



LOFTIS & LOVATO

— G R O U P —

CERTIFIED PUBLIC ACCOUNTANTS



Financial Statements
and
Independent Auditor's Report

December 31, 2022 and 2021

Reading Quest

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Independent Auditor's Report

To the Board of Directors
of Reading Quest

Opinion

We have audited the accompanying financial statements of Reading Quest (a nonprofit 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 financial statements referred to above present fairly, in all material respects, the financial position of Reading Quest as of December 31, 2022 and 2021, and the changes in its net assets 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. 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 Reading Quest 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.

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 Reading Quest'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 generally accepted auditing standards 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 generally accepted auditing standards, 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 Reading Quest'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 Reading Quest'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.

Loftis & Lovato Group

Albuquerque, New Mexico
June 5, 2023

Financial Statements

Reading Quest
Statements of Financial Position
December 31,

	2022	2021
Assets		
Current assets		
Cash	\$ 232,056	\$ 254,666
Receivables	38,958	71,867
Prepays and other assets	1,073	4,314
Total current assets	272,087	330,847
Property and equipment, net	32,398	3,715
Total assets	\$ 304,485	\$ 334,562
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 1,902	\$ 1,627
Accrued expenses	4,402	5,766
Total current liabilities	6,304	7,393
Net assets		
Without donor restrictions	215,501	190,776
With donor restrictions	82,680	136,393
Total net assets	298,181	327,169
Total liabilities and net assets	\$ 304,485	\$ 334,562

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

Reading Quest
Statement of Activities
For the Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Contributions and grants	\$ 382,150	\$ 82,680	\$ 464,830
Program services	228,005	-	228,005
Special events	3,010	-	3,010
In-kind contributions	207	-	207
Loss on disposal of assets	(671)	-	(671)
Net assets released from restriction	<u>136,393</u>	<u>(136,393)</u>	<u>-</u>
Total support and revenue	<u>749,094</u>	<u>(53,713)</u>	<u>695,381</u>
Expenses			
Program services	<u>613,967</u>	<u>-</u>	<u>613,967</u>
Supporting services			
Management and general	65,984	-	65,984
Fundraising	<u>44,418</u>	<u>-</u>	<u>44,418</u>
Total supporting services	<u>110,402</u>	<u>-</u>	<u>110,402</u>
Total expenses	<u>724,369</u>	<u>-</u>	<u>724,369</u>
Change in net assets	24,725	(53,713)	(28,988)
Net assets, beginning of year	<u>190,776</u>	<u>136,393</u>	<u>327,169</u>
Net assets, end of year	<u>\$ 215,501</u>	<u>\$ 82,680</u>	<u>\$ 298,181</u>

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

Reading Quest
Statement of Activities
For the Year Ended December 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Contributions and grants	\$ 371,021	\$ 85,421	\$ 456,442
Program services	112,607	-	112,607
Refundable advance	60,227	-	60,227
In-kind contributions	2,971	50,972	53,943
Other income	1,534	-	1,534
Net assets released from restriction	<u>46,378</u>	<u>(46,378)</u>	<u>-</u>
Total support and revenue	<u>594,738</u>	<u>90,015</u>	<u>684,753</u>
Expenses			
Program services	<u>473,095</u>	<u>-</u>	<u>473,095</u>
Supporting services			
Management and general	35,496	-	35,496
Fundraising	<u>35,342</u>	<u>-</u>	<u>35,342</u>
Total supporting services	<u>70,838</u>	<u>-</u>	<u>70,838</u>
Total expenses	<u>543,933</u>	<u>-</u>	<u>543,933</u>
Change in net assets	50,805	90,015	140,820
Net assets, beginning of year	<u>139,971</u>	<u>46,378</u>	<u>186,349</u>
Net assets, end of year	<u>\$ 190,776</u>	<u>\$ 136,393</u>	<u>\$ 327,169</u>

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

Reading Quest
Statement of Functional Expenses
For the Year Ended December 31, 2022

