



Letter From The CFO

Vapor Ministries 2019 Audited Financial Statements

Conor Gallagher
Vapor Ministries COO & CFO

Dear Friend,

By the grace of God we had a fruitful year in 2019. Millions of cups of clean water provided, hundreds of thousands of meals, healthcare provision via multiple delivery channels, the name of Christ proclaimed, and so many giving themselves to Christ for the first time. And because we are ingrained in the communities in which we serve, day in and day out, we continue to see holistic community transformation at each of our 5 centers in Haiti, Kenya, and Togo. In addition, our thrift store system performed well as a result of the hard work of our fantastic staff at each location and the loyalty of our customers, providing much needed funds for the ministry.

None of the above was possible without the amazing support of our donors, who have chosen Vapor Ministries to channel their desire to follow God's commands to care for the poor and make His name known in all nations!

Thank you for taking the time to review our 2019 financial information and results. I would like to call your attention to a few things as you review our audited financial statements and accompanying notes and supplemental information.

Vapor Ministries is an Alabama 501(c)3 nonprofit corporation, with EIN 26-4463549. This organization receives charitable contributions and is governed by our board, as listed on our website. This organization is the sole owner and fully-controlling member of the single member LLC, Vapor Thrift Store, which is the legal entity under which our stateside thrift stores operate. For the purposes of tax reporting, these two entities are rolled into a single 2019 990, under the name and EIN above.

Our original incorporating entity, based in Missouri, with EIN 03-0566373, still exists and is a wholly-owned, wholly-controlled subsidiary of Vapor Ministries. This organization has no stateside employees, but the officers of Vapor Ministries serve as the board and officers of this organization, which receives grants from Vapor Ministries and executes operations through staff in Kenya, Togo, and Haiti.

As per GAAP requirements, all three of these organizations have been consolidated in the following audited financial statements. To make a direct comparison between the numbers found in the Vapor Ministries 990 as listed on our website, and the audited financial statements, please refer to the Combining Schedule of Financial Position and Combining Schedule of Activities on pages 18 and 19, respectively. The 990 for the Missouri corporation consists of grant revenue from Vapor Ministries and actual expenses overseas, and is available upon request.

God bless,

A handwritten signature in black ink that reads 'Conor Gallagher'.

Conor Gallagher
COO & CFO

REPORT OF INDEPENDENT AUDITORS AND
CONSOLIDATED FINANCIAL STATEMENTS FOR

VAPOR MINISTRIES

DECEMBER 31, 2019

VAPOR MINISTRIES
TABLE OF CONTENTS
DECEMBER 31, 2019

	<u>Pages</u>
INDEPENDENT AUDITOR'S REPORT	<i>i - ii</i>
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	1
Consolidated Statement of Activities	2
Consolidated Statement of Functional Expenses	3
Consolidated Statement of Cash Flows	4
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	5 - 16
SUPPLEMENTARY INFORMATION	17
Combining Schedule of Financial Position	18
Combining Schedule of Activities	19

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, 2019, 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, 2019, 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 28, 2020

VAPOR MINISTRIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019

ASSETS

Cash and cash equivalents	\$ 1,095,067
Prepaid expenses	18,700
Inventory	184,019
Property and equipment, net	<u>3,824,719</u>
 TOTAL ASSETS	 \$ <u><u>5,122,505</u></u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable and accrued expenses	\$ <u>73,544</u>
 Total liabilities	 <u>73,544</u>

Net Assets

Without donor restrictions	4,530,625
With donor restrictions	<u>518,336</u>
 Total net assets	 <u>5,048,961</u>
 TOTAL LIABILITIES AND NET ASSETS	 \$ <u><u>5,122,505</u></u>

See accompanying notes to the financial statements.

