THREE SQUARE

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

THREE SQUARE

TABLE OF CONTENTS

three square

together, we can feed everyone

MEMBER OF FEEDING AMERICA

Dear Friends:

The 2019-20 fiscal year witnessed dramatic increases in food insecurity as a result of the COVID-19 pandemic. The economic shock to Southern Nevada reverberated across Three Square's service area as thousands of families found themselves in need of food and other kinds of support for the first time in their lives.

Last year we met Southern Nevada's meal gap. Now we face a 57% increase in food insecurity. By launching dozens of new drive-through food distribution sites around Three Square's service area, we have been able to move massive amounts of nutritious food to people who need it, where they need it. Multiple new health and safety measures have also been instituted to protect the well-being of Three Square staff, volunteers and clients.

In mid-March, the number of frantic people seeking emergency resources and referrals necessitated a tripling of Three Square's call center capacity. Childhood nutrition programs ended with school closures, prompting new outreach and modified outreach services to feed kids. Three Square's Senior Hunger Program grew rapidly as home delivered groceries and partner agencies ramped up to serve this vulnerable population.

Three Square's community partnerships have never been more critical, and appreciated, than during this crisis. Working together, we continue to evolve strategies for operational delivery as well as financial sustainability with purpose and urgency.

The way this community has rallied around Three Square's mission to provide wholesome food to hungry people has been nothing less than awe-inspiring. Thank you to everyone who has helped build, sustain and position this invaluable community asset for today and for the future. Together, we will recover and emerge from this experience stronger, more whole, humane and hopeful.

Together, we can feed everyone,

Brian Burton

Brian Burton, President and CEO

4190 N. Pecos Rd., Las Vegas, NV 89115 threesquare.org 702 644·3663 702 365·6574

INDEPENDENT AUDITOR’S REPORT

To the Board of Directors
Three Square and Subsidiary
Las Vegas, Nevada

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Three Square and Subsidiary (both nonprofit organizations) which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Three Square and Subsidiary as of June 30, 2020 and 2019, 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 consolidated 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 consolidated financial statements as a whole. The letter from the chief executive officer on page 1 and the New Markets Tax Credit Portion of Business Reporting (Note 13) are presented for purposes of additional analysis and are 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2020, 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, 2020

THREE SQUARE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 16,308,513	$ 5,591,205
Cash and cash equivalents, restricted	221,789	2,738,443
Investments, restricted	8,369,147	12,555,781
Accounts and other receivables, net	562,218	1,090,665
Pledges receivable	525,263	876,815
Grants receivable	856,184	1,002,354
Inventory	3,996,129	4,215,016
Prepaid expenses and deposits	407,342	256,380
	31,246,585	28,326,659
OTHER ASSETS		
Pledges receivable, net	1,333	-
Investments, restricted	12,000,000	12,000,000
Property and equipment, net	20,860,044	13,496,671
Property and equipment, net, restricted	2,441,861	2,637,210
	$ 66,549,823	$ 56,460,540
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 1,197,082	$ 610,798
Accrued expenses and other current liabilities	735,945	604,948
Capital lease payable, current portion	298,639	214,077
Long-term debt, current portion	1,141,548	57,487
	3,373,214	1,487,310
LONG-TERM LIABILITIES		
Capital lease payable, net of current portion	1,267,827	873,296
Long-term debt, net of current portion	2,677,082	41,581
	7,318,123	2,402,187
NET ASSETS		
Without donor restrictions	35,672,307	23,250,104
With donor restrictions	23,559,393	30,808,249
	59,231,700	54,058,353
	$ 66,549,823	$ 56,460,540

See notes to the consolidated financial statements

THREE SQUARE
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
UNRESTRICTED NET ASSETS			
Revenue, gains and other support:			
In-kind contributions	$ 86,615,855	$ -	$ 86,615,855
Contributions and grants	23,502,429	314,217	23,816,646
Shared maintenance fees	1,258,660	-	1,258,660
Catering and rental income	2,934,933	-	2,934,933
Investment return, net	927,088	362	927,450
Other income	108,555	-	108,555
	115,347,520	314,579	115,662,099
Net assets released from restrictions	7,563,435	(7,563,435)	-
	122,910,956	(7,248,857)	115,662,099
Expenses and losses:			
Food program	104,140,377	-	104,140,377
Management and general	1,385,241	-	1,385,241
Fundraising	4,941,492	-	4,941,492
	110,467,110	-	110,467,110
Bad debt expense	21,642	-	21,642
	110,488,752	-	110,488,752
INCREASE (DECREASE) IN NET ASSETS	12,422,204	(7,248,857)	5,173,347
NET ASSETS, BEGINNING OF YEAR	23,250,104	30,808,249	54,058,353
NET ASSETS, END OF YEAR	$ 35,672,307	$ 23,559,393	$ 59,231,700

