

THREE SQUARE
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020



THREE SQUARE
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together, we can feed everyone



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Brian Burton
President & CEO

Michelle Beck
Chief Development Officer

Tifani Walker
Chief Financial Officer

Larry Scott
Chief Operating Officer

Jodi Tyson
Vice President of Strategic Initiatives

Dear Friends:

Food insecurity in our community remains near historically high levels as we conclude the 2020-2021 fiscal year. Feeding America estimates that 363,000 Southern Nevadans—one in six of our neighbors—will experience food insecurity due to the ongoing economic fallout from COVID-19. The painful truth is that many of the people most impacted by COVID-19 were food insecure or at risk before the crisis—and now face even greater hardship.

Because of donations from individuals, support from the philanthropic and business communities, and federal aid, Three Square has been able to respond to the sharp rise in need for food and, just as importantly, proactively prepare for the uncertain months—perhaps years—ahead. An avalanche of generosity has put Three Square in a strong financial position to sustain the remarkable productivity we have achieved throughout the pandemic; even as massive federal emergency programs get scaled back.

Meanwhile, we continue to work alongside agency partners and volunteers to operate drive-thru distribution sites and walk-in pantries throughout our service area. These community partnerships have never been more critical and appreciated. Together, we provided *over 70 million pounds of food—nearly 59 million meals—a 14% increase over fiscal year 2020*. Together, we brought relief, sustenance and hope to Southern Nevada during one of the darkest times we have ever known.

Our shared accomplishments are impressive, but they are just a start. Las Vegas is expected to be among the last major U.S. cities to recover from the pandemic. The groundswell of good will, hard work and financial investment we witnessed this year will have to be sustained into the future to ensure our community's long-term health.

As well, it is imperative that we remain focused on providing equitable access to Southern Nevada communities disproportionately affected by food insecurity, including People of Color and rural communities, and advance solutions to the disparities in our emergency food network.

I know we can do it. While I hope never to experience another year like the last, it was a privilege to see how everyone pulled together to uplift our neighbors in need. When we unite in this way, transformative change is possible—and we move closer to a community where no one is hungry.

Together, we can feed everyone,

Brian Burton, President and CEO

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 (financial statements) of Three Square and Subsidiary (both nonprofit organizations) which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, 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 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 and Subsidiary as of June 30, 2021 and 2020, 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 1 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 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.

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 25, 2021, 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.

Holdsworth, Russo & Company, P.C.

Las Vegas, Nevada
October 25, 2021

THREE SQUARE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND 2020

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 21,336,170	\$ 16,308,513
Cash and cash equivalents, restricted	-	221,789
Investments	39,443,415	-
Investments, restricted	6,989,406	8,369,147
Accounts and other receivables, net	200,021	562,218
Pledges receivable	540,789	525,263
Grants receivable	1,138,738	856,184
Inventory	4,564,275	3,996,129
Prepaid expenses and deposits	309,469	407,342
	<u>74,522,283</u>	<u>31,246,585</u>
OTHER ASSETS		
Pledges receivable, net	10,000	1,333
Investments, restricted	74,000,000	12,000,000
Property and equipment, net	22,591,691	20,860,044
Property and equipment, net, restricted	2,246,512	2,441,861
	<u>\$ 173,370,486</u>	<u>\$ 66,549,823</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 709,250	\$ 1,197,082
Accrued expenses and other current liabilities	687,124	735,945
Capital lease payable, current portion	236,066	298,639
Long-term debt, current portion	1,100,000	1,141,548
	<u>2,732,440</u>	<u>3,373,214</u>
LONG-TERM LIABILITIES		
Capital lease payable, net of current portion	999,099	1,267,827
Long-term debt, net of current portion	5,928,806	2,677,082
	<u>9,660,345</u>	<u>7,318,123</u>
NET ASSETS		
Without donor restrictions	79,923,435	35,672,307
With donor restrictions	83,786,706	23,559,393
	<u>163,710,141</u>	<u>59,231,700</u>
	<u>\$ 173,370,486</u>	<u>\$ 66,549,823</u>

