THREE SQUARE

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

THREE SQUARE

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three square

working together, we serve hope™

A member of FEEDING AMERICA

November 1, 2013

Dear Friends,

Three Square completed its 2012-13 fiscal year with increased determination and capacity to fulfill our vision that "No one in our community should be hungry."

Several milestones reflect our relentless pursuit of that vision:

- 26.5 million pounds of food distributed through 600 program partners
- One third of this food was rescued from 164 retail partners
- 12,000 volunteers contributed 86,500 hours to fight hunger
- SNAP benefits brought about $5 million to nearly 5,000 individuals enrolled by Three Square
- Kids Café after-school sites increased four-fold thanks to a partnership with City of Las Vegas
- Purchase program increased 165% as our food sourcing improved to meet agency needs

We are buoyed by the generous response of the philanthropic community in Southern Nevada, who continue to rally around this growing need. Despite a slight decrease in net assets, Three Square has ended the fiscal year efficiently, with moderately positive operating cash flow and adequate liquid cash reserves for 2014.

Our Board of Directors and staff team is highly motivated and inspired by a new strategic plan that sets a sound and focused growth trajectory for Three Square through 2016.

Three Square's core values of compassion, collaboration, innovation, stewardship, transparency and urgency continue to be our guiding lights as we embrace the belief that: "Together, we can feed everyone."

Graciously yours,

Brian Burton

Brian Burton, President and CEO

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Three Square
Las Vegas, Nevada

Report on the Financial Statements

We have audited the accompanying statements of Three Square (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial position of Three Square as of June 30, 2013 and 2012, 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The management's discussion and analysis on page 1 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2013, on our consideration of Three Square's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Three Square's internal control over financial reporting and compliance.

Houldsworth, Russo & Company

Las Vegas, Nevada
November 8, 2013

THREE SQUARE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash	$ 1,818,898	$ 849,673
Cash, restricted	1,920,462	1,926,660
Investments	507,345	1,447,846
Investments, restricted	1,979,993	1,727,926
Accounts receivable, net	303,607	181,276
Other receivables	39,969	20,379
Pledges receivable	727,778	718,729
Grants receivable	606,905	499,004
Inventory	2,172,246	2,739,642
Prepaid expenses	590,357	607,311
	10,667,560	10,718,446
OTHER ASSETS		
Cash, permanently restricted	-	2,000,000
Investments, permanently restricted	2,000,000	-
Pledges receivable, net of current portion and discount	442,419	688,173
Property and equipment, net	17,892,125	18,816,253
	$ 31,002,104	$ 32,222,872
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 311,799	$ 304,066
Accrued expenses	261,500	233,118
Deferred revenue	181,903	63,500
	755,202	600,684
NET ASSETS		
Unrestricted	19,366,946	20,556,048
Temporarily restricted	8,879,956	9,066,140
Permanently restricted	2,000,000	2,000,000
	30,246,902	31,622,188
	$ 31,002,104	$ 32,222,872

See notes to financial statements

THREE SQUARE
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
UNRESTRICTED NET ASSETS		
Revenue, gains and other support:		
In-kind contributions	$ 32,760,043	$ 35,420,109
Contributions and grants	6,603,402	8,902,424
Shared maintenance fees	1,904,438	1,302,890
Special events, net	125,143	99,356
Investment return	100,827	53,271
Rental income	227,142	195,609
Gain on sale of property and equipment	-	1,222
Other income	26,317	32,283
	41,747,312	46,007,164
Net assets released from restrictions	2,140,347	2,907,307
	43,887,659	48,914,471
Expenses:		
Food program	42,011,402	43,316,998
Management and general	1,365,210	1,357,469
Fundraising	1,679,086	1,895,127
Loss on disposal of property and equipment	490	-
Bad debt expense	20,573	4,402
	45,076,761	46,573,996
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(1,189,102)	2,340,475
TEMPORARILY RESTRICTED NET ASSETS		
Contributions and grants	1,662,386	3,132,842
Investment return	291,777	51,960
Net assets released from restrictions	(2,140,347)	(2,907,307)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(186,184)	277,495
PERMANENTLY RESTRICTED NET ASSETS		
Other contributions and grants	-	2,000,000
INCREASE IN PERMANENTLY RESTRICTED NET ASSETS	-	2,000,000
INCREASE (DECREASE) IN NET ASSETS	(1,375,286)	4,617,970
NET ASSETS AT BEGINNING OF YEAR	31,622,188	27,004,218
NET ASSETS AT END OF YEAR	$ 30,246,902	$ 31,622,188

