

**SWEET SLEEP, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

DRAFT

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Sweet Sleep, Inc.
Brentwood, Tennessee

Report on the Financial Statements

I have audited the accompanying financial statements of Sweet Sleep, Inc. (a nonprofit organization) which comprise the statement of financial position as of September 30, 2017, 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sweet Sleep, Inc. as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in conformity 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, 2016, were audited by other auditors whose report dated May 2, 2017, expressed an unmodified opinion on those statements.

Murfreesboro, Tennessee
February 22, 2018

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SWEET SLEEP, INC.
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2017 AND 2016

ASSETS

| | 2017 | 2016 |
|-----------------------------|-----------------------|-----------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 97,007 | \$ 92,747 |
| Prepaid expenses | 4,771 | 4,896 |
| Inventory | 3,821 | 5,698 |
| Property and equipment, net | 3,207 | 4,467 |
| TOTAL ASSETS | \$ 108,806 | \$ 107,808 |

LIABILITIES AND NET ASSETS

| | | |
|---|-----------------------|-----------------------|
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 20,604 | \$ 2,087 |
| Accrued payroll | 2,350 | 8,004 |
| Total current liabilities | 22,954 | 10,091 |
| NET ASSETS | | |
| Unrestricted | 85,852 | 94,898 |
| Temporarily restricted | - | 2,819 |
| Total net assets | 85,852 | 97,717 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 108,806 | \$ 107,808 |

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See accompanying notes to financial statements.

SWEET SLEEP, INC.
STATEMENT OF ACTIVITIES
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

| | 2017 | | | 2016 | | |
|--|------------------|---------------------------|------------------|------------------|---------------------------|------------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Revenues and other support: | | | | | | |
| Contributions | \$ 527,387 | \$ - | \$ 527,387 | \$ 538,116 | \$ - | \$ 538,116 |
| Product sales | 7,558 | - | 7,558 | 7,979 | - | 7,979 |
| In-kind contributions | 6,088 | - | 6,088 | 8,079 | - | 8,079 |
| Other income | 2,809 | - | 2,809 | 298 | - | 298 |
| Gain on disposal of property and equipment | - | - | - | 630 | - | 630 |
| Net assets released from restrictions | 2,819 | (2,819) | - | 28,301 | (28,301) | - |
| Total revenues and other support | <u>546,661</u> | <u>(2,819)</u> | <u>543,842</u> | <u>583,403</u> | <u>(28,301)</u> | <u>555,102</u> |
| Expenses: | | | | | | |
| Program services | 417,940 | - | 417,940 | 423,343 | - | 423,343 |
| Management and general | 74,459 | - | 74,459 | 58,180 | - | 58,180 |
| Fundraising | 63,308 | - | 63,308 | 55,862 | - | 55,862 |
| Total expenses | <u>555,707</u> | <u>-</u> | <u>555,707</u> | <u>537,385</u> | <u>-</u> | <u>537,385</u> |
| CHANGE IN NET ASSETS | (9,046) | (2,819) | (11,865) | 46,018 | (28,301) | 17,717 |
| NET ASSETS, BEGINNING OF THE YEAR | <u>94,898</u> | <u>2,819</u> | <u>97,717</u> | <u>48,880</u> | <u>31,120</u> | <u>80,000</u> |
| NET ASSETS, END OF THE YEAR | <u>\$ 85,852</u> | <u>\$ -</u> | <u>\$ 85,852</u> | <u>\$ 94,898</u> | <u>\$ 2,819</u> | <u>\$ 97,717</u> |

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See accompanying notes to financial statements.

SWEET SLEEP, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEARS ENDED SEPTEMBER 31, 2017 AND 2016

| | 2017 | | | 2016 | | | | |
|----------------------------------|---------------------|---------------------------|------------------|-------------------|---------------------|---------------------------|------------------|-------------------|
| | Program Services | Management and General | Fundraising | Total | Program Services | Management and General | Fundraising | Total |
| Direct costs of program services | \$ 268,307 | \$ - | \$ - | \$ 268,307 | \$ 277,612 | \$ - | \$ - | \$ 277,612 |
| Payroll | 66,175 | 44,169 | 10,792 | 121,136 | 77,819 | 27,692 | 19,517 | 125,028 |
| Rent | 27,531 | 7,866 | 3,933 | 39,330 | 26,653 | 7,614 | 3,808 | 38,075 |
| Development events | 2,811 | - | 28,996 | 31,807 | 2,219 | 289 | 17,221 | 19,729 |
| Marketing and promotion | 22,695 | 395 | 2,930 | 26,020 | 4,350 | - | 767 | 5,117 |
| Postage, printing and supplies | 8,528 | 2,549 | 7,597 | 18,674 | 9,147 | 1,339 | 5,886 | 16,372 |
| Travel | 11,836 | 16 | 4,402 | 16,254 | 17,027 | 525 | 895 | 18,447 |
| Telephone, computer and internet | 3,422 | 4,950 | 175 | 8,547 | 3,021 | 770 | 1,694 | 5,485 |
| Professional fees | 1,080 | 7,400 | - | 8,480 | 349 | 9,381 | 1,342 | 11,072 |
| Meals and entertainment | 1,741 | 2,307 | 1,302 | 5,350 | 1,044 | 2,085 | 997 | 4,126 |
| Cost of goods sold | - | - | 2,811 | 2,811 | 330 | - | 2,969 | 3,299 |
| Dues and subscriptions | 906 | 1,900 | - | 2,806 | 750 | 2,424 | - | 3,174 |
| Depreciation | 1,569 | 354 | 287 | 2,210 | 2,317 | 523 | 424 | 3,264 |
| Licenses, permits and insurance | - | 1,861 | - | 1,861 | - | 2,082 | - | 2,082 |
| Bank fees | 1,048 | 74 | - | 1,122 | 600 | 680 | - | 1,280 |
| Other expenses | 291 | 618 | 83 | 992 | 105 | 2,776 | 342 | 3,223 |
| | <u>\$ 417,940</u> | <u>\$ 74,459</u> | <u>\$ 63,308</u> | <u>\$ 555,707</u> | <u>\$ 423,343</u> | <u>\$ 58,180</u> | <u>\$ 55,862</u> | <u>\$ 537,385</u> |