See notes to the consolidated financial statements

**THREE SQUARE
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
UNRESTRICTED NET ASSETS			
Revenue, gains and other support:			
In-kind contributions	\$ 109,583,450	\$ -	\$ 109,583,450
Contributions and grants	50,856,041	62,469,374	113,325,415
Shared maintenance fees	1,079,084	-	1,079,084
Catering and rental income	30,205	-	30,205
Investment return	8,169,783	3,179,299	11,349,082
Other income	9,346	-	9,346
	<u>169,727,909</u>	<u>65,648,673</u>	<u>235,376,582</u>
Net assets released from restrictions	5,421,360	(5,421,360)	-
	<u>175,149,269</u>	<u>60,227,313</u>	<u>235,376,582</u>
Expenses and losses:			
Food program	126,535,138	-	126,535,138
Management and general	1,769,986	-	1,769,986
Fundraising	2,387,607	-	2,387,607
	<u>130,692,731</u>	<u>-</u>	<u>130,692,731</u>
Loss on disposal of assets	201,321	-	201,321
Bad debt expense	4,089	-	4,089
	<u>130,898,141</u>	<u>-</u>	<u>130,898,141</u>
INCREASE IN NET ASSETS	<u>44,251,128</u>	<u>60,227,313</u>	<u>104,478,441</u>
NET ASSETS, BEGINNING OF YEAR	<u>35,672,307</u>	<u>23,559,393</u>	<u>59,231,700</u>
NET ASSETS, END OF YEAR	<u>\$ 79,923,435</u>	<u>\$ 83,786,706</u>	<u>\$ 163,710,141</u>

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	927,088	362	927,450
Other income	108,555	-	108,555
	<u>115,347,520</u>	<u>314,579</u>	<u>115,662,099</u>
Net assets released from restrictions	7,563,435	(7,563,435)	-
	<u>122,910,955</u>	<u>(7,248,856)</u>	<u>115,662,099</u>
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
	<u>110,467,110</u>	<u>-</u>	<u>110,467,110</u>
Bad debt expense	21,642	-	21,642
	<u>110,488,752</u>	<u>-</u>	<u>110,488,752</u>
INCREASE (DECREASE) IN NET ASSETS	<u>12,422,203</u>	<u>(7,248,856)</u>	<u>5,173,347</u>
NET ASSETS, BEGINNING OF YEAR	<u>23,250,104</u>	<u>30,808,249</u>	<u>54,058,353</u>
NET ASSETS, END OF YEAR	<u><u>\$ 35,672,307</u></u>	<u><u>\$ 23,559,393</u></u>	<u><u>\$ 59,231,700</u></u>

See notes to the consolidated financial statements

THREE SQUARE
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021

	Food program	Management & general	Fundraising	Total
Inventory disbursed	\$ 116,011,270	\$ 371	\$ 6,509	\$ 116,018,150
Salaries, taxes and benefits	5,610,358	1,010,314	1,109,580	7,730,252
Depreciation	1,193,902	40,231	67,011	1,301,144
Grants	1,440,693	-	-	1,440,693
Professional fees	18,039	163,741	219,190	400,970
Vehicle expenses	376,640	-	435	377,075
Occupancy	488,805	32,537	30,388	551,730
Rent	185,145	4,124	3,669	192,938
Printing	14,804	861	370,849	386,514
Advertising	330,836	-	326,128	656,964
Insurance	206,791	8,084	10,207	225,082
Office	33,407	32,113	210,562	276,082
Program materials	276,136	367	342	276,845
Repairs and maintenance	139,332	1,957	3,538	144,827
Supplies	2,105	1,303	5,459	8,867
Interest	115,988	261,548	-	377,536
Travel	39,462	91	1,812	41,365
Computer support	25,977	27,138	16,479	69,594
Dues and subscriptions	11,326	3,262	2,058	16,646
Bank service charges	40	175,879	-	175,919
Meals	3,318	6,063	3,342	12,723
Conferences	4,109	-	20	4,129
Employee costs	6,655	2	29	6,686
	<u>\$ 126,535,138</u>	<u>\$ 1,769,986</u>	<u>\$ 2,387,607</u>	<u>\$ 130,692,731</u>

See notes to the consolidated financial statements

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
	<u>\$ 104,140,377</u>	<u>\$ 1,385,241</u>	<u>\$ 4,941,492</u>	<u>\$ 110,467,110</u>