THREE SQUARE
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
UNRESTRICTED NET ASSETS			
Revenue, gains and other support:			
In-kind contributions	$ 73,651,385	$ -	$ 73,651,385
Contributions and grants	14,141,809	7,794,247	21,936,056
Shared maintenance fees	1,419,474	-	1,419,474
Catering and rental income	3,271,643	-	3,271,643
Investment return, net	1,333,988	268,894	1,602,882
Other income	12,425	-	12,425
	93,830,724	8,063,141	101,893,865
Net assets released from restrictions	5,257,460	(5,257,460)	-
	99,088,184	2,805,681	101,893,865
Expenses and losses:			
Food program	87,238,158	-	87,238,158
Management and general	1,183,194	-	1,183,194
Fundraising	5,006,331	-	5,006,331
	93,427,683	-	93,427,683
Income tax expense	2,275	-	2,275
Bad debt expense	22,910	-	22,910
	93,452,868	-	93,452,868
INCREASE IN NET ASSETS	5,635,316	2,805,681	8,440,997
NET ASSETS, BEGINNING OF YEAR	17,614,788	28,002,568	45,617,356
NET ASSETS, END OF YEAR	$ 23,250,104	$ 30,808,249	$ 54,058,353

THREE SQUARE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Food program	Management & general	Fundraising	Total
Inventory disbursed	$ 93,904,833	$ 1,950	$ 2,426,913	$ 96,333,696
Salaries, taxes and benefits	6,024,292	942,565	1,293,582	8,260,439
Depreciation	849,932	29,532	79,592	959,056
Grants	1,136,355	-	-	1,136,355
Professional fees	96,544	117,767	267,169	481,480
Vehicle expenses	653,033	-	63,051	716,084
Occupancy	364,072	23,354	29,626	417,052
Rent	173,837	4,090	4,734	182,661
Printing	19,933	1,079	283,092	304,104
Advertising	31,617	-	235,490	267,107
Insurance	203,427	5,610	10,218	219,255
Office	45,638	41,950	157,767	245,355
Program materials	225,189	161	9,218	234,568
Repairs and maintenance	159,216	2,200	6,369	167,785
Supplies	22,449	2,053	29,279	53,781
Interest	138,513	22,953	-	161,466
Travel	39,447	4,752	7,114	51,313
Computer support	24,973	31,811	23,564	80,348
Dues and subscriptions	7,335	22,619	7,969	37,923
Bank service charges	-	117,210	998	118,208
Meals	4,339	9,075	3,961	17,375
Conferences	6,493	4,497	834	11,824
Employee costs	8,910	13	952	9,875
	$ 104,140,377	$ 1,385,241	$ 4,941,492	$ 110,467,110

THREE SQUARE
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Food program	Management & general	Fundraising	Total
Inventory disbursed	$ 78,101,667	$ 1,865	$ 2,379,238	$ 80,482,770
Salaries, taxes and benefits	5,733,925	894,068	1,305,849	7,933,842
Depreciation	727,263	25,842	67,949	821,054
Grants	565,779	-	-	565,779
Professional fees	234,891	60,019	247,899	542,809
Vehicle expenses	488,872	-	700	489,572
Occupancy	336,840	20,819	32,998	390,657
Rent	156,265	5,682	150,683	312,630
Printing	25,395	1,348	278,139	304,882
Advertising	49,835	-	192,686	242,521
Insurance	206,357	10,170	17,604	234,131
Office	30,458	35,051	143,699	209,208
Program materials	175,352	470	28,408	204,230
Repairs and maintenance	165,821	2,810	7,406	176,037
Supplies	35,366	1,665	94,215	131,246
Interest	87,479	-	-	87,479
Travel	61,794	8,304	7,686	77,784
Computer support	19,696	26,935	22,858	69,489
Dues and subscriptions	11,564	29,073	8,105	48,742
Bank service charges	-	41,169	3,459	44,628
Meals	7,231	13,336	6,902	27,469
Conferences	5,560	4,515	8,400	18,475
Employee costs	10,748	53	1,448	12,249
	$ 87,238,158	$ 1,183,194	$ 5,006,331	$ 93,427,683

