

REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS FOR

VAPOR MINISTRIES

DECEMBER 31, 2022

VAPOR MINISTRIES
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Vapor Ministries
Sylacauga, Alabama

We have audited the accompanying consolidated financial statements of Vapor Ministries, which comprise the consolidated statements of financial position as of December 31, 2022, the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vapor Ministries as of December 31, 2021, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements of Vapor Ministries taken as a whole. The combining financial schedules of Vapor Ministries are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Valenti, Rackley & Assoc., LLC

Valenti, Rackley & Associates, LLC
Certified Public Accountants

July 25, 2023

VAPOR MINISTRIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022

ASSETS

Cash and cash equivalents:		
Unrestricted	\$	4,424,638
Restricted		<u>217,041</u>
Total cash and cash equivalents		4,641,679
Receivables		13,645
Prepaid expenses		33,391
Inventory		411,121
Investments:		
Unrestricted		35,845
Restricted		70,520
Leased assets		3,121,676
Property and equipment, net		<u>6,405,226</u>
 TOTAL ASSETS	 \$	 <u><u>14,733,103</u></u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued expenses	\$	215,376
Lease liabilities		<u>3,121,676</u>
 Total liabilities		 <u>3,337,052</u>
Net Assets		
Without donor restrictions		9,523,512
With donor restrictions		<u>1,872,539</u>
 Total net assets		 <u>11,396,051</u>
 TOTAL LIABILITIES AND NET ASSETS	 \$	 <u><u>14,733,103</u></u>

See accompanying notes to the financial statements.

VAPOR MINISTRIES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Net Assets		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Contributions:			
Cash	\$ 2,777,386	\$ 2,356,522	\$ 5,133,908
In-kind:			
Thrift store	3,635,519	-	3,635,519
Other	25,189	-	25,189
Sales	3,625,988	-	3,625,988
Cost of goods sold	(3,528,645)	-	(3,528,645)
Investment income (loss)	(26,973)	-	(26,973)
Other income	55,259	-	55,259
Net assets released from restrictions	4,296,964	(4,296,964)	-
TOTAL REVENUES AND OTHER SUPPORT	<u>10,860,687</u>	<u>(1,940,442)</u>	<u>8,920,245</u>
EXPENSES AND LOSSES			
Functional expenses:			
Program:			
Sustainable centers	2,501,388	-	2,501,388
Thrift store	2,853,082	-	2,853,082
Supporting services:			
Management and general	1,572,760	-	1,572,760
Fundraising	419,548	-	419,548
TOTAL EXPENSES	<u>7,346,778</u>	<u>-</u>	<u>7,346,778</u>
CHANGE IN NET ASSETS	3,513,909	(1,940,442)	1,573,467
NET ASSETS, BEGINNING OF YEAR	<u>6,009,603</u>	<u>3,812,981</u>	<u>9,822,584</u>
NET ASSETS, END OF YEAR	<u>\$ 9,523,512</u>	<u>\$ 1,872,539</u>	<u>\$ 11,396,051</u>

VAPOR MINISTRIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Program					Supporting Services			Total Expenses	
	Sustainable Centers			Thrift		Management and General		Fundraising		Total
	Africa	Haiti	Subtotal	Store	Total					
Personnel expenses										
Staff salaries	\$ 449,224	\$ 260,479	\$ 709,703	\$ 1,344,507	\$ 2,054,210	\$ 708,666	\$ 48,292	\$ 756,958	\$ 2,811,168	
Payroll taxes	12,298	7,520	19,818	113,929	133,747	45,835	4,726	50,561	184,308	
Other employee benefits	51,238	25,619	76,857	13,266	90,123	34,582	-	34,582	124,705	
Total personnel expense	<u>512,760</u>	<u>293,618</u>	<u>806,378</u>	<u>1,471,702</u>	<u>2,278,080</u>	<u>789,083</u>	<u>53,018</u>	<u>842,101</u>	<u>3,120,181</u>	
Other expenses										
Professional/other fees	77,476	116,764	194,240	142,826	337,066	80,519	7,505	88,024	425,090	
Advertising/promotion	33,761	30,169	63,930	28,173	92,103	84,004	23,363	107,367	199,470	
Office expenses	137,789	89,386	227,175	51,164	278,339	65,987	14,790	80,777	359,116	
Occupancy	56,618	36,699	93,317	639,193	732,510	8,482	2,268	10,750	743,260	
Travel	108,410	58,816	167,226	73,174	240,400	183,404	13,560	196,964	437,364	
Conferences, conventions and meetings	175	175	350	2,296	2,646	89,667	191,286	280,953	283,599	
Depreciation expense	96,026	96,026	192,052	66,468	258,520	40,796	10,849	51,645	310,165	
Insurance	51,164	51,164	102,328	37,281	139,609	116,411	36,072	152,483	292,092	
Supplies	112,213	85,189	197,402	79,465	276,867	(2,939)	59,073	56,134	333,001	
Sales tax	4,525	2,484	7,009	249,324	256,333	240	-	240	256,573	
Dues and subscriptions	5,986	4,830	10,816	9,625	20,441	88,031	-	88,031	108,472	
Training	43,313	24,021	67,334	2,391	69,725	29,075	7,764	36,839	106,564	
Grants/other assistance	217,012	154,819	371,831	-	371,831	-	-	-	371,831	
Total other expenses	<u>944,468</u>	<u>750,542</u>	<u>1,695,010</u>	<u>1,381,380</u>	<u>3,076,390</u>	<u>783,677</u>	<u>366,530</u>	<u>1,150,207</u>	<u>4,226,597</u>	
Total functional expenses	<u>\$1,457,228</u>	<u>\$ 1,044,160</u>	<u>\$ 2,501,388</u>	<u>\$ 2,853,082</u>	<u>\$ 5,354,470</u>	<u>\$1,572,760</u>	<u>\$ 419,548</u>	<u>\$ 1,992,308</u>	<u>\$ 7,346,778</u>	

