THREE SQUARE

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

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 2016-17 fiscal year continued to build the momentum and resolve of Three Square's unwavering march towards a hunger-free community.

Most breathtaking about this year was the unprecedented level of partnerships between the State of Nevada, nonprofit providers, and community and corporate leaders from every sector.

- 36 million meals (44 million pounds of food) shared through 1,600 community partners
- Over 13 million pounds of food rescued from 216 retail partners
- A record 32,000 volunteers donated 147,000 hours to alleviate hunger
- Because of them, 2.1 million meals for children were shared out of our kitchen
- Advocacy efforts captured a previously unnoticed waiver for our State that will bring $57,500,000 in federal benefits back to our state in 2018 for SNAP recipients

The collective will of Southern Nevadans to solve the problem of hunger is producing results. The magnitude of hunger decreased in this fiscal year from one out of **six** to one out of **seven** people being food insecure. Still high, but moving downward.

As you peruse this financial picture of Three Square's health, please consider the extraordinary benefits that accrued to our community's health when people access good nutrition: children develop normally and excel in school; parents are more productive in their work and roles; seniors and veterans access food with dignity; healthcare and public safety costs decline.

Like an aquifer, the tangible, real-life benefits ripple out unseen but truly are life-giving.

If you are already a part of this enterprise, thank you. If not, would you join us?
Together, we can feed everyone.

Expectantly,

Brian Burton

Brian Burton, President and CEO

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INDEPENDENT AUDITOR'S REPORT

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, 2017 and 2016, 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, 2017 and 2016, 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.

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 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express and opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2017, 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
November 9, 2017

THREE SQUARE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 140,435	$ 153,681
Cash and cash equivalents, restricted	1,417,748	1,106,651
Investments, restricted	2,855,422	2,361,526
Accounts and other receivables, net	345,490	193,306
Pledges receivable	472,370	918,486
Grants receivable	1,093,201	1,358,127
Inventory	2,150,980	3,603,120
Prepaid expenses	360,270	446,802
	8,835,916	10,141,699
OTHER ASSETS		
Investments, restricted	8,000,000	6,000,000
Pledges receivable, net of current portion and discount	3,904,762	5,718,821
Property and equipment, net	12,905,380	13,502,204
Property and equipment, net, restricted	3,027,907	3,223,256
	$ 36,673,965	$ 38,585,980
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 627,839	$ 302,001
Accrued expenses	443,631	410,598
Income taxes payable	53,758	114,506
Capital lease payable, current portion	105,242	95,995
Current maturities of long-term debt	54,013	52,363
Other liabilities	20,240	61,671
	1,304,723	1,037,134
LONG-TERM LIABILITIES		
Capital lease payable, net of current portion	314,808	365,914
Long-term debt, net of current maturities	154,934	208,833
	1,774,465	1,611,881
NET ASSETS		
Unrestricted	15,221,291	17,645,359
Temporarily restricted	17,678,209	17,328,740
Permanently restricted	2,000,000	2,000,000
	34,899,500	36,974,099
	$ 36,673,965	$ 38,585,980

THREE SQUARE
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
UNRESTRICTED NET ASSETS		
Revenue, gains and other support:		
In-kind contributions	$ 64,662,043	$ 59,615,957
Contributions and grants	11,107,293	11,250,594
Shared maintenance fees	1,527,179	1,473,908
Catering income	1,052,979	1,112,640
Investment return	829,440	79,322
Rental income	332,892	306,157
Other income	42,034	277,333
	79,553,860	74,115,911
Net assets released from restrictions	2,857,364	1,924,260
	82,411,224	76,040,171
Expenses and losses:		
Food program	80,261,658	74,036,739
Management and general	1,385,280	1,550,709
Fundraising	3,115,869	2,855,062
	84,762,807	78,442,510
Income tax expense	57,057	114,506
Bad debt expense	15,428	28,376
	84,835,292	78,585,392
CHANGE IN UNRESTRICTED NET ASSETS	(2,424,068)	(2,545,221)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions and grants	2,772,099	2,579,218
Investment return	434,734	100,244
Net assets released from restrictions	(2,857,364)	(1,924,260)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	349,469	755,202
INCREASE (DECREASE) IN NET ASSETS	(2,074,599)	(1,790,019)
NET ASSETS, BEGINNING OF YEAR	36,974,099	38,764,118
NET ASSETS, END OF YEAR	$ 34,899,500	$ 36,974,099

