THREE SQUARE

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

HOULDSWORTH
RUSSO & COMPANY
20 YEARS & COUNTING
Certified Public Accountants

HOULDSWORTH, RUSSO & COMPANY
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THREE SQUARE

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three square

together, we can feed everyone

MEMBER OF FEEDING AMERICA

Dear Friends:

The 2017-18 fiscal year marked a ten year milestone for Three Square and our mission of pursuing a hunger-free community. We would like to express a multitude of appreciation to our community partners, generous donors, hunger advocates and dedicated volunteers who have rallied behind Three Square over the last decade.

- 37 million meals (45 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 144,000 hours to alleviate hunger
- Because of them, 2.3 million meals for children were shared out of our kitchen
- Three Square continued to champion a breakfast awareness campaign that helped catapult Nevada from the bottom in breakfast participation, to 7th in the U.S.

The collective will of Southern Nevadans to solve the problem of hunger continues to yield positive results. The magnitude of hunger decreased in this fiscal year from one out of **seven** to one out of **eight** people being food insecure. We are elated to see this downward trend continue.

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.

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

With gratitude,

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 financial statements of Three Square (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, 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, 2018 and 2017, 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 an opinion or provide any assurance on it.

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 12, 2018, 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 12, 2018

THREE SQUARE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,002,437	$ 140,435
Cash and cash equivalents, restricted	4,798,908	1,417,748
Investments, restricted	6,901,132	2,855,422
Accounts and other receivables, net	453,044	345,490
Pledges receivable	3,469,970	472,370
Grants receivable	1,050,110	1,093,201
Inventory	1,883,781	2,150,980
Prepaid expenses	320,374	360,270
	21,879,756	8,835,916
OTHER ASSETS		
Investments, restricted	10,000,000	8,000,000
Pledges receivable, net of current portion and discount	-	3,904,762
Property and equipment, net	12,364,108	12,905,380
Property and equipment, net, restricted	2,832,558	3,027,907
	$ 47,076,422	$ 36,673,965
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 448,232	$ 627,839
Accrued expenses	514,672	443,631
Income taxes payable	2,624	53,758
Capital lease payable, current portion	111,257	105,242
Current maturities of long-term debt	55,723	54,013
Other liabilities	23,880	20,240
	1,156,388	1,304,723
LONG-TERM LIABILITIES		
Capital lease payable, net of current portion	203,551	314,808
Long-term debt, net of current maturities	99,127	154,934
	1,459,066	1,774,465
NET ASSETS		
Unrestricted	17,614,788	15,221,291
Temporarily restricted	26,002,568	17,678,209
Permanently restricted	2,000,000	2,000,000
	45,617,356	34,899,500
	$ 47,076,422	$ 36,673,965

See notes to financial statements

THREE SQUARE
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
UNRESTRICTED NET ASSETS		
Revenue, gains and other support:		
In-kind contributions	$ 65,601,100	$ 64,662,043
Contributions and grants	15,773,369	11,107,293
Shared maintenance fees	1,722,281	1,527,179
Catering income	2,342,642	1,052,979
Investment return	738,885	829,440
Rental income	253,811	332,892
Other income	67,728	42,034
	86,499,816	79,553,860
Net assets released from restrictions	1,477,566	2,857,364
	87,977,382	82,411,224
Expenses and losses:		
Food program	79,966,988	80,261,658
Management and general	1,437,673	1,385,280
Fundraising	4,100,702	3,115,869
	85,505,363	84,762,807
Income tax expense	58,286	57,057
Bad debt expense	20,236	15,428
	85,583,885	84,835,292
CHANGE IN UNRESTRICTED NET ASSETS	2,393,497	(2,424,068)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions and grants	9,801,925	2,772,099
Investment return	-	434,734
Net assets released from restrictions	(1,477,566)	(2,857,364)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	8,324,359	349,469
INCREASE (DECREASE) IN NET ASSETS	10,717,856	(2,074,599)
NET ASSETS, BEGINNING OF YEAR	34,899,500	36,974,099
NET ASSETS, END OF YEAR	$ 45,617,356	$ 34,899,500