See notes to financial statements

THREE SQUARE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Food Program	Management and general	Fundraising	Total
Advertising	$ -	$ 641	$ 220,794	$ 221,435
Bank service charges	-	81,587	9	81,596
Computer support	37,144	28,936	35,505	101,585
Conferences	7,564	2,110	8,155	17,829
Depreciation	932,039	84,994	40,884	1,057,917
Dues and subscriptions	15,766	20,713	1,326	37,805
Employee benefits	209,312	60,923	60,327	330,562
Employee costs	14,709	1,145	1,185	17,039
Grants	88,312	-	-	88,312
Inventory disbursed	37,213,765	84,191	3,601	37,301,557
Insurance	92,633	11,946	8,892	113,471
Meals	27,054	14,447	11,103	52,604
Occupancy	318,607	33,859	19,292	371,758
Office	37,322	21,666	109,948	168,936
Payroll taxes	183,704	53,470	52,947	290,121
Printing	6,851	662	269,716	277,229
Professional fees	4,685	170,611	156,735	332,031
Program materials	80,534	872	9	81,415
Repairs and maintenance	129,932	12,703	5,531	148,166
Salaries	2,278,445	663,167	656,690	3,598,302
Supplies	16,299	5,238	7,969	29,506
Travel	48,625	10,202	8,407	67,234
Vehicle expenses	268,100	1,127	61	269,288
	$ 42,011,402	$ 1,365,210	$ 1,679,086	$ 45,055,698

See notes to financial statements

THREE SQUARE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	Food Program	Management and general	Fundraising	Total
Advertising	$ 2,297	$ -	$ 203,197	$ 205,494
Bank service charges	-	86,392	-	86,392
Computer support	18,091	42,237	22,031	82,359
Conferences	3,305	5,282	2,798	11,385
Depreciation	939,518	87,609	55,237	1,082,364
Dues and subscriptions	9,582	18,982	2,447	31,011
Employee benefits	191,002	56,801	64,162	311,965
Employee costs	10,670	25,019	1,978	37,667
Grants	239,928	-	-	239,928
Inventory disbursed	38,622,270	53,043	96,648	38,771,961
Insurance	78,433	11,427	10,703	100,563
Meals	13,619	14,880	8,355	36,854
Occupancy	292,710	33,729	20,736	347,175
Office	41,331	642	139,423	181,396
Payroll taxes	189,618	56,389	63,697	309,704
Printing	4,188	8,923	362,975	376,086
Professional fees	4,410	178,336	92,215	274,961
Program materials	100,771	74	45	100,890
Repairs and maintenance	107,804	10,415	4,220	122,439
Salaries	2,150,205	639,438	722,304	3,511,947
Supplies	17,497	14,081	9,653	41,231
Travel	41,212	13,364	12,303	66,879
Vehicle expenses	238,537	406	-	238,943
	$ 43,316,998	$ 1,357,469	$ 1,895,127	$ 46,569,594

See notes to financial statements

THREE SQUARE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Collections from shared maintenance fees	$ 1,899,963	$ 1,214,644
Cash received from contributions and grants	8,635,919	16,934,238
Cash received from other activities	363,650	323,812
Cash paid to food suppliers	(3,521,204)	(3,375,269)
Cash paid for operating expenses	(7,274,036)	(7,927,368)
Net cash provided by (used in) operating activities	104,292	7,170,057
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of property and equipment	-	3,000
Purchases of property and equipment	(92,521)	(96,548)
Sales of investments	2,776,078	2,952,902
Purchases of investments	(3,824,822)	(2,138,377)
Net cash provided by (used in) investing activities	(1,141,265)	720,977
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for:		
Investment in endowment	-	(2,000,000)
Investment in solar panels	-	(500,000)
Other financing activities:		
Proceeds from line of credit	-	1,000,000
Payments on line of credit	-	(2,000,000)
Payments on long-term debt	-	(204,578)
Net cash provided by (used in) financing activities	-	(3,704,578)
INCREASE (DECREASE) IN CASH	(1,036,973)	4,186,456
BEGINNING CASH	4,776,333	589,877
ENDING CASH	$ 3,739,360	$ 4,776,333
SUPPLEMENTAL DISCLOSURES		
Interest paid and expensed	$ -	$ 18,498
Imputed interest expense	$ -	$ 5,440
Assets acquired through accounts payable	$ 10,220	$ -
SUMMARY OF CASH ACCOUNTS		
Cash	$ 1,818,898	$ 849,673
Cash, restricted	1,920,462	1,926,660
Cash, permanently restricted	-	2,000,000
	$ 3,739,360	$ 4,776,333