See accompanying notes to the financial statements.

VAPOR MINISTRIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from contributions and thrift store sales	\$ 8,982,389
Payments to employees (or for their benefit) for services provided	(3,120,181)
Payments to vendors	<u>(3,958,041)</u>
Net cash provided by (used in) operating activities	<u>1,904,167</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of investments	(65,458)
Purchase of fixed assets	<u>(2,742,984)</u>
Net cash provided by (used in) investing activities	<u>(2,808,442)</u>

NET CHANGE IN CASH

(904,275)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

5,545,954

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ 4,641,679

Non cash: Inkind contributions of \$3,660,708 were received and the corresponding expense is recorded as \$3,635,519 cost of goods sold and \$25,189 office expense.

See accompanying notes to the financial statements.

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 1 – DESCRIPTION OF THE ORGANIZATION

The mission of Vapor Ministries is to establish sustainable centers for alleviating poverty and multiplying Christian disciples in third-world environments. Centers for humanitarian aid and disciple-making are in Nairobi, Kenya: N’gong, Kenya; Togoville, Togo; Dilaire, Haiti; and Ouanaminthe, Haiti. At these centers, Vapor Ministries provides sustainable employment, provision of clean water, critical care humanitarian aid grants, and education stipends, while also providing impoverished children with free-of-charge sports memberships in discipleship sports leagues and operating various micro-businesses.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Vapor Ministries consists of four separate legal entities organized in the United States of America: (1) Vapor Ministries, Inc., (2) Vapor Thrift Store, LLC, (3) Vapor Books, LLC, and (4) Vapor Sports Ministries, Inc. These financial statements present the financial position and activities of these entities on a consolidated basis.

The consolidated entities are related as follows:

- Vapor Ministries, Inc. is the sole owner of Vapor Thrift Store, LLC and Vapor Books, LLC
- Vapor Ministries, Inc. appoints the directors of Vapor Sports Ministries, Inc.

FASB ASC 958-810-25-3 requires consolidation treatment when certain relationships exist. In this case, consolidation is required based on majority ownership of Vapor Thrift Store, LLC and Vapor Books, LLC by Vapor Ministries, Inc. and the ability of Vapor Ministries, Inc. to appoint majority voting interest in the board of directors of Vapor Sports Ministries, Inc., coupled with its economic interest therein.

Additional information regarding the four entities is provided below:

- *Vapor Ministries, Inc.* The entity solicits contributions and makes grants to Vapor Sports Ministries, Inc. to fund the entity’s programs. Major sources of revenue are contributions and funding received from Vapor Thrift Store, LLC.
- *Vapor Thrift Store, LLC.* The entity, through the sale of donated, second-hand merchandise, generates resources to fund the program activities of Vapor Ministries, Inc., and, indirectly, Vapor Sports Ministries, Inc.
- *Vapor Books, LLC.* The entity is an Alabama limited liability company organized as of July 30, 2021, under the LLC Law to publish and distribute a book on the life story of the founder of Vapor Ministries and its global mission of serving those experiencing extreme poverty around the world, and to produce documentary films and other media on the global mission and activities of Vapor Ministries.
- *Vapor Sports Ministries, Inc.* The entity builds and operates centers for humanitarian aid and disciple-making. Funding is provided by grants from Vapor Ministries, Inc.

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The headquarters for the four entities is located at 338 Talladega Springs Rd., Sylacauga, Alabama.