See notes to financial statements

THREE SQUARE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Food program	Management & general	Fundraising	Total
Inventory disbursed	$ 72,324,257	$ 1,285	$ 1,619,004	$ 73,944,546
Salaries, taxes and benefits	4,975,881	1,016,030	1,333,343	7,325,254
Depreciation	680,745	30,419	71,467	782,631
Professional fees	93,684	76,337	197,308	367,329
Occupancy	354,868	22,824	40,190	417,882
Vehicle expenses	518,394	-	-	518,394
Printing	20,435	1,241	277,037	298,713
Materials	264,589	9	21,670	286,268
Advertising	14,194	-	194,834	209,028
Repairs and maintenance	148,876	3,421	11,106	163,403
Insurance	155,497	11,056	19,227	185,780
Office	17,623	27,203	140,156	184,982
Supplies	28,006	4,574	20,562	53,142
Rent	238,793	2,081	110,381	351,255
Computer support	25,125	37,699	14,988	77,812
Bank service charges	150	152,929	1,228	154,307
Travel	41,503	6,714	8,985	57,202
Meals	4,874	10,823	10,340	26,037
Dues and subscriptions	14,431	26,262	3,128	43,821
Interest	25,847	3,997	19	29,863
Conferences	5,593	2,619	4,932	13,144
Employee costs	13,323	150	797	14,270
Grants	300	-	-	300
	$ 79,966,988	$ 1,437,673	$ 4,100,702	$ 85,505,363

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
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
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 10,717,856	$ (2,074,599)
Adjustments to reconcile change in net assets to net cash:		
Depreciation	782,631	886,122
Donated securities	(729,473)	(35,438)
Donated food received	(65,352,287)	(66,956,081)
Donated food distributed	65,429,897	68,237,592
Contributions restricted for investment in endowment	(2,000,000)	(2,000,000)
Change in allowance on accounts receivable	20,236	15,428
Change in net present value discount for pledges	(95,238)	(185,941)
Realized and unrealized (gain)/loss on investments	(390,903)	(1,038,003)
(Gain)/loss on disposal of assets	-	(2,577)
Changes in operating assets and liabilities:		
Accounts and other receivable	(127,103)	(167,613)
Grants receivable	43,091	264,925
Pledges receivable	1,001,712	2,446,116
Prepaid expenses	39,896	86,532
Inventory	189,588	170,629
Accounts payable	(179,607)	325,838
Accrued expenses and other	23,547	(69,146)
Net cash provided by (used in) operating activities	9,373,843	(96,216)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(46,009)	(36,750)
Sales of investments	3,626,749	3,752,415
Purchases of investments	(8,552,082)	(5,172,869)
Net cash used in investing activities	(4,971,342)	(1,457,204)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for:		
Investments in endowments	2,000,000	2,000,000
Payments of capital lease obligations	(105,242)	(96,481)
Proceeds from long-term debt	300,000	-
Payments of long-term debt	(354,097)	(52,248)
Net cash provided by financing activities	1,840,661	1,851,271
INCREASE IN CASH	6,243,162	297,851
CASH, BEGINNING OF YEAR	1,558,183	1,260,332
CASH, END OF YEAR	$ 7,801,345	$ 1,558,183
SUPPLEMENTAL DISCLOSURES		
Capital assets acquired through long-term debt	$ -	$ 79,770
Cash paid for interest	$ 25,874	$ 33,342
Cash paid for income taxes	$ 110,648	$ 114,506
SUMMARY OF CASH ACCOUNTS		
Cash and cash equivalents	$ 3,002,437	$ 140,435
Cash and cash equivalents, restricted	4,798,908	1,417,748
	$ 7,801,345	$ 1,558,183

See notes to financial statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Three Square (the "Organization") is a nonprofit entity organized under the laws of the State of Nevada. Our mission is to provide wholesome food to hungry people, while passionately pursuing a hunger-free community 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.

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, 2018 and 2017, 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 $49,153 and $43,412 as of June 30, 2018 and 2017, respectively. No interest income is recognized or charged on accounts receivable.

Inventory

Inventory consists of purchased and donated food and non-food items, as well as government commodities. Purchased inventory is valued using the first-in, first-out and weighted average methods. Donated inventory is recorded when received at an estimated fair value per pound provided by Feeding America, a national food bank network, which was $1.68 and $1.73 as of June 30, 2018 and 2017, respectively. Government commodities are also recorded when received at an estimated fair value per pound, provided by Feeding America, of $1.52 and $1.73 as of June 30, 2018 and 2017, respectively.