See notes to financial statements

THREE SQUARE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Food program	Management & general	Fundraising	Total
Inventory disbursed	$ 72,825,038	$ 814	$ 651,236	$ 73,477,088
Salaries, taxes and benefits	4,702,131	928,718	1,293,131	6,923,980
Depreciation	772,227	33,212	80,683	886,122
Professional fees	56,302	154,744	182,803	393,849
Occupancy	356,674	18,734	39,771	415,179
Vehicle expenses	415,605	-	10,009	425,614
Printing	30,997	1,034	313,998	346,029
Program materials	252,041	70	14,429	266,540
Advertising	109,724	-	255,199	364,923
Repairs and maintenance	199,562	6,266	14,864	220,692
Insurance	161,010	12,972	22,467	196,449
Office	28,353	27,637	150,347	206,337
Supplies	51,469	5,189	8,727	65,385
Rent	139,073	1,661	20,277	161,011
Computer support	24,019	23,242	30,444	77,705
Bank service charges	-	117,766	-	117,766
Travel	50,497	7,286	8,120	65,903
Meals	8,085	14,065	8,270	30,420
Dues and subscriptions	14,503	28,263	2,608	45,374
Interest	32,528	330	805	33,663
Conferences	5,001	3,055	6,959	15,015
Employee costs	22,037	222	722	22,981
Grants	4,782	-	-	4,782
	$ 80,261,658	$ 1,385,280	$ 3,115,869	$ 84,762,807

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

	Food program	Management and general	Fundraising	Total
Inventory disbursed	$ 67,448,973	$ -	$ 662,646	$ 68,111,619
Salaries, taxes and benefits	3,830,386	907,613	1,357,457	6,095,456
Depreciation	824,440	67,950	54,957	947,347
Professional fees	52,707	250,278	187,635	490,620
Occupancy	356,079	33,703	27,139	416,921
Vehicle expenses	359,451	-	9,936	369,387
Printing	59,854	8,740	220,569	289,163
Program materials	262,606	14,687	8,396	285,689
Advertising	47,519	1,600	148,048	197,167
Repairs and maintenance	160,013	9,964	7,934	177,911
Insurance	141,568	15,416	17,758	174,742
Office	56,273	26,913	85,662	168,848
Supplies	139,129	5,173	13,310	157,612
Rent	100,325	18,292	481	119,098
Computer support	32,406	37,419	20,343	90,168
Bank service charges	-	78,515	-	78,515
Travel	53,980	10,870	8,592	73,442
Meals	24,594	31,158	12,309	68,061
Dues and subscriptions	14,440	24,033	1,830	40,303
Interest	33,512	39	32	33,583
Conferences	11,773	7,360	9,450	28,583
Employee costs	16,679	986	578	18,243
Grants	10,032	-	-	10,032
	$ 74,036,739	$ 1,550,709	$ 2,855,062	$ 78,442,510

THREE SQUARE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (2,074,599)	$ (1,790,019)
Adjustments to reconcile change in net assets to net cash:		
Depreciation	886,122	947,347
Donated securities	(35,438)	(33,291)
Donated food received	(66,956,081)	(61,907,738)
Donated food distributed	68,237,592	63,743,073
Contributions restricted for investment in endowment	(2,000,000)	(2,000,000)
Change in allowance on accounts receivable	15,428	(41,826)
Change in net present value discount for pledges	(185,941)	(272,443)
Realized and unrealized (gain)/loss on investments	(1,038,003)	4,028
(Gain)/loss on disposal of assets	(2,577)	-
Changes in operating assets and liabilities:		
Accounts and other receivable	(167,613)	4,331
Grants receivable	264,925	21,213
Pledges receivable	2,446,116	1,593,850
Prepaid expenses	86,532	39,013
Inventory	170,629	(60,096)
Accounts payable	325,838	(165,668)
Accrued expenses and other	(69,146)	204,140
Net cash provided by (used in) operating activities	(96,216)	285,914
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(36,750)	(307,820)
Sales of investments	3,752,415	6,047,456
Purchases of investments	(5,172,869)	(8,166,644)
Net cash used in investing activities	(1,457,204)	(2,427,008)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for:		
Investments in endowments	2,000,000	2,000,000
Payments of capital lease obligations	(96,481)	(90,546)
Proceeds from long-term debt	-	276,563
Payments of long-term debt	(52,248)	(15,367)
Net cash provided by financing activities	1,851,271	2,170,650
INCREASE IN CASH	297,851	29,556
CASH, BEGINNING OF YEAR	1,260,332	1,230,776
CASH, END OF YEAR	$ 1,558,183	$ 1,260,332
SUPPLEMENTAL DISCLOSURES		
Capital assets acquired through long-term debt	$ 79,770	$ 276,253
Cash paid for interest	$ 33,342	$ 33,583
Cash paid for income taxes	$ 114,506	$ -
SUMMARY OF CASH ACCOUNTS		
Cash and cash equivalents	$ 140,435	$ 153,681
Cash and cash equivalents, restricted	1,417,748	1,106,651
	$ 1,558,183	$ 1,260,332