See notes to the consolidated financial statements

**THREE SQUARE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 104,478,441	\$ 5,173,347
Adjustments to reconcile change in net assets to net cash:		
Depreciation	1,301,144	959,056
Amortization of debt issuance costs	182,507	22,647
Donated securities	(40,921)	(26,569)
Donated food received	(109,475,654)	(86,555,229)
Donated food distributed	109,048,677	87,359,041
Donated equipment and other	-	152,880
Contributions restricted for investment in endowment	(62,000,000)	-
Change in allowance for doubtful accounts	4,382	16,932
Change in net present value discount for pledges	413	63
Realized and unrealized gain on investments	(10,364,882)	(275,336)
Loss on disposal of assets	201,321	11,332
Changes in operating assets and liabilities:		
Accounts and other receivable	364,652	514,656
Grants receivable	(282,554)	146,171
Pledges receivable	(31,442)	194,135
Prepaid expenses	97,873	(150,963)
Inventory	(141,169)	(584,924)
Accounts payable	(495,524)	126,409
Accrued expenses and other	(45,165)	130,995
Net cash provided by operating activities	<u>32,802,099</u>	<u>7,214,643</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(3,090,862)	(6,931,166)
Sales of property and equipment	14,008	13,000
Sales of investments	95,006,266	7,264,030
Purchases of investments	(184,664,137)	(2,775,491)
Net cash used in investing activities	<u>(92,734,725)</u>	<u>(2,429,627)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from contributions restricted for:		
Investments in endowments	62,000,000	-
Payments of capital lease obligations	(289,175)	(281,278)
Proceeds from long-term debt	3,069,217	3,754,435
Payments of long-term debt	(41,548)	(57,519)
Net cash provided by financing activities	<u>64,738,494</u>	<u>3,415,638</u>
INCREASE IN CASH	4,805,868	8,200,654
CASH, BEGINNING OF YEAR	16,530,302	8,329,648
CASH, END OF YEAR	<u>\$ 21,336,170</u>	<u>\$ 16,530,302</u>
SUPPLEMENTAL DISCLOSURES		
Capital assets acquired through capital leases	\$ 143,738	\$ 760,372
Cash paid for interest	\$ 192,136	\$ 138,616
Cash paid for income taxes	\$ -	\$ 11,400
SUMMARY OF CASH ACCOUNTS		
Cash and cash equivalents	\$ 21,336,170	\$ 16,308,513
Cash and cash equivalents, restricted	-	221,789
	<u>\$ 21,336,170</u>	<u>\$ 16,530,302</u>

See notes to the consolidated financial statements

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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 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 Southern Nevada.

Three Square Plan Giving (“TSPG”) is a non-profit entity organized under the laws of the State of Nevada, with the mission to solicit estate gifts on behalf of Three Square. The results of TSPG have been consolidated with Three Square, and all intercompany transactions have been eliminated. 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.

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

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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.

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 determine if an allowance for doubtful accounts is necessary. The allowance for uncollectible receivables was \$76,493 and \$80,875 as of June 30, 2021 and 2020, respectively. No interest income is recognized or charged on accounts receivable.

**THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$1.79 and \$1.74 as of June 30, 2021 and 2020, respectively. Government commodities are also recorded when received at an estimated fair value per pound, provided by Feeding America, of \$1.70 and \$1.52 as of June 30, 2021 and 2020, respectively.

	As of June 30,	
	2021	2020
Purchased inventory	\$ 1,458,076	\$ 1,316,908
Donated inventory	1,535,766	1,271,294
Government commodity inventory	1,570,433	1,407,927
Total inventory	\$ 4,564,275	\$ 3,996,129

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 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

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2021 and 2020, advertising costs totaled \$656,964 and \$267,107, 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 October 25, 2021, which is the date the financial statements were available to be issued.

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

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 was adopted for the 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 recognize 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, 2021 and 2020.