See notes to financial statements

THREE SQUARE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CHANGE IN NET ASSETS	$ (1,375,286)	$ 4,617,970
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,057,917	1,082,364
Donated assets	(32,040)	-
Donated food received	(32,688,962)	(35,411,935)
Donated food distributed	32,710,681	35,589,675
Contributions restricted for long-term investment	-	2,500,000
Change in allowance on accounts and pledges receivable	9,409	2,104
Net change in discount on long-term debt	(27,033)	5,440
Change in present value discount for pledges receivable	-	21,620
Realized/unrealized (gain)/loss on investments	(262,822)	11,068
Loss on disposal of property and equipment	490	1,778
(Increase) decrease in operating assets:		
Accounts receivable	(122,877)	(88,246)
Other receivables	(19,590)	(20,379)
Grants receivable	(107,901)	(337,015)
Pledges receivable	254,875	402,520
Prepaid expenses	(28,025)	(99,748)
Prepaid expenses related to solar panels	44,979	(464,299)
Inventory	546,179	(705,435)
Deposits	-	4,430
Increase (decrease) in operating liabilities:		
Accounts payable	(2,487)	159,359
Accrued expenses	28,382	(119,714)
Deferred revenue	118,403	18,500
Net cash provided by (used in) operating activities	$ 104,292	$ 7,170,057

See notes to financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Three Square (the Organization) is a nonprofit entity organized under the laws of the State of Nevada on December 13, 2006. The Organization's mission is to provide wholesome food to hungry people, while working to end hunger in Southern Nevada. The Organization procures food from individuals, manufacturers, food distributors and grocery stores and then distributes food to other nonprofit agencies feeding those in need; provides food to school children on the weekends, during the evening and over the summer through various programs; and provides other services for the purpose of ending hunger in Southern Nevada. The Organization is supported through donor contributions, grants from donors and organizations, and minimal fees charged for some food items distributed. Accordingly, future operations may be affected by adverse changes in local economic conditions in Clark County, Nevada.

Basis of Accounting

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

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958 regarding nonprofit organizations. Under FASB ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates

Timely 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 certain reported amounts and disclosures, some of which may need revision in future periods.

Expense Allocation

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Assets and Services

Donated assets are recorded as a contribution and as an addition to property, plant and equipment at an estimated fair market value on the date of donation.

Donated services are recognized as contributions in accordance with FASB ASC 958-605-50-1 if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

For the year ended June 30, 2012, contributed services of $4,960 consisted of the following: photography services and graphic design services. The photography service expenses totaling $160 were used to benefit the Organization and its events and were included in the fundraising functions. The graphic design services provided totaling $4,800 were to benefit the Organization and its events and were included in administrative and fundraising expenses. No contributed services were received for the year ended June 30, 2013.

Deferred Revenue

Deferred revenue consists of prepaid tickets and sponsorships for the Organization's annual special event, DISH, scheduled to take place in September 2013 and 2012.

Accounts Receivable

The accounts receivable balance consists mainly of the minimal fees charged to agencies for food and non-food items distributed. Accounts receivable are stated at the amount management expects to collect from outstanding balances. It is the Organization's policy to charge off uncollectible accounts receivable for the program when management determines the receivable will not be collected. The allowance for uncollectible receivables was $367 and $2,104 as of June 30, 2013 and 2012, respectively. The shared maintenance fees are delinquent when not received within thirty days. No interest income is recognized or charged on accounts receivable.

Income Tax Status

The Organization is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is generally exempt from income taxes on related income pursuant to the appropriate section of the Internal Revenue Code. In the preparation of tax returns, tax positions are taken based on interpretation of federal, state and local income tax laws. In accordance with the accounting standards, management periodically reviews and evaluates the status of uncertain tax positions and makes estimates of amounts, including interest and penalties, ultimately due or owed. No amounts have been identified, or recorded as uncertain tax positions. Federal, state, and local tax returns generally remain open for examination by the various taxing authorities for a period of three to six years.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Property, Plant and Equipment

For the year ended June 30, 2012, the Organization's policy was to capitalize expenditures for property, plant and equipment in excess of $1,500 and with a useful life of greater than one year. For the year ended June 30, 2013, the Organization changed its policy to capitalize expenditures in excess of $5,000. Property, plant and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated lives of 39 years for buildings; 15 to 39 years for building improvements; 5 years for computer equipment and software; 6 years for vehicles; 5 years for furniture, equipment and machinery; and 5 years for website design.

Impairment of Long Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. If events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable, we compare the carrying amount of the asset group to future undiscounted net cash flows, excluding interest costs, expected to be generated by the asset group and their ultimate disposition. If the sum of the undiscounted cash flows is less than the carrying value, the impairment to be recognized is measured by the amount by which the carrying amount of the asset group exceeds the fair value of the asset group. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

Inventory

Inventory consists of purchased and donated food and non-food items. Donated inventory is recorded when received at an estimated fair value based on a per-pound valuation of $1.69 and $1.66 provided by Feeding America, a national food bank network, for the years ended June 30, 2013 and 2012, respectively. Purchased inventory is valued on the first-in, first-out method. The breakdown of the inventory as of June 30, 2013 and 2012 are as follows:

	2013	2012
Donated inventory	$ 794,898	$ 816,115
Purchased inventory	1,377,348	1,923,527
Total inventory	$ 2,172,246	$ 2,739,642

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation.

