

SWEET SLEEP, INC.
FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

SWEET SLEEP, INC.

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Independent Auditor's Report

To the Board of Directors of
Sweet Sleep, Inc.
Brentwood, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of Sweet Sleep, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditor's Responsibility

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 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 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.



To the Board of Directors of
Sweet Sleep, Inc.

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 of Sweet Sleep, Inc. as of September 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Sweet Sleep, Inc. as of September 30, 2015, were audited by other auditors whose report dated February 19, 2016, expressed an unmodified opinion on those statements.

Crosslin, PLLC

Nashville, Tennessee
May 2, 2017

SWEET SLEEP, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS

	September 30,	
	2016	2015
Cash and cash equivalents	\$ 92,747	\$ 56,429
Investments	-	16,043
Prepaid expenses and other	4,896	19,238
Inventory	5,698	7,574
Property and equipment, net	4,467	4,797
Total assets	\$ 107,808	\$ 104,081

LIABILITIES

Accounts payable	\$ 2,087	\$ 22,302
Accrued payroll	8,004	1,779
Total liabilities	10,091	24,081

NET ASSETS

Unrestricted net assets	94,898	48,880
Temporarily restricted net assets	2,819	31,120
Total net assets	97,717	80,000
Total liabilities and net assets	\$ 107,808	\$ 104,081

See notes to financial statements.

SWEET SLEEP, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues and support:			
Contributions	\$ 538,116	\$ -	\$ 538,116
Product sales	7,979	-	7,979
In-kind contributions	8,079	-	8,079
Other income	321	-	321
Investment loss	(23)	-	(23)
Gain on disposal of property and equipment	630	-	630
Net assets released from restrictions	28,301	(28,301)	-
	<u>583,403</u>	<u>(28,301)</u>	<u>555,102</u>
Total revenues and support			
Expenses:			
Program services	423,343	-	423,343
Management and general	58,180	-	58,180
Fundraising	55,862	-	55,862
	<u>537,385</u>	<u>-</u>	<u>537,385</u>
Total expenses			
Net increase (decrease) in net assets	<u>46,018</u>	<u>(28,301)</u>	<u>17,717</u>
Net assets at beginning of year	<u>48,880</u>	<u>31,120</u>	<u>80,000</u>
Net assets at end of year	<u>\$ 94,898</u>	<u>\$ 2,819</u>	<u>\$ 97,717</u>

See notes to financial statements.

SWEET SLEEP, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and support:			
Contributions	\$ 508,252	\$ 17,033	\$ 525,285
Product sales	6,049	-	6,049
In-kind contributions	4,138	-	4,138
Other income	965	-	965
Investment income	90	-	90
Loss on disposal of property and equipment	(467)	-	(467)
Net assets released from restrictions	<u>7,765</u>	<u>(7,765)</u>	<u>-</u>
 Total revenues and support	 <u>526,792</u>	 <u>9,268</u>	 <u>536,060</u>
Expenses:			
Program services	400,377	-	400,377
Management and general	62,585	-	62,585
Fundraising	<u>38,561</u>	<u>-</u>	<u>38,561</u>
 Total expenses	 <u>501,523</u>	 <u>-</u>	 <u>501,523</u>
 Net increase in net assets	 <u>25,269</u>	 <u>9,268</u>	 <u>34,537</u>
 Net assets at beginning of year	 <u>23,611</u>	 <u>21,852</u>	 <u>45,463</u>
 Net assets at end of year	 <u>\$ 48,880</u>	 <u>\$ 31,120</u>	 <u>\$ 80,000</u>

See notes to financial statements.

SWEET SLEEP, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Direct costs of program services, including in-kind expenses of \$3,925	\$ 277,612	\$ -	\$ -	\$ 277,612
Payroll	77,819	27,692	19,517	125,028
Professional fees	349	9,381	1,342	11,072
Rent	26,653	7,614	3,808	38,075
Travel	17,027	525	895	18,447
Postage, printing and supplies	9,147	1,339	5,886	16,372
Development events	2,219	289	17,221	19,729
Cost of goods sold	330	-	2,969	3,299
Advertising and promotion	4,350	-	767	5,117
Telephone, computer and internet	3,021	770	1,694	5,485
Depreciation	2,317	523	424	3,264
Meals and entertainment	1,044	2,085	997	4,126
Dues and subscriptions	750	2,424	-	3,174
Licenses, permits and insurance	-	2,082	-	2,082
Bank fees	600	680	-	1,280
Other expenses	105	2,776	342	3,223
	<u>\$ 423,343</u>	<u>\$ 58,180</u>	<u>\$ 55,862</u>	<u>\$ 537,385</u>
Total	<u>\$ 423,343</u>	<u>\$ 58,180</u>	<u>\$ 55,862</u>	<u>\$ 537,385</u>

See notes to financial statements.