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 460,660	\$ 18,042	\$ 32,751	\$ 511,453
Professional services	47,838	16,845	1,533	66,216
Payroll taxes and benefits	51,900	2,432	4,769	59,101
Program supplies	24,847	102	63	25,012
Office	5,635	3,425	4,335	13,395
In-kind	12,679	-	-	12,679
Depreciation	-	10,791	-	10,791
Dues and subscriptions	2,489	2,776	421	5,686
Insurance	-	5,670	-	5,670
Family support	2,880	-	-	2,880
Rent and lease	-	2,268	500	2,768
Fees and licenses	2,261	88	-	2,349
Miscellaneous	1,474	769	19	2,262
Personnel	915	1,236	-	2,151
Advertising and marketing	317	1,490	-	1,807
Awards and gifts	72	50	27	149
Total expenses	<u>\$ 613,967</u>	<u>\$ 65,984</u>	<u>\$ 44,418</u>	<u>\$ 724,369</u>

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

Reading Quest
Statement of Functional Expenses
For the Year Ended December 31, 2021

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 350,057	\$ 12,624	\$ 24,017	\$ 386,698
Professional services	41,357	6,756	5,910	54,023
Payroll taxes and benefits	41,604	3,394	3,704	48,702
Program supplies	16,990	416	89	17,495
Office	2,747	2,708	614	6,069
Depreciation	-	1,812	-	1,812
Dues and subscriptions	1,867	2,409	982	5,258
Insurance	-	2,542	-	2,542
Family support	13,039	-	-	13,039
Rent and lease	-	340	-	340
Fees and licenses	1,279	45	26	1,350
Miscellaneous	1,586	518	-	2,104
Personnel	956	605	-	1,561
Advertising and marketing	247	730	-	977
Awards and gifts	1,366	597	-	1,963
Total expenses	<u>\$ 473,095</u>	<u>\$ 35,496</u>	<u>\$ 35,342</u>	<u>\$ 543,933</u>

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

Reading Quest
Statements of Cash Flows
For the Years Ended December 31,

	2022	2021
Cash flows from operating activities		
Cash received from contributions and grants	\$ 446,767	\$ 438,297
Cash received from program services and other	227,334	114,141
Cash received from special events	3,010	-
Cash received from refundable advance	-	60,227
Cash paid to employees and suppliers	<u>(699,747)</u>	<u>(539,424)</u>
Net cash provided (used) by operating activities	<u>(22,636)</u>	<u>73,241</u>
Cash flows from investing activities		
Sale of artwork	1,000	-
Purchase of equipment	<u>(974)</u>	<u>(1,780)</u>
Net cash provided (used) by investing activities	<u>26</u>	<u>(1,780)</u>
Net increase (decrease) in cash	(22,610)	71,461
Cash, beginning of year	<u>254,666</u>	<u>183,205</u>
Cash, end of year	<u>\$ 232,056</u>	<u>\$ 254,666</u>
Reconciliation of change in net assets to net cash provided (used) by operating activities		
Change in net assets	<u>\$ (28,988)</u>	<u>140,820</u>
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	10,791	1,812
Donated equipment	(38,500)	-
Donated artwork	-	(2,800)
Change in assets and liabilities		
Receivables	32,909	(69,117)
Prepays and other assets	2,241	(1,514)
Accounts payable	275	684
Accrued expenses	<u>(1,364)</u>	<u>3,356</u>
Total adjustments	<u>6,352</u>	<u>(67,579)</u>
Net cash provided (used) by operating activities	<u>\$ (22,636)</u>	<u>73,241</u>

For the year ended December 31, 2022, Reading Quest received contributed equipment of approximately \$38,500 related to a contribution receivable recorded during the year ended December 31, 2022.

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

Reading Quest

Notes to Financial Statements

December 31, 2022 and 2021

1) The Organization

Reading Quest is a New Mexico nonprofit corporation organized under the laws of the State of New Mexico in 2015. Reading Quest's mission is to provide educational materials, curricula, training, professional development and other forms of educational support with the goal of teaching children to read.

The mission is accomplished by providing the following:

- year-round, free and affordable individual and small group tutoring,
- professional development, training and coaching, and
- free, intensive "Reading is Magic" summer programs.

Reading Quest is supported primarily by grants from foundations, individual contributions and contract services for tutoring and workshops.

2) Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of Reading Quest have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The financial statements of Reading Quest have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require Reading Quest to report information regarding its financial position and activities according to the following net asset 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 Reading Quest. These net assets may be used at the discretion of management and the board of directors.
- *Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of Reading Quest or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Reading Quest
Notes to Financial Statements
December 31, 2022 and 2021

2) Summary of Significant Accounting Policies — continued

Contributions

Reading Quest reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets or specify the time period for which the assets may be expended. When a donor restriction expires, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restriction. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Cash

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

Financial Instruments

Reading Quest financial instruments include cash, receivables, prepaids and other assets, accounts payable and accrued expenses. Reading Quest estimates that the fair value of all financial instruments at December 31, 2022 and 2021 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying financial statements.

Contributions Receivable

Contributions receivable represent unconditional pledges by foundations and individuals. Contributions receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows.

Contributed Materials and Services

Reading Quest recognizes contributed materials and services if they create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would need to be purchased if not provided by donation. Recognized contributed services are recorded at the fair value of the services on the date of donation. Donated materials are recorded at fair value on the date of donation.

Reading Quest
Notes to Financial Statements
December 31, 2022 and 2021

2) Summary of Significant Accounting Policies — continued

Property and Equipment

Purchased property and equipment is stated at cost. Property and equipment received by donation is recorded at the estimated fair value on the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, Reading Quest reports the expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Reading Quest reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Purchased or donated property in excess of \$1,000 is capitalized. Depreciation is calculated on a straight-line basis in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated useful lives of three years.

Revenue from Contracts with Customers

Reading Quest has adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers. The guidance requires Reading Quest to recognize revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which Reading Quest expects to be entitled in exchange for those goods and services.

The guidance also requires expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgements, changes in judgements and assets recognized from the costs to obtain or fulfill a contract.

Reading Quest has contracts to provide educational services. Revenues related to these contracts are recognized as contract and tutoring revenue in the month services are provided.

Leases

Effective January 1, 2022, Reading Quest adopted FASB ASC 842. Reading Quest determines if an arrangement is a lease at inception. Operating leases are included in right-of-use (“ROU”) assets – operating and lease liability – operating, and finance leases are included in right-of-use ROU assets – financing and lease liability – financing in the statements of financial position.

Reading Quest
Notes to Financial Statements
December 31, 2022 and 2021

2) Summary of Significant Accounting Policies — continued

Leases – continued

ROU assets represent Reading Quest’s right to use an underlying asset for the lease term and lease liabilities represent Reading Quest’s obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that Reading Quest will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. Reading Quest has elected to recognize payments for short-term leases with a lease term of 12 months or less as expense as incurred and these leases are not included as lease liabilities or ROU assets on the statements of financial position.

The individual lease contracts do not provide information about the discount rate implicit in the lease. Therefore, Reading Quest has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities.

Reading Quest has elected not to separate nonlease components from lease components and instead accounts for each separate lease component and the nonlease components as a single lease component. At December 31, 2022, there were no leases that were required to be shown as ROU assets.

Income Taxes

Reading Quest is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified by the Internal Revenue Service as an organization that is not a private foundation. Reading Quest regularly evaluates activities as it relates to its tax exempt status. If Reading Quest activities are determined to be outside of its tax exempt status the potential exists for tax liabilities on those unrelated activities. Currently, Reading Quest engages in no activities that would be taxed as unrelated business income. Accordingly, no provision for income taxes has been reflected in the Reading Quest financial statements. Reading Quest income tax filings are subject to audit by various taxing authorities. Reading Quest open audit periods are for the years ended December 31, 2019 and thereafter. Reading Quest adopted the provision of FASB ASC 740-10, “Accounting for Uncertainty in Income Taxes”. Reading Quest has not recognized any changes to the financial statements for uncertain tax positions.

Reading Quest
Notes to Financial Statements
December 31, 2022 and 2021

2) Summary of Significant Accounting Policies — continued

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program and supporting services benefited. Significant allocations are determined by management on an equitable basis, as detailed below:

Expense	Method of Allocation
Salaries and wages	Time spent
Professional services	Specific identification
Payroll taxes & benefits	Time spent
Program supplies	Specific identification

Subsequent events

Management has evaluated subsequent events through June 5, 2023, the date the financial statements were available to be issued.

