THREE SQUARE

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

HOULDSWORTH
RUSSO & COMPANY
20 YEARS & COUNTING
Certified Public Accountants

THREE SQUARE

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three square™
together, we can feed everyone
A member of FEEDING AMERICA

Dear Friends:

The 2015-16 fiscal year witnessed steadfast progress toward fulfilling Three Square's bold vision of a hunger-free community.

I am smiling as I pen this letter reflecting on these examples of our progress:

- 40 million pounds of food (33 million meals) shared through 1,300 community partners
- Over 14 million pounds of food rescued from 184 retail partners
- A record 26,000 volunteers donated 137,000 hours to alleviate hunger
- Because of them, 1.5 million meals for children were shared out of our kitchen
- Our SNAP team brought $6.6 million in benefits (2,460,000 meals) to 5,300 individuals

The improving economy and the deepening impact of our work helped slow the increase of food insecurity across Southern Nevada.

Three Square's Board of Directors joined with community leaders and our staff to create a new strategic plan for the next four years. Our ambition is to meet the meal gap by galvanizing the community, increasing food sourcing and fundraising, and growing the capacity of our service network.

We are humbled and blessed to steward the trust and resources this community places in our care. The future looks brighter for all of Southern Nevada because we know that "Together, we can feed everyone."

Faithfully,

Brian Burton

Brian Burton, President and CEO

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To the 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, 2016 and 2015, 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 audits. We conducted our audits 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, 2016 and 2015, 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.

HOULDSWORTH, RUSSO & COMPANY
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Emphasis of Matter

As discussed in Note 2 to the financial statements, the in-kind contributions and related expenses are based upon estimates. Our opinion is not modified with respect to that matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The letter from the chief executive officer 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.

The accompanying schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 October 17, 2016, 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, P.C.

Las Vegas, Nevada
October 17, 2016

THREE SQUARE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 153,681	$ 247,632
Cash and cash equivalents, restricted	1,106,651	983,144
Investments, restricted	2,361,526	2,213,075
Accounts receivable, net	187,705	127,121
Other receivables	5,601	28,690
Pledges receivable	2,918,486	2,509,866
Grants receivable	1,358,127	1,379,340
Inventory	3,603,120	5,378,359
Prepaid expenses	446,802	485,815
	12,141,699	13,353,042
OTHER ASSETS		
Investments, restricted	6,000,000	4,000,000
Pledges receivable, net of current portion and discount	3,718,821	5,448,848
Property and equipment, net	13,502,204	13,946,382
Property and equipment, net, restricted	3,223,256	3,418,605
	$ 38,585,980	$ 40,166,877
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 302,001	$ 467,669
Accrued expenses	410,598	342,485
Income taxes payable	114,506	-
Capital lease payable, current portion	95,995	90,546
Current maturities of long-term debt	52,363	-
Refundable advance	61,671	40,150
	1,037,134	940,850
LONG-TERM LIABILITIES		
Capital lease payable, net of current portion	365,914	461,909
Long-term debt, net of current maturities	208,833	-
	1,611,881	1,402,759
NET ASSETS		
Unrestricted	17,645,359	20,190,580
Temporarily restricted	17,328,740	16,573,538
Permanently restricted	2,000,000	2,000,000
	36,974,099	38,764,118
	$ 38,585,980	$ 40,166,877

See notes to financial statements

THREE SQUARE
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
UNRESTRICTED NET ASSETS		
Revenue, gains and other support:		
In-kind contributions	$ 59,615,957	$ 53,215,006
Contributions and grants	11,250,594	10,237,072
Shared maintenance fees	1,473,908	2,187,944
Catering income	1,112,640	-
Investment return	79,322	149,764
Rental income	306,157	264,786
Other income	277,333	231,229
	74,115,911	66,285,801
Net assets released from restrictions	1,924,260	898,277
	76,040,171	67,184,078
Expenses and losses:		
Food program	74,036,739	62,403,550
Management and general	1,550,709	1,438,180
Fundraising	2,855,062	2,407,549
	78,442,510	66,249,279
Income tax expense	114,506	-
Bad debt expense	28,376	77,994
	78,585,392	66,327,273
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(2,545,221)	856,805
TEMPORARILY RESTRICTED NET ASSETS		
Contributions and grants	2,579,218	9,454,053
Investment return	100,244	-
Net assets released from restrictions	(1,924,260)	(898,277)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	755,202	8,555,776
INCREASE (DECREASE) IN NET ASSETS	(1,790,019)	9,412,581
NET ASSETS AT BEGINNING OF YEAR	38,764,118	29,351,537
NET ASSETS AT END OF YEAR	$ 36,974,099	$ 38,764,118