Subsequent Events

Subsequent events have been evaluated through November 8, 2013, which is the date the financial statements were available to be issued.

Gifts of long-lived assets

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

NOTE 2. SHARED MAINTENANCE

The Organization charges fees to nonprofit agencies based on categories of donated products based on pounds received by the agencies and for purchased products by the agencies. The charge is used to offset expenses incurred by the Organization in purchasing, handling and storage of the products. The costs related to handling and storage are reported in the statement of functional expenses in the respective natural classes in the program function.

NOTE 3. ADVERTISING

The Organization uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. During the years ended June 30, 2013 and 2012, advertising costs totaled $221,435 and $205,494, respectively.

NOTE 4. RELATED PARTY TRANSACTIONS

The Organization employed R&R Partners for promotional services paying $129,979 for the year ended June 30, 2012. A Board member was a senior executive of R&R Partners.

NOTE 5. INVESTMENTS

Investments in marketable equity securities with readily determinable fair values are stated at fair market value. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Fees related to the investment accounts totaled $52,744 and $31,518 for the years ended June 30, 2013 and 2012, respectively.

Investments consist of the following for the years ended June 30, 2013 and 2012:

	2013	2012
Corporate bonds and bond funds	$ 96,020	$ -
Government securities	640,821	563,859
Mutual funds	1,509,270	906,719
Equity securities	2,241,227	1,705,194
Total	4,487,338	3,175,772
Investments, restricted	3,979,993	1,727,926
Investments, unrestricted	$ 507,345	$ 1,447,846

Total investment return consists of the following for the years ended June 30, 2013 and 2012:

	2013	2012
Interest and dividends	$ 129,782	$ 116,299
Realized gain	242,910	74,832
Unrealized gain	19,912	(85,900)
Total	$ 392,604	$ 105,231

NOTE 6. FAIR VALUE MEASUREMENTS

In accordance with the FASB Codification, the following are quantitative disclosures about the fair value measurements of assets. Fair value measurements are categorized on three levels:

Level 1 inputs are quoted market prices in active markets for identical assets.
Level 2 inputs are inputs other than quoted prices within Level 1; for example, quoted prices for similar assets.
Level 3 inputs are unobservable inputs for the assets.

NOTE 6. FAIR VALUE MEASUREMENTS (CONTINUED)

The Organization's only assets valued at fair value were its investments. The Organization held all of its investments in publicly traded equity or debt instruments as of June 30, 2013 and 2012 as follows:

	June 30, 2013	Quoted Prices In Active Markets For Identical Assets (Level 1)
Government securities	$ 640,821	$ 640,821
Mutual funds	1,509,270	1,509,270
Equity securities	2,241,227	2,241,227
Corporate bonds and bond funds	96,020	96,020
Total investments	$ 4,487,338	$ 4,487,338

	June 30, 2012	Quoted Prices In Active Markets For Identical Assets (Level I)
Government securities	$ 563,859	$ 563,859
Mutual funds	906,719	906,719
Equity securities	1,705,194	1,705,194
Total investments	$ 3,175,772	$ 3,175,772

NOTE 7. PLEDGES RECEIVABLE

The pledges receivable balance consists of unrestricted and restricted pledges as detailed below. Pledges receivable to be received after one year were discounted based on the year promised at a rate of 5%. No allowance was recorded as of June 30, 2013 and 2012.

Pledges receivable consist of the following at June 30, 2013 and 2012, respectively:

	2013	2012
Unrestricted	$ 189,396	$ 224,988
Backpack/Children program	1,028,000	1,245,000
Total	$ 1,217,396	$ 1,469,988

NOTE 7. PLEDGES RECEIVABLE (CONTINUED)

	2013	2012
Receivable in less than one year	$ 727,778	$ 718,729
Receivable in one to five years	489,618	751,259
	1,217,396	1,469,988
Less allowance	(11,146)	-
Less discounts to present value	(36,053)	(63,086)
	1,170,197	1,406,902
Current portion	(727,778)	(718,729)
Long-term portion	$ 442,419	$ 688,173

NOTE 8. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consist of the following at June 30, 2013 and 2012, respectively:

	2013	2012
Building and building improvements	$ 17,796,149	$ 17,734,469
Land	1,103,252	1,103,252
Computer equipment and software	611,892	609,495
Vehicles	1,636,051	1,604,011
Furniture and equipment	1,291,511	1,275,662
Website design	25,364	25,364
Construction in progress	17,250	-
Total property, plant, and equipment	22,481,469	22,352,253
Accumulated depreciation	(4,589,344)	(3,536,000)
	$ 17,892,125	$ 18,816,253

NOTE 9. LONG-TERM DEBT

The Organization entered into a loan agreement with Feeding America on December 31, 2009 for $136,235 for the purchase of a vehicle. The vehicle serves as collateral for this loan. Annual principal payments of $34,059 are due at the end of each of four years with accrued interest. The variable interest rate increases through the life of the loan. This loan was paid off during the year ended June 30, 2012.

