Consolidated Financial Statements

The Miracle Foundation, Inc.

For the years ended December 31, 2012 and 2011
with Report of Independent Auditors

The Miracle Foundation, Inc.

Consolidated Financial Statements

Years ended December 31, 2012 and 2011

Contents

HOLTZMAN PARTNERS

AUDIT · TAX · ADVISORY

Report of Independent Auditors

To the Board of Directors of
The Miracle Foundation, Inc.

We have audited the accompanying consolidated financial statements of The Miracle Foundation, Inc. and its subsidiary (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on 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 audit to obtain reasonable assurance about whether the consolidated 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 on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Miracle Foundation, Inc. and its subsidiary as of December 31, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Holtzman Partners, LLP

April 25, 2013

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The Miracle Foundation, Inc.

Consolidated Statement of Financial Position

December 31, 2012

	Unrestricted	Donor Temporarily Restricted	Donor Permanently Restricted	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 900,018	$ 22,978	$ –	$ 922,996
Accounts receivable	104,960	–	–	104,960
Prepaid expenses and other	89,401	–	–	89,401
Total current assets	1,094,379	22,978	–	1,117,357
Investments	9,100	–	–	9,100
Austin Community Foundation Endowment	–	–	7,500	7,500
Property and equipment, net	42,168	–	–	42,168
Total assets	$ 1,145,647	$ 22,978	$ 7,500	$ 1,176,125
Liabilities and net assets				
Current liabilities:				
Accounts payable	$ 20,114	$ –	$ –	$ 20,114
Accrued liabilities	43,539	–	–	43,539
Total current liabilities	63,653	–	–	63,653
Net assets:				
Unrestricted	1,081,994	–	–	1,081,994
Temporarily restricted	–	22,978	–	22,978
Permanently restricted	–	–	7,500	7,500
Total net assets	1,081,994	22,978	7,500	1,112,472
Total liabilities and net assets	$ 1,145,647	$ 22,978	$ 7,500	$ 1,176,125

See accompanying notes.

The Miracle Foundation, Inc.

Consolidated Statement of Financial Position

December 31, 2011

	Unrestricted	Donor Temporarily Restricted	Donor Permanently Restricted	Total
Assets				
Current assets:				
Cash and cash equivalents	$ 755,244	$ 232,241	$ –	$ 987,485
Accounts receivable	180,000	–	–	180,000
Prepaid expenses and other	21,552	–	–	21,552
Total current assets	956,796	232,241	–	1,189,037
Austin Community Foundation Endowment	–	–	7,500	7,500
Property and equipment, net	14,700	–	–	14,700
Total assets	$ 971,496	$ 232,241	$ 7,500	$ 1,211,237
Liabilities and net assets				
Current liabilities:				
Accounts payable	$ 11,330	$ –	$ –	$ 11,330
Accrued liabilities	20,885	–	–	20,885
Total current liabilities	32,215	–	–	32,215
Net assets:				
Unrestricted	939,281	–	–	939,281
Temporarily restricted	–	232,241	–	232,241
Permanently restricted	–	–	7,500	7,500
Total net assets	939,281	232,241	7,500	1,179,022
Total liabilities and net assets	$ 971,496	$ 232,241	$ 7,500	$ 1,211,237

See accompanying notes.

The Miracle Foundation, Inc.

Consolidated Statement of Activities

Year ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Contributions and support	$ 1,162,583	$ 15,102	$ –	$ 1,177,685
Miscellaneous income	2,409	–	–	2,409
Total support and revenue	1,164,992	15,102	–	1,180,094
Net assets released from restrictions:				
Satisfaction of restrictions	224,365	(224,365)	–	–
	1,389,357	(209,263)	–	1,180,094
Expenses:				
Orphanage program expenses	762,372	–	–	762,372
Ambassador program expenses	236,600	–	–	236,600
Management and general expenses	126,129	–	–	126,129
Fundraising expenses	121,543	–	–	121,543
Total expenses	1,246,644	–	–	1,246,644
Change in net assets	142,713	(209,263)	–	(66,550)
Net assets at beginning of year	939,281	232,241	7,500	1,179,022
Net assets at end of year	$ 1,081,994	$ 22,978	$ 7,500	$ 1,112,472

See accompanying notes.