See notes to financial statements

THREE SQUARE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Food Program	Management and general	Fundraising	Total
Advertising	$ 47,519	$ 1,600	$ 148,048	$ 197,167
Bank service charges	-	78,515	-	78,515
Computer support	32,406	37,419	20,343	90,168
Conferences	11,773	7,360	9,450	28,583
Depreciation	824,440	67,950	54,957	947,347
Dues and subscriptions	14,440	24,033	1,830	40,303
Employee benefits	348,173	82,500	123,389	554,062
Employee costs	16,679	986	578	18,243
Grants	10,032	-	-	10,032
Inventory disbursed	67,448,973	-	662,646	68,111,619
Insurance	141,568	15,416	17,758	174,742
Interest	33,512	39	32	33,583
Meals	24,594	31,158	12,309	68,061
Occupancy	356,079	33,703	27,139	416,921
Office	56,273	26,913	85,662	168,848
Payroll taxes	283,588	67,196	100,501	451,285
Printing	59,854	8,740	220,569	289,163
Professional fees	52,707	250,278	187,635	490,620
Program materials	262,606	14,687	8,396	285,689
Repairs and maintenance	160,013	9,964	7,934	177,911
Rent	100,325	18,292	481	119,098
Salaries	3,198,625	757,917	1,133,567	5,090,109
Supplies	139,129	5,173	13,310	157,612
Travel	53,980	10,870	8,592	73,442
Vehicle expenses	359,451	-	9,936	369,387
	$ 74,036,739	$ 1,550,709	$ 2,855,062	$ 78,442,510

See notes to financial statements

THREE SQUARE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015

	Food Program	Management and general	Fundraising	Total
Advertising	$ 28,659	$ 2,225	$ 165,944	$ 196,828
Bank service charges	30	96,653	-	96,683
Computer support	44,665	44,509	23,419	112,593
Conferences	7,962	5,026	6,769	19,757
Depreciation	810,215	67,914	52,696	930,825
Dues and subscriptions	11,726	28,901	5,292	45,919
Employee benefits	276,053	60,811	95,192	432,056
Employee costs	18,055	2,322	6,022	26,399
Grants	53,466	-	-	53,466
Inventory disbursed	56,502,747	164,148	6,711	56,673,606
Insurance	140,576	16,014	19,382	175,972
Interest	35,103	254	41	35,398
Meals	36,495	21,925	25,340	83,760
Occupancy	343,110	36,696	27,693	407,499
Office	32,331	22,793	139,795	194,919
Payroll taxes	246,285	54,254	84,927	385,466
Printing	37,926	2,521	364,320	404,767
Professional fees	37,628	140,847	372,218	550,693
Program materials	230,723	59	111	230,893
Repairs and maintenance	116,967	5,978	4,443	127,388
Rent	58,881	17,752	527	77,160
Salaries	2,859,605	629,935	986,086	4,475,626
Supplies	27,803	4,010	9,992	41,805
Travel	54,980	10,963	10,629	76,572
Vehicle expenses	391,559	1,670	-	393,229
	$ 62,403,550	$ 1,438,180	$ 2,407,549	$ 66,249,279

THREE SQUARE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CHANGE IN NET ASSETS	$ (1,790,019)	$ 9,412,581
Adjustments to reconcile change in net assets to net cash		
provided by (used in) operating activities:		
Depreciation	947,347	930,825
Donated property and equipment	-	(485,189)
Donated securities	(33,291)	(56,275)
Donated food received	(61,907,738)	(52,982,091)
Donated food distributed	63,743,073	50,981,608
Contributions restricted for investment in endowment	(2,000,000)	(2,000,000)
Change in allowance on accounts receivable	(41,826)	65,563
Change in net present value discount for pledges	(272,443)	545,147
Realized and unrealized loss on investments	4,028	14,509
(Increase) decrease in operating assets:		
Accounts receivable	(18,758)	64,309
Other receivables	23,089	25,998
Grants receivable	21,213	(815,070)
Pledges receivable	1,593,850	(7,987,686)
Prepaid expenses	(9,182)	(25,877)
Prepaid expenses related to solar panels	48,195	48,102
Inventory	(60,096)	118,478
Increase (decrease) in operating liabilities:		
Accounts payable	(165,668)	46,400
Accrued expenses	68,113	39,083
Income tax payable	114,506	-
Refundable Advance	21,521	(58,256)
Net cash provided by (used in) operating activities	$ 285,914	$ (2,117,841)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(307,820)	(109,310)
Sales of investments	6,047,456	2,929,076
Purchases of investments	(8,166,644)	(4,110,443)
Net cash used in investing activities	(2,427,008)	(1,290,677)