The financial statements of Vapor Ministries have been prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”), which require Vapor Ministries to report information regarding its financial position and activities according to the following net assets classifications:

- *Net assets without donor restrictions.* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of Vapor Ministries’ management and the board of directors.
- *Net assets with donor restrictions.* Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; these restrictions will be met by actions of Vapor Ministries or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of those items attributable to Vapor Ministries’ ongoing humanitarian aid and disciple-making activities and interest and dividends earned on investments. Nonoperating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or nonrecurring nature.

Cash and Cash Equivalents

Vapor Ministries’ cash consists of cash on deposit with banks and small amounts of petty cash. Cash equivalents, if any, represent money market funds or short-term investments with original maturities of three months or less from the date of purchase, except for those amounts that are held in an investment portfolio which are invested for long-term purposes.

Concentrations of Credit Risk

Financial instruments that potentially subject Vapor Ministries to concentrations of credit risk consist primarily of cash and cash equivalents. Vapor Ministries maintains its cash and cash equivalents in various bank accounts that, at times, may exceed federally insured limits. Vapor Ministries’ cash and cash equivalents have been placed with high credit quality financial institutions. Vapor Ministries has not experienced, nor does it anticipate, any losses with respect to such accounts.

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statements of financial position, and changes in fair value are reported as investment return in the statements of activities.

Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statements of activities in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date.

Fair value Measurement

Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). Vapor Ministries groups assets at fair value in three levels, based on the markets in which the asset and liabilities are traded, and the reliability of the assumptions used to determine fair market value. These levels are:

Level 1 Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2 Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability; and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 Unobservable inputs that cannot be corroborated by observable market data.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue. Conditional promises to give are not included in support until the conditions are met.

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other Receivables

Other receivables are recorded at the amount due Vapor Ministries. Discounts are not applied, and no interest is accrued.

Vapor Ministries uses an allowance method to determine uncollectible receivables. No allowance has been recorded based on management's assessment of collectability.

Revenue Recognition

Vapor Ministries recognizes revenue in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, as amended. ASU 2014-09 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. Vapor Ministries records the following exchange transaction revenue in its consolidated and combining statements of activities and changes in net assets for the year ending December 31, 2021:

Thrift Store sales and other sales of inventory. Vapor Ministries operates three thrift stores, which sell donated merchandise on a retail basis to customers. Vapor Ministries also sells promotional inventory to customers at their headquarters and sells copies of a book that the Organization has published. The performance obligation is the delivery of the good to the customer. The transaction price is established by management. As each item is individually priced, no allocation of the transaction price is necessary. Vapor Ministries recognizes revenue as the customer pays and takes possession of the merchandise. At the thrift store, only electronic merchandise is sold with the right of return and returns are only allowed within a 48-hour period after the sale. Since refunds are not significant, no liability for probable customer returns is necessary.

Inventory

Thrift store inventory consists of donated merchandise held for sale at the thrift store. Since counting and valuing inventory on hand is impractical, Vapor Ministries estimates and records inventory at December 31st based on average monthly sales during January, February and March of the subsequent year. Other inventory, such as promotional items held at the main office, is valued at cost.

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intra-Entity Balances and Transactions Eliminations

Intra-entity eliminations of balances and transactions have been made in consolidating the entities to keep from overstating assets, liabilities, revenues and expenses. These eliminating adjustments are reported on the Combining Schedule of Financial Position and Combining Schedule of Activities in the supplementary information section of the financial statements.

Property and Equipment

Property and equipment are stated at cost at the date of purchase or, for donated assets, at fair market value at the date of the donation, less accumulated depreciation. Depreciation is calculated using the straight-line method over the lesser of estimated useful lives of the assets or the lease term. The useful lives range from three to twenty-seven- and one-half years. Vapor Ministries' policy is to capitalize renewals and betterments acquired for greater than \$500 and expense normal repairs and maintenance as incurred. Vapor Ministries' management periodically evaluates whether events or circumstances have occurred indicating that the carrying amount of long-lived assets may not be recoverable.

Prepaid Expenses and Deferred Revenue

Payments made to vendors that will benefit subsequent periods are recorded as prepaid items. Amounts received that will benefit subsequent periods are recorded as deferred revenue.

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Donor restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

In-kind Donations

Thrift store merchandise, which consists of donated clothing, household goods, furniture, home improvement items, and various other items, is held for sale at the thrift stores. Contribution revenue is recorded for the value of merchandise donated. Donated merchandise value is based on the amount at which the merchandise is sold. The cost of merchandise sold is, therefore, equal to sales revenue.

In-kind donations, other than thrift store donations, are valued at fair market value as of the date of receipt.

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Vapor Ministries receives volunteer services in furtherance of Vapor Ministries' mission. These services are not reflected in the accompanying statement of activities because they do not meet the necessary criteria for recognition under US GAAP.

Functional Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Functional expenses are specifically allocated to the various programs and supporting services whenever practical and, when this is impractical, allocations are made based on time spent on the program or service or the best estimate of management.

