

**SWEET SLEEP, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 2010**

**SWEET SLEEP, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 2010**

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS:	
Statement of Assets and Net Assets - Modified Cash Basis	2
Statement of Revenues, Support, Expenses and Change in Net Assets - Modified Cash Basis	3
Statement of Functional Expenses - Modified Cash Basis	4
Notes to Financial Statements	5 - 8

BLANKENSHIP CPA GROUP, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Sweet Sleep, Inc.

We have audited the accompanying statement of assets and net assets - modified cash basis of Sweet Sleep, Inc. (a not-for-profit organization) as of September 30, 2010, and the related statement of revenues, support, expenses and change in net assets - modified cash basis and the statement of functional expenses - modified cash basis for the year then ended. These financial statements are the responsibility of the Organization'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.

As described in note 2, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and net assets of Sweet Sleep, Inc. as of September 30, 2010, and its revenues, support, and expenses for the year then ended, on the basis of accounting described in note 2.

Blankenship CPA Group, PLLC

May 6, 2011

SWEET SLEEP, INC.
STATEMENT OF ASSETS AND NET ASSETS - MODIFIED CASH BASIS
SEPTEMBER 30, 2010

ASSETS

Cash and cash equivalents	\$ 220,600
Note receivable - related party	14,787
Inventory	4,642
Other assets	928
Property and equipment, net	<u>1,933</u>
 Total assets	 <u><u>\$ 242,890</u></u>

NET ASSETS

Unrestricted net assets	<u>\$ 242,890</u>
 Total net assets	 <u><u>\$ 242,890</u></u>

The accompanying notes are an integral part of these financial statements.

SWEET SLEEP, INC.
STATEMENT OF REVENUES, SUPPORT, EXPENSES AND CHANGE IN NET ASSETS
MODIFIED CASH BASIS
YEAR ENDED SEPTEMBER 30, 2010

Revenues and support:	
Contributions	\$ 710,125
Interest income	<u>1,078</u>
Total revenues	<u>711,203</u>
Expenses:	
Program services	490,398
Supporting services:	
Management and general	89,891
Fundraising	<u>59,737</u>
Total expenses	<u>640,026</u>
Change in net assets	71,177
Net assets, beginning of year	<u>171,713</u>
Net assets, end of year	<u><u>\$ 242,890</u></u>

The accompanying notes are an integral part of these financial statements.

SWEET SLEEP, INC.
STATEMENT OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
YEAR ENDED SEPTEMBER 30, 2010

	PROGRAM SERVICES	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Direct costs of program services	\$ 319,739	\$ -	\$ -	\$ 319,739
Payroll	123,921	37,373	35,406	196,700
Advertising and promotion	9,294	2,438	3,504	15,236
Bank fees	90	2,170	-	2,260
Board expense	-	103	-	103
Communications	63	6,200	-	6,263
Computer/Internet	238	678	-	916
Continuing education	28	93	-	121
Depreciation	1,045	236	191	1,472
Development events	3,283	-	8,443	11,726
Dues and subscriptions	-	1,329	-	1,329
Gifts and contributions	-	-	340	340
Insurance	-	518	-	518
License and permits	-	250	-	250
Meals and entertainment	545	617	2,469	3,631
Meetings	-	266	-	266
Miscellaneous	-	605	-	605
Office supplies	557	6,763	637	7,957
Postage and delivery	2,545	1,302	2,072	5,919
Printing	11,311	556	6,675	18,542
Professional fees	-	10,386	-	10,386
Rent	-	16,409	-	16,409
Travel	14,175	143	-	14,318
Volunteer expense	-	1,456	-	1,456
Web services	3,564	-	-	3,564
	<hr/>			
Total functional expenses	<u>\$ 490,398</u>	<u>\$ 89,891</u>	<u>\$ 59,737</u>	<u>\$ 640,026</u>

The accompanying notes are an integral part of these financial statements.