VAPOR MINISTRIES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Net Assets		
	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES, GAINS, AND OTHER SUPPORT			
Contributions:			
Cash	\$ 1,398,406	\$ 1,214,701	\$ 2,613,107
In-kind:			
Thrift store	1,926,372	-	1,926,372
Other	19,003	-	19,003
Sales	1,975,470	-	1,975,470
Cost of goods sold	(1,922,831)	-	(1,922,831)
Other income	9,893	-	9,893
Net assets released from restrictions	<u>1,001,359</u>	<u>(1,001,359)</u>	<u>-</u>
 TOTAL REVENUES AND OTHER SUPPORT	 <u>4,407,672</u>	 <u>213,342</u>	 <u>4,621,014</u>
EXPENSES AND LOSSES			
Functional expenses:			
Program:			
Sustainable centers	1,791,500	-	1,791,500
Thrift store	1,651,169	-	1,651,169
Supporting services:			
Management and general	752,849	-	752,849
Fundraising	<u>224,552</u>	<u>-</u>	<u>224,552</u>
 TOTAL EXPENSES	 <u>4,420,070</u>	 <u>-</u>	 <u>4,420,070</u>
 CHANGE IN NET ASSETS	 <u>(12,398)</u>	 <u>213,342</u>	 <u>200,944</u>
 NET ASSETS, BEGINNING OF YEAR	 <u>4,543,023</u>	 <u>304,994</u>	 <u>4,848,017</u>
 NET ASSETS, END OF YEAR	 <u><u>\$ 4,530,625</u></u>	 <u><u>\$ 518,336</u></u>	 <u><u>\$ 5,048,961</u></u>

See accompanying notes to the financial statements.

VAPOR MINISTRIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Program					Supporting Services			Total Expenses	
	Sustainable Centers			Thrift	Total	Management and General		Fundraising		Total
	Africa	Haiti	Subtotal	Store		and General	Fundraising			
Personnel expenses										
Staff salaries	\$ 302,410	\$ 194,628	\$ 497,038	\$ 727,555	\$ 1,224,593	\$ 391,546	\$ 65,232	\$ 456,778	\$ 1,681,371	
Payroll taxes	6,541	6,529	13,070	51,029	64,099	21,722	5,053	26,775	90,874	
Other employee benefits	27,946	2,295	30,241	7,349	37,590	1,462		1,462	39,052	
Total personnel expense	<u>336,897</u>	<u>203,452</u>	<u>540,349</u>	<u>785,933</u>	<u>1,326,282</u>	<u>414,730</u>	<u>70,285</u>	<u>485,015</u>	<u>1,811,297</u>	
Other expenses										
Professional/other fees	33,337	6,915	40,252	74,588	114,840	58,181	1,000	59,181	174,021	
Advertising/promotion	1,146	3,021	4,167	2,763	6,930	(2,505)	29,816	27,311	34,241	
Office expenses	64,159	47,456	111,615	18,194	129,809	33,849	9,213	43,062	172,871	
Occupancy	72,194	36,802	108,996	507,984	616,980	9,978	1,662	11,640	628,620	
Travel	123,377	137,278	260,655	29,834	290,489	33,884	16,137	50,021	340,510	
Conferences, conventions and meetings	1	1,694	1,695	15	1,710	14,195	42,976	57,171	58,881	
Depreciation expense	88,281	88,281	176,562	54,547	231,109	35,349	6,223	41,572	272,681	
Insurance	20,407	20,531	40,938	23,014	63,952	80,265	12,620	92,885	156,837	
Supplies	81,727	63,385	145,112	41,472	186,584	42,666	16,679	59,345	245,929	
Sales tax	1,731	6,774	8,505	104,643	113,148	550	-	550	113,698	
Dues and subscriptions	4,822	3,152	7,974	5,222	13,196	17,319	14,482	31,801	44,997	
Training	6,415	8,463	14,878	2,960	17,838	6,155	3,459	9,614	27,452	
Other expenses	-	1	1	-	1	8,233	-	8,233	8,234	
Humanitarian and educational assistance	192,770	137,031	329,801	-	329,801	-	-	-	329,801	
Total other expenses	<u>690,367</u>	<u>560,784</u>	<u>1,251,151</u>	<u>865,236</u>	<u>2,116,387</u>	<u>338,119</u>	<u>154,267</u>	<u>492,386</u>	<u>2,608,773</u>	
Total functional expenses	<u>\$1,027,264</u>	<u>\$ 764,236</u>	<u>\$ 1,791,500</u>	<u>\$1,651,169</u>	<u>\$ 3,442,669</u>	<u>\$ 752,849</u>	<u>\$ 224,552</u>	<u>\$ 977,401</u>	<u>\$ 4,420,070</u>	

See accompanying notes to the financial statements.