THREE SQUARE
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from contributions restricted for:				
Investment in endowment		2,000,000		2,000,000
Other financing activities:				
Payments of capital lease obligations		(90,546)		(84,954)
Proceeds from long-term debt		276,563		-
Payments of long-term debt		(15,367)		-
Net cash provided by financing activities		2,170,650		1,915,046
INCREASE (DECREASE) IN CASH		29,556		(1,493,472)
BEGINNING CASH AND CASH EQUIVALENTS		1,230,776		2,724,248
ENDING CASH AND CASH EQUIVALENTS	$	1,260,332	$	1,230,776
SUPPLEMENTAL DISCLOSURES				
Capital assets acquired through incurring long-term debt	$	276,253	$	-
Interest paid and expensed	$	33,583	$	35,398
Assets acquired through capital leases	$	-	$	117,930
SUMMARY OF CASH ACCOUNTS				
Cash and cash equivalents	$	153,681	$	247,632
Cash and cash equivalents, restricted		1,106,651		983,144
	$	1,260,332	$	1,230,776

See notes to financial statements

THREE SQUARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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. Refer to Note 2 for discussion of significant estimates.

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 Services

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, 2015, contributed services of $10,282 were used to benefit the Organization. Waste management, photography, engineering, and advertising service expenses of $3,398, $800, $1,200 and $4,884, respectively, were included in the program, management and general, and fundraising functions.

For the year ended June 30, 2016, contributed services of $5,665 were used to benefit the Organization. Waste management and video production service expenses of $3,337 and $2,328, respectively, were included in the program, management and general, and fundraising functions.

Accounts Receivable

The accounts receivable balance consists primarily of nominal 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 $35,251 and $77,077 as of June 30, 2016 and 2015, 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 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.

During the year ended June 30. 2016, the Organization had unrelated business activity to include catering services resulting in income tax expense and liability.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

The Organization capitalizes expenditures for property and equipment in excess of $5,000 and with a useful life of greater than one year. Property 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.

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.

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 $1.67 and $1.70 provided by Feeding America, a national food bank network, for the years ended June 30, 2016 and 2015, respectively. Purchased inventory is valued on the first-in, first-out method. The breakdown of the inventory as of June 30,:

	2016	2015
Purchased inventory	$ 941,577	$ 800,699
Donated inventory	2,661,543	4,577,660
Total inventory	$ 3,603,120	$ 5,378,359

Due to the change in the Feeding America per-pound rate noted above, for the years ending June 30, 2016 and 2015, inventory adjustments of $80,782 and $30,319, respectively, were recognized which resulted in a decrease to the ending inventory balances and a decrease to in-kind food revenues.

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation.

Subsequent Events

Subsequent events have been evaluated through October 17, 2016, which is the date the financial statements were available to be issued.

NOTE 2. ESTIMATES

The Organization receives significant amounts of donated food which are recognized as in-kind revenues and inventory disbursed. The valuation of these in-kind food donations are a significant estimate. The amount recorded as revenue and expense is determined using the estimated weights of sourced food multiplied by the Feeding America per-pound valuation which was $1.67 per pound for 2016.

The Organization also uses estimates to allocate expenses by function. The Organization's estimate of the functional expense allocation is based upon salary and square footage allocations. The salary allocation is determined based on how much time each employee spends working in each function. The square footage allocation is based on how much space each department occupies related to each 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, 2016 and 2015, advertising costs totaled $197,167 and $196,828, respectively.