	As of June 30,	
	2021	2020
Time restricted (no purpose restriction)	\$ 101,265	\$ 51,660
Childhood nutrition	450,000	475,000
Total pledges receivable	<u>\$ 551,265</u>	<u>\$ 526,660</u>
Receivable in less than one year	\$ 541,265	\$ 525,263
Receivable in one to five years	10,000	1,397
	551,265	526,660
Less: unamortized discount	(476)	(64)
	550,789	526,596
Less: current portion	(540,789)	(525,263)
Long-term portion	<u>\$ 10,000</u>	<u>\$ 1,333</u>

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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, 2021 and 2020, 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, 2021 and 2020 are summarized as follows.

	Level 1	Level 2	June 30, 2021
Corporate bonds and certificates of deposit	\$ 16,280,136	\$ -	\$ 16,280,136
Marketable securities	45,615,545	-	45,615,545
Mutual funds			
Equity	26,363,903	-	26,363,903
Fixed income	26,520,731	-	26,520,731
Alternate investments	442,067	5,210,439	5,652,506
Total investments	<u>\$ 115,222,382</u>	<u>\$ 5,210,439</u>	<u>\$ 120,432,821</u>
			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	938,550	773,350	1,711,900
Total investments	<u>\$ 19,595,797</u>	<u>\$ 773,350</u>	<u>\$ 20,369,147</u>

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following.

	As of June 30,	
	2021	2020
Building and building improvements	\$ 25,969,437	\$ 18,268,263
Vehicles	2,632,494	2,950,660
Furniture and equipment	2,640,320	1,754,648
Land	1,959,953	1,103,252
Computer equipment and software	1,215,847	916,875
Website design	25,364	25,364
Construction-in-progress ⁽¹⁾	121,769	7,105,937
Total property and equipment	<u>34,565,184</u>	<u>32,124,999</u>
Less: accumulated depreciation	(9,726,981)	(8,823,094)
Total property and equipment, net	<u>\$ 24,838,203</u>	<u>\$ 23,301,905</u>

(1) Included in construction-in-progress as of June 30, 2020 was the cost to acquire and renovate a warehouse, which was partially funded by proceeds from a New Markets Tax Credit (“NMTC”) transaction, discussed in Note 12. The building was placed in service during the year ended June 30, 2021.

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,	
	2021	2020
Furniture and equipment	\$ 143,738	\$ 79,770
Vehicles	1,710,110	2,254,460
Less: accumulated amortization	(711,469)	(854,494)
Total net assets under capital lease obligations	<u>\$ 1,142,379</u>	<u>\$ 1,479,736</u>

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

Fiscal year ending June 30,	
2022	\$ 331,456
2023	325,921
2024	325,921
2025	325,921
2026 and thereafter	<u>197,000</u>
	1,506,219
Less: amount representing interest	(271,054)
Less: current portion	(236,066)
Long-term capital lease obligations	<u>\$ 999,099</u>

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 6. LONG-TERM DEBT

Long-term debt consists of the following:

	As of June 30,	
	2021	2020
Term loan due January 10, 2050 ⁽¹⁾	\$ 3,034,900	\$ 3,034,900
Term loan 1 due July 22, 2055 ⁽²⁾	441,177	-
Term loan 2 due July 22, 2055 ⁽²⁾	912,028	-
Term loan 3 due July 22, 2055 ⁽²⁾	673,663	-
Term loan 4 due July 22, 2055 ⁽²⁾	673,662	-
Term loan 5 due July 22, 2055 ⁽²⁾	673,662	-
Term loan 6 due July 22, 2055 ⁽²⁾	673,662	-
Paycheck Protection Program ⁽³⁾	1,100,000	1,100,000
Vehicle loan	-	41,548
Total long-term debt	8,182,754	4,176,448
Less: debt issuance costs	(1,153,948)	(357,818)
Less: current maturities of long-term debt	(1,100,000)	(1,141,548)
Total	\$ 5,928,806	\$ 2,677,082