SWEET SLEEP, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Direct costs of program services, including in-kind expenses of \$4,138	\$ 260,170	\$ -	\$ -	\$ 260,170
Payroll	44,066	19,953	11,012	75,031
Professional fees	14,324	24,659	7,365	46,348
Rent	25,886	7,396	3,698	36,980
Travel	18,301	654	1,761	20,716
Postage, printing and supplies	13,438	1,659	2,596	17,693
Development events	6,189	-	1,645	7,834
Cost of goods sold	639	-	5,753	6,392
Advertising and promotion	4,142	-	731	4,873
Telephone, computer and internet	5,631	3,948	2,657	12,236
Depreciation	2,723	614	499	3,836
Meals and entertainment	2,284	-	571	2,855
Dues and subscriptions	757	1,090	-	1,847
Licenses, permits and insurance	-	1,747	-	1,747
Bank fees	1,311	166	182	1,659
Other expenses	516	699	91	1,306
	<u>\$ 400,377</u>	<u>\$ 62,585</u>	<u>\$ 38,561</u>	<u>\$ 501,523</u>
Total	<u>\$ 400,377</u>	<u>\$ 62,585</u>	<u>\$ 38,561</u>	<u>\$ 501,523</u>

See notes to financial statements.

SWEET SLEEP, INC.
STATEMENTS OF CASH FLOWS

	Year Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Increase in net assets	\$ 17,717	\$ 34,537
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	3,264	3,836
(Gain) loss on disposal of property and equipment	(630)	467
Donated investments	(63,712)	(75,731)
Realized and unrealized loss (gain) on investments	23	(90)
Decrease (increase) in prepaid expenses and other	14,342	(12,076)
Decrease in inventory	1,876	243
(Decrease) increase in accounts payable	(20,215)	9,069
Increase in accrued payroll	6,225	1,707
	(41,110)	(38,038)
Net cash used in operating activities		
Cash flows from investing activities:		
Proceeds from sale of investments	79,732	85,401
Purchases of property and equipment	(3,094)	(2,937)
Proceeds from sale of property and equipment	790	-
	77,428	82,464
Net cash provided by investing activities		
Change in cash and cash equivalents	36,318	44,426
Cash and cash equivalents, beginning of year	56,429	12,003
Cash and cash equivalents, end of year	\$ 92,747	\$ 56,429

See notes to financial statements.

SWEET SLEEP, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

A. ORGANIZATION AND NATURE OF ACTIVITIES

Sweet Sleep, Inc. (the “Organization”) is a not-for-profit corporation established under the laws of the State of Tennessee. The Organization exists to share God’s love through working with indigenous staff, churches, non-governmental agencies, and businesses to care for orphaned and abandoned children around the world, through bed distributions, indigenous adoption and family preservation. Throughout the year, the Organization also coordinates teams to travel to countries it serves, working with the children who are served by the Organization.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements present the financial position and results of operations of the Organization in conformity with accounting principles generally accepted in the United States of America. A summary of the significant accounting policies utilized in the preparation of these financial statements follows.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Resources are classified as unrestricted, temporarily restricted, or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

Unrestricted net assets are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors’ stipulations results in the release of the restriction.

Temporarily restricted net assets are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.

Permanently restricted net assets are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income, or specific portions thereof, be used for certain restricted or unrestricted purposes. There were no permanently restricted net assets at September 30, 2016 or 2015.

SWEET SLEEP, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of Estimates

The preparation of financial statements in accordance 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of checking account balances with financial institutions. For purposes of the statement of cash flows, the Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their net realizable value. An allowance for uncollectible accounts is provided based on past experience with collections and estimated collectability of current receivables. Uncollectible accounts are charged against the allowance in the period determined to be uncollectible. Promises to give at September 30, 2015 totaled \$2,687 and are considered to be fully collectible and are included in prepaid expenses and other in the accompanying statement of financial position. As a result, no allowance for uncollectible accounts has been recorded. There were no promises to give at September 30, 2016.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using an interest rate applicable to the year in which the promise is received. All contributions receivable at September 30, 2015 are expected to be received within one year and are therefore recorded at their original value. Conditional promises to give are not recognized as support until such time as the conditions are substantially met.

Inventory

Inventory consists principally of Sweet Sleep promotional clothing and supplies and jewelry made by indigenous widows in Uganda. The inventory items are valued at estimated cost.