3) **Receivables**

Receivables at December 31, 2022 were \$38,958, which included \$38,228 for education services and \$730 for employee loans.

Receivables at December 31, 2021 were \$71,867, which included a \$50,972 equipment donation from Sony Electronics, Inc. and \$20,895 for education services. At December 31, 2021, the equipment had not yet been received and was therefore recorded as a receivable.

No allowance for uncollectible receivables was deemed necessary at December 31, 2022 and 2021 as all receivables are considered collectible.

Reading Quest
Notes to Financial Statements
December 31, 2022 and 2021

4) Property and Equipment

Property and equipment consist of the following at December 31:

	2022	2021
AV Equipment	\$ 38,500	\$ -
Office Equipment	7,598	6,624
Less accumulated amortization	(13,700)	(2,909)
Property and equipment, net	<u>\$ 32,398</u>	<u>\$ 3,715</u>

Depreciation expense was \$10,791 and \$1,812 for the years ended December 31, 2022 and 2021, respectively.

5) Refundable Advances – Paycheck Protection Program

Reading Quest received a refundable advance of \$60,227 under the Paycheck Protection Program (“PPP”) on March 3, 2021. The PPP was established as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act which provided refundable advances for qualifying business to cover monthly payroll expenses for up to six times the average monthly payroll expense. The proceeds under the PPP may be forgiven as long as the borrower uses the proceeds for eligible purposes which were set forth by the PPP and CARES Act. The PPP loan was forgiven on October 20, 2021 and is recorded as revenue in the statement of activities for the year ended December 31, 2021.

Reading Quest
Notes to Financial Statements
December 31, 2022 and 2021

6) Net Assets With Donor Restrictions

Net assets with donor restrictions consists of the following at December 31:

	<u>2022</u>	<u>2021</u>
New Mexico Foundation	\$ 44,661	\$ -
LANL Foundation	12,654	20,000
Lutheran Family Services	8,950	-
Santa Fe Community Foundation	6,937	15,000
Anchorum St. Vincent	6,321	17,687
Dollar General Literacy Foundation	2,641	-
First Presbyterian Church	516	-
Sony Electronics	-	50,972
Frost Foundation	-	15,000
Santa Fe Hestia Fund	-	11,383
Thornburg Investment Management	-	5,000
Partners in Education	-	1,351
Total	<u>\$ 82,680</u>	<u>\$ 136,393</u>

7) Net Assets Released From Restriction

Net assets released from restriction consists of the following for the years ended December 31:

	<u>2022</u>	<u>2021</u>
Sony Electronics	\$ 50,972	\$ -
LANL Foundation	20,000	-
Anchorum St. Vincent	17,687	-
Santa Fe Community Foundation	15,000	5,000
Frost Foundation	15,000	-
Santa Fe Hestia Fund	11,383	1,378
Thornburg Investment Management	5,000	-
Partners in Education	1,351	-
Nickoloff Family Foundation	-	25,000
Bingaman Foundation	-	10,000
Still Point Fund	-	5,000
Total	<u>\$ 136,393</u>	<u>\$ 46,378</u>

Reading Quest
Notes to Financial Statements
December 31, 2022 and 2021

8) In-Kind Contributions

Reading Quest periodically receives in-kind contributions. During the years ended December 31, 2022 and 2021, Reading Quest received approximately \$200 and \$54,000 of contributed goods and services, respectively. In 2022, in-kind contributions consisted of donated supplies and food. In 2021, contributions included approximately \$51,000 in equipment and supplies from Sony Electronics, Inc. and artwork of approximately \$3,000.

9) Availability and Liquidity

The following represents Reading Quest's financial assets at December 31:

	<u>2022</u>	<u>2021</u>
Financial assets at year end:		
Cash	\$ 232,056	\$ 254,666
Receivables	<u>38,958</u>	<u>71,867</u>
Total financial assets	<u>271,014</u>	<u>326,533</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 271,014</u>	<u>\$ 326,533</u>