- (1) On January 10, 2020, the organization entered into a 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, 2021, Three Square was in compliance with all required debt covenants. For further information regarding the NMTC financing transaction, see Note 12.
- (2) On July 22, 2020, the organization entered into a NMTC financing transaction to fund the portion of Three Square’s business located at operations located at the Three Square Headquarters, specifically the childhood nutrition program, the food rescue program, and the agency delivery program. As part of this transaction, six loans were made by five lenders. For loans 1 and 2, outstanding principal bears interest at a rate of 1.0247% and is due and payable quarterly. For loans 3, 4, 5 and 6, outstanding principal bears interest at a rate of 1.0% and is due and payable quarterly. For all six loans, no principal payments are due or payable until March 1, 2027. All notes are secured by a deed of trust on the Three Square Headquarters building, and all notes require Three Square, among other obligations, to maintain specified financial ratios. As of June 30, 2021, Three Square was in compliance with all required debt covenants. For further information regarding the NMTC transaction, see Note 12.
- (3) 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 applied for loan forgiveness during the fiscal year. Subsequent to year end, on July 29, 2021 the amount was fully forgiven.

**THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020**

NOTE 6. LONG-TERM DEBT (CONTINUED)

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

Fiscal year ending June 30, 2022	\$ 1,100,000
2023-2026	-
Thereafter	<u>7,082,754</u>
Total minimum payments	<u>\$ 8,182,754</u>

NOTE 7. NET ASSETS WITH DONOR RESTRICTIONS

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

	As of June 30,	
	2021	2020
Subject to expenditure for specific purpose:		
Senior nutrition programs	\$ 290,246	\$ 4,766,788
School pantries	1,551,413	1,551,493
Building maintenance	914,835	992,387
Transportation	269,357	626,977
Childhood nutrition programs	883,991	475,000
Food purchases	11,154	281,520
Agency capacity enhancement	37	32,697
Total subject to expenditure for specific purpose	<u>3,921,033</u>	<u>8,726,862</u>
Subject to the passage of time:		
Building and land ⁽¹⁾	2,246,512	2,441,860
Pledges receivable, net	100,788	51,597
Total subject to the passage of time	<u>2,347,300</u>	<u>2,493,457</u>
Subject to endowment spending policy and appropriation, donor-restricted in perpetuity:		
Hilton endowment ⁽²⁾	2,925,201	2,339,074
Englestad endowment ⁽²⁾	12,413,514	10,000,000
Senior Hunger endowment	62,179,658	-
	<u>77,518,373</u>	<u>12,339,074</u>
Total nets assets with donor restrictions	<u>\$ 83,786,706</u>	<u>\$ 23,559,393</u>

(1) Clark County donated a building to Three Square on November 16, 2007, with a usage restriction that requires the building to be used 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.

(2) Earnings from these endowments are unrestricted.

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 8. LIQUIDITY AND AVAILABILITY 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,	
	2021	2020
Financial assets:		
Cash and cash equivalents	\$ 21,336,170	\$ 16,308,513
Accounts and other receivables, net	200,021	562,218
Pledges receivable, net	540,789	525,263
Total financial assets	22,076,980	17,395,994
Liquidity resources		
Bank line of credit	8,094,829	6,221,056
Total financial assets and liquidity resources	\$ 30,171,809	\$ 23,617,050

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, 2021 or 2020.. 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 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.

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 9. ENDOWMENTS (CONTINUED)

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, 2021 or 2020.

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, 2021:

	Without Donor <u>Restriction</u>	With Donor <u>Restriction</u>	<u>Total</u>
Board designated	\$ 7,501,583	\$ -	\$ 7,501,583
Donor restricted endowment funds	-	77,518,373	77,518,373
Total endowment funds	<u>\$ 7,501,583</u>	<u>\$ 77,518,373</u>	<u>\$ 85,019,956</u>

Changes in endowment net assets for the year ended June 30, 2021:

	Without Donor <u>Restriction</u>	With Donor <u>Restriction</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,361,583	\$12,339,074	\$14,700,657
Investment return, net	5,140,000	3,179,299	8,319,299
Donor contributions	-	62,000,000	62,000,000
Endowment net assets, end of year	<u>\$ 7,501,583</u>	<u>\$77,518,373</u>	<u>\$85,019,956</u>

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 9. ENDOWMENTS (CONTINUED)

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	<u>\$ 2,361,583</u>	<u>\$ 12,339,074</u>	<u>\$ 14,700,657</u>

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	<u>249,468</u>	<u>(249,468)</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 2,361,583</u>	<u>\$12,339,074</u>	<u>\$14,700,657</u>

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 three 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 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.