See notes to the consolidated financial statements

THREE SQUARE
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 5,173,347	$ 8,440,997
Adjustments to reconcile change in net assets to net cash:		
Depreciation	959,056	821,054
Amortization of debt issuance costs	22,647	-
Donated securities	(26,569)	(51,980)
Donated food received	(86,555,229)	(73,457,343)
Donated food distributed	87,359,041	71,276,730
Donated equipment and other	152,880	(106,918)
Contributions restricted for investment in endowment	-	(2,000,000)
Change in allowance for doubtful accounts	16,932	22,910
Change in net present value discount for pledges	63	-
Realized and unrealized gain on investments	(275,336)	(1,132,012)
Loss on disposal of assets	11,332	4,912
Changes in operating assets and liabilities:		
Accounts and other receivable	514,656	(660,530)
Grants receivable	146,171	47,756
Pledges receivable	194,135	2,593,154
Prepaid expenses	(150,963)	(92,048)
Inventory	(584,924)	(150,622)
Accounts payable	126,409	111,150
Accrued expenses and other	130,995	63,772
Net cash provided by operating activities	7,214,643	5,730,982
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(6,931,166)	(531,669)
Sales of property and equipment	13,000	52,000
Sales of investments	7,264,030	2,646,901
Purchases of investments	(2,775,491)	(9,117,558)
Net cash used in investing activities	(2,429,627)	(6,950,326)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for:		
Investments in endowments	-	2,000,000
Payments of capital lease obligations	(281,278)	(196,570)
Proceeds from long-term debt	3,754,435	-
Payments of long-term debt	(57,519)	(55,783)
Net cash provided by financing activities	3,415,638	1,747,647
INCREASE IN CASH	8,200,654	528,303
CASH, BEGINNING OF YEAR	8,329,648	7,801,345
CASH, END OF YEAR	$ 16,530,302	$ 8,329,648
SUPPLEMENTAL DISCLOSURES		
Capital assets acquired through capital leases	$ 760,372	$ 969,135
Cash paid for interest	$ 138,616	$ 87,479
Cash paid for income taxes	$ 11,400	$ 48,224
SUMMARY OF CASH ACCOUNTS		
Cash and cash equivalents	$ 16,308,513	$ 5,591,205
Cash and cash equivalents, restricted	221,789	2,738,443
	$ 16,530,302	$ 8,329,648

See notes to the consolidated financial statements

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Three Square 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, social enterprise, and minimal fees charged for some food items distributed. Accordingly, future operations may be affected by adverse changes in local economic conditions in Southern Nevada.

During the fiscal year ended June 30, 2020, Three Square Plan Giving ("TSPG") was formed to solicit estate gifts on behalf of Three Square. For this year, the results of TSPG have been consolidated with Three Square, and all intercompany transactions have been eliminated. TSPG is a nonprofit entity organized under the laws of the State of Nevada. References to "we" or the "organization" refer to the consolidated entity of Three Square and Three Square Plan Giving.

Basis of Accounting

The accompanying consolidated 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 consolidated financial statements are presented in accordance with the Financial Accounting Standards Board ("FASB") Codification. Under the FASB Codification, resources must be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. Accordingly, our net assets are classified as without donor restrictions and with donor restrictions.

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, particularly given the significant social and economic disruptions and uncertainties associated with the ongoing COVID-19 pandemic and the COVID-19 control responses.

During the COVID-19 pandemic, our services have been considered essential in nature and have not been materially interrupted. As the situation continues to evolve, we are closely monitoring the impact of the COVID-19 pandemic on all aspects of our business, including how it impacts

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

our customers, suppliers, vendors and employees, in addition to how the COVID-19 pandemic impacts our ability to provide food to the people of Southern Nevada. We believe the ultimate impact of the COVID-19 pandemic on our operating results, cash flows and financial condition is likely to be determined by factors which are uncertain, unpredictable and outside of our control. The situation surrounding COVID-19 remains fluid, and if disruptions do arise, they could materially impact our business.

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. 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.