SWEET SLEEP, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property and Equipment

Property and equipment purchases in excess of \$500 are capitalized and stated at acquisition cost or at estimated fair value at the time of the gift, if donated. Depreciation of property and equipment is calculated by the straight-line method over estimated useful lives ranging from three to ten years.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. Accordingly, no provision has been made for income taxes in the accompanying financial statements.

The Organization accounts for the effect of any uncertain tax positions based on a *more likely than not* threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a *cumulative probability assessment* that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for the Organization include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, the Organization has determined that such tax positions do not result in an uncertainty requiring recognition. The Organization files informational returns, which are open for examination by authorities for three years after filing. The tax returns for years ended September 30, 2013 through 2016, are still open to examination.

SWEET SLEEP, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Advertising

All advertising costs are expensed when incurred. Advertising expenses totaled \$5,117 and \$4,873 for the years ended September 30, 2016 and 2015, respectively.

Program and Supporting Services

The following program and supporting services are included in the accompanying financial statements:

Program services - includes the direct costs of providing beds and bedding to orphaned and abandoned children as well as funding programs to support indigenous adoption and family preservation. Additionally, program services include an allocation of identified indirect costs which facilitate the programs.

Management and general - includes the functions necessary to ensure an adequate working environment and costs not identifiable with a single program. Applicable costs include those associated with providing coordination and articulation of the Organization's program strategy, business management, general record keeping, budgeting, and related purposes.

Fundraising - includes costs of activities directed toward appeals for financial support, including special events. Other activities include the cost of solicitations and creation and distribution of fundraising materials.

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and nonfinancial data or reasonable subjective methods as determined by management.

Donated Goods and Services

Donated goods and services are recorded as contributions in the period received at their estimated fair value, if there is an objective and measurable basis for determining such value. Donated services are recognized if they create or enhance nonfinancial assets or if the donated service requires specialized skills, was performed by a donor possessing such skills, and would have been purchased by the Organization, if not donated. Such services are recognized at estimated fair value as support and expense in the period the services were performed.

SWEET SLEEP, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

A number of unpaid volunteers have made significant contributions of their time to assist the Organization in implementing various programs and functions. The value of contributed time is not reflected in these financial statements since it does not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

Reclassifications

Certain prior period amounts have been reclassified to conform to the current year presentation.

C. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30:

	<u>2016</u>	<u>2015</u>
Furniture and fixtures	\$ 21,697	\$ 22,182
Leasehold improvements	<u>5,666</u>	<u>4,926</u>
	27,363	27,108
Less accumulated depreciation	<u>(22,896)</u>	<u>(22,311)</u>
	<u>\$ 4,467</u>	<u>\$ 4,797</u>

SWEET SLEEP, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

D. INVESTMENTS

In accordance with standards of accounting for investments prescribed for not-for-profit organizations, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair value in the statement of financial position. Unrealized gains and losses are recognized in the statement of activities. Fair value is based on quoted market price on the last business day of the fiscal year.

The guidance establishes a framework which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial investment.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Investments are stated at fair value determined based on active markets (Level 1). There were no investments held at September 30, 2016. Investments consisted of the following at September 30, 2015:

Money market	\$ 538
Common stock	<u>15,505</u>
	<u>\$16,043</u>

SWEET SLEEP, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

E. CONCENTRATIONS

The Organization receives support from various churches and individual donors. During the years ended September 30, 2016 and 2015, the Organization received approximately 26% and 21%, respectively, of total contributions from two donors.

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash on deposit with a financial institution. Deposits may, at times, exceed federally insured limits. The Organization has not experienced any losses in such accounts, and management believes that the Organization is not exposed to significant credit risk related to cash.

F. LEASE OBLIGATION

During the year ended September 30, 2011, the Organization entered into a five-year non-cancellable real property lease for its corporate office. During the year ended September 30, 2016, the lease was extended for an additional period of five years. Future minimum lease payments are as follows for the years ending September 30:

<u>Year Ending September 30,</u>	<u>Amount</u>
2017	\$ 37,397
2018	38,361
2019	39,128
2020	39,584
2021	<u>23,093</u>
	<u>\$177,563</u>

Rent expense under all lease agreements totaled \$38,075 and \$36,980 for the years ended September 30, 2016 and 2015, respectively.

SWEET SLEEP, INC.
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2016 AND 2015

G. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes at September 30:

	<u>2016</u>	<u>2015</u>
Upcoming trips	\$ -	\$17,033
Mosquito nets	<u>2,819</u>	<u>14,087</u>
	<u>\$2,819</u>	<u>\$31,120</u>

H. SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 2, 2017, the date which the financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.