NOTE 4. PLEDGES RECEIVABLE

The pledges receivable balance consists of unrestricted and restricted pledges. Pledges receivable to be received after one year were discounted based on the year promised at a rate of 5%. All pledges were deemed fully collectible for the years ended June 30, 2016 and 2015.

Pledges receivable consist of the following as of June 30,:

	2016	2015
Time restricted (no purpose restriction)	$ 168,486	$ 294,336
Childhood nutrition	750,000	218,000
Operations endowment	6,000,000	8,000,000
Total	$ 6,918,486	$ 8,512,336

	2016	2015
Receivable in less than one year	$ 2,918,486	$ 2,509,866
Receivable in one to five years	4,000,000	6,002,470
	6,918,486	8,512,336
Less: unamortized discount	(281,179)	(553,622)
	6,637,307	7,958,714
Current portion	(2,918,486)	(2,509,866)
Long-term portion	$ 3,718,821	$ 5,448,848

NOTE 5. INVESTMENTS AND FAIR VALUE

In accordance with the FASB ASC 820-10, the following are quantitative disclosures about the fair value measurements of assets. Fair value measurements are categorized on three levels:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities, which are traded by dealers and brokers in active markets. Valuations obtained from readily available pricing

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities

NOTE 5. INVESTMENTS AND FAIR VALUE (CONTINUED)

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker traded transactions. Level 3 valuations incorporate certain unobservable assumptions and projections in determining the fair value assigned to such assets and liabilities.

For the fiscal years ended June 30, 2016 and 2015, the application of valuation techniques applied to similar assets and liabilities has been consistent. Investments measured at fair value on a recurring basis at June 30, 2016 and 2015 are summarized as follows:

	Level 1	June 30, 2016
Corporate bonds	$ 287,997	$ 287,997
Marketable securities	5,053,081	5,053,081
Mutual funds		
Equity	413,082	413,082
Fixed income	710,351	710,351
Alternate investments	1,187,587	1,187,587
Property trust	237,463	237,463
Government and agency securities	471,965	471,965
	$ 8,361,526	$ 8,361,526

	Level 1	June 30, 2015
Corporate bonds	$ 162,386	$ 162,386
Marketable securities	2,908,783	2,908,783
Mutual funds		
Blended	2,864,958	2,864,958
Government and agency securities	276,948	276,948
	$ 6,213,075	$ 6,213,075

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

	2016	2015
Interest and dividends	$ 183,594	$ 164,273
Realized gain	47,768	324,067
Unrealized gain (loss)	(51,796)	(338,576)
Total investment return	$ 179,566	$ 149,764

Fees related to the investment accounts totaled $48,346 and $60,426 for the years ended June 30, 2016 and 2015, respectively.

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30,:

	2016	2015
Building and building improvements	$ 17,859,989	$ 17,859,989
Land	1,103,252	1,103,252
Computer equipment and software	975,886	1,180,833
Vehicles	2,529,384	2,252,821
Furniture and equipment	1,395,504	1,364,246
Website design	25,364	25,364
Total property and equipment	23,889,379	23,786,505
Less: accumulated depreciation	(7,163,919)	(6,421,518)
	$ 16,725,460	$ 17,364,987

NOTE 7. 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 8. RESTRICTED NET ASSETS

Clark County donated a building to the Organization on 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 years. The original restrictions were assigned to the building as of December 2002 to be fully released in December 2032. The temporarily restricted net assets include the restricted donation of $4,900,000 with an equal portion released each year.

Temporarily restricted assets at June 30, 2016 and 2015 were held as follows:

	2016	2015
Cash	$ 1,106,651	$ 983,144
Investments	6,361,526	4,213,075
Pledges receivable, net	6,637,307	7,958,714
Building	3,223,256	3,418,605
Total	$ 17,328,740	$ 16,573,538

NOTE 8. RESTRICTED NET ASSETS (CONTINUED)

The temporarily restricted assets at June 30, 2016 and 2015 were as follows:

	2016	2015
Building and land	$ 3,223,256	$ 3,418,605
Agency capacity enhancement grants	249,547	255,072
School pantries	1,341,228	821,642
Senior Share and nutrition programs	300,045	514,970
Transportation	59,633	-
Donald W. Reynolds building maintenance	1,517,724	1,604,535
Operations endowment	4,000,000	2,000,000
Pledges receivable, net (time restricted)	6,637,307	7,958,714
Total	$ 17,328,740	$ 16,573,538

As of June 30, 2016 and 2015, the Organization held $2,000,000 in permanently restricted net assets (see Note 13). These net assets were held in investments.

