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## Independent Auditor's Report

Board of Directors Neverthirst, Inc. Birmingham, AL

#### **Opinion**

We have audited the financial statements of Neverthirst, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Neverthirst, Inc. as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Neverthirst, Inc., and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Emphasis of Matter - Change in Accounting Principle

As discussed in Notes 1 and 4 to the financial statements, the Organization has changed its method of accounting for leases in accordance with Accounting Standards Codification Topic 842, *Leases* effective January 1, 2022. The Organization adopted this standard using a modified retrospective approach and has elected not to restate prior periods. Our opinion is not modified with respect to this matter.

#### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Neverthirst, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.



#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due
  to fraud or error, and design and perform audit procedures responsive to those risks. Such
  procedures include examining, on a test basis, evidence regarding the amounts and disclosures
  in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion
  is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

FORVIS, LLP

Birmingham, AL May 17, 2023

		2022		2021
ASSETS				
Current assets:				
Cash	\$	1,533,856	\$	2,561,284
Accounts receivable		613,273		746,269
Donor-advised funds		98,208		-
Prepaid expenses		2,375		2,375
Total current assets		2,247,712		3,309,928
Right-of-use asset		157,280		-
Property and equipment, net		142,554		128,567
Total assets	<u>\$</u>	2,547,546	\$	3,438,495
LIABILITIES AND NET ASSETS Current liabilities:				
Accounts payable and other accrued liabilities	\$	54,978	\$	17,605
Accrued salaries and wages		86,213		36,899
Current portion of lease liabilities		50,275		-
Total current liabilities		191,466		54,504
Lease liabilities, net of current portion		107,005		
Total liabilities		298,471		54,504
Net assets:				
Without donor restrictions		719,032		719,032
With donor restrictions		1,530,043		2,664,959
Total net assets		2,249,075		3,383,991
Total liabilities and net assets	\$	2,547,546	\$	3,438,495

		thout Donor estrictions	Vith Donor estrictions	Total	
Support and general operations income: Direct public support Interest income, net	\$	4,848,588 257	\$ 3,362,196 <u>-</u>	\$	8,210,784 257
		4,848,845	3,362,196		8,211,041
Net assets released from donor restrictions		4,497,112	 (4,497,112)		<u> </u>
Total support and general operations income (loss)		9,345,957	(1,134,916)		8,211,041
Expenses:					
Program services		7,628,713	-		7,628,713
Management and general		756,438	-		756,438
Fundraising and public relations		960,806			960,806
Total expenses		9,345,957	 		9,345,957
Decrease in net assets		-	(1,134,916)		(1,134,916)
Net assets at the beginning of year		719,032	 2,664,959		3,383,991
Net assets at end of year	\$	719,032	\$ 1,530,043	\$	2,249,075

(Continued)

	Without Donor Restrictions With Donor Restrictions				Total
Support and general operations income: Direct public support Interest Gain on extinguishment (See Note 2)	\$ 692,783 362 106,093	\$	6,850,741 - -	\$	7,543,524 362 106,093
	799,238		6,850,741		7,649,979
Net assets released from donor restrictions	 6,269,722		(6,269,722)		
Total support and general operations income	 7,068,960		581,019		7,649,979
Expenses: Program services Management and general	5,958,714 505,461		- -		5,958,714 505,461
Fundraising and public relations  Total expenses	7,068,960		<u> </u>		7,068,960
Increase in net assets	_		581,019		581,019
Net assets at the beginning of year	 719,032		2,083,940		2,802,972
Net assets at end of year	\$ 719,032	\$	2,664,959	\$	3,383,991