VAPOR MINISTRIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from contributions	\$4,602,011
Payments to employees (or for their benefit) for services provided	(1,811,297)
Payments to vendors	<u>(2,279,915)</u>
Net cash provided by (used in) operating activities	<u>510,799</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase fixed assets	(257,884)
Proceeds from sale of capital assets	<u>8,233</u>
Net cash provided by (used in) investing activities	<u>(249,651)</u>

NET CHANGE IN CASH 261,148

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR 833,919

CASH AND CASH EQUIVALENTS, END OF YEAR \$1,095,067

See accompanying notes to the financial statements.

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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 three separate legal entities organized in the United States of America: (1) Vapor Ministries, Inc. (formerly named Vapor International, Inc.), (2) Vapor Thrift Store, LLC, and (3) 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.
- 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 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 three 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 Sports Ministries, Inc.* The entity builds and operates centers for humanitarian aid and disciple-making. Funding is provided by grants from Vapor Ministries, Inc.

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

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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.

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

Payments made to vendors that will benefit subsequent periods are recorded as prepaid items.

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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 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 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.

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2017.

Vapor Thrift Store, LLC, a single-member limited liability company, is a disregarded entity for tax purposes and is 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, as a disregarded entity, falls under the IRC section 501(c)(3) tax exemption of Vapor Ministries, Inc.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment returns. Vapor Ministries has adjusted the presentation of these statements accordingly.

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 3 – AVAILABILITY AND LIQUIDITY

The following represents Vapor Ministries' financial assets at December 31, 2018:

Financial assets at year end:	
Cash and cash equivalents	<u>\$ 1,095,067</u>
Total financial assets	<u>1,095,067</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	518,336
Less net assets with purpose restrictions to be met in less than one year	<u>(299,436)</u>
	<u>218,900</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 876,167</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 – INVENTORY

The value of the thrift store inventory at December 31, 2018 was \$166,753. Other inventory, held at the main office and consisting of promotional items, is valued at \$17,266 (cost basis).

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 5 – PROPERTY AND EQUIPMENT, NET

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

	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 227,369	\$ -	\$ -	\$ 227,369
Construction in progress	143,385	184,326	(120,267)	207,444
Buildings	1,815,020	75,801	-	1,890,821
Land and building improvements	823,955	13,354	-	837,309
Leasehold improvements	1,704,068	-	-	1,704,068
Other assets	488,056	104,829	(44,999)	547,886
Total property and equipment	<u>5,201,853</u>	<u>378,310</u>	<u>(165,266)</u>	<u>5,414,897</u>
Accumulated depreciation for:				
Buildings	(356,117)	(66,702)	-	(422,819)
Land and building improvements	(277,134)	(50,722)	-	(327,856)
Leasehold improvements	(409,848)	(106,040)	-	(515,888)
Other assets	(311,162)	(49,756)	37,303	(323,615)
Total accumulated depreciation	<u>(1,354,261)</u>	<u>(273,220)</u>	<u>37,303</u>	<u>(1,590,178)</u>
Total property and equipment, net	<u>\$3,847,592</u>	<u>\$105,090</u>	<u>\$(127,963)</u>	<u>\$3,824,719</u>

Depreciation expense for the year was \$273,220.