NOTE 9. CONCENTRATIONS

The Organization maintains cash balances in one banking institution located in Nevada. The non-interest bearing and interest-bearing cash held by the banking institution is insured up to the Federal Deposit Insurance Corporation ("FDIC") insurance limit of $250,000. As of June 30, 2016, the total uninsured cash balance in these accounts was $1,073,647.

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, 2016, all balances were insured.

During the years ended June 30, 2016 and 2015, one outstanding pledge totaling $8,000,000 and $6,000,000 represented 94% and 87% of the outstanding net pledges receivable balance, respectively.

For the years ended June 30, 2016 and 2015, the Organization recognized contributions of food of $61,826,956 and $53,900,475, respectively. For both years, this represented nearly 100% of in-kind contributions. Of these amounts, approximately 37% and 38% of the amounts recognized, respectively, were contributed by two sources. As of June 30, 2016 and 2015, these amounts represented 78% and 70%, respectively, of total revenues.

During the year ended June 30, 2016, 18% of donated food consisted of bottled water.

NOTE 10. CAPITAL LEASES

The Organization leases assets and equipment under long-term lease agreements that are classified as capital leases. Amortization related to these assets is included in depreciation expense. Assets under capital lease obligations include vehicles and property and equipment as of June 30,:

	2016	2015
Furniture and equipment	$ 59,250	$ 59,250
Vehicles	616,769	616,769
Less: accumulated amortization	(244,296)	(143,989)
Total assets under capital lease obligations	$ 431,723	$ 532,030

Future net minimum rental payments, which are required under the capital leases for the year ending June 30, 2016, are as follows:

2017	$ 127,889
2018	127,889
2019	115,990
2020	94,710
2021	74,522
Thereafter	5,534
Total minimum lease payments	546,534
Total executory costs	(14,000)
Less: amount representing interest	(70,625)
Total	$ 461,909
Current obligations under capital lease	$ 95,995
Long-term obligations under capital lease	365,914
Total obligations under capital lease	$ 461,909

NOTE 11. PRIOR PERIOD RECLASSIFICATION

During the year ended June 30, 2016, adjustments were discovered that needed to be made to the beginning temporarily restricted net asset balances for school pantries, as follows:

June 30, 2015, temporarily restricted net assets, originally stated	$ 16,735,436
School pantries	(161,898)
June 30, 2015, temporarily restricted net assets, restated	$ 16,573,538

NOTE 12. LONG-TERM DEBT

During the year ended June 30, 2016, the Organization entered into notes payable for five vehicles. All notes payable carry a term of sixty months and interest rates range from 2.75% to 3.29%. The cost of the vehicles range from $54,604 to $57,900.

Long-term debt consists of the following at June 30,:

	2016	2015
2015 Ford Transit 250	$ 46,937	$ -
2015 Ford Transit 350	47,130	-
2016 Ford Transit 350	57,900	-
2016 Ford Transit 350	56,900	-
2015 Ford Transit 350	52,329	-
Total long-term debt	261,196	-
Less: current maturities	(52,363)	-
	$ 208,833	$ -

Future principal payments required under the long-term debt as of June 30, 2016 are as follows:

2017	$ 52,363
2018	54,017
2019	55,725
2020	57,486
2021	41,605
	$ 261,196

NOTE 13. ENDOWMENTS

Endowment funds include permanently and temporarily restricted donor funds, as detailed in Note 8, and Board-designated funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed and Board-imposed restrictions.

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

	2016	2015
Investments	$ 6,100,244	$ 4,242,625

NOTE 13. ENDOWMENTS (CONTINUED)

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.

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

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 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.

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, 2016 or 2015.

NOTE 13. ENDOWMENTS (CONTINUED)

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 6%. Actual returns in any given year may vary from this amount.