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 year ended June 30, 2019, we had unrelated business income from catering services, resulting in income tax expense and liability.

On March 27, 2020 the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was signed into law. A major provision of the CARES Act allows net operating losses from the 2018, 2019 and 2020 tax years to be carried back up to five years. As a result, we have carried back a net operating loss from the 2020 tax year and expect a tax refund of $91,814 which has been recorded as income as of June 30, 2020.

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 items distributed and fees charged for catering services. Management reviews accounts receivable balances to

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

determine if an allowance for doubtful accounts is necessary. The allowance for uncollectible receivables was $80,875 and $67,084 as of June 30, 2020 and 2019, 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 $1.74 and $1.62 as of June 30, 2020 and 2019, respectively. Government commodities are also recorded when received at an estimated fair value per pound, provided by Feeding America, of $1.52 and $1.57 as of June 30, 2020 and 2019, respectively.

	As of June 30,	
	2020	2019
Purchased inventory	$ 1,316,908	$ 731,982
Donated inventory	1,271,294	2,324,452
Government commodity inventory	1,407,927	1,158,582
Total inventory	$ 3,996,129	$ 4,215,016

Long-Lived Assets

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.

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 increases in net assets with or

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

without donor restrictions, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions 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 net assets with or without donor restrictions, depending on the nature of the restriction. When a restriction expires, net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets without donor restrictions. Investment income is recognized consistent with these policies.

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.

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 the organization.

We expense advertising costs as incurred. During the years ended June 30, 2020 and 2019, advertising costs totaled $267,107 and $242,521, 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 the organization.

Subsequent Events

Subsequent events have been evaluated through November 9, 2020, which is the date the financial statements were available to be issued. In July 2020, we completed the renovation of a warehouse that was originally purchased in July 2019. Also in July 2020, we completed a new markets tax credit transaction, in which an investor made loans totaling $4,047,854. We entered into a put and call agreement to take place at the end of the seven-year period.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

During the fiscal year ended June 30, 2020, we adopted *ASU 2018-08, Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions.

The FASB issued *ASU 2014-09, Revenue from Contracts with Customers (Topic 606)*. This ASU establishes principals for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers, particularly, that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard will be effective for our fiscal year ending June 30, 2021.

The FASB issued *ASU 2016-02, Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in *Topic 840, Leases*. Under the new guidance, lessees are required to recognized lease assets and lease liabilities on the statement of financial position for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, which classification affecting the pattern of expense recognition in the statement of activities. The new standard will be effective for our fiscal year ending June 30, 2023.

NOTE 2. 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, 2020 and 2019.

	As of June 30,	
	2020	2019
Time restricted (no purpose restriction)	$ 51,660	$ 401,815
Childhood nutrition	475,000	475,000
Total pledges receivable	$ 526,660	$ 876,815
Receivable in less than one year	$ 525,263	$ 876,815
Receivable in one to five years	1,397	-
	526,660	876,815
Less: unamortized discount	(64)	-
	526,596	876,815
Less: current portion	(525,263)	(876,815)
Long-term portion	$ 1,333	$ -

NOTE 3. 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, 2020 and 2019, 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, 2020 and 2019 are summarized as follows.

	Level 1	June 30, 2020
Corporate bonds and certificates of deposit	$ 2,806,498	$ 2,806,498
Marketable securities	10,444,381	10,444,381
Mutual funds		
Equity	1,153,172	1,153,172
Fixed income	4,253,196	4,253,196
Alternate investments	1,711,900	1,711,900
Total investments	$ 20,369,147	$ 20,369,147

	Level 1	June 30, 2019
Corporate bonds and certificates of deposit	$ 7,107,133	$ 7,107,133
Marketable securities	10,126,346	10,126,346
Mutual funds		
Equity	1,168,450	1,168,450
Fixed income	3,972,927	3,972,927
Alternate investments	2,180,925	2,180,925
Total investments	$ 24,555,781	$ 24,555,781

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following.