VAPOR MINISTRIES
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 6 –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	\$ 7,692	\$ 148,040	\$ (137,654)	\$ 18,078
Hasmin's Friends	44,239	224,801	(177,351)	91,689
Events	600	69,277	(66,306)	3,571
Thrift Capital Fund	-	205,000	(105,645)	99,355
Activities	-	6,453	(6,453)	-
Africa	4,647	210,859	(195,467)	20,039
Haiti	243,506	280,954	(271,769)	252,691
Other specified purposes	4,310	69,317	(40,714)	32,913
Total	<u>\$ 304,994</u>	<u>\$ 1,214,701</u>	<u>\$ (1,001,359)</u>	<u>\$ 518,336</u>

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

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 7 –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	\$ 1,838,863
Other	6,315
Bulk sales - thrift store	83,968
Other sales	<u>46,324</u>
Total sales	<u><u>\$ 1,975,470</u></u>

Cost of goods sold - thrift store:

Beginning inventory	\$ 163,212
in-kind contributions	<u>1,926,372</u>
Cost of goods available for sale	2,089,584
Ending inventory	<u>(166,753)</u>
Cost of goods sold	<u><u>\$ 1,922,831</u></u>

NOTE 8 – INTRA-ENTITY TRANSACTIONS AND BALANCES AND ELIMINATIONS IN CONSOLIDATION

Intra-entity transactions:

During the year ended December 31, 2019, the following cash transfers were made between the consolidated entities:

- Vapor Thrift Store, LLC transferred \$342,809 to Vapor Ministries, Inc. to support the entity's programs
- Vapor Ministries, Inc. transferred \$1,232,618 to Vapor Sports Ministries, Inc. to fund programs and \$150,645 to Vapor Thrift Store, LLC to fund leasehold improvements.

Intra-entity balances:

At December 31, 2019:

- Vapor Thrift Stores, LLC had a payable to Vapor Ministries, Inc. in the amount of \$16,261 and Vapor Ministries, Inc. had a corresponding receivable from Vapor Thrift Stores, LLC in the amount of \$16,261.

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

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 9 – LEASE COMMITMENTS

Thrift stores

Vapor Thrift Stores, LLC leases commercial property, located at 5443 Highway 80, Birmingham, Alabama, for use as a retail store (Greystone). The lease expires December 31, 2029. The lease amount was \$7,700 per month and lease payments totaling \$92,400 were paid during 2019. Beginning January 2020, lease payments (including \$1,300 for property taxes and insurance) will increase to \$11,750 for 2020, \$12,063 for 2021, \$12,386 for 2022, \$12,719 for 2023, \$13,062 for 2024, \$13,414 for 2025, \$13,778 for 2026, \$14,152 for 2027, \$14,538 for 2028 and \$14,935 for 2029.

Vapor Thrift Stores, LLC leases commercial property, located at 11271 Hwy 208E, Westover, Alabama, as a bulk processing facility and warehouse. The lease expires February 28, 2021. The lease amount is \$1,875 per month and lease payments totaling \$22,500 were paid during 2019.

Vapor Thrift Stores, LLC leases commercial property, located at 1069 Montgomery Highway, Birmingham, Alabama for use as a retail store (Vestavia). The lease expires June 30, 2023. The lease amount is \$16,500 per month through June 30, 2020, \$16,747 from July 1, 2020 to June 30, 2021, \$17,250 from July 1, 2021 to June 30, 2022 and \$17,767 from July 1, 2022 to June 30, 2023. Vapor Thrift Stores, LLC is also obligated to pay property taxes and insurance which varies in amount from year to year., Lease payments, property taxes and insurance totaling \$220,912 were paid during 2019.

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 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. 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 \$136,637 as of December 31, 2019.

Gichagi Center, Nairobi, Kenya. Vapor Ministries had an agreement with Africa Inland Church Registered Trustees, Nairobi, Kenya, to rent land and sports facilities. The lease expires October 1, 2024, upon which date it is automatically renewable for an additional period of fifteen years. The lease is Kshs. 150,000 per month (approximately US \$1,500), payable quarterly in advance. Payments will escalate by 5% every two years from October 1, 2016. Lease payments totaling \$19,231 were paid for during 2019. The book value of leasehold improvements made to this property was \$158,432 as of December 31, 2019.