Endowment net asset composition by type of fund as of June 30, 2016:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment fund	$ 100,244	$ 4,000,000	$ 2,000,000	$ 6,100,244

Changes in endowment net assets for the year ended June 30, 2016:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 242,625	$ 2,000,000	$ 2,000,000	$ 4,242,625
Investment return:				
Investment income	-	125,568	-	125,568
Net appreciation (realized and unrealized)	-	8,730	-	8,730
Total investment return	-	134,298	-	134,298
Investment fees	-	(34,054)	-	(34,054)
Contributions – Donor	-	2,000,000	-	2,000,000
Reclassification of board designated funds to operations	(242,625)	-	-	(242,625)
Appropriations	100,244	(100,244)	-	-
Endowment net assets, end of year	$ 100,244	$ 4,000,000	$ 2,000,000	$ 6,100,244

NOTE 13. ENDOWMENTS (CONTINUED)

Endowment net asset composition by type of fund as of June 30, 2015:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment fund	$ 242,625	$ 2,000,000	$ 2,000,000	$ 4,242,625

Changes in endowment net assets for the year ended June 30, 2015:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 527,484	$ -	$ 2,000,000	$ 2,527,484
Investment return:				
Investment income	-	85,131	-	85,131
Net depreciation (realized and unrealized)	-	(334,950)	-	(334,950)
Total investment return	-	(249,819)	-	(249,819)
Investment fees	-	(35,040)	-	(35,040)
Contributions – Donor	-	2,000,000	-	2,000,000
Contributions – Board	(284,859)	284,859	-	-
Endowment net assets, end of year	$ 242,625	$ 2,000,000	$ 2,000,000	$ 4,242,625

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.

NOTE 14. COMMITMENTS

In August 2009, the Organization entered into a revolving line of credit for $1,000,000. At June 30, 2016 this line of credit had an extended maturity date of April 1, 2017. 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, 2016 and 2015 the prime rate was 3.25%. The balance associated with this line of credit at June 30, 2016 and 2015 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, 2016 and 2015, the LIBOR rate was 0.12360% and 0.15520%, respectively. The loan management account is collateralized by the Organization's investments held with this investment broker. The balance associated with this loan at June 30, 2016 and 2015 was $0.

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 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, 2016 and 2015, 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, 2016 and 2015, the prepaid solar energy asset balance was $322,506 and $370,608, respectively, which represents the $500,000 original prepaid asset, reduced by the amount of solar energy produced and used by the Organization of $48,102 and $48,712, respectively.

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, 2016, 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 October 17, 2016.

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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

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*.

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, P.C.

Las Vegas, Nevada
October 17, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the 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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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; the audit requirements of Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 for the year ended June 30, 2016.

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 the Uniform Guidance, 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.

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.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002, that we consider to be signifincant deficiencies.

Three Square's response to the internal control over compliance findings 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 compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Houldsworth, Russo & Company, P.C.

Las Vegas, Nevada
October 17, 2016

THREE SQUARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Grantor Agency	Program Title	Number	Expenditures
Passed through the Nevada Department of Health and Human Services:			
U.S. Department of Agriculture	Supplemental Nutrition Assistance Program - Outreach	10.561	$ 256,025
U.S. Department of Agriculture	Supplemental Nutrition Assistance Program - Education	10.561	27,685
			283,710
Passed through the Nevada Department of Agriculture:			
U.S. Department of Agriculture	Summer Food Service Program	10.559	779,073
U.S. Department of Agriculture	Child and Adult Care Food Program	10.558	3,690,257
			4,469,330
U.S. Department of Agriculture Total			4,753,040
Passed through the Nevada Department of Health and Human Services:			
U.S. Department of Health and Human Services	Low Income Home Energy Assistance Program	93.568	8,040
Passed through National Council on Aging:			
U.S. Department of Health and Human Services	Medicare Enrollment Assistance Program	93.071	45,000
Passed through State of Nevada Silver State Exchange:			
U.S. Department of Health and Human Services	Navigator Program	93.071	28,000
U.S. Department of Health and Human Services Total			81,040
Passed through Share Our Strength:			
Corporation for National and Community Service	No Kid Hungry Social Innovation Fund	94.024	230,454
Passed through City of Las Vegas:			
U.S. Department of Housing and Urban Development	Community Development Block Grant - Senior Share	14.218	50,000
			$ 5,114,534

See notes to financial statements

THREE SQUARE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes federal award activity of Three Square under programs of the federal government for the year ended June 30, 2016. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because this schedule only presents a selected portion of the operations of Three Square, it is not intended to and does not present the financial position, changes in net assets, functional expenses, or cash flows of Three Square.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The schedule of expenditures of federal awards is prepared on the accrual basis of accounting. For the Corporation for National and Community Service No Kid Hungry Social Innovation Fund grant, through March 2016, expenditures were recognized following the cost principles contained in the OMB Circular A-122, "*Cost Principles for Non-Profit Organizations*," wherein certain types of expenditures are not allowable or are limited as to reimbursement. Subsequent to this date, cost principles are recognized following the cost principles contained in the Uniform Guidance.