See notes to financial statements

THREE SQUARE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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. Our mission is to provide wholesome food to hungry people, while working to end hunger in Southern Nevada. We procure food from individuals, manufacturers, food distributors and grocery stores and then distribute food to other nonprofit agencies feeding those in need; provide food to school children on the weekends, during the evening and over the summer through various programs; and provide other services for the purpose of ending hunger in Southern Nevada. We are 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 accompanying financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation and Reclassifications

Our financial statements are presented in accordance with the Financial Accounting Standards Board ("FASB") Codification. Under the FASB Codification, we are required to report information regarding our financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect certain reported amounts and disclosures, some of which may need revision in future periods. Actual results may differ from those estimates. Refer to Note 2 for discussion of significant estimates.

Income Tax Status

We are a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and are 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 years ended June 30, 2017 and 2016, we had unrelated business income from catering services, resulting in income tax expense and liability.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents are highly-liquid investments with an initial maturity of three months and are stated at the lower of cost or market value.

Accounts Receivable

Accounts receivable consists primarily of nominal fees charged to agencies for food and non-food items distributed. Management reviews accounts receivable balances to determine if an allowance for doubtful accounts is necessary. The allowance for uncollectible receivables was $43,412 and $35,251 as of June 30, 2017 and 2016, respectively. No interest income is recognized or charged on accounts receivable.

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 $1.73 and $1.67 at June 30, 2017 and 2016, respectively, provided by Feeding America, a national food bank network. Purchased inventory is valued using the first-in, first-out and weighted average methods.

	As of June 30,	
	2017	2016
Purchased inventory	$ 770,949	$ 941,577
Donated inventory	1,380,031	2,661,543
Total inventory	$ 2,150,980	$ 3,603,120

Long-Lived Assets

We report 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, we report expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable from estimated future undiscounted cash flows expected to result from the asset's use and eventual disposition. If the undiscounted cash flows exceed the carrying amount, no impairment is indicated. If the undiscounted cash flows do not exceed the carrying amount, an impairment charge is recorded based upon the fair value of the asset.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

We capitalize 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.

Revenue Recognition

Contributions are recognized as revenue when they are received or unconditionally pledged at their estimated net realizable value. Contributions 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Expenses

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 Three Square.

We expense advertising costs as incurred. During the years ended June 30, 2017 and 2016, advertising costs totaled $364,923 and $197,167, respectively.

Donated Services

Donated services are recognized as contributions in accordance with the FASB Codification, 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 Three Square.

Subsequent Events

Subsequent events have been evaluated through November 9, 2017, which is the date the financial statements were available to be issued.

NOTE 2. ESTIMATES

We receive significant amounts of donated food which is recognized as in-kind revenue and inventory disbursed. The valuation of these in-kind food donations is 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 $1.73 and $1.67 per pound for June 30, 2017 and 2016, respectively.

We also use estimates to allocate expenses by function. Our 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. 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, 2017 and 2016.

	As of June 30,	
	2017	2016
Time restricted (no purpose restriction)	$ 329,870	$ 168,486
Childhood nutrition	142,500	750,000
Operations endowment	4,000,000	6,000,000
Total pledges receivable	$ 4,472,370	$ 6,918,486
Receivable in less than one year	$ 2,472,370	$ 2,918,486
Receivable in one to five years	2,000,000	4,000,000
	4,472,370	6,918,486
Less: unamortized discount	(95,238)	(281,179)
	4,377,132	6,637,307
Less: current portion	(472,370)	(918,486)
Long-term portion	$ 3,904,762	$ 5,718,821

NOTE 4. INVESTMENTS AND FAIR VALUE

Fair value is identified as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and is measured according to a hierarchy that includes: “Level 1” inputs, such as quoted prices in an active market for identical assets or liabilities; “Level 2” inputs, which are observable inputs for similar assets; or “Level 3” inputs, which are unobservable inputs.