			Supporting Services				
	F	Program	Mai	nagement	Fund	Iraising and	
		Services	and	d General	Publ	ic Relations	Total
Computer expense	\$	2,555	\$	18,507	\$	6,673	\$ 27,735
Depreciation	•	7,364		3,682	-	3,682	14,728
Fundraising expenses		194,000		-		304,479	498,479
Gifts		6		7,831		-	7,837
Insurance		30,859		32,096		16,816	79,771
Lease costs		28,540		12,906		12,600	54,046
Meals and entertainment		1,355		12,360		-	13,715
Ministry projects		6,696,891		-		-	6,696,891
Miscellaneous		1,940		10,012		-	11,952
Payroll		535,133		417,409		414,451	1,366,993
Postage and mailing service		35		28,965		335	29,335
Professional fees		4,017		33,613		417	38,047
Promotional		-		-		183,748	183,748
Supplies		17,531		58,194		-	75,725
Third-party processing fees		-		103,127		-	103,127
Travel		106,426		12,742		17,605	136,773
Utilities		2,061		4,994			 7,055
	\$	7,628,713	\$	756,438	\$	960,806	\$ 9,345,957

(Continued)

			Supporting Services				
	I	Program	Mai	nagement		Iraising and	
	;	Services	and	d General	Publi	ic Relations	 Total
Computer expense	\$	1,605	\$	13,229	\$	15,201	\$ 30,035
Conference expense		-		1,500		-	1,500
Depreciation		8,553		4,277		4,277	17,107
Fundraising expenses		90,823		-		33,902	124,725
Gifts		-		2,866		-	2,866
Insurance		20,073		19,612		15,951	55,636
Lease expense		30,150		12,300		12,300	54,750
Meals and entertainment		-		6,386		66	6,452
Ministry projects		5,354,780		-		-	5,354,780
Miscellaneous		1,720		927		870	3,517
Payroll		400,999		247,128		325,800	973,927
Postage and mailing service		1,458		15,645		720	17,823
Professional fees		4,017		31,582		417	36,016
Promotional		-		53		186,413	186,466
Supplies		18,586		55,369		-	73,955
Third-party processing fees		-		87,795		-	87,795
Travel		23,549		2,455		8,868	34,872
Utilities		2,401		4,337		-	 6,738
	\$	5,958,714	\$	505,461	\$	604,785	\$ 7,068,960

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (1,134,916)	\$ 581,019
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Non-cash Paycheck Protection Program Loan forgiveness	-	(106,093)
Depreciation	14,728	17,107
Noncash operating lease expense	46,967	-
Change in operating assets and liabilities:	400.000	(424.000)
Change in accounts receivable  Donor-advised funds	132,996 (98,208)	(131,980)
Change in accounts payable and other accrued liabilities	86,687	- 12,652
Operating lease liabilities	(46,967)	-
-1 3	( 1,11 )	
Net cash (used) provided by operating activities	(998,713)	372,705
Cash flows from investing activities:		
Purchases of property and equipment	(28,715)	(9,618)
	, , ,	
Net (decrease) increase in cash	(1,027,428)	363,087
Cash, beginning of year	 2,561,284	 2,198,197
Cash, end of year	\$ 1,533,856	\$ 2,561,284

### **Notes to Financial Statements**

## 1. Organization

Neverthirst, Inc. ("the Organization") is a not-for-profit organization which solicits contributions of funds for various programs and serves as a voice to the poor and powerless while spreading awareness and creating accountability for its donors. After funding carefully screened projects, the Organization's volunteers and personnel travel into remote villages abroad and areas with low cost housing, builds relationships with partners, monitors the work and documents the people met and places seen. The primary goal of the Organization is to provide clean water to these areas.

## 2. Summary of Significant Accounting Policies

#### Basis of presentation

The accompanying financial statements reflect the results of activities of the Organization on the accrual basis and are prepared in accordance with the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Not-for Profit Entities* which is in accordance with accounting principles generally accepted in the United States of America.

#### Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Accounts receivable

Accounts receivable represents cash donated through third-party vendors which have not yet been transferred to the Organization, and unconditional promises to give that are expected to be collected within one year. Due to the nature and composition of accounts receivable, no allowance for doubtful accounts is recorded.