For the U.S. Department of Agriculture Children and Adult Care Food Program, cost principles are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowed or are limited as to reimbursement. Three Square has been allowed to charge reasonable administrative and overhead charges, as allowable per the specific grant agreements and, therefore, elected not to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance through March 2016. Subsequent to this date, Three Square elected to use the 10% de minimis rate.

NOTE 3. 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.

THREE SQUARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

2. No instances of significant deficiencies or material weaknesses 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. Two instances of significant deficiencies and no instances of material weaknesses related to the audit of major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.

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

6. Audit findings required to be reported in accordance with 2 CFR 200.516 (a) are included in this schedule.

7. The programs tested as major programs were the U.S. Department of Agriculture Child and Adult Care Food Program, CFDA #10.558, and Corporation for National and Community Service No Kid Hungry Social Innovation Fund, CFDA #94.024.

8. The threshold used for distinguishing between Type A and Type B programs was $750,000.

9. Three Square does not qualify as a low-risk auditee.

FINDINGS AND QUESTIONED COSTS – FINANCIAL STATEMENT AUDIT

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2016-001 Schedule of Expenditures of Federal Awards Incomplete – All Major Programs

Criteria: In accordance with 2 CFR 200.510, the auditee must prepare a schedule of expenditures of federal awards which must include the total federal awards expended.

Condition: National Council on Aging Medicare Enrollment Assistance, CFDA #93.071, expenditures were omitted from the schedule of expenditures of federal awards.

THREE SQUARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2016-001 Schedule of Expenditures of Federal Awards Incomplete – All Major Programs (Continued)

Context: Management failed to identify National Council on Aging Medicare Enrollment Assistance, CFDA #93.071, expenditures as expended from federal awards and, therefore, these expenditures were not included on the schedule of expenditures of federal awards.

Effect: Improper recognition of federal expenditures could result in an improper determination relating to the necessity of a Single Audit and/or a major program determination.

Cause: The design and implementation of internal controls over the recognition of the expenditures of federal awards was not effective.

Recommendation: We recommend that management design a system whereby all federal expenditures are tracked and included on the schedule of expenditures of federal awards.

Views of Responsible Officials and Corrective Actions: The prior National Council on Aging grant was not federal funds. Staff failed to recognize that a change had occurred. All grant sources will be verified at inception going forward, and the source will be documented.

2016-002 Internal Controls Systems Over Allowable Costs – U.S. Department of Agriculture Child and Adult Care Food Program, CFDA #10.558

Criteria: As defined in 2 CFR 200.62, an auditee is required to maintain a system of internal control over compliance designed to provide reasonable assurance that the objectives of the federal award program are met in accordance with applicable cost principles.

Condition: Of the 60 site days selected, two site days reflected differences in the number of meals served per the CACFP Vended Meals/Snacks Accounting Worksheet when compared to the Claim for Reimbursement Single Site Worksheet.

Context: Management failed to identify an improper number of meals being submitted for reimbursement.

Effect: The variances resulted in an improper number of meals being submitted for reimbursement.

Cause: The design and implementation of internal controls over the review of allowable costs was not effective.

Recommendation: We recommend that management design a system whereby the number of meals served per the CACFP Vended Meals/Snacks Accounting Worksheet is compared and agreed to the total meals submitted for reimbursement.

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

2016-002 Internal Controls Systems Over Allowable Costs – U.S. Department of Agriculture Child and Adult Care Food Program, CFDA #10.558 (Continued)

Views of Responsible Officials and Corrective Actions: Management has increased the training of site coordinators, has implemented a monthly random internal audit sample, and has increased the personnel that verify the accuracy of the numbers. Various automated methods are currently being evaluated to reduce human error.

THREE SQUARE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

None

PRIOR YEAR FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None