The Organization entered into a loan agreement with Feeding America on January 29, 2010 for $136,535 for the purchase of a vehicle. The vehicle serves as collateral for this loan. Annual principal payments of $34,134 are due at the end of each of four years with accrued interest.

NOTE 9. LONG-TERM DEBT (CONTINUED)

The variable interest rate increases through the life of the loan. This loan was paid off during the year ended June 30, 2012.

An increasing interest rate is charged in each of the subsequent four years of 0%, 2%, 3%, and 4% for both loans. Due to below-market interest rates offered by Feeding America, interest was imputed at a rate of 4% over the life of the loans consistent with the highest rate offered by Feeding America and the interest rate offered by the Organization's line of credit. The Organization recognized a discount and imputed interest expense of $0 and $5,440 during the years ended June 30, 2013 and 2012, respectively.

NOTE 10. TEMPORARILY RESTRICTED NET ASSETS

Clark County donated a building to the Organization as of November 16, 2007 with a fair market value of $4,900,000. The fair value and costs to take ownership of the asset were allocated between building and land. With the donation of the building, Clark County transferred the restrictions originally attached to the building to the Organization. Under these restrictions, the Organization shall operate as a food bank warehouse or, subject to approval by the County, for some other similar purpose for thirty (30) years. The original restrictions were assigned to the building as of December 2002 to be fully released in December 2032. Therefore, the temporarily restricted net assets represent the restricted donation of $4,900,000 with an equal portion released each year.

The restricted assets at June 30, 2013 and 2012 were held as follows:

	2013	2012
Cash	$ 1,920,462	$ 1,926,660
Investments	1,979,993	1,727,926
Pledges receivable, net	1,170,197	1,406,902
Building	3,809,304	4,004,652
Total	$ 8,879,956	$ 9,066,140

The temporarily restricted assets at June 30, 2013 and 2012 were as follows:

	2013	2012
Building and land	$ 3,809,302	$ 4,004,652
Supplemental Nutrition Assistance program	-	6,000
Agency capacity enhancement grants	328,008	317,039
Senior Share and Nutrition programs	1,224,343	889,904
Summer Food program	368,113	713,717
Donald W. Reynolds building maintenance	1,777,878	1,727,926
Restricted earnings from endowment for operations	202,115	-
Pledges receivable, net	1,170,197	1,406,902
Total	$ 8,879,956	$ 9,066,140

NOTE 11. CONCENTRATIONS

The Organization maintains cash balances in three banking institutions located in Nevada. The non-interest bearing and interest-bearing cash held by the banking institutions are insured up to the Federal Deposit Insurance Corporation ("FDIC") insurance limit of $250,000. As of June 30, 2013, the total uninsured cash balance in these accounts was $3,509,155.

The Organization maintains cash balances in investment accounts held at two investment brokers. The cash held by each broker is insured up to the Securities Investor Protection Corporation ("SIPC") insurance limit of $500,000 of the investment balance, including $250,000 in cash. SIPC insurance covers losses due to investment fraud. As of June 30, 2013, the total cash balance in these accounts was $194,065 and was fully insured.

During the year ended June 30, 2012, the Organization recognized contribution revenue totaling $5,664,416 from board members or their related organizations. Of this total, $5,015,200 was received from one organization in which a board member is also a board member of the granting agency. The Organization also received contribution revenue of $1,800,000 and $2,300,000 from another single source during the years ended June 30, 2013 and 2012. These donations represented 31% and 57% of cash grant and contribution revenue.

An agency partner owes the Organization $95,464 in outstanding accounts receivable at June 30, 2013 for the purchase of food. This receivable represents 31% of the outstanding receivables.

During the year ended June 30, 2013, the Organization recognized contributions of food of $32,688,962, representing 99% of in-kind contributions and 78% of total revenue. During the year ended June 30, 2013, the Organization recognized contributions of food of $10,851,434 from two sources, representing 33% of in-kind contributions and 26% of total revenue.

During the year ended June 30, 2012, the Organization recognized contributions of food of $35,411,935, representing 99% of in-kind contributions and 69% of total revenue. During the year ended June 30, 2012, the Organization recognized contributions of food of $15,261,527 from three sources, representing 43% of in-kind contributions and 30% of total revenue.