#### Donor-advised funds

On occasion, certain donors make irrevocable contributions to certain donor-advised funds. The Organization maintains advisory rights of these contributions and typically converts these contributions to cash within 12 months of the initial contribution.

#### Property and equipment

Property and equipment are capitalized and stated at cost. Ordinary maintenance and repair costs are expensed as incurred, while major additions and improvements are capitalized. Provisions for depreciation are computed by the straight-line method based on the estimated useful lives of the related assets, which range from 3 to 7 years.

#### Paycheck Protection Program note payable

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security ("CARES") Act was signed into law on March 27, 2020. The CARES Act provides for the establishment of the Paycheck Protection Program ("PPP"), a new loan program under the Small Business Administration's 7(a) program providing loans to qualifying businesses. Additionally, loans originated under this program may be forgiven, in whole or in part, if certain criteria are met.

During the year ended December 31, 2020, the Organization received a PPP loan totaling \$106,093. The Organization elected to account for the PPP loan using the debt model under ASC 470 Debt. During the year ended December 31, 2021, the Organization received forgiveness, and was legally released from being the primary obligor of the loan. The Organization recognized a gain on extinguishment of \$106,093 in accordance with ASC 470, which is included in the statement of activities for the year ended December 31, 2021.

#### Revenue recognition

At times, the Organization receives support from private grants. Contributions received are recorded as support with or without donor restrictions, depending upon the existence and/or nature of any contribution. The Organization recognizes grant revenue when the donor makes a promise to give that is, in substance, unconditional.

All contributions without donor restrictions are reported as an increase in net assets without donor restrictions. These contributions are not restricted for use and may be used by the Organization for operating expenses, or other project expenses that the Organization deems necessary.

All contributions with donor restrictions 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), the support with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donor-restricted grants whose restrictions are met in the same reporting period are reported as contributions without donor restrictions.

#### Income taxes

The Internal Revenue Service has determined that the Organization is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code ("IRC") and has been determined to be an Organization which is not a private foundation. As a qualified tax-exempt organization, the Organization must operate in conformity with the IRC to maintain its tax-exempt status.

The Organization has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2022 and 2021, and there are no interests and penalties related to income tax assessments.

#### Expense allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies by management. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

#### Change in accounting principle

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASC Topic 842"). This guidance applies to all entities that enter into leases and is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statements of financial position and disclosing key information about leasing arrangements. The new guidance requires lessees to recognize the assets and liabilities on the statements of financial position for the rights and obligations created by leases with lease terms of more than twelve months, amends various other aspects of accounting for leases by lessees and lessors, and requires enhanced disclosures. Leases will be classified as finance or operating, with the classification affecting the pattern and classification of expense recognition within the statements of operations.

The Organization transitioned to ASC Topic 842, from ASC Topic 840, *Leases* (the "Previous Standard") on January 1, 2022 using the effective date as the date of initial application. The financial statements reflect the application of ASC Topic 842 guidance beginning in 2022, while the financial statements for prior periods were prepared under the guidance of the Previous Standard. The Organization has elected to exclude short-term leases, or leases with a term of twelve months, from the statements of financial position. The Organization elected the hindsight practical expedient in determining the lease term for existing leases as of January 1, 2022. In addition, the Organization has elected the transition package of practical expedients permitted within the new standard. This practical expedient permits the Organization to carryforward the historical lease classification and not to reassess initial direct costs for any existing leases. Lastly, the Organization has elected the practical expedient that allows lessees to avoid separating lease and non-lease components within a contract if certain criteria are met. The Organization elected the practical expedient to discount lease payments using a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all lease liabilities.

The most significant impact of adoption was the recognition of operating lease right-of-use ("ROU") assets and operating lease liabilities of approximately \$204,000 as of January 1, 2022.

#### Subsequent events

The Organization has evaluated the effect subsequent events would have on the financial statements through May 17, 2023, which is the date the financial statements were available to be issued.