	As of June 30,	
	2018	2017
Purchased inventory	$ 581,360	$ 770,949
Donated inventory	563,049	1,374,500
Government commodity inventory	739,372	5,531
Total inventory	$ 1,883,781	$ 2,150,980

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Property and Equipment

We capitalize expenditures for property and equipment in excess of $5,000 and with a useful life 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. Investment income is recognized consistent with these policies.

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, 2018 and 2017, advertising costs totaled $209,028 and $364,923, 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Subsequent events have been evaluated through October 12, 2018, 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, expense and inventory is determined using the estimated weights of sourced food multiplied by the Feeding America per-pound composite valuation which was \$1.68 and \$1.73 per pound for June 30, 2018 and 2017, respectively. The amount recorded as revenue, expense and inventory for donated government commodities is determined using the estimated weights of sourced food multiplied by the Feeding America per pound valuation of food only which was \$1.52 and \$1.73 per pound for June 30, 2018 and 2017, 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, 2018 and 2017.

	As of June 30,	
	2018	2017
Time restricted (no purpose restriction)	$ 344,970	$ 329,870
Childhood nutrition	1,125,000	142,500
Operations endowment	2,000,000	4,000,000
Total pledges receivable	$ 3,469,970	$ 4,472,370
Receivable in less than one year	$ 3,469,970	$ 2,472,370
Receivable in one to five years	-	2,000,000
	3,469,970	4,472,370
Less: unamortized discount	-	(95,238)
	3,469,970	4,377,132
Less: current portion	(3,469,970)	(472,370)
Long-term portion	$ -	$ 3,904,762

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.

For the fiscal years ended June 30, 2018 and 2017, 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, 2018 and 2017 are summarized as follows.

	Level 1	June 30, 2018
Corporate bonds	$ 2,415,862	$ 2,415,862
Marketable securities	7,883,579	7,883,579
Mutual funds		
Equity	1,063,467	1,063,467
Fixed income	3,455,029	3,455,029
Alternate investments	2,083,195	2,083,195
Total investments	$ 16,901,132	$ 16,901,132

	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

Total investment return consists of the following.

	For the years ended June 30,	
	2018	2017
Interest and dividends	$ 347,982	$ 226,170
Realized gain	900,758	432,944
Unrealized gain/(loss)	(509,855)	605,060
Total investment return	$ 738,885	$ 1,264,174

Fees related to the investment accounts totaled $96,172 and $77,235 for the years ended June 30, 2018 and 2017, respectively.

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following.

	As of June 30, 2018	As of June 30, 2017
Building and building improvements	$ 17,859,989	$ 17,859,989
Vehicles	2,581,956	2,566,134
Furniture and equipment	1,437,009	1,416,024
Land	1,103,252	1,103,252
Computer equipment and software	921,861	975,886
Website design	25,364	25,364
Total property and equipment	23,929,431	23,946,649
Less: accumulated depreciation	(8,732,765)	(8,013,362)
Total property and equipment, net	$ 15,196,666	$ 15,933,287

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, 2018	As of June 30, 2017
Furniture and equipment	$ 79,770	$ 79,770
Vehicles	616,770	616,769
Less: accumulated amortization	(416,400)	(311,425)
Total net assets under capital lease obligations	$ 280,140	$ 385,114

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

Fiscal year ending June 30,	
2019	$ 125,393
2020	110,063
2021	89,874
2022	14,490
	339,820
Less: amount representing interest	(25,012)
Less: current portion	(111,257)
Long-term capital lease obligations	$ 203,551

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,	
	2018	2017
Vehicles	$ 276,563	$ 276,563
Less: accumulated depreciation	(112,350)	(57,037)
Total net assets under notes payable	$ 164,213	$ 219,526

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

Fiscal year ending June 30,	
2019	$ 59,821
2020	59,821
2021	42,212
	161,854
Less: amount representing interest	(7,004)
Less: current portion	(55,723)
Long-term debt	$ 99,127

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,	
	2018	2017
Cash	$ 4,798,908	$ 1,417,748
Investments	14,901,132	8,855,422
Pledges receivable, net	3,469,970	4,377,132
Building	2,832,558	3,027,907
Total	$ 26,002,568	$ 17,678,209