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 expires on May 13, 2019 but has optional extensions in three-year increments. A new lease is currently being negotiated but all parties have agreed verbally to continue as is until the new lease is in place. The book value of leasehold improvements made to this property was \$426,735 as of December 31, 2019.

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 9 – LEASE COMMITMENTS (CONTINUED)

Nairobi, Kenya. Vapor Ministries leases an apartment located in Jade Gardens, Nairobi for use as a shared living and office space. The lease has been renewed through February 2021. The monthly lease amount is Kshs 113,041 (approximately US \$1,110) paid in advance annually and lease payments totaling \$14,480 were paid in 2019.

For years subsequent to 2019, minimum annual future rental commitments under the lease agreements are as follows:

<u>Year</u>	<u>Thrift Store</u>	<u>Foreign Operations</u>	<u>Total</u>
2020	\$ 362,982	\$ 32,457	\$ 395,439
2021	352,494	22,068	374,562
2022	358,193	20,097	378,290
2023	258,684	20,844	279,528
2024	156,739	15,633	172,372
2025-2029	<u>849,804</u>	<u>-</u>	<u>849,804</u>
Total	<u>\$ 2,338,896</u>	<u>\$ 111,099</u>	<u>\$ 2,449,995</u>

NOTE 10 – 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, 2018 are as follows:

<u>Location</u>	<u>Cash</u>	<u>Property and Equipment, net</u>	<u>Total Net Assets</u>
Kenya	\$ 316	\$ 597,298	\$ 597,614
Togo	8,139	421,905	430,044
Haiti	<u>48,132</u>	<u>1,192,879</u>	<u>1,241,011</u>
Total foreign net assets	<u>\$ 56,587</u>	<u>\$ 2,212,082</u>	<u>\$2,268,669</u>

NOTE 11 – ADVERTISING AND PROMOTION

Vapor Ministries expenses the cost of advertising and promotion as incurred. Advertising and promotion expense totaled \$34,241.

VAPOR MINISTRIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

NOTE 12 – SUBSEQUENT EVENTS

In 2020, because of the COVID-19 pandemic, Vapor Ministries had to close both of its thrift stores for six weeks, furlough staff temporarily, and cancel most of the scheduled speaking engagements for the remainder of the year. This has significantly impacted revenue from the thrift stores and Vapor Ministries' ability to fundraise. Also because of the pandemic, Vapor Ministries had to suspend the discipleship league but has been able to pivot to new strategies and continues to spread the gospel in each community served. Since pivoting to the new strategies, Vapor Ministries has actually increased humanitarian aid.

Vapor Ministries has evaluated and considered the need to recognize or disclose subsequent events through July 28, 2020, 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, 2019, have not been evaluated by Vapor Ministries.

SUPPLEMENTARY INFORMATION

VAPOR MINISTRIES
COMBINING SCHEDULE OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019

	Vapor Ministries, Inc.	Vapor Thrift Store, LLC	Intra-Entity Eliminations	Subtotal	Vapor Sports Ministries, Inc.	Intra-Entity Eliminations	Consolidated Total
ASSETS							
Cash	\$ 976,805	\$ 61,475	\$ -	\$ 1,038,280	\$ 56,787	\$ -	\$ 1,095,067
Due from Vapor Thrift Store, LLC	16,261	-	(16,261)	-	-	-	-
Prepaid expenses	2,200	16,500	-	18,700	-	-	18,700
Inventory	17,266	166,753	-	184,019	-	-	184,019
Property and equipment	1,484,612	770,051	-	2,254,663	3,160,234	-	5,414,897
Accum. depreciation	(426,879)	(215,537)	-	(642,416)	(947,762)	-	(1,590,178)
TOTAL ASSETS	\$ 2,070,265	\$ 799,242	\$ (16,261)	\$ 2,853,246	\$ 2,269,259	\$ -	\$ 5,122,505
LIABILITIES AND NET ASSETS							
Liabilities:							
Accounts payable	\$ 33,771	\$ 388	\$ -	\$ 34,159	\$ -	\$ -	\$ 34,159
Accrued salaries and benefits	18,949	20,436	-	39,385	-	-	39,385
Due to Vapor Ministries, Inc.	-	16,261	(16,261)	-	-	-	-
Total liabilities	52,720	37,085	(16,261)	73,544	-	-	73,544
Net Assets:							
Without donor restrictions	1,499,209	762,157	-	2,261,366	2,269,259	-	4,530,625
With donor restrictions	518,336	-	-	518,336	-	-	518,336
Total net assets	2,017,545	762,157	-	2,779,702	2,269,259	-	5,048,961
TOTAL LIABILITIES AND NET ASSETS	\$ 2,070,265	\$ 799,242	\$ (16,261)	\$ 2,853,246	\$ 2,269,259	\$ -	\$ 5,122,505