THREE SQUARE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016

NOTE 4. INVESTMENTS AND FAIR VALUE (CONTINUED)

For the fiscal years ended June 30, 2017 and 2016, 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, 2017 and 2016 are summarized as follows.

	Level 1	June 30, 2017
Corporate bonds	$ 1,159,251	$ 1,159,251
Marketable securities	6,459,743	6,459,743
Mutual funds		
Equity	144,431	144,431
Fixed income	1,353,141	1,353,141
Alternate investments	1,738,856	1,738,856
Total investments	$ 10,855,422	$ 10,855,422

	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
Total investments	$ 8,361,526	$ 8,361,526

Total investment return consists of the following.

	For the years ended June 30,	
	2017	2016
Interest and dividends	$ 226,170	$ 183,594
Realized gain	432,944	47,768
Unrealized gain/(loss)	605,060	(51,796)
Total investment return	$ 1,264,174	$ 179,566

Fees related to the investment accounts totaled $77,235 and $48,346 for the years ended June 30, 2017 and 2016, respectively.

THREE SQUARE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2017 AND 2016

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following.

	As of June 30,	
	2017	2016
Building and building improvements	$ 17,859,989	$ 17,859,989
Vehicles	2,566,134	2,529,384
Furniture and equipment	1,416,024	1,395,504
Land	1,103,252	1,103,252
Computer equipment and software	975,886	975,886
Website design	25,364	25,364
Total property and equipment	23,946,649	23,889,379
Less: accumulated depreciation	(8,013,362)	(7,163,919)
Total property and equipment, net	$ 15,933,287	$ 16,725,460

NOTE 6. CAPITAL LEASES

We lease 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 the following.

	As of June 30,	
	2017	2016
Furniture and equipment	$ 79,770	$ 59,250
Vehicles	616,769	616,769
Less: accumulated amortization	(311,425)	(244,296)
Total net assets under capital lease obligations	$ 385,114	$ 431,723

Future minimum lease payments under these capital leases are as follows:

Fiscal year ending June 30,	
2018	$ 125,393
2019	125,393
2020	110,063
2021	89,874
2022	14,490
	465,213
Less: amount representing interest	(45,163)
Less: current portion	(105,242)
Long-term capital lease obligations	$ 314,808

NOTE 7. LONG-TERM DEBT

Long-term debt consists of notes payable on five vehicles. All notes payable originated during the year ended June 30, 2016 and have a term of sixty months and interest rates ranging from 2.75% to 3.29%.

	As of June 30, 2017	As of June 30, 2016
Vehicles	276,563	276,563
Less: accumulated depreciation	(57,037)	(7,296)
Total net assets under notes payable	$ 219,526	$ 269,267

Future minimum principal payments under these notes payable are as follows:

Fiscal year ending June 30,	
2018	$ 59,821
2019	59,821
2020	59,821
2021	42,212
	221,675
Less: amount representing interest	(12,728)
Less: current portion	(54,013)
Long-term debt	$ 154,934

NOTE 8. RESTRICTED NET ASSETS

Clark County donated a building to Three Square 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. The restrictions originally attached to the building were also transferred to Three Square. Under these restrictions, we must operate as a food bank warehouse or, subject to approval by Clark 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 are held in the following assets:

	As of June 30, 2017	As of June 30, 2016
Cash	$ 1,417,748	$ 1,106,651
Investments	8,855,422	6,361,526
Pledges receivable, net	4,377,132	6,637,307
Building	3,027,907	3,223,256
Total	$ 17,678,209	$ 17,328,740

NOTE 8. RESTRICTED NET ASSETS (CONTINUTED)

Temporarily restricted net assets are available for the following purposes

	As of June 30,	
	2017	2016
Building and land	$ 3,027,907	$ 3,223,256
Agency capacity enhancement grants	236,249	249,547
School pantries	1,696,825	1,341,228
Senior share and nutrition programs	-	300,045
Transportation	113,475	59,633
Donald W. Reynolds building maintenance	1,429,226	1,517,724
Food recovery programs	362,661	-
Operations endowment	6,434,734	4,000,000
Pledges receivable, net (time restricted)	4,377,132	6,637,307
Total	$ 17,678,209	$ 17,328,740

As of June 30, 2017 and 2016, we held $2,000,000 in permanently restricted net assets (see Note 10). These net assets were held in investments.

