 amounted to approximately \$576,000 and \$633,000, respectively. The lease for office space is subject to escalation based on increases in building operating expenses.

7. 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, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Container sponsorships and operating grants	\$ 1,408,961	\$ 1,180,033
Disaster relief	170,435	170,435
Earnings on endowment fund, net (restricted for building maintenance)	183,019	193,220
Other	331,236	400,027
Total temporarily restricted net assets	<u>\$ 2,093,651</u>	<u>\$ 1,943,715</u>

MEDSHARE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

8. ENDOWMENT FUND

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.

Interpretation of Relevant Law

The Organization has interpreted the GPMIFA 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 GPMIFA. In accordance with GPMIFA, 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

Investment and Spending 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. 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. 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.

MEDSHARE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

8. ENDOWMENT FUND – CONTINUED

The Organization has a policy of appropriating for distribution each year up to 4.5% of its endowment fund's average fair value over the prior 12 quarters through the fiscal year-end proceeding 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.

The Organization's endowment net asset composition as of June 30, 2018 and 2017 is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
June 30, 2018	\$ 183,019	\$ 1,000,000	\$ 1,183,019
June 30, 2017	\$ 193,220	\$ 1,000,000	\$ 1,193,220

Changes in the Organization's endowment for the year ended June 30, 2018 and 2017 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning Balance July 1, 2016	\$ 130,922	\$ 1,000,000	\$ 1,130,922
Investment gain, net	59,075	-	59,075
Unrealized gain	41,223	-	41,223
Appropriated for expenditure	(38,000)	-	(38,000)
Ending Balance June 30, 2017	193,220	1,000,000	1,193,220
Investment loss, net	(37,228)	-	(37,228)
Unrealized gain	27,027	-	27,027
Appropriated for expenditure	-	-	-
Ending Balance June 30, 2018	<u>\$ 183,019</u>	<u>\$ 1,000,000</u>	<u>\$ 1,183,019</u>

9. RETIREMENT PLAN

The Organization has a retirement savings plan which is qualified under Section 401 of the IRC. Employees are eligible to participate if they are aged at 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. For the years ended June 30, 2018 and 2017 the match contribution expense was \$17,013 and \$20,639, respectively.

MEDSHARE INTERNATIONAL, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

10. FOUNDER'S WELFARE BENEFIT PLAN

The Organization sponsors a welfare benefit plan for the benefit of a founder and former key executive which allows the purchase of life insurance to provide post-employment retirement benefits. Each premium or contribution provided by the Organization on behalf of the former executive is treated for tax purposes and financial purposes as a premium loan from the Organization. These premium loans totaling \$617,608 and \$524,055 at June 30, 2018 and 2017, respectively, are established as allowed by IRC Section 26 CFR Section 1.7872-15 and are included as an other receivable on the Organization's statement of financial position. The receivable is required to be repaid, 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 his death.