	As of June 30, 2020	As of June 30, 2019
Building and building improvements	$ 18,268,263	$ 17,890,067
Vehicles	2,950,660	3,344,258
Furniture and equipment	1,754,648	1,741,348
Land	1,103,252	1,103,252
Computer equipment and software	916,875	916,875
Website design	25,364	25,364
Construction-in-progress[1]	7,105,937	120,392
Total property and equipment	32,124,999	25,141,556
Less: accumulated depreciation	(8,823,094)	(9,007,675)
Total property and equipment, net	$ 23,301,905	$ 16,133,881

(1) Included in Construction-in-progress is the cost to acquire and renovate a new warehouse. This warehouse was originally acquired in July 2019 and renovations were completed in July 2020. The warehouse is to be used for our Senior Hunger programs, Federal commodities, and assistance with benefits such as the Supplemental Nutrition Assistance Program ("SNAP"), among other activities. The costs of acquisition and renovation were partially funded by the proceeds of the NMTC discussed in Note 12.

NOTE 5. 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, 2020	As of June 30, 2019
Furniture and equipment	$ 79,770	$ 79,770
Vehicles	2,254,460	1,585,904
Less: accumulated amortization	(854,494)	(631,541)
Total net assets under capital lease obligations	$ 1,479,736	$ 1,034,133

NOTE 5. CAPITAL LEASES (CONTINUED)

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

Fiscal year ending June 30,		
2021	$	423,810
2022		348,426
2023		333,935
2024		333,935
2025 and thereafter		536,111
		1,976,217
Less: amount representing interest		(409,751)
Less: current portion		(298,639)
Long-term capital lease obligations	$	1,267,827

NOTE 6. LONG-TERM DEBT

Long-term debt consists of the following:

	As of June 30,			
	2020		2019	
Term loan due January 10, 2050 (1)	$	3,034,900	$	-
Paycheck Protection Program (2)		1,100,000		-
Vehicle loan (3)		41,548		99,068
Total long-term debt		4,176,448		99,068
Less: debt issuance costs		(357,818)		-
Less: current maturities of long-term debt		(1,141,548)		(57,487)
Total	$	2,677,082	$	41,581

(1) On January 10, 2020, the organization entered into a new markets tax credit (“NMTC”) financing transaction to partially fund the purchase and renovation of a new warehouse. As part of the transaction, this loan was made. Outstanding principal bears interest at a rate of 1.2371% and is due and payable quarterly. No principal payments are due or payable until March 1, 2027. The note is secured by a deed of trust on the warehouse property and requires Three Square, among other obligations, to maintain specified financial ratios. As of June 30, 2020, Three Square was in compliance with all required debt covenants. For further information regarding the NMTC financing transaction, see Note 12.

(2) On May 4, 2020, Three Square was granted a loan from Wells Fargo Bank in the amount of $1.1 million pursuant to the Paycheck Protection Program (the “PPP”) under the CARES Act. The loan may be forgiven if the proceeds are used for qualifying expenses, which include payroll costs, mortgage payments, rent and utilities. The unforgiven portion is payable over two years at an interest rate of 1%. Three Square has elected to account for this loan as a financial liability. The debt is reflected as a current liability as we intend to apply for loan forgiveness within the next fiscal year. We are unable to determine how much, if any, of the loan will be forgiven.

(3) All vehicle notes payable originated in the fiscal year ended June 30, 2016, have a term of sixty months, and interest rates ranging from 2.75% to 3.29%.

NOTE 6. LONG-TERM DEBT (CONTINUED)

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

Fiscal year ending June 30,	
2021	$ 405,767
2022	735,781
2023	-
2024	-
2025	-
Thereafter	3,034,900
Total minimum payments	$ 4,176,448

NOTE 7. NET ASSETS WITH DONOR RESTRICTIONS

Net asset with donor restrictions are restricted for the following purposes or periods.

	As of June 30,	
	2020	2019
Subject to expenditure for specific purpose:		
Senior nutrition programs	$ 4,766,788	$ 7,590,961
School pantries	1,551,493	1,746,501
Building maintenance	992,387	1,132,922
Transportation	626,977	1,047,959
Childhood nutrition programs	475,000	475,000
Food purchases	281,520	193,067
Agency capacity enhancement	32,697	201,749
Building	-	2,492,500
Food recovery programs	-	300,385
Total subject to expenditure for specific purpose	8,726,862	15,181,044
Subject to the passage of time:		
Building and land [1]	2,441,860	2,637,210
Pledges receivable, net	51,597	401,815
Total subject to the passage of time	2,493,457	3,039,025
Subject to organization spending policy and appropriation:		
Investment in perpetuity (original amount of $10,000,000), which once appropriated is expendable to support any activities of the organization:	12,339,074	12,588,180
Total nets assets with donor restrictions	$ 23,559,393	$ 30,808,249

NOTE 7. NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

(1) 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. Net assets with donor restrictions include the restricted donation of $4,900,000 with an equal portion released each year.