SWEET SLEEP, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2010

NOTE 1 - 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, and businesses to provide beds and bedding to orphaned and abandoned children all around the world. Throughout the year, the Organization also coordinates teams to travel to orphanages to build beds and work with the children who are served by the Organization.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. That basis differs from accounting principles generally accepted in the United States of America in that support is recognized when received instead of when the support is pledged and payments to vendors are recognized when paid instead of when goods or services are received.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of checking and savings account balances with financial institutions.

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 revenues, support, expenses and change in net assets as net assets released in satisfaction of program 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.

SWEET SLEEP, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment and Depreciation

Equipment and furniture purchases in excess of \$100 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 five years for equipment and furniture.

Inventory

The Organization maintained a very limited inventory of items held for sale or for giveaway at September 30, 2010. The Organization decided to inventory these items instead of immediately expensing them for reporting purposes and valued the inventory items at cost.

Advertising

All advertising costs are expensed when incurred. There were no direct response advertising costs incurred in 2010.

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. Additionally, program services includes an allocation of identified indirect costs which facilitate the providing of beds and bedding.

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 determined by management

SWEET SLEEP, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Goods and Services

Donated facilities and materials 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 the donated service requires specialized skills, was performed by a donor who possess such skills, and would have been purchased by the Organization, if not donated. Such services are recognized at fair value as support and expense in the period the services were performed.

A number of unpaid volunteers have made significant contributions of their time to assist the Organization in implementing various programs and exhibits. The value of contributed time is not reflected in these financial statements since it is not susceptible to objective measurement or valuation.

Use of Estimates

The preparation of financial statements on modified cash basis 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 reported period. Actual results could differ from those estimates.

NOTE 3 - CONCENTRATIONS

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash on deposit with several financial institutions. 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.

For the year ended September 30, 2010 the Organization received a significant contribution from a church that was approximately 12% of total contributions and a significant contribution from an organization that was approximately 10% of total contributions.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30:

Furniture and fixtures	\$ 5,733
Less accumulated depreciation	<u>(3,800)</u>
	<u>\$ 1,933</u>

Depreciation expense for the year ended September 30, 2010 totaled \$1,472.

SWEET SLEEP, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2010

NOTE 5 - RELATED PARTIES

In October 2007, the Organization entered into a real property lease for its primary office space in Nashville, TN. This lease is with the founder of the Organization. The lease term is for five years at \$600 per month plus a common area maintenance charge. The lease is cancelable by either party with 30 days notice.

During the year ended September 30, 2009, the Organization made improvements to the real property of the founder totaling \$32,400, which consisted of actual costs for improvements to the real property of \$13,045 and donated materials and services for improvements of \$19,355. The lease agreement stipulates that the Organization will be abated 65 rental payments in consideration for these improvements. Interest of 5.75% will be included in the abatement payments. The Organization recognized \$1,044 of interest income and \$7,200 of rent expense for the year ended September 30, 2010 under this agreement. The Organization also recognized \$9,209 in rent expense relating to common area maintenance charges for the year ended September 30, 2010. As of September 30, 2010 the remaining rent to be abated was \$14,787 which was presented on the statement of assets and net assets as a note receivable from the related party. On May 1, 2011 the related party lease was cancelled and the Organization moved its corporate offices to a new location (See Note 6). Upon cancellation of the related party lease, management reduced the balance of the related party receivable to zero by recording the balance of approximately \$12,500 as compensation expense to the related party.

NOTE 6 - SUBSEQUENT EVENT

On May 1, 2011 the Organization entered into a new five year real property lease with an unrelated party and moved its corporate offices. Future minimum lease payments are as follows:

2011	\$ 10,378
2012	15,566
2013	15,566
2014	15,566
2015	15,566
2016	<u>5,189</u>
	<u>\$ 77,831</u>

NOTE 7 - MANAGEMENT'S REVIEW

Management has evaluated subsequent events through May 6, 2011, the date which the financial statements were available to be issued.