VAPOR MINISTRIES
COMBINING SCHEDULE OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2019

	Vapor Ministries, Inc.	Vapor Thrift Store, LLC	Intra-Entity Eliminations	Subtotal	Vapor Sports Ministries, Inc.	Intra-Entity Eliminations	Consolidated Total
<u>NET ASSETS WITHOUT DONOR RESTRICTIONS</u>							
REVENUES, GAINS, AND OTHER SUPPORT							
Contributions	\$ 2,742,574	\$ 150,645	\$ (493,454)	\$ 2,399,765	\$ 1,232,618	\$ (1,232,618)	\$ 2,399,765
In-kind contributions	19,003	1,926,372	-	1,945,375	-	-	1,945,375
Retail sales	6,007	1,838,863	-	1,844,870	308	-	1,845,178
Other sales	11,565	83,968	-	95,533	34,759	-	130,292
Cost of goods sold	-	(1,922,831)	-	(1,922,831)	-	-	(1,922,831)
Other income	364	9,529	-	9,893	-	-	9,893
Released from restrictions	-	-	-	-	-	-	-
TOTAL REVENUES, GAINS, AND OTHER SUPPORT	2,779,513	2,086,546	(493,454)	4,372,605	1,267,685	(1,232,618)	4,407,672
EXPENSES AND LOSSES							
Functional expenses:							
Program expense	1,926,481	1,970,377	(493,454)	3,403,404	1,271,883	(1,232,618)	3,442,669
Vapor Thrift Store	-	-	-	-	-	-	-
Supporting services:							
Management and general	752,849	-	-	752,849	-	-	752,849
Fundraising	224,552	-	-	224,552	-	-	224,552
TOTAL EXPENSES AND LOSSES	2,903,882	1,970,377	(493,454)	4,380,805	1,271,883	(1,232,618)	4,420,070
CHANGE IN NET ASSETS	(124,369)	116,169	-	(8,200)	(4,198)	-	(12,398)
NET ASSETS, BEGINNING OF YEAR	1,623,578	645,988	-	2,269,566	2,273,457	-	4,543,023
NET ASSETS, END OF YEAR	<u>\$ 1,499,209</u>	<u>\$ 762,157</u>	<u>\$ -</u>	<u>\$ 2,261,366</u>	<u>\$ 2,269,259</u>	<u>\$ -</u>	<u>\$ 4,530,625</u>
<u>NET ASSETS WITH DONOR RESTRICTIONS</u>							
REVENUES							
Contributions	\$ 1,214,701	\$ -	\$ -	\$ 1,214,701	\$ -	\$ -	\$ 1,214,701
Released from restrictions	(1,001,359)	-	-	(1,001,359)	-	-	(1,001,359)
CHANGE IN NET ASSETS	213,342	-	-	213,342	-	-	213,342
NET ASSETS, BEGINNING OF YEAR	304,994	-	-	304,994	-	-	304,994
NET ASSETS, END OF YEAR	<u>\$ 518,336</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 518,336</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 518,336</u>
TOTAL NET ASSETS END OF YEAR	<u>\$ 2,017,545</u>	<u>\$ 762,157</u>	<u>\$ -</u>	<u>\$ 2,779,702</u>	<u>\$ 2,269,259</u>	<u>\$ -</u>	<u>\$ 5,048,961</u>