NOTE 8. RESTRICTED NET ASSETS (CONTINUTED)

Temporarily restricted net assets are available for the following purposes

	As of June 30, 2018	As of June 30, 2017
Building and land	$ 2,832,558	$ 3,027,907
Agency capacity enhancement grants	217,869	236,249
School pantries	2,295,758	1,696,825
Senior nutrition programs	4,481,459	-
Transportation	1,559,399	113,475
Donald W. Reynolds building maintenance	1,337,410	1,429,226
Food recovery programs	121,278	362,661
Operations endowment	8,319,286	6,434,734
Fresh food purchases	1,367,581	-
Pledges receivable, net (time restricted)	3,469,970	4,377,132
Total	$ 26,002,568	$ 17,678,209

As of June 30, 2018 and 2017, 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 designations. Endowment funds consist of the following assets:

	As of June 30, 2018	As of June 30, 2017
Investments	$ 11,119,608	$ 8,996,669

The endowment includes donor-restricted endowment funds and Board-designated 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 have 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 of Directors 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, 2018 or 2017.

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, 2018:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment fund	$ 800,321	$ 8,319,287	$ 2,000,000	$11,119,608

Changes in endowment net assets for the year ended June 30, 2018:

	Board Designated Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 561,934	$ 6,434,735	$ 2,000,000	$ 8,996,669
Investment return:				
Investment income	254,315	-	-	254,315
Net appreciation (realized and unrealized)	367,012	-	-	367,012
Total investment return	621,327	-	-	621,327
Investment fees	(76,775)	-	-	(76,775)
Contributions – Donor	-	2,000,000	-	2,000,000
Transfer of board designated funds to operations	(421,613)	-	-	(421,613)
Appropriations	115,448	(115,448)	-	-
Endowment net assets, end of year	$ 800,321	$ 8,319,287	$ 2,000,000	$11,119,608

NOTE 10. ENDOWMENTS (CONTINUED)

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

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, 2018 and 2017, one outstanding pledge represented 58% and 95%, respectively of the outstanding net pledges receivable balance.

For the years ended June 30, 2018 and 2017, nearly 100% of all in-kind contributions were contributions of food and approximately 18% and 34%, respectively, were contributed by two sources. For the years ended June 30, 2018 and 2017, in-kind food donations represented 75% 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, 2018 or 2017.

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 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, 2018 and 2017, the prepaid solar energy asset balance was $176,787 and $225,562, 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, 2018, 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 12, 2018.

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 12, 2018

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, 2018. 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; and 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, 2018.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 12, 2018

THREE SQUARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Grantor and Program Title	Federal CFDA Number	Pass Through Identifying Number	Total Federal Expenditures	Passed Through to Subrecepients
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through the Nevada Department of Agriculture:				
Child Nutrition Cluster				
Summer Food Service Program	10.559	S0298	$ 954,591	$ -
Total Child Nutrition Cluster			954,591	-
Child and Adult Care Food Program	10.558	C1353	4,328,326	-
Food Distribution Cluster				
The Emergency Food Assistance Program - Administrative Costs	10.568	D130	160,713	-
The Emergency Food Assistance Program - Food Commodities	10.569	D130	5,112,002	5,112,002
Total Food Distribution Cluster			5,272,715	5,112,002
Passed through the Nevada Department of Health and Human Services:				
SNAP Cluster				
Supplemental Nutrition Assistance Program - Outreach	10.561	OUT1811	348,025	-
Supplemental Nutrition Assistance Program - Education	10.561	ED1819	44,809	-
Total SNAP Cluster			392,834	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			10,948,466	5,112,002
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through the Nevada Department of Health and Human Services:				
Low-Income Home Energy Assistance Program	93.568	Agreement	1,450	-
Passed through National Council on Aging:				
Medicare Enrollment Assistance Program	93.071	Agreement	67,500	-
Passed through Nevada Silver State Exchange:				
State Planning and Establishment Grants for ACA Exchanges	93.525	HBEIE120129-01-09	165,211	-
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			234,161	-
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE				
Passed through Share Our Strength:				
No Kid Hungry Social Innovation Fund	94.019	Agreement	156,260	-
Passed through Nevada Volunteers:				
AmeriCorps Planning Grant	94.006	16AFHNV001	13,391	-
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			169,651	-
TOTAL FEDERAL EXPENDITURES			$ 11,352,278	$ 5,112,002