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 10. CONCENTRATIONS (CONTINUED)

For the years ended June 30, 2021 and 2020, nearly 100% of all in-kind contributions were contributions of food and approximately 32% and 34%, respectively, were contributed by one source. For the years ended June 30, 2021 and 2020, in-kind food donations represented 47% and 75%, respectively, of total revenues. Additionally, as of June 30, 2021 and 2020, 82% and 90%, 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, 2021 or 2020.

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, 2021 and 2020 were \$141,028 and \$90,125, 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 \$37,729 and \$36,630 for the years ended June 30, 2021 and 2020, respectively.

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

NOTE 12. NEW MARKETS TAX CREDIT TRANSACTIONS

On July 22, 2020, we entered into a NMTC financing transaction to partially fund operational activities at the Three Square headquarters, specifically the childhood nutrition programs, the food rescue program and the agency delivery program. These programs thin headquarters have been identified as a portion of business (“POB”) and are the only programs to utilize the funding received. See Note 13 for further discussion. As part of the financing transaction, the NMTC investors made loans totaling \$4,047,854 into the project, which are discussed in Note 6. We entered into put and call agreements to take place at the end of the seven-year period. Under the put and call agreements, the NMTC Investors 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.

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 POB and are the only programs to utilize the funding received. See Note 13 for further discussion. 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.

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 both of our projects.

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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

Per the loan agreements associated with the NMTC transactions, we are obligated to provide financial information for the portion of businesses funded by the NMTC transactions. The East Campus POB is defined as the portion of our business that developed and operates programs located at our East Campus warehouse, which programs include senior hunger programs, Federal food commodities, and benefits assistance, including SNAP assistance, among others. The Headquarters POB is defined as the portion of our business that operates the childhood nutrition programs, the food rescue program and the agency delivery program out of the Three Square Headquarters warehouse. The following financial statements are as of June 30, 2021.

STATEMENT OF FINANCIAL POSITION

	East Campus POB	Headquarters POB	Non-POB	Total
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ 21,336,170	\$ 21,336,170
Investments	-	-	120,432,821	120,432,821
Accounts and other receivables, net	-	1,722,737	166,811	1,889,548
Inventory	504,070	4,060,205	-	4,564,275
Prepaid expenses and deposits	-	309,469	-	309,469
Property and equipment, net	7,225,503	17,612,700	-	24,838,203
	<u>\$ 7,729,573</u>	<u>\$ 23,705,111</u>	<u>\$ 141,935,802</u>	<u>\$ 173,370,486</u>
LIABILITIES AND NET ASSETS				
Accounts payable	\$ 33,295	\$ 618,330	\$ 57,625	\$ 709,250
Accrued expenses and other	75,092	525,463	86,569	687,124
Capital lease payable	-	1,235,165	-	1,235,165
Long-term debt	-	1,100,000	5,928,806	7,028,806
	<u>108,387</u>	<u>3,478,958</u>	<u>6,073,000</u>	<u>9,660,345</u>
Net assets	<u>7,621,186</u>	<u>20,226,153</u>	<u>135,862,802</u>	<u>163,710,141</u>
	<u>\$ 7,729,573</u>	<u>\$ 23,705,111</u>	<u>\$ 141,935,802</u>	<u>\$ 173,370,486</u>

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020

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

STATEMENT OF ACTIVITIES				
	East Campus POB	Headquarters POB	Non-POB	Total
Revenue, gains and other support:				
In-kind contributions	\$ 22,827	109,548,098	12,525	109,583,450
Contributions and grants	4,515,354	4,142,743	104,667,318	113,325,415
Shared-maintenance fees	61,965	1,017,119	-	1,079,084
Investment return	4,521,728	109	6,827,245	11,349,082
Other income	-	39,098	453	39,551
	9,121,874	114,747,167	111,507,541	235,376,582
Expenses and losses:				
Inventory disbursed	2,583,088	113,435,062	-	116,018,150
Salaries, taxes and benefits	1,291,464	3,641,729	2,797,059	7,730,252
Other	1,497,650	3,303,616	2,348,473	7,149,739
	5,372,202	120,380,407	5,145,532	130,898,141
Increase (decrease) in net assets	\$ 3,749,672	\$ (5,633,240)	\$ 106,362,009	\$ 104,478,441

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 consolidated financial statements of Three Square and Subsidiary (both nonprofit organizations), which comprise the consolidated statements of financial position as of June 30, 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related consolidated notes to the financial statements, and have issued our report thereon dated October 25, 2021.