The Miracle Foundation, Inc.

Consolidated Statement of Activities

Year ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:				
Contributions and support	$ 1,063,215	$ 198,792	$ –	$ 1,262,007
Miscellaneous income	23,193	–	–	23,193
Total support and revenue	1,086,408	198,792	–	1,285,200
Net assets released from restrictions:				
Satisfaction of restrictions	138,196	(138,196)	–	–
	1,224,604	60,596	–	1,285,200
Expenses:				
Orphanage program expenses	424,483	–	–	424,483
Sponsorship program expenses	216,654	–	–	216,654
Ambassador program expenses	145,190	–	–	145,190
Management and general expenses	152,399	–	–	152,399
Fundraising expenses	95,652	–	–	95,652
Total expenses	1,034,378	–	–	1,034,378
Change in net assets	190,226	60,596	–	250,822
Net assets at beginning of year	749,055	171,645	7,500	928,200
Net assets at end of year	$ 939,281	$ 232,241	$ 7,500	$ 1,179,022

See accompanying notes.

The Miracle Foundation, Inc.

Consolidated Statements of Cash Flows

	Years ended December 31, 2012	2011
Cash flows from operating activities:		
Change in net assets	**$ (66,550)**	$ 250,822
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation expense	**5,418**	1,545
Changes in operating assets and liabilities:		
Accounts receivable	**75,040**	(180,000)
Prepaid expenses and other	**(67,849)**	4,129
Accounts payable	**8,784**	(55,776)
Accrued liabilities	**22,654**	637
Net cash provided by (used in) operating activities	**(22,503)**	21,357
Cash flows from investing activities:		
Purchase of investment	**(9,100)**	–
Purchases of property and equipment	**(32,886)**	(13,413)
Net cash used investing activities	**(41,986)**	(13,413)
Net change in cash and cash equivalents	**(64,489)**	7,944
Cash and cash equivalents, beginning of year	**987,485**	979,541
Cash and cash equivalents, end of year	**$ 922,996**	$ 987,485
Supplemental disclosures of cash flow information:		
Donated service	**$ –**	$ 48,750

See accompanying notes.

1. Organization

The Miracle Foundation, Inc. is dedicated to empowering orphans and orphanages in India to reach their full potential. The Organization provides care to orphaned children living in institutions throughout rural India via The NEST Method. The NEST Method incorporates due diligence, best practices, and incremental funding to Nurture and Empower children and their caregivers, Strengthen operational processes and systems, and Transform institutional orphanages into loving homes – where children thrive. The Organization is funded primarily through donor contributions and contributions from other organizations.

In 2011, the Organization formed its wholly-owned subsidiary, Miracle Foundation India ("Miracle India"), an Indian registered non-governmental organization, located in New Delhi, India dedicated to facilitating the Organization's operations in India. During 2011, operational activity at Miracle India was insignificant.

2. Summary of Significant Accounting Policies

Basis of Financial Presentation and Consolidation

The accompanying consolidated financial statements include the accounts of the Miracle Foundation, Inc. and its wholly-owned foreign subsidiary in New Delhi, India (collectively "the Organization"). The consolidated financial statements were prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Intercompany balances and transactions have been eliminated in consolidation.