See notes to schedule of expenditures of federal awards

THREE SQUARE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

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, 2018. 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

Expenditures reported on the schedule of expenditures of federal awards are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3. INDIRECT COST RATES

Three Square has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 4. 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, 2018

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 material weaknesses or significant deficiencies related to the audit of the financial statements, which would be required to be reported in accordance with *Government Auditing Standards*, were 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. No material weaknesses or significant deficiencies 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. There are no audit findings that are required to be reported in accordance with 2 CFR 200.516 (a).

7. The programs tested as major programs were the U.S. Department of Agriculture Child Nutrition Cluster and the U.S. Department of Agriculture Food Distribution Cluster.

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

None

THREE SQUARE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

None

PRIOR YEAR FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2017-001 Internal Control Systems Over Eligibility – U.S. Department of Agriculture, The Emergency Food Assistance Program, CFDA #10.569, Passed Through the State of Nevada Department of Agriculture

Criteria: In accordance with 2 CFR 200.62 (a)(3), the auditee must maintain a system of internal control to provide reasonable assurance that federal commodities are distributed to eligible recipients in accordance with the terms and conditions outlined in the federal award.

Condition: The Agency Partner Services Agreement includes specific terms and conditions that an Agency Partner must agree to in order to be eligible to receive federal commodities. Of the 10 Agency Partner Services Agreements selected, 2 Agreements did not contain evidence indicating the Agency Partners' agreement with these terms and conditions.

Context: Agency Partners who agree to the TEFAP terms and conditions in the Agency Partner Services Agreement are authorized ("turned on") within the inventory control software to view, order, and receive federal commodities. Management did not identify and exclude the 2 Agency Partners noted above from TEFAP ordering and, as a result, these Agency Partners were improperly shown as eligible to receive federal commodities in the inventory control software.

Effect: Improper determination of eligibility could result in Agency Partners who have not agreed to the TEFAP-specific terms and conditions receiving distributions of federal commodities.

Cause: The design and implementation of internal controls over eligibility was not effective.

Recommendation: We recommend that management design a system whereby the Agency Partner Services Agreement is reviewed for Agency Partner agreement with TEFAP-specific terms and conditions prior to the Agency Partner being authorized in the inventory control system to view, order, and receive federal commodities.

Views of Responsible Officials and Planned Corrective Actions: Agency Partners are not required to accept the TEFAP Terms and Conditions as a prerequisite to work with Three Square. However, if they do not initial or indicate agreement with these conditions, they are prohibited from receiving TEFAP product, unless exceptions have been made that would allow such products to be distributed. During the audit period, Agency Partners did receive TEFAP product without having completed the appropriate documentation. This was not an oversight, but rather an understanding that an exception had been made that would have allowed such product to be distributed. To ensure this does not happen in the future, Three Square has implemented a separate TEFAP application that must be completed, and exceptions to TEFAP product delivery will not be made without express written consent from the USDA or Nevada Department of Agriculture.

Current Status: Three Square has implemented a separate TEFAP application that must be completed by Agency Partners prior to becoming approved to distribute TEFAP product. Three Square has implemented an internal policy that all TEFAP product must be delivered to approved Agency Partners, unless express written consent is received from the USDA or Nevada Department of Agriculture.

2017-002 Internal Controls Systems Over Special Tests and Provisions (Accountability for USDA Foods) – U.S. Department of Agriculture, The Emergency Food Assistance Program, CFDA #10.569, Passed Through the State of Nevada Department of Agriculture

Criteria: In accordance with 2 CFR 200.62 (c), the auditee must maintain a system of internal control to provide reasonable assurance that federal commodities are safeguarded against unauthorized disposition.

Condition: Throughout the year, the auditee received "surplus" shipments of federal commodities with limited remaining shelf life. In order to distribute federal commodities to Agency Partners who have not agreed to the TEFAP-specific terms and conditions, the auditee must obtain prior written permission from the grantor.

Context: For these "surplus" shipments with limited remaining shelf life, management did not obtain the required prior written approval as required by the terms and conditions of the federal award.