NOTE 9. SHARED MAINTENANCE

We charge fees to our nonprofit agency partners based on categories of donated products and pounds they receive, as well as for products purchased by the agencies. The charge is used to offset expenses incurred by Three Square in purchasing, handling, and storing the products. These costs are reported in the statement of functional expenses in the respective natural classes in the program function.

NOTE 10. 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. Endowment funds consist of the following assets:

	As of June 30,	
	2017	2016
Investments	$ 8,996,669	$ 6,100,244

The endowment includes only donor-restricted endowment funds and earnings. As required by the FASB Codification, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE 10. ENDOWMENTS (CONTINUED)

Interpretation of Relevant Law

The Board of Directors of Three Square 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, we classify 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 Three Square in accordance with the donor's wishes.

We consider 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

We have 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 our 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 us 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, 2017 or 2016.

NOTE 10. ENDOWMENTS (CONTINUED)

Return Objectives and Risk Parameters

We have adopted investment and spending policies for endowment assets, with a primary emphasis on capital growth. Endowment assets include those assets of donor-restricted funds that we 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. We expect our 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, 2017:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment fund	$ 561,934	$ 6,434,735	$ 2,000,000	$ 8,996,669

Changes in endowment net assets for the year ended June 30, 2017:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 100,244	$ 4,000,000	$ 2,000,000	$ 6,100,244
Investment return:				
Investment income	-	172,831	-	172,831
Net appreciation (realized and unrealized)	-	842,724	-	842.724
Total investment return	-	1,015,555	-	1,015,555
Investment fees	-	(60,820)	-	(60,820)
Contributions – Donor	-	2,000,000	-	2,000,000
Transfer of board designated funds to operations	(58,310)	-	-	(58,310)
Appropriations	520,000	(520,000)	-	-
Endowment net assets, end of year	$ 561,934	$ 6,434,735	$ 2,000,000	$ 8,996,669

NOTE 10. ENDOWMENTS (CONTINUED)

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
Transfer 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

Strategies Employed for Achieving Objectives

To satisfy our long-term rate-of-return objectives, we rely on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). We target a diversified asset allocation that places a greater emphasis on equity-based investments to achieve our long-term return objectives within prudent risk constraints.

NOTE 11. CONCENTRATIONS

We have concentrated our credit risk by maintaining deposits at one financial institution, which at most times exceeded amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The loss would represent the excess of the deposit liabilities reported by the bank over the amounts that would have been covered by the FDIC. We have not experienced any losses on our account, and do not believe we are exposed to a significant credit risk to cash.

We maintain cash balances in investment accounts held by one investment broker. The cash held is insured by the Securities Investor Protection Corporation ("SIPC") insurance. SIPC insurance covers losses due to investment fraud.

As of June 30, 2017 and 2016, one outstanding pledge represented 95% and 90%, respectively of the outstanding net pledges receivable balance.

For the years ended June 30, 2017 and 2016, nearly 100% of all in-kind contributions were contributions of food and approximately 34% and 37%, respectively, were contributed by two sources. For the years ended June 30, 2017 and 2016, in-kind food donations represented 78% and 78%, respectively, of total revenues.

NOTE 12. COMMITMENTS

In July 2011, we entered into a loan management account agreement with our 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 our collateral. This loan management account is payable upon demand at a variable interest rate of the LIBOR rate plus a 3.0% spread. The loan management account is collateralized by our investments held with this investment broker. No amount was drawn on the loan as of June 30, 2017 or 2016.

During the year ended June 30, 2012, we received a grant from NV Energy of $500,000 to install 100kW of solar panels on our property. We 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 our building, and we entered into an agreement to utilize the solar panels for 20 years. In exchange for the assigned grant monies, we 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, which 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, we will be responsible for paying for the solar energy used. We now have the option to purchase the solar panels for fair market value. If we opt to purchase the solar energy panels, the remaining prepaid solar energy asset will be returned. If we terminate the agreement before the 20 year term, the prepaid solar energy asset will be forfeited. At June 30, 2017 and 2016, the prepaid solar energy asset balance was $225,562 and $274,311, 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, 2017, 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 9, 2017.

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
November 9, 2017