In October 2008, the Organization entered into a contract with Feeding America (previously known as America's Second Harvest) to be a member of Feeding America. The Organization pays Feeding America for purchases of food. During the year ended June 30, 2013, the Organization paid Feeding America $780,929 for purchased food. The purchases of food represent 22% of total food purchases made for the year ended June 30, 2013. Feeding America donated food totaling $1,566,167 for the year ended June 30, 2013. The Organization purchased 48% of its food from two vendors, which includes Feeding America.

During the year ended June 30, 2012, the Organization paid Feeding America $921,073 for purchased food. The purchases of food represent 29% of total food purchases made for the year ended June 30, 2012. Feeding America donated food totaling $84,310 for the year ended June 30, 2012.

NOTE 12. COMMITMENTS

In August 2009, the Organization entered into a revolving line of credit for $1,000,000. At June 30, 2013 this line of credit had an extended maturity date of March 1, 2014. The line of credit variable interest rate is the bank's prime plus 0.50% with an interest rate floor of 5.00%. For the years ended June 30, 2013 and 2012 the prime rate was 3.25%. The balance associated with this line of credit at June 30, 2013 and 2012 was $0. The line of credit is collateralized by the Organization's accounts receivable, inventory and equipment.

In July 2011, the Organization entered into a loan management account agreement with their investment broker allowing Three Square to receive a non-purpose loan up to an amount determined by the discretionary decisions of the investment broker, including the valuation of the Organization's collateral. This loan management account is payable upon demand at a variable interest rate of the LIBOR rate plus a 3.0% spread. At June 30, 2013 and 2012, the LIBOR rate was .19465% and .24475%, respectively. The loan management account is collateralized by the Organization's investments held with this investment broker.

During the year ended June 30, 2012, the Organization received a grant from NV Energy of $500,000 to install 100kW of solar panels on their property. The Organization assigned the grant monies to a third party, and the third party paid for and installed the solar panels. The third party owns the solar panel assets attached to the Organization's building. In exchange for the assigned grant monies, the Organization received a credit of $500,000 for the Organization's future use of the solar energy produced by the solar panels. This credit is accounted for as a prepaid solar energy asset. The Organization entered into an agreement with the third party to utilize the solar panels for 20 years. As the Organization utilizes the energy produced from the third party, the Organization's prepaid solar energy asset is reduced monthly, based on the solar kilowatt hours produced by the solar panels multiplied by an agreed upon basic energy rate. Once the prepaid solar energy asset is depleted, the Organization will be responsible for paying for the solar energy used. The basic energy rate increases every five years. As of June 30, 2013 and 2012, the basic energy rate was $0.25 per kilowatt hour. The Organization has the option to purchase the solar panels at the end of five years for fair market value. If the Organization opts to purchase the solar energy panels, the remaining prepaid solar energy asset will be returned. If the Organization terminates the agreement before the 20 year term, the prepaid solar energy asset will be forfeited. At June 30, 2013 and 2012, the prepaid solar energy asset balance was $419,320 and $464,299, respectively, which represents the $500,000 original prepaid asset, reduced by the amount of solar energy produced and used by the Organization of $44,979 and $35,701, respectively.

During the year ended June 30, 2013, the Organization entered into a three-year service agreement with Feeding America to support its email system. The Organization will be responsible for reimbursing Feeding America for the implementation costs if the service is canceled before the term of the agreement.

NOTE 13. SPECIAL EVENT INFORMATION

The special event revenue breakdown for the years ended June 30, 2013 and 2012 is as follows:

	2013	2012
Revenue	$ 261,353	$ 287,907
Direct expenses	(136,210)	(188,551)
Total	$ 125,143	$ 99,356

NOTE 14. ENDOWMENTS

During the year ended June 30, 2012, Three Square received a permanently restricted donation of $2,000,000 to establish an endowment. The earnings on the endowment can be used for general operating expenses.

The endowment funds consist of the following assets as of June 30,:

	2013	2012
Cash	$ 72,691	$ 2,000,000
Investments	2,129,424	-
	$ 2,202,115	$ 2,000,000

The endowment includes only donor-restricted endowment funds and earnings. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law
The Board of Directors of the Organization has interpreted Nevada state laws as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in accordance with the donor’s wishes. There are no board designations of endowment funds.

