

**MEDSHARE INTERNATIONAL, INC.
AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2005 AND 2006
INDEPENDENT ACCOUNTANT'S REPORT**

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

Table of Contents

INDEPENDENT ACCOUNTANT’S REPORT	1
STATEMENT OF FINANCIAL POSITION	2
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS.....	4
STATEMENT OF FUNCTIONAL EXPENSES	5
STATEMENT OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS.....	7



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 ACCOUNTANT'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 December 31, 2005 and 2006 and the related Statements of Activities and Changes in Net Assets, 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 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 December 31, 2005 and 2006 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, PC

Atlanta, Georgia
February 15, 2007

MEDSHARE INTERNATIONAL, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2005 AND 2006

	2005	2006
ASSETS		
CURRENT ASSETS:		
Cash	\$ 176,603	\$ 90,826
Money market funds	201,178	55,444
Pledges receivable	1,083,252	2,588,250
Inventory	5,219,348	5,838,568
Prepaid expenses	-	19,260
Other	<u>6,812</u>	<u>8,325</u>
Total current assets	<u>6,687,194</u>	<u>8,600,673</u>
PROPERTY & EQUIPMENT (NOTE 1):		
Furniture and equipment	183,911	181,708
Accumulated depreciation	<u>(100,675)</u>	<u>(115,048)</u>
Property & equipment - net	<u>83,236</u>	<u>66,660</u>
OTHER ASSETS:		
Deposit	<u>12,529</u>	<u>12,529</u>
Total Assets	<u>\$ 6,782,959</u>	<u>\$ 8,679,862</u>

SEE ACCOMPANYING NOTES

MEDSHARE INTERNATIONAL, INC.
STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS OF DECEMBER 31, 2005 AND 2006

	2005	2006
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ <u>5,937</u>	\$ <u>63,669</u>
Total current liabilities	<u>5,937</u>	<u>63,669</u>
 NET ASSETS:		
Unrestricted	5,379,005	5,741,420
Temporarily restricted	<u>1,398,017</u>	<u>2,874,773</u>
Total net assets	<u>6,777,022</u>	<u>8,616,193</u>
Total liabilities and net assets	\$ <u><u>6,782,959</u></u>	\$ <u><u>8,679,862</u></u>

SEE ACCOMPANYING NOTES

MEDSHARE INTERNATIONAL, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
 FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2006

	2005	2006
Changes in Unrestricted Net Assets:		
Revenues and Support		
Grants & Contributions	\$ 740,905	\$ 278,091
In-Kind Contributions		
Equipment and Supplies	10,192,627	12,241,392
Professional Services	19,500	244,175
Other Income	<u>5,960</u>	<u>9,797</u>
Total Revenues and Support	<u>10,958,992</u>	<u>12,773,455</u>
Net Assets Released from Restrictions	<u>369,486</u>	<u>1,096,040</u>
Operating Expenses:		
Program Expenses	10,361,694	13,135,112
Fundraising Expenses	167,223	229,600
General and Administrative Expenses	<u>82,001</u>	<u>142,368</u>
Total Operating Expenses	<u>10,610,918</u>	<u>13,507,080</u>
Increase in Unrestricted Net Assets	<u>717,560</u>	<u>362,415</u>
Changes in Temporarily Restricted Net Assets		
Contributions for Specific Projects	1,196,031	2,572,796
Net Assets Released from Restrictions	<u>(369,486)</u>	<u>(1,096,040)</u>
Increase in Temporarily Restricted Net Assets	<u>826,545</u>	<u>1,476,756</u>
Increase in Net Assets	1,544,105	1,839,171
Net Assets at Beginning of Period	<u>5,232,917</u>	<u>6,777,022</u>
Net Assets at End of Period	<u>\$ 6,777,022</u>	<u>\$ 8,616,193</u>

SEE ACCOMPANYING NOTES

MEDSHARE INTERNATIONAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2006

Year Ended December 31, 2005

	<u>Program Services</u>	<u>Fundraising</u>	<u>General & Administrative</u>	<u>Total Supporting Services</u>	<u>Total</u>
Equipment & supplies shipped	\$ 9,357,671	\$ 0	\$ 0	\$ 0	\$ 9,357,671
Personnel	494,618	128,456	16,061	144,517	639,135
Occupancy	121,787	14,497	8,698	23,195	144,982
Shipping	266,220	0	0	0	266,220
Professional fees	5,000	2,500	13,469	15,969	20,969
Insurance	34,976	0	7,590	7,590	42,566
Depreciation	37,257	0	3,000	3,000	40,257
Office expenses	0	0	13,844	13,844	13,844
Marketing	0	16,781	0	16,781	16,781
Other expenses	34,908	4,989	15,733	20,722	55,630
Travel	9,257	0	3,606	3,606	12,863
Total expenses	<u>\$ 10,361,694</u>	<u>\$ 167,223</u>	<u>\$ 82,001</u>	<u>\$ 249,224</u>	<u>\$ 10,610,918</u>