Each quarter management allocates staff salary and the associated overhead expenses to programs based on quarterly interviews with each staff person working at the headquarters (Sylacauga office). These interviews are used to determine estimates of where that individual spent his or her time. All activities carried out by the employees at the Sylacauga office which can be directly linked to Vapor Ministries' programs are classified as program expenses. Activities specifically and directly linked to fundraising are recorded as fundraising expenses. Management uses a weighted average of the general-to-program allocation (with the weighting based on total compensation) to allocate the headquarters office overhead expenses.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain amounts and disclosures. Actual results could differ from those estimates.

Income Taxes

The entities that make up Vapor Ministries are exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code, however the organizations are not exempt from tax imposed upon unrelated business activity income. The entities currently have no unrelated business activity income, and accordingly, no provision for income taxes has been recorded. Vapor Ministries does not believe there are any material uncertain tax positions. The entities are no longer subject to U.S. federal income tax examination by tax authorities for years before 2020.

Vapor Thrift Store, LLC and Vapor Books, LLC are single-member limited liability companies, disregarded entities for tax purposes and are consolidated with Vapor Ministries, Inc. for Form 990 filing. A separate Form 990 is filed for Vapor Sports Ministries, Inc.

Under U.S. Internal Revenue Service regulations, Vapor Thrift Store, LLC and Vapor Books, LLC, as disregarded entities, falls under the IRC section 501(c)(3) tax exemption of Vapor Ministries, Inc.

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

Leases

Vapor Ministries is a lessee in multiple noncancelable operating leases. If the contract provides Vapor Ministries with the right to substantially all the economic benefits and the right to direct the use of the identified asset, it is considered to be or contain a lease. Right-of-use (ROU) assets and lease liabilities are recognized at the lease commencement date based on the present value of the future lease payments over the expected lease term. ROU assets are also adjusted for any lease prepayments made, lease incentives received, and initial direct costs incurred.

Lease liabilities are initially and subsequently recognized based on the present value of their future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. Increases (decreases) to variable lease payments due to subsequent changes in an index or rate are recorded as variable lease expense (income) in the future period in which they are incurred.

ROU assets for operating leases are subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized.

ROU assets for finance leases are amortized on a straight-line basis over the lease term. Operating leases with fluctuating lease payments: For operating leases with lease payments that fluctuate over the lease term, the total lease costs are recognized on a straight-line basis over the lease term.

Vapor Ministries has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis.

Vapor Ministries has elected to use the practical expedient to not separate lease and non-lease components for real estate.

Vapor Ministries has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. The risk-free rate option has been applied to the real estate class of assets.

Right-of-use assets and liabilities as of December 31, 2022 are presented as separate line items on the Vapor Ministries' consolidated statements of financial position.

Accounting Pronouncements Adopted

Effective January 1, 2022, Vapor Ministries adopted the provisions of FASB ASC Topic 842 (ASU 2016-02), *Leases*. ASC 842 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the consolidated statement of financial position upon the commencement of all leases, except for those with a lease term of twelve months or less. Leases are classified as either finance leases or operating leases. Vapor Ministries has elected to record in its financial statements the effect of FASB ASC 842 as of the beginning of the year of adoption, which is January 1, 2022. The adoption of this provision had no effect on beginning net assets.

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 3 – AVAILABILITY AND LIQUIDITY

The following represents Vapor Ministries’ financial assets on December 31, 2022:

Financial assets at year end:	
Cash and cash equivalents	\$ 4,641,679
Accounts receivable	13,645
Investments	70,520
Other asset	35,845
Total financial assets	<u>4,761,689</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	1,872,539
Cash held for payment of deferred compensation	217,041
Investments held for payment of deferred compensation	70,520
Investments in a limited liability company	35,845
Less net assets with purpose restrictions to be met in less than one year	<u>(872,660)</u>
	<u>1,323,285</u>
Financial assets available to meet general expenditures over the next twelve months	<u><u>\$ 3,438,404</u></u>

Vapor Ministries strives to maintain the appropriate levels of financial assets to achieve the dual purposes of: (1) ensuring long-term financial integrity and stability, with conservative cash reserve limits for unforeseen circumstances, and (2) ensuring maximum impact of contributed funds, by releasing the correct amounts to pending projects.

Vapor Ministries’ goal is to generally maintain financial assets to meet 90 days of operating expenses.

NOTE 4 – RESTRICTED CASH

Restricted cash consists of \$2,258 held in a brokerage account for use in providing deferred compensation benefits to an employee and \$214,783 held as an endowment, totaling \$217,041. Also see Note 7.

NOTE 4 – INVENTORY

The value of the thrift store inventory on December 31, 2022 was \$367,680. Other inventory, held at the main office and consisting of promotional items, is valued at \$43,441 (cost basis).