The consolidated financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 958-205, *Not-for-Profit Entities Presentation of Financial Statements*, which requires the Organization 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. In addition, the Organization is required to present the costs of providing various programs and other activities on a functional basis in the statement of activities or in the notes to the consolidated financial statements. Costs are allocated between management and general expenses, fundraising expenses or the appropriate program based on evaluations of the related benefits. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

2. Summary of Significant Accounting Policies (continued)

Foreign Currency Translation

The functional currency of the Organization's foreign subsidiary was determined to be the local currency; and therefore, assets and liabilities are translated at the current exchange rate at the balance sheet date and the income statement items are translated at the average exchange rates prevailing during the reporting period. The foreign currency translation adjustment and gains and losses from non-functional currency denominated transactions are included in management and general expenses in the consolidated statement of activities. The functional currency of the Organization's Indian subsidiary is the Indian Rupee. As of and for the years ended December 31, 2012 and 2011, the cumulative translation adjustment was approximately $1,000 and $0, respectively.

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 that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of support and expenses during the reporting period. On an ongoing basis, the Organization evaluates its estimates, including those related to the useful lives of property and equipment, and contingencies, among others. The Organization bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from the estimates made by management with respect to these items and other items that require management's estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments acquired with an original maturity of three months or less at the date of purchase to be cash equivalents. Cash equivalents are stated at cost, which approximates market value, because of the short maturity of these instruments.

2. Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. The Organization's cash and cash equivalents are placed with high-credit-quality financial institutions and issuers, and at times may exceed federally insured limits or be held in foreign jurisdictions. The Organization has not experienced any loss relating to cash and cash equivalents in these accounts.

Grantors representing more than 10% of the Organization's total accounts receivable or support as of and for the year ended December 31, 2012 are as follows:

	Accounts Receivable	Support
Grantor A (an individual)	95%	< 10%

Accounts Receivable

Accounts receivable are recorded at cost. The Organization continuously assesses the collectability of outstanding balances; and in doing such, the Organization maintains an allowance for estimated losses resulting from the non-collection of balances. At December 31, 2012 and 2011, the Organization did not provide for an allowance for doubtful accounts, as all amounts outstanding were deemed collectible. If amounts become uncollectible, they will be charged to activities when that determination is made.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the estimated fair market value at the date of the donation less accumulated depreciation. Depreciation is computed utilizing the straight-line method over the estimated useful lives of the related assets. When depreciable assets are sold or retired, the related cost and accumulated depreciation are removed from the accounts. Any gains or losses are included in the Organization's statements of activities. Major additions and betterments are capitalized. Maintenance and repairs which do not materially improve or extend the lives of the respective assets are charged to operations as incurred.

2. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

ASC Topic 820, *Fair Value Measurements and Disclosures*, describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last is considered unobservable, that may be used to measure fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than quoted prices in active markets that are observable, either directly or indirectly, such as quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and Level 3, defined as unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities, therefore requiring an entity to develop its own assumptions.

The Organization's consolidated financial instruments consist principally of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities. The fair values of these financial instruments approximate their carrying amount due to the short maturity of these instruments.

Contributions

The Organization recognizes contributions, including unconditional promises to give, as revenue in the period received. Contributions, net assets, and changes therein are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated asset. A donor restriction expires when a stipulated time restriction ends or purpose restriction is accomplished, at which time temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor contributions with restrictions that are met in the same year are reported as unrestricted support.

2. Summary of Significant Accounting Policies (continued)

Contributed services are recognized when measurable and if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the years ended December 31, 2012 and 2011, the Organization recognized $0 and $48,750, respectively, for the services of one individual as an objective basis was available to measure the value of the service. The salary for this individual was funded by the foundation of a board member of the Organization. No additional amounts were reflected in the consolidated financial statements for donated services and donated use of facilities, since no objective basis was available to measure the value of such services and facilities. Nevertheless, a substantial number of donors have contributed significant amounts of time and resources in support of the Organization.

Conditional Promises to Give

Pursuant with the Organization's policy and in conformity with ASC Topic 958, *Not-for-Profit Entities*, the Organization does not recognize conditional promises as revenue until the condition is met or the pledges are received.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and did not conduct unrelated business activities. Miracle India was incorporated as a not for profit under Section 25 of the India Companies Act, 1956. Therefore, the Organization has made no provision for federal income taxes in the accompanying consolidated financial statements. The Organization is a public charity under the Internal Revenue Code.