NOTE 8. LIQUIDITY AND AVALABILITY OF RESOURCES

Our financial assets available within one year of the date of the statements of financial position for general expenditures are as follows:

	As of June 30,	
	2020	2019
Financial assets:		
Cash and cash equivalents	$ 16,308,513	$ 5,591,205
Accounts and other receivables, net	562,218	1,090,665
Pledges receivable, net	525,263	876,815
Total financial assets	17,395,994	7,558,685
Liquidity resources		
Bank line of credit	6,221,056	6,000,421
Total financial assets and liquidity resources	$ 23,617,050	$ 13,559,106

We are supported by donor contributions, some of which are restricted to a particular project or program. We must maintain sufficient resources to meet these responsibilities to our donors. Thus, financial assets may not be available for general expenditure within one year and have been excluded from the table above. To manage liquidity, we maintain a line of credit that can be drawn upon as needed during the year to manage cash flows. No amounts were outstanding as of June 30, 2020 or 2019. In addition, we have endowment funds, the earnings of which are available for general expenditure. See Note 9 for further details.

NOTE 9. ENDOWMENTS

Endowment funds include restricted donor funds, as detailed in Note 7, and Board-designated funds. 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.

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 net assets with donor restrictions (a) the original value of gifts

NOTE 9. ENDOWMENTS (CONTINUED)

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 funds are appropriated for expenditure by Three Square in accordance with the donor's wishes.

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 net asset with donor restrictions. There were no deficiencies at June 30, 2020 or 2019.

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, 2020:

	Without Donor Restriction	With Donor Restriction	Total
Board designated	$ 2,361,583	$ -	$ 2,361,583
Donor restricted endowment funds	-	12,339,074	12,339,074
Total endowment funds	$ 2,361,583	$ 12,339,074	$ 14,700,657

NOTE 9. ENDOWMENTS (CONTINUED)

Changes in endowment net assets for the year ended June 30, 2020:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 1,600,321	$12,588,180	$14,188,501
Investment return, net	511,794	362	512,156
Appropriations	249,468	(249,468)	-
Endowment net assets, end of year	$ 2,361,583	$12,339,074	$14,700,657

Endowment net asset composition by type of fund as of June 30, 2019:

	Without Donor Restriction	With Donor Restriction	Total
Board designated	$ 1,600,321	$ -	$ 1,600,321
Donor restricted endowment funds	-	12,588,180	12,588,180
Total endowment funds	$ 1,600,321	$ 12,588,180	$ 14,188,501

Changes in endowment net assets for the year ended June 30, 2019:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 800,321	$10,319,286	$11,119,607
Contributions	-	2,000,000	2,000,000
Investment return, net	800,000	268,894	1,068,894
Endowment net assets, end of year	$ 1,600,321	$12,588,180	$14,188,501

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 10. CONCENTRATIONS

We have concentrated our credit risk by maintaining deposits at two financial institutions, 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

NOTE 10. CONCENTRATIONS (CONTINUED)

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.

For the years ended June 30, 2020 and 2019, nearly 100% of all in-kind contributions were contributions of food and approximately 34% and 20%, respectively, were contributed by one source. For the years ended June 30, 2020 and 2019, in-kind food donations represented 75% and 72%, respectively, of total revenues. Additionally, as of June 30, 2020 and 2019, 90% and 54%, respectively, of our outstanding pledge receivable balance was due from one source.

NOTE 11. 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, 2020 or 2019.

Three Square maintains a qualified retirement plan under the provisions of Section 403(b) of the Internal Revenue Code of 1986, as amended, which covers all eligible employees. Participating employees defer a portion of their salary in a retirement fund, and Three Square makes a discretionary match contribution, where applicable, of 50% of employees' elective salary deferrals, up to maximum of 4% of eligible employee compensation. The matching contributions for the years ended June 30, 2020 and 2019 were $90,125 and $75,905, respectively.

In November 2018, we entered into an agreement to lease land adjacent to the main offices of Three Square to be used for a parking lot. The term of the land lease is ten years, with an option to extend for another ten years. Rent expense under the agreement was $36,630 and $21,000 for the years ended June 30, 2020 and 2019, respectively.