NOTE 6 - RECEIVABLES

Receivables consist of trade receivable of \$93,888.

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 7 – INVESTMENTS

Unrestricted investments consist of 2.7% ownership in Pineridge Sports, LLC (a partnership), at original cost of \$45,000 and a capital account basis of \$41,563. In the fair value hierarchy of investments, this investment is a Level 3.

Restricted investments, consisting of an account held in a brokerage account (rabbi trust), have been set aside by management for use in providing deferred compensation benefits to an employee. The account consists of fixed income and global equity investments with a fair value of \$70,520 (cost basis of \$72,914). In the fair value hierarchy, the investment is a Level 1.

NOTE 8 – PROPERTY AND EQUIPMENT, NET

Changes in property and equipment, net for the year were as follows:

	Beginning Balance	Additions	Disposals/ Transfers	Ending Balance
Land	\$ 227,369	\$ -	\$ -	\$ 227,369
Construction in progress	632,318	2,695,374	(2,556,243)	771,449
Buildings	2,022,103	389,432	-	2,411,535
Land and building improvements	837,586	187,683	-	1,025,269
Leasehold improvements	1,756,885	1,597,278	-	3,354,163
Other assets	685,081	429,460	-	1,114,541
Total property and equipment	<u>6,161,342</u>	<u>5,299,227</u>	<u>(2,556,243)</u>	<u>8,904,326</u>
Accumulated depreciation for:				
Buildings	(566,657)	(79,225)	-	(645,882)
Land and building improvements	(431,682)	(51,811)	-	(483,493)
Leasehold improvements	(733,701)	(110,488)	-	(844,189)
Other assets	(456,895)	(68,641)	-	(525,536)
Total accumulated depreciation	<u>(2,188,935)</u>	<u>(310,165)</u>	<u>-</u>	<u>(2,499,100)</u>
Total property and equipment, net	<u>\$3,972,407</u>	<u>\$ 4,989,062</u>	<u>\$(2,556,243)</u>	<u>\$6,405,226</u>

Depreciation expense for the year was \$310,165.

VAPOR MINISTRIES
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 9 – NET ASSETS WITH DONOR RESTRICTIONS AND NET ASSETS RELEASED FROM RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes:

Subject to Expenditure for Specified Purpose	Beginning Balance	Increases	Released from Restrictions	Ending Balance
Trips	\$ 3,895	\$ (3,485)		\$ 410
Hasmin's Friends	104,936	306,091	(252,148)	158,879
Events	-	101,107	(88,607)	12,500
Thrift Capital Fund	2,170,293	47,670	(1,848,939)	369,024
Activities	-	251	(251)	-
Africa	88,473	201,099	(253,571)	36,001
Haiti	1,341,384	229,773	(838,231)	732,926
Other specified purposes	104,000	1,474,016	(1,015,217)	562,799
Total	<u>\$3,812,981</u>	<u>\$ 2,356,522</u>	<u>\$ (4,296,964)</u>	<u>\$ 1,872,539</u>

The above net assets released from restriction were released upon satisfaction of their purpose restriction.

NOTE 10 – SALES INCOME, COST OF GOODS SOLD AND IN-KIND CONTRIBUTIONS

Sales, cost of goods sold, and in-kind contributions are as follows:

Sales income:

Retail sales	
Thrift store	\$ 3,324,393
Other	55,786
Bulk sales - thrift store	191,164
Other sales	54,645
Total sales	<u>\$ 3,625,988</u>

Cost of goods sold - thrift store:

Beginning inventory	\$ 247,717
in-kind contributions	<u>3,635,519</u>
Cost of goods available for sale	3,883,236
Ending inventory	<u>(367,680)</u>
Cost of goods sold	<u>\$ 3,515,556</u>

The cost of goods sold for Vapor Books, LLC is \$13,089.

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 11 – INTRA-ENTITY TRANSACTIONS AND BALANCES AND ELIMINATIONS IN CONSOLIDATION

Intra-entity transactions:

During the year ended December 31, 2022, the following cash transfers were made between the consolidated entities:

- Vapor Ministries, Inc. transferred \$917,430 (net) to Vapor Thrift Stores, LLC to support the entity's programs.
- Vapor Ministries, Inc. transferred \$10,000 to Vapor Books, LLC to support the publishing, promotion and distribution of books.
- Vapor Ministries, Inc. transferred \$2,324,849 to Vapor Sports Ministries, Inc. to fund programs.

Intra-entity balances:

At December 31, 2022:

- Vapor Thrift Stores, LLC had a payable to Vapor Ministries, Inc. in the amount of \$21,566 and Vapor Ministries, Inc. had a corresponding receivable from Vapor Thrift Stores, LLC in the amount of \$21,566.
- Vapor Books, LLC had a payable to Vapor Ministries, Inc. in the amount of \$48,879 and Vapor Ministries, Inc. had a corresponding receivable from Vapor Books, LLC in the amount of \$48,879.
- Vapor Ministries, Inc. had a prepaid amount of \$177,734 for amounts paid to Vapor Sports Ministries in 2022 for use in January 2023. Vapor Sports Ministry had deferred revenue of \$177,734 for amounts received in 2022 for use in January 2023.