NOTE 14. ENDOWMENTS (CONTINUED)

The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the organization

Endowment net asset composition by type of fund as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Fund	$ 202,115	$ -	$ 2,000,000	$ 2,202,115
Total funds	$ 202,115	$ -	$ 2,000,000	$ 2,202,115

Changes in endowment net assets for the year ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ -	$ 2,000,000	$ 2,000,000
Investment return:				
Investment income	-	55,322	-	55,322
Net appreciation (realized and unrealized)	-	146,793	-	146,793
Total investment return	-	202,115	-	202,115
Reclassification of net appreciation	202,115	(202,115)	-	-
Endowment net assets, end of year	$ 202,115	$ -	$ 2,000,000	$ 2,202,115

NOTE 14. ENDOWMENTS (CONTINUED)

Endowment net asset composition by type of fund as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Fund	$ -	$ -	$ 2,000,000	$ 2,000,000
Total funds	$ -	$ -	$ 2,000,000	$ 2,000,000

Changes in endowment net assets for the year ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ -	$ -	$ -
Permanently restricted donation	-	-	2,000,000	2,000,000
Endowment net assets, end of year	$ -	$ -	$ 2,000,000	$ 2,000,000

Funds with Deficiencies
From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. Deficiencies of this nature would be included in unrestricted net assets. There were no deficiencies at June 30, 2013 or 2012.

Return Objectives and Risk Parameters
The Organization has adopted investment and spending policies for endowment assets, the primary emphasis of which is on capital growth. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results attainable over a more than ten year time frame. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 7%. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives
To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy
The Organization has a current policy of retaining the earnings within the endowment fund until such time that the Board has determined specific expenditures in which to use the earnings

NOTE 14. ENDOWMENTS (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy (Continued)
not restricted by the donor. This policy is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 15. SUBSEQUENT EVENT

In July 2013, the Organization entered into an agreement to lease three copiers for 63 months due in monthly installments of $1,487, including executory costs of $500, at an interest rate of 1.8%. The value of the three copiers is $59,250. Future net minimum rental payments, which are required under the Organization’s lease:

2014	$ 16,362
2015	17,849
2016	17,849
2017	17,849
2018	17,849
2019	5,949
Total minimum lease payments	93,707
Total executory costs	(31,500)
Less amount representing interest	(2,957)
Total	$ 59,250

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Three Square
Las Vegas, Nevada

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Three Square (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 8, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Three Square's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Three Square's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, 2013-001, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Three Square's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Three Square's Response to Findings

Three Square's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Three Square's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Houldsworth, Russo & Company

Houldsworth, Russo & Company, P.C.
Las Vegas, Nevada
November 8, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Three Square
Las Vegas, Nevada

Report on Compliance for Each Major Federal Program

We have audited the Three Square's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Three Square's major federal programs for the year ended June 30, 2013. Three Square's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Three Square's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Three Square's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Three Square's compliance.

Opinion on Each Major Federal Program

In our opinion, Three Square complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Three Square is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Three Square's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Three Square's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that are not identified. However, as discussed below, we did identify a deficiency in internal control over compliance that we consider to be a significant deficiency.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-001.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Houldsworth, Russo & Company

Houldsworth, Russo & Company, P.C.
Las Vegas, Nevada
November 8, 2013

THREE SQUARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Grantor Agency	Program Title	Number		Expenditures
Passed through the Nevada Department of Education:				
U.S. Department of Agriculture	Supplemental Nutrition Assistance Program	10.551	$	210,892
Passed through the Nevada Department of Education:				
U.S. Department of Agriculture	Fresh Fruit and Vegetable Program	10.582		19,786
Passed through the State of Nevada:				
U.S. Department of Agriculture	Emergency Food Assistance Program	10.569		203,816
U.S. Department of Agriculture	Summer Food Service Program	10.559		68,316
U.S. Department of Agriculture	Child and Adult Care Food Program	10.558 *		1,051,229
U.S. Department of Agriculture Total				1,554,039
U.S. Department of Health and Human Services	Social Services Block Grant - Mobile Produce Pantry	93.667		22,471
			$	1,576,510

* Denotes a major program

See notes to financial statements

THREE SQUARE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

NOTE 1. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Three Square and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB *Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2. PASS-THROUGH AWARDS

Three Square received certain federal financial assistance from pass-through awards of the pass-through entities listed on the schedule of expenditures of federal awards.

NOTE 3. NON-CASH ASSISTANCE AWARDS

Three Square received non-cash assistance in the form of donated food from the U.S. Department of Agriculture through the Emergency Food Assistance Program totaling $203,816.

THREE SQUARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

1. The auditor's report expresses an unqualified opinion on the financial statements of Three Square.

2. One instance of a significant deficiency related to the audit of the financial statements, which would be required to be reported in accordance with *Government Auditing Standards*, was disclosed during the audit.

3. No instances of noncompliance material to the financial statements of Three Square, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

Federal Awards

4. One significant deficiency relating to the audit of the major federal award programs is reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance with OMB Circular A-133.

5. The auditor's report on compliance for Three Square expresses an unqualified opinion.

6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.

7. The program tested as a major program was the U.S. Department of Agriculture Child and Adult Care Food Program, CFDA Number 10.558.