NOTE 12. NEW MARKETS TAX CREDIT TRANSACTION

On January 10, 2020, we entered into a NMTC financing transaction to partially fund the acquisition and renovation of a warehouse. The warehouse is to be used for our Senior Hunger programs, Federal commodities, and assistance with benefits such as the Supplemental Nutrition Assistance Program ("SNAP"), among other activities. These programs operating within the warehouse have been defined as a portion of business ("POB") and are the only programs to utilize the funding received. See Note 13 for further discussion. The NMTC program is designed to increase investments into operating businesses and real estate projects located in low-income communities by offering investors a federal tax credit in exchange for investments. To earn the tax credit, the NMTC investor must remain invested for a seven-year period, which will end in 2027 for our project.

As part of the financing transaction, the NMTC investor made loans totaling $3,034,900 into the project, which are discussed in Note 6. We entered into a put and call agreement to take place at the end of the seven-year period. Under the put and call agreement, the NMTC Investor can exercise a put option to sell all interest in the project to the organization for $1,000. If the NMTC Investor does not exercise that put option, then the agreement allows for us to exercise a call option to purchase the interest in the project at fair market value.

NOTE 13. NEW MARKETS TAX CREDIT PORTION OF BUSINESS REPORTING (UNAUDITED)

Per the loan agreement associated with the NMTC, we are obligated to provide financial information of the portion of business funded by the NMTC transaction. The portion of business is defined as the portion of our business that will construct, develop and operate programs located at newly acquired warehouse, to be called the "East Campus POB". Programs that are to be operated by the East Campus POB include senior hunger programs, Federal food commodities, and benefits assistance, including SNAP assistance, among other programs. As of June 30, 2020, the East Campus POB was still under construction and development. The following schedules show East Campus POB financial statements as of June 30, 2020.

NOTE 13. NEW MARKETS TAX CREDIT PORTION OF BUSINESS REPORTING (UNAUDITED) (CONTINUED)

STATEMENT OF FINANCIAL POSITION

	East Campus POB	Non-POB	Total
ASSETS			
Cash and cash equivalents	$ -	$ 16,530,302	$ 16,530,302
Investments	-	20,369,147	20,369,147
Accounts and other receivables, net	-	562,218	562,218
Pledges receivable	-	526,596	526,596
Grants receivable	-	856,184	856,184
Inventory	-	3,996,129	3,996,129
Prepaid expenses and deposits	-	407,342	407,342
Property and equipment, net	7,011,470	16,290,435	23,301,905
	$ 7,011,470	$ 59,538,353	$ 66,549,823
LIABILITIES AND NET ASSETS			
Accounts payable	$ 459,873	$ 737,209	$ 1,197,082
Accrued expenses and other liabilities	-	735,945	735,945
Capital lease payable	-	1,566,466	1,566,466
Long-term debt	2,680,082	1,138,548	3,818,630
	3,139,955	4,178,168	7,318,123
Net assets	3,871,515	55,360,185	59,231,700
	$ 7,011,470	$ 59,538,353	$ 66,549,823

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 13. NEW MARKETS TAX CREDIT PORTION OF BUSINESS REPORTING (UNAUDITED) (CONTINUED)

STATEMENT OF ACTIVITIES

	East Campus POB	Non-POB	Total
Revenue, gains and other support:			
In-kind contributions	$ -	$ 86,615,855	$ 86,615,855
Contributions and grants	2,500,000	21,316,646	23,816,646
Shared maintenance fees	-	1,258,660	1,258,660
Catering and rental income	-	2,934,933	2,934,933
Investment return	-	927,450	927,450
Other income	-	108,555	108,555
	2,500,000	113,162,099	115,662,099
Expenses and losses:			
Inventory disbursed	$ -	$ 96,333,697	$ 96,333,697
Salaries, taxes and benefits	-	8,260,439	8,260,439
Professional fees	52,648	428,832	481,480
Occupancy	32,458	384,594	417,052
Interest	22,647	138,819	161,466
Other	13,365	4,821,253	4,834,618
	121,118	110,367,634	110,488,752
Increase in net assets	$ 2,378,882	$ 2,794,465	$ 5,173,347

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 and Subsidiary (both nonprofit organizations) (Three Square), which comprise the statement of financial position as of June 30, 2020, 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, 2020.

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, 2020