The revenues, expenses and balances represented by the above have been eliminated in preparing these consolidated financial statements.

NOTE 12 – LEASES

Vapor Ministries leases certain real estate at various terms under long-term non-cancelable operating lease agreements. The leases expire at various dates through 2038 and provide for renewal options ranging from three years to fifteen years. Vapor Ministries includes in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised. Vapor Ministries' operating leases provide for increases in future minimum annual rental payments. Additionally, some of the operating lease agreements require Vapor Ministries to pay real estate taxes and insurance.

The weighted-average discount rate is based on the discount rate implicit in the lease. Vapor Ministries has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily determinable. We have applied the risk-free rate option to the real estate class of assets.

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 12 – LEASES AND OTHER AGREEMENTS (CONTINUED)

Operating Leases - Thrift stores

Greystone. Vapor Thrift Stores, LLC entered into a 10-year agreement to lease commercial property, located at 5443 Highway 280, Birmingham, Alabama, for use as a retail store. In 2022, the lease was extended another 3 years ending December 31, 2032. The initial lease liability was amended to include the extended period and was recorded in the amount of \$2,034,938. As of December 31, 2022, the value of the lease liability was \$1,648,418. Vapor Ministries is required to make monthly principal and interest payments that gradually increase over the lease period. The risk-free rate used as the discount is .89%. The building has a useful life of 13 years and the value of the right-to-use asset as of December 31, 2022, was \$1,648,418 and has accumulated amortization of \$386,520.

Vestavia. Vapor Thrift Stores, LLC entered into a 5-year agreement (with an additional 5-year renewal option) to lease commercial property, located at 1069 Montgomery Highway, Birmingham, Alabama for use as a retail store and a central processing center. The initial lease liability was recorded in the amount of \$1,929,276. As of December 31, 2022, the value of the lease liability was \$1,141,343. Vapor Ministries is required to make monthly principal and interest payments the escalate at the rate of the greater of (a) the percentage increase in the Consumer Price Index from March of the previous year to March of the then current year, or (b) 2% each year over the lease period. The 2% increase is used in the calculation of the right-of-use asset and the lease liability. The risk-free rate used as the discount is 2.91%. The building has a useful life of 10 years and the value of the right-to-use asset as of December 31, 2022 was \$1,141,343 and has accumulated amortization of \$787,933.

Westover. Vapor Thrift Stores, LLC entered into a 6-month lease ending November 2022 with a monthly payment of \$6,500, including taxes and insurance, to lease commercial property located at 11271 US Hwy 280, Sterrett, Alabama, for use as a retail store. The lease agreement has not been renewed but Vapor Ministries continues to lease the property on a month-to-month basis.

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 12 – LEASES AND OTHER AGREEMENTS (CONTINUED)

Operating Lease - Foreign Operations

Gichagi Center, Nairobi, Kenya. Vapor Ministries entered into an agreement with Africa Inland Church Registered Trustees, Nairobi, Kenya, to rent land and sports facilities beginning October 1, 2016. The lease agreement expires October 1, 2024, upon which date it is automatically renewable for an additional period of fifteen years through October 1, 2039. The lease is Kshs. 150,000 per month (approximately US \$1,500), payable quarterly in advance. The initial lease liability was recorded in the amount of \$433,879. As of December 31, 2022, the value of the lease liability was \$360,449. Vapor Ministries is required to make monthly principal and interest payments which escalate 5% each year two years over the lease period. The risk-free rate used as the discount is 1.84%. The building has a useful life of 22 years and the value of the right-to-use asset as of December 31, 2022 was \$360,449 and has accumulated amortization of \$73,430. The book value of leasehold improvements made to this property was \$93,396 as of December 31, 2022.

Other Agreements – Foreign Operations

Ouanaminthe, Haiti. On July 15, 2012, Vapor Ministries entered into an agreement with the City of Ouanaminthe, Haiti to make specified improvements to the stadium in exchange for the right to manage and have access to a stadium for Vapor Football Leagues and discipleship for the initial period beginning July 15, 2012 through July 15, 2019 (7 years). The agreement includes three successive options for renewal of the agreement, each for an additional seven years, of which the first of the three 7-year options has been exercised. At the expiration of this agreement, including any renewals, Vapor Ministries shall have no further interest in the stadium and shall surrender the stadium in its existing condition. The Agreement may be extended beyond the terms listed above by amendment by the parties. The book value of leasehold improvements made to this property was \$125,998 as of December 31, 2022.