The Organization evaluates uncertain tax positions, if any exist, under ASC Topic 740, *Income Taxes*. The Organization accounts for uncertainty of income taxes based on a "more-likely-than-not" threshold for the recognition and de-recognition of tax positions, which includes the accounting for interest and penalties relating to tax positions. The Organization does not have any tax positions that it would consider uncertain at December 31, 2012 and 2011.

The Organization accrues interest and penalties related to unrecognized tax positions as a component of income tax expense. As of December 31, 2012 and 2011, there were no accrued interest and penalties.

2. Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The direct and allocable costs are classified as program, administrative, and fundraising activities as follows:

	Years ended December 31, 2012	2011
Program	**$ 998,972**	$ 786,327
Administrative	**126,129**	152,399
Fundraising activities	**121,543**	95,652
Total	**$ 1,246,644**	$ 1,034,378

Recent Accounting Pronouncements

In October 2012, the FASB issued Accounting Standards Update ("ASU") No. 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*, addressing how cash receipts arising from the sale of certain donated financial assets, such as securities, should be classified in the statement of cash flows of not-for-profit entities (NFPs). This ASU requires, with certain exceptions, an NFP to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities by the NFP. The amendments in this ASU are effective prospectively for fiscal years beginning after June 15, 2013. Management does not anticipate the adoption of this ASU to have a significant impact on the Organization's statements of cash flows.

3. Property and Equipment

Property and equipment, net consists of the following:

	December 31, 2012	December 31, 2011
Computers	**$ 20,843**	$ 15,008
Website and software development costs	**34,681**	8,125
Furniture and equipment	**1,778**	1,283
Total	**57,302**	24,416
Less: accumulated depreciation	**(15,134)**	(9,716)
Property and equipment, net	**$ 42,168**	$ 14,700

The estimated useful life is seven years for furniture and equipment and five years for computers and website and software development costs. Depreciation relating to the Organization's property and equipment for the years ended December 31, 2012 and 2011 was $5,418 and $1,545, respectively.

4. Operating Leases

The Organization leases administrative offices in Austin, Texas and New Delhi, India as well as a copier. Rent expense under the administrative office leases totaled approximately $25,000 and $20,000 for the years ended December 31, 2012 and 2011, respectively. Rent expense under the copier lease totaled approximately $6,000 and $7,000 for the years ended December 31, 2012 and 2011, respectively. Future non-cancellable minimum lease payments under the operating leases are as follows:

Year ending December 31,	Minimum Lease Payments
2013	$ 33,917
2014	32,268
2015 and thereafter	1,892
Total minimum lease payments	$ 68,077

5. Related Parties

During the years ended December 31, 2012 and 2011, board members and affiliates of board members donated approximately $111,000 and $100,000, respectively, to the Organization, including the salary of the individual previously disclosed in Note 2. Additionally, members of management contributed approximately $6,000 and $5,600 to the Organization during the years ended December 31, 2012 and 2011, respectively.

6. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are designated for the following purposes as of December 31, 2012 and 2011, based on donor stipulations:

	December 31,	
	2012	**2011**
Bethel Orphanage	**$ 7,876**	$ 12,244
NY Life Grant for Educational Activities	**10,000**	–
Orphanage Expenses	**–**	219,997
Feeding the Children	**5,002**	–
Scholarship Fund	**100**	–
	$ 22,978	$ 232,241

During 2009, the Organization received a $7,500 endowment which is held by the Austin Community Foundation. The $7,500 donation is permanently restricted while the income earned on the donation is unrestricted. The income earned on the endowment was not significant for the years ended December 31, 2012 and 2011.

7. Pension Plan

Effective January 1, 2008, the Organization adopted the provisions of the Miracle Foundation 401(k) plan. For the years ended December 31, 2012 and 2011, the contributions from the Organization on behalf of its employees were insignificant.

8. Subsequent Events

The Organization has evaluated subsequent events up to April 25, 2013, the date the consolidated financial statements were available to be issued.