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See accompanying notes to financial statements.

SWEET SLEEP, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|-------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in net assets | \$ (11,865) | \$ 17,717 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation | 2,210 | 3,264 |
| Gain on disposal of property and equipment | - | (630) |
| Realized and unrealized loss on investments | - | 23 |
| (Increase) decrease in: | | |
| Prepaid expenses | 125 | 14,342 |
| Inventory | 1,877 | 1,876 |
| Increase (decrease) in: | | |
| Accounts payable | 18,517 | (20,215) |
| Accrued payroll | (5,654) | 6,225 |
| Net cash provided by operating activities | <u>5,210</u> | <u>22,602</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale of investments | - | 16,020 |
| Purchases of property and equipment | (950) | (3,094) |
| Proceeds from sale of property and equipment | - | 790 |
| Net cash provided by (used in) investing activities | <u>(950)</u> | <u>13,716</u> |
| Change in cash and cash equivalents | 4,260 | 36,318 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR | <u>92,747</u> | <u>56,429</u> |
| CASH AND CASH EQUIVALENTS, END OF THE YEAR | <u><u>\$ 97,007</u></u> | <u><u>\$ 92,747</u></u> |

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See accompanying notes to financial statements.

SWEET SLEEP, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

NOTE 1 - NATURE OF ORGANIZATION

Sweet Sleep, Inc. (the "Organization"), is a not-for-profit corporation, chartered by 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.

NOTE 2 - 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 significant accounting policies utilized in the preparation of these financial statements follows.

Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

The Organization follows accounting standards set by the Financial Accounting Standards Board (FASB). The financial statements have been prepared in accordance with standards of accounting and financial reporting under Accounting Standards Codification (ASC) 958, *Not for Profit Entities*. The Organization reports information regarding its financial position and activities according to three classes of net assets, described 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 restrictions.

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, 2017 or 2016.

SWEET SLEEP, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

NOTE 2 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

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.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted net assets depending on the absence or existence and nature of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

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.

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$500. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation of property and equipment is calculated by the straight-line method over estimated useful lives ranging from three to ten years.

SWEET SLEEP, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

NOTE 2 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Functional Allocation of 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the September 30, 2016 financial statements in order for them to conform to the 2017 presentation.

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SWEET SLEEP, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

NOTE 2 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Organization is exempt from federal 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 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 Federal Form 990 in the United States. Federal Forms 990 filed before September 30, 2014 are no longer subject to examination.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment as of each September 30 is as follows:

| | 2017 | 2016 |
|-------------------------------|-----------|-----------|
| Furniture and Fixtures | \$ 22,647 | \$ 21,697 |
| Leasehold Improvements | 5,666 | 5,666 |
| | 28,313 | 27,363 |
| Less Accumulated Depreciation | (25,106) | (22,896) |
| | \$ 3,207 | \$ 4,467 |

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at September 30, 2016 were \$2,819. These funds were restricted for mosquito nets and were spent during the year ended September 30, 2017. The Organization has no temporarily restricted net assets at September 30, 2017.

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SWEET SLEEP, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED SEPTEMBER 30, 2017 AND 2016

NOTE 5 - CONCENTRATIONS

The Organization receives support from various churches and individual donors. During the years ended September 30, 2017 and 2016, the Organization received approximately 22% and 26%, respectively, of total contributions from two donors.

The Organization's credit risk relates to cash and cash equivalents. The Organization maintains 4 bank accounts at two banks. Accounts at an institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The Organization has not experienced any losses in such accounts, and management believes that the Organization is not exposed to significant risk related to cash.

NOTE 6 - OPERATING LEASE

The Organization renewed its operating lease effective May 1, 2016 for the lease of space for its Brentwood office. Monthly lease payments are due for the term of the lease ending in April 30, 2021. The Organization has a one-time termination option at the end of the April 30, 2019 year with a sixty day notice to the landlord. Future lease commitments are as follows:

| <u>Year Ending September 30,</u> | <u>Amount</u> |
|--------------------------------------|-------------------|
| 2018 | \$ 38,361 |
| 2019 | 39,128 |
| 2020 | 39,584 |
| 2021 | <u>23,093</u> |
| | <u>\$ 140,166</u> |

Rent expense was \$39,330 and \$38,075 for September 30, 2017 and 2016, respectively.

NOTE 7 - SUBSEQUENT EVENTS

Events Occurring After Reporting Date

Sweet Sleep, Inc. has evaluated events and transactions that occurred between September 30, 2017 and February 22, 2018, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.