Kawangware Center, Nairobi, Kenya. Vapor Ministries entered into a mutual agreement with World Hope for use of land and facilities owned by World Hope. The agreement expired on May 13, 2019 but has optional extensions in three-year increments. A new agreement is being negotiated but all parties have agreed verbally to continue as is until the new agreement is in place. The book value of leasehold improvements made to this property was \$360,350 as of December 31, 2022.

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 12 – LEASE COMMITMENTS (CONTINUED)

For years subsequent to 2022, the present value of future minimum lease payments under the lease agreements are as follows:

Year Ended 12/31	Thrift Stores	Foreign Operations	Total
2023	\$ 367,962	\$ 20,837	\$ 388,799
2024	376,375	21,098	397,473
2025	385,001	21,879	406,880
2026	393,844	22,153	415,997
2027	402,902	22,973	425,875
2028-2032	1,039,062	122,779	1,161,841
2033-2037	-	138,454	138,454
2038	-	23,090	23,090
Total payments	<u>\$ 2,965,146</u>	<u>\$ 393,263</u>	<u>\$ 3,358,409</u>
Less amount representing interest expense	<u>(175,384)</u>	<u>(61,349)</u>	<u>(236,733)</u>
Present value of future lease payments	<u><u>\$ 2,789,762</u></u>	<u><u>\$ 331,914</u></u>	<u><u>\$ 3,121,676</u></u>

NOTE 13 – CONCENTRATIONS OF OPERATIONS OUTSIDE THE UNITED STATES OF AMERICA

The carrying amounts of net assets located outside the United States of America as of December 31, 2022 are as follows:

Location	Cash	Property and Equipment, net	Total Net Assets
Kenya	\$ 1,950	\$ 454,602	\$ 456,552
Togo	10,060	544,564	554,624
Haiti	<u>178,375</u>	<u>2,029,597</u>	<u>2,207,972</u>
Total foreign net assets	<u><u>\$ 190,385</u></u>	<u><u>\$ 3,028,763</u></u>	<u><u>\$3,219,148</u></u>

NOTE 14 – ADVERTISING AND PROMOTION

Vapor Ministries generally expenses the cost of advertising and promotion as incurred. Advertising costs incurred for larger projects are not expensed until the initial advertising takes place. For the year ended December 31, 2022, advertising and promotion costs of \$199,470 have been expensed.

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 15 – SUBSEQUENT EVENTS

Vapor Ministries has evaluated and considered the need to recognize or disclose subsequent events through July 25, 2023, which represents the date that these financial statements were available to be issued. Subsequent events past this date, as they pertain to the year ended December 31, 2022, have not been evaluated by Vapor Ministries.

SUPPLEMENTARY INFORMATION

VAPOR MINISTRIES
COMBINING SCHEDULE OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022

	Vapor Ministries, Inc.	Vapor Thrift Store, LLC	Vapor Books, LLC	Intra-Entity Eliminations	Subtotal	Vapor Sports Ministries, Inc.	Intra-Entity Eliminations	Consolidated Total
ASSETS								
Cash:								
Unrestricted	\$ 4,095,033	\$ 131,944	\$ 7,076	\$ -	\$ 4,234,053	\$ 190,585	\$ -	\$ 4,424,638
Restricted	217,041	-	-	-	217,041	-	-	217,041
Receivables:								
Trade receivable	-	13,645	-	-	13,645	-	-	13,645
Intra company	70,445	-	-	(70,445)	-	-	-	-
Prepaid expenses	188,125	23,000	-	-	211,125	-	(177,734)	33,391
Inventory	43,441	367,680	-	-	411,121	-	-	411,121
Investments:								
Unrestricted	35,845	-	-	-	35,845	-	-	35,845
Restricted	70,520	-	-	-	70,520	-	-	70,520
Leased assets	-	2,789,761	-	-	2,789,761	331,915	-	3,121,676
Property and equipment	1,805,199	2,620,363	-	-	4,425,562	4,478,766	-	8,904,328
Accum. depreciation	(641,620)	(407,480)	-	-	(1,049,100)	(1,450,002)	-	(2,499,102)
TOTAL ASSETS	<u>\$ 5,884,029</u>	<u>\$ 5,538,913</u>	<u>\$ 7,076</u>	<u>\$ (70,445)</u>	<u>\$ 11,359,573</u>	<u>\$ 3,551,264</u>	<u>\$ (177,734)</u>	<u>\$ 14,733,103</u>
LIABILITIES AND NET ASSETS								
Liabilities:								
Accounts payable	\$ 6,188	\$ 23,031	\$ -	\$ -	\$ 29,219	\$ 2,705	\$ -	\$ 31,924
Accrued salaries and benefits	106,166	73,967	-	-	180,133	-	-	180,133
Payroll liabilities	882	2,437	-	-	3,319	-	-	3,319
Deferred revenue	-	-	-	-	-	177,734	(177,734)	-
Intra company	-	21,566	48,879	(70,445)	-	-	-	-
Lease liabilities	-	2,789,761	-	-	2,789,761	331,915	-	3,121,676
Total liabilities	<u>113,236</u>	<u>2,910,762</u>	<u>48,879</u>	<u>(70,445)</u>	<u>3,002,432</u>	<u>512,354</u>	<u>(177,734)</u>	<u>3,337,052</u>
Net Assets:								
Without donor restrictions	3,898,254	2,628,151	(41,803)	-	6,484,602	3,038,910	-	9,523,512
With donor restrictions	1,872,539	-	-	-	1,872,539	-	-	1,872,539
Total net assets	<u>5,770,793</u>	<u>2,628,151</u>	<u>(41,803)</u>	<u>-</u>	<u>8,357,141</u>	<u>3,038,910</u>	<u>-</u>	<u>11,396,051</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,884,029</u>	<u>\$ 5,538,913</u>	<u>\$ 7,076</u>	<u>\$ (70,445)</u>	<u>\$ 11,359,573</u>	<u>\$ 3,551,264</u>	<u>\$ (177,734)</u>	<u>\$ 14,733,103</u>