Effect: Improper distribution of federal commodities could result in a material noncompliance with the terms and conditions of the federal award.

Cause: The design and implementation of internal controls over special tests and provisions (accountability for USDA foods) was not effective.

Recommendation: We recommend that management design and implement a system whereby prior written approval is received for all "surplus" product to be distributed to Agency Partners who have not agreed to the TEFAP-specific terms and conditions.

Views of Responsible Officials and Planned Corrective Actions: The TEFAP inventory in question was received by Three Square in large quantities very close to the date of expiration. Our TEFAP Agency Partners were not able to receive this inventory before the date of expiration, and the food would be wasted. To avoid spoilage and disposal of the inventory, Three Square did distribute to agencies that were not TEFAP Agency Partners. However, we did so with the belief that we had the approval of the Nevada Department of Agriculture. A year after the event, Three Square received notification from the Nevada Department of Agriculture of a written process for approval that should be followed in such circumstances. Such process had not been communicated prior to November 2017. While we understand the necessity for this control finding, this is not reflective of our internal control environment nor our commitment to appropriately administer the commodities under our responsibility. Moving forward, no TEFAP products will be delivered to non-TEFAP Agency Partners without the express written consent of the USDA and the Nevada Department of Agriculture. Additionally, we will ensure our internal controls have the appropriate segregation of duties between those determining eligibility and those shipping inventory.

Current Status: Three Square has implemented an internal policy that all TEFAP product must be delivered to approved Agency Partners, unless express written consent is received from the USDA or Nevada Department of Agriculture. Three Square has also implemented internal controls to segregate duties between those determining eligibility and those shipping inventory.

2017-003 Compliance Over Special Tests and Provisions (Accountability for USDA Foods) - U.S. Department of Agriculture, The Emergency Food Assistance Program, CFDA #10.569 Passed Through the State of Nevada Department of Agriculture

Criteria: In accordance with 7 CFR 250.12(e), the auditee (distributing agency) may transfer federal commodities to another distributing agency, or to another program, to ensure that such commodities may be used in a timely manner and in optimal condition. Prior approval must be obtained and the auditee must maintain a record of all transfers.

Condition: During the year, the distribution of 165,660 pounds of federal commodities received were unable to be tracked to eligible recipients.

Questioned Costs: The valuation of federal commodities used by the auditee is $1.73 per pound, thereby resulting in $286,592 of known questioned costs.

Context: Throughout the year, the auditee received "surplus" shipments of federal commodities with limited remaining shelf life. Due to the nature and urgency of distribution related to these surplus shipments, management did not receive the required prior written approval as noted in 2017-002 and, therefore, federal commodities were co-mingled with other, general food inventory and distributed.

Effect: Inconsistent application of applicable federal regulations resulted in material noncompliance.

Cause: The design and implementation of internal controls over special tests and provisions (accountability for USDA foods) was not effective.

Recommendation: We recommend that management design a system whereby evidence of prior approval is obtained and maintained for federal commodities requiring distribution under 7 CFR 250.12(e).

Views of Responsible Officials and Planned Corrective Actions: The TEFAP inventory in question was received by Three Square in large quantities very close to the date of expiration. Our TEFAP Agency Partners were not able to receive this inventory before the date of expiration, and the food would be wasted. To avoid spoilage and disposal of the inventory, Three Square did distribute to agencies that were not TEFAP Agency Partners. However, we did so with the belief that we had the approval of the Nevada Department of Agriculture. A year after the event, Three Square received notification from the Nevada Department of Agriculture of a written process for approval that should be followed in such circumstances.

Such process had not been communicated prior to November 2017. While we understand the necessity for this control finding, this is not reflective of our internal control environment nor our commitment to appropriately administer the commodities under our responsibility. Moving forward, no TEFAP products will be delivered to non-TEFAP Agency Partners without the express written consent of the USDA and the Nevada Department of Agriculture. Additionally, we will ensure our internal controls have the appropriate segregation of duties between those determining eligibility and those shipping inventory.

Current Status: Three Square has implemented an internal policy that all TEFAP product must be delivered to approved Agency Partners, unless express written consent is received from the USDA or Nevada Department of Agriculture. Three Square has also implemented internal controls to segregate duties between those determining eligibility and those shipping inventory.