Year Ended December 31, 2006

	<u>Program Services</u>	<u>Fundraising</u>	<u>General & Administrative</u>	<u>Total Supporting Services</u>	<u>Total</u>
Equipment & supplies shipped	\$ 11,622,172	\$ 0	\$ 0	\$ 0	\$ 11,622,172
Personnel	661,576	91,533	50,381	141,914	803,490
Occupancy	187,565	22,327	13,396	35,723	223,288
Shipping	387,425	0	0	0	387,425
Professional fees	191,000	67,715	33,800	101,515	292,515
Insurance	40,707	0	8,936	8,936	49,643
Depreciation	26,973	0	3,000	3,000	29,973
Office expenses	0	0	17,832	17,832	17,832
Marketing	0	19,264	0	19,264	19,264
Other expenses	7,800	22,738	11,176	33,914	41,714
Travel	9,895	6,022	3,848	9,870	19,765
Total expenses	<u>\$ 13,135,112</u>	<u>\$ 229,600</u>	<u>\$ 142,368</u>	<u>\$ 371,968</u>	<u>\$ 13,507,080</u>

SEE ACCOMPANYING NOTES

MEDSHARE INTERNATIONAL, INC.
STATEMENT OF CASH FLOWS
AS OF DECEMBER 31, 2005 AND 2006

	2005	2006
Cash Flows Provided by (Used by) Operating Activities:		
Increase in Net Assets:	\$ 1,544,104	\$ 1,839,171
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	40,257	29,973
Loss on disposal of assets	34,908	7,800
(Increase) in pledges receivable	(704,502)	(1,504,999)
(Increase) in inventory	(809,955)	(619,220)
(Increase) in prepaid expense	0	(19,260)
(Increase) in other	(12,625)	(1,513)
(Decrease) Increase in accounts payable	<u>(11,968)</u>	<u>57,732</u>
Cash Provided by (Used by) Operating Activities	<u>80,218</u>	<u>(210,316)</u>
 Cash Flows (Used by) Investing Activities:		
Purchase of Property and Equipment	<u>(52,018)</u>	<u>(21,197)</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	<u>28,200</u>	<u>(231,513)</u>
 Cash and Cash Equivalents at Beginning of Period	<u>349,581</u>	<u>377,781</u>
 Cash and Cash Equivalents at End of Period	<u>\$ 377,781</u>	<u>\$ 146,268</u>
 Other Supplemental Information		
Interest Paid	<u>\$ 0</u>	<u>\$ 0</u>
Income Taxes Paid	<u>\$ 0</u>	<u>\$ 0</u>

SEE ACCOMPANYING NOTES

MEDSHARE INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2006

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.

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 YEARS ENDED DECEMBER 31, 2005 AND 2006

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 years ended December 31, 2005 and 2006 was \$40,257 and \$29,973, respectively.

Cash & Cash Equivalents

Cash and cash equivalents include all highly liquid investments purchased with an original maturity of three months or less. Market value approximates carrying amount.

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 years ended December 31, 2005 and 2006, 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 year ended December 31, 2005 and 2006, 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 \$19,500 and \$244,175 for 2005 and 2006, respectively.

MEDSHARE INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2006

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 years. 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 current interest rate is 8.5%. The loan agreement requires a balloon payment of the remaining principal on February 1, 2012. At December 31, 2006, the scheduled maturities of these notes payable over the next five years are as follows:

Year ended December 31,		
2007	\$	6,579
2008		7,160
2009		7,793
2010		8,482
2011		9,232
2012		<u>460,754</u>
Total	\$	<u>500,000</u>

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 December 31, 2006, there was no outstanding balance.

MEDSHARE INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2006

Note 4 – 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 December 31:

	2005	2006
Container Sponsorships & Operating Grants	\$ 1,379,117	\$ 916,776
Capital Campaign	0	1,918,973
Other	<u>18,900</u>	<u>39,024</u>
Total temporarily restricted net assets	<u>\$ 1,398,017</u>	<u>\$ 2,874,773</u>