VAPOR MINISTRIES
COMBINING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Vapor Ministries, Inc.	Vapor Thrift Store, LLC	Vapor Books, LLC	Intra-Entity Eliminations	Subtotal	Vapor Sports Ministries, Inc.	Intra-Entity Eliminations	Consolidated Total
NET ASSETS WITHOUT DONOR RESTRICTIONS								
REVENUES, GAINS, AND OTHER SUPPORT								
Contributions	\$ 2,777,386	\$ 917,430	\$ 10,000	\$ (927,430)	\$ 2,777,386	\$ 2,324,849	\$ (2,324,849)	\$ 2,777,386
In-kind contributions	25,189	3,635,519	-	-	3,660,708	-	-	3,660,708
Retail sales	49,304	3,324,393	6,012	-	3,379,709	470	-	3,380,179
Other sales	31,030	191,164	-	-	222,194	23,615	-	245,809
Cost of goods sold	-	(3,515,556)	(13,089)	-	(3,528,645)	-	-	(3,528,645)
Investment income (loss)	(26,973)	-	-	-	(26,973)	-	-	(26,973)
Other income	54,744	515	-	-	55,259	-	-	55,259
Released from restrictions	4,296,964	-	-	-	4,296,964	-	-	4,296,964
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	7,207,644	4,553,465	2,923	(927,430)	10,836,602	2,348,934	(2,324,849)	10,860,687
EXPENSES AND LOSSES								
Functional expenses:								
Program expense	3,980,504	-	-	(927,430)	3,053,074	1,765,466	(2,324,849)	2,493,691
Vapor Thrift Store	-	2,860,779	-	-	2,860,779	-	-	2,860,779
Supporting services:								
Management and general	1,572,760	-	-	-	1,572,760	-	-	1,572,760
Fundraising	411,147	-	8,401	-	419,548	-	-	419,548
TOTAL EXPENSES AND LOSSES	5,964,411	2,860,779	8,401	(927,430)	7,906,161	1,765,466	(2,324,849)	7,346,778
CHANGE IN NET ASSETS	1,243,233	1,692,686	(5,478)	-	2,930,441	583,468	-	3,513,909
NET ASSETS, BEGINNING OF YEAR	2,655,021	935,465	(36,325)	-	3,554,161	2,455,442	-	6,009,603
NET ASSETS, END OF YEAR	\$ 3,898,254	\$ 2,628,151	\$ (41,803)	\$ -	\$ 6,484,602	\$ 3,038,910	\$ -	\$ 9,523,512
NET ASSETS WITH DONOR RESTRICTIONS								
REVENUES								
Contributions	\$ 2,356,522	\$ -	\$ -	\$ -	\$ 2,356,522	\$ -	\$ -	\$ 2,356,522
Released from restrictions	(4,296,964)	-	-	-	(4,296,964)	-	-	(4,296,964)
CHANGE IN NET ASSETS	(1,940,442)	-	-	-	(1,940,442)	-	-	(1,940,442)
NET ASSETS, BEGINNING OF YEAR	3,812,981	-	-	-	3,812,981	-	-	3,812,981
NET ASSETS, END OF YEAR	\$ 1,872,539	\$ -	\$ -	\$ -	\$ 1,872,539	\$ -	\$ -	\$ 1,872,539
TOTAL NET ASSETS END OF YEAR	\$ 5,770,793	\$ 2,628,151	\$ (41,803)	\$ -	\$ 8,357,141	\$ 3,038,910	\$ -	\$ 11,396,051