#### 3. Property and Equipment

Property and equipment consist of the following at December 31:

	2022	 2021
Computer equipment Media equipment Leasehold improvements Furniture & fixtures	\$ 28,358 12,236 125,492 27,414	\$ 38,019 14,308 100,485 23,394
Accumulated depreciation	193,500 (50,946)	 176,206 (47,639)
	<u>\$ 142,554</u>	\$ 128,567

Depreciation expense for the years ended December 31, 2022 and 2021 was approximately \$14,700 and \$17,100, respectively.

#### 4. Leases

## Operating leases under ASC Topic 842

The Organization determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the statements of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Organization determines lease classification as operating or finance at the lease commencement date. The Organization combines lease and non-lease components, such as common area and other maintenance costs, in calculating the ROU assets and lease liabilities.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives.

The Organization has made a policy election to discount the lease payments using a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term. The weighted average rate as of the adoption date was 1.25%.

The Organization leases an office space that contains fixed escalating rents, and expires 2025, and may be renewed for multiple various periods. The Organization is generally responsible for taxes, licenses, insurance, and repairs and maintenance for each leased location. As of December 31, 2022, the weighted average remaining lease term is 3 years, and the weighted average incremental borrowing rate is 4.22%.

During the year ended December 31, 2022, the Organization incurred approximately \$49,000 in operating lease expenses, which are allocated across program and supporting services on the accompanying statement of activities. During the year ended December 31, 2022, the Organization incurred approximately \$5,000 of lease costs for leases with a term of less than 12 months, which are allocated across program and supporting services on the accompanying statement of activities.

As of December 31, 2022, annual future commitments under noncancelable operating leases, are as follows:

2023 2024 2025	\$  51,900 53,400 54,900
Total future undiscounted operating lease payments Imputed interest	 160,200 (2,920)
Operating lease liability	\$ 157,280

#### Operating leases under ASC 840

As of December 31, 2019, the Organization entered into an operating leasing agreement with an unrelated third party for office space. The Organization also enters various month-to-month rental arrangements. Total rental expenses for the years ended December 31, 2021 was approximately \$55,000.

Future minimum lease payments under non-cancelable operating leases are as follows:

2022 \$ 50,400

Total <u>\$ 50,400</u>

#### 5. Net Assets

Net assets were released from donor restrictions by incurring expenses to satisfy the restricted purpose, by occurrence of events specified by the donors (including the passage of time) or by the change of restrictions specified by the donors. During the years ended December 31, 2022 and 2021, the Organization released \$4,497,112 and \$6,269,722, respectively, of net assets with donor restrictions for well projects in the countries designated by the donation.

Remaining net assets with donor restrictions for the years ended December 31, 2022 and 2021 were \$1,530,043 and \$2,664,959, respectively.

#### 6. Concentrations

The Organization maintains cash in deposit accounts with federally insured banks which at times may have balances in excess of federally insured limits. For the years ended December 31, 2022 and 2021, the Organization received approximately 12% and 16% of all direct public support from two donors, respectively.

#### 7. Commitments

The Organization has entered into non-binding memorandums of understanding ("MOU") with several strategic partners for the purpose of accomplishing the Organization's goal to support well projects in various countries. These MOU's document the expected costs of each project, the time frames involved, and the desired results.

#### 8. IRA Savings Plan

The Organization sponsors an IRA Savings Plan for eligible employees as defined by the plan agreement. Employees become eligible after being employed by the Organization for one year. The Plan permits a deferral of up to the maximum IRS allowed limits with a 3% Organization matching contribution. For the year ended December 31, 2022 and 2021, the Organization made contributions of approximately \$31,000 and \$16,600, respectively.

## 9. Related Party Transactions

The Organization received approximately \$245,000 and \$349,000 from related party donors during the years ended December 31, 2022 and 2021, respectively,