8. The threshold used for distinguishing between Type A and Type B programs was $300,000.

9. Three Square qualifies as a low-risk auditee.

FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

2013-001 Internal control reviews over reporting did not include a review of the entry into the billing system – Child and Adult Care Food Program – CFDA No. 10.558

Criteria: OMB A-133 requires the Organization to have a process designed and implemented to provide reasonable assurance that the reporting to the awarding agency is accurate and in compliance with the regulations over the federal program and grant.

Condition: Of the five months of billings tested, two months of support supplied by the sites did not agree to meals entered and billed into the State billing system.

Effect: Of the 134,286 meals billed in the five months tested, 114 of excess meals were billed representing an overbilling error rate of .08%.

THREE SQUARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013

FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

Cause: The Organization implemented review procedures to verify that meals served by the approved sites were properly supported. However, the review procedures did not include reviewing the entry of the meals served in the State's billing system.

Questioned Costs: None noted.

Recommendation: We recommend that the review procedures at the end of the month include a comparison of the total number of meals reported as served by the sites to the number of meals entered into the State billing system.

Corrective Action Plan: Three Square has added a checksum to the calculation sheet used to enter the number of meals into the State billing system. The checksum will be compared with the total entered meals, and the checklist will be initialed, verifying that the two totals match.

FINDINGS AND QUESTIONED COSTS-FINANCIAL STATEMENT AUDIT

No deficiencies related to the financial statements that are required to be reported in accordance with *Government Auditing Standards* were noted.

THREE SQUARE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

PRIOR YEAR FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

12-01 Internal control reviews over allowable costs are not consistently documented – Child and Adult Care Food Program – CFDA No. 10.558

Criteria: OMB A-133 requires the Organization to have a process designed and implemented to provide reasonable assurance over compliance with applicable laws and regulations.

Condition: The Organization implemented review procedures with required documented approvals to monitor the approval of purchase orders, invoices, and timesheets. However, the approvals were not consistently performed.

Effect: Approvals on a number of timesheets and one purchase order were not present. Of 45 vendor packages selected for testing, one purchase order was not properly signed with any additional approval. Of 15 timesheets tested, nine timesheets were not signed.

Cause: Although reviews were being performed, no monitoring procedures were in place to ensure proper review and documentation was performed. This could result in federal funds being expended on unallowed costs.

Questioned Costs: None noted.

Recommendation: We recommend during the already established reviews of the supporting documentation, the Accounting Manager or CFO review for appropriate documented approvals before payment is finalized. As the timesheets for the Child and Adult Care Food program is maintained by the Program Director, we recommend that a monthly checklist be implemented when the final documentation is reviewed. This checklist will ensure that all items are being properly reviewed and monitored for proper compliance.

Action taken: Three Square has included a checklist and explanatory cover sheet for each invoice and documentation packet. The checklist contains space to list resolved discrepancies and any other notes. The documentation cover sheet will be signed by either the Accounting Manager or CFO indicating that the packet has been reviewed and is complete.

Current status: Corrective action was properly implemented as detailed above.

12-02 Internal control reviews over reporting are not consistently documented – Child and Adult Care Food Program – CFDA No. 10.558

Criteria: OMB A-133 requires the Organization to have a process designed and implemented to provide reasonable assurance over compliance with applicable laws and regulations.

Condition: The Organization implemented review procedures to compare the attendance records maintained by the schools with the number of meals reported as consumed by the schools. Although only access to the attendance records is required by the grantor, Three Square's policy was to obtain and maintain attendance records. However, the attendance records were not maintained consistently.

PRIOR YEAR FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

12-02 Internal control reviews over reporting are not consistently documented – Child and Adult Care Food Program – CFDA No. 10.558 (Continued)

Effect: Of 60 schools tested, 12 schools did not have the attendance records maintained in the file. Of the schools tested in which the attendance records were maintained, nine schools showed discrepancies between the attendance records and the meals consumed. Although these discrepancies were explained by Three Square's staff, no explanation was documented in the file.

Cause: Although reviews were being performed, no monitoring procedures were in place to ensure proper review and documentation was performed. Without consistent controls to monitor the eligible meals consumed, there is a risk that federal funds could be expended on unallowed costs.

Questioned Costs: None noted.

Recommendation: During the review of the schools provided records, we recommend that Three Square complete a cover sheet documenting the procedures performed during the review and any explanations for resolved discrepancies.

Action taken: Three Square has included a checklist and explanatory cover sheet for each invoice and documentation packet. The checklist contains space to list resolved discrepancies and any other notes. The documentation cover sheet will be signed by either the Accounting Manager or CFO indicating that the packet has been reviewed and is complete.

Current status: Corrective action was properly implemented as detailed above.