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 consolidated 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 consolidated 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.

Howdsworth, Russo & Company, P.C.

Las Vegas, Nevada
October 25, 2021

**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 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, 2021. 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, 2021.

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 25, 2021

**THREE SQUARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2021**

Grantor and Program Title	Federal CFDA Number	Pass Through Identifying Number	Total Federal Expenditures	Passed Through to Subrecipients
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Passed Through the Nevada Department of Agriculture:				
Child Nutrition Cluster				
Summer Food Service Program	10.559	S0298	\$ 481,928	\$ -
Total Child Nutrition Cluster			481,928	-
Child and Adult Care Food Program	10.558	C1353	95,486	-
Food Distribution Cluster				
The Emergency Food Assistance Program - Administrative Costs	10.568	D130	292,396	-
COVID-19 - The Emergency Food Assistance Program - CARES Act Funds	10.568	D130	575,063	-
COVID-19 - The Emergency Food Assistance Program - COSUP	10.568	D130	662,584	-
The Emergency Food Assistance Program - Food Commodities	10.569	D130	34,193,310	34,193,310
Total Food Distribution Cluster			35,723,353	34,193,310
Trade Mitigation Program Eligible Recipient Agency Operational Funds	10.178	Agreement	373,605	-
Passed through the Nevada Department of Health and Human Services:				
SNAP Cluster				
Supplemental Nutrition Assistance Program - Outreach	10.561	OUT1811	231,562	-
Total SNAP Cluster			231,562	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			36,905,934	34,193,310
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
CDGB-Entitlement Grants Cluster				
Passed through the City of North Las Vegas				
COVID-19 - Community Development Block Grants/Entitlement Grants	14.218	Agreement	64,029	-
Passed through the City of Henderson				
COVID-19 - Community Development Block Grants/Entitlement Grants	14.218	Agreement	50,000	-
Total CDGB-Entitlement Grants Cluster			114,029	-
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			114,029	-
<u>U.S. DEPARTMENT OF THE TREASURY</u>				
Passed through the State of Nevada				
COVID-19 - Coronavirus Relief Fund	21.019	Agreement	1,889,777	-
Passed through Clark County, Nevada				
COVID-19 - Coronavirus Relief Fund	21.019	Agreement	2,113,872	-
Passed through the Nevada Department of Health and Human Services				
COVID-19 - Coronavirus Relief Fund	21.019	Agreement	329,152	-
TOTAL U.S. DEPARTMENT OF THE TREASURY			4,332,801	-
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Passed through the Nevada Department of Health and Human Services:				
Low-Income Home Energy Assistance Program	93.568	Agreement	540	-
Aging Cluster				
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	ACL18AANVT3SS	18,170	-
COVID-19 - Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	Agreement	202,074	-
COVID-19 - Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	Agreement	555	-
COVID-19 - Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	Agreement	7,403	-
Total Aging Cluster			228,202	-
Passed through National Council on Aging:				
Medicare Enrollment Assistance Program	93.071	Agreement	60,000	-
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			288,742	-
TOTAL FEDERAL EXPENDITURES			\$ 41,641,506	\$ 34,193,310

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, 2021

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, 2021. 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.

NOTE 5. EXPENDITURES FROM PRIOR PERIODS

Certain grants awarded under the Coronavirus Relief Funds (Assistance Listing Number 21.019) during the year ended June 30, 2021 allowed for reimbursement of expenditures made in the prior fiscal year. As a result, amounts reported on the schedule of expenditures of federal awards for these grants during the year ended June 30, 2021 include \$820,213 in expenditures made during the year ended June 30, 2020.

**THREE SQUARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2021**

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 Food Distribution Cluster and the U.S. Department of the Treasury Coronavirus Relief Fund, Assistance Listing Number 21.019.
8. The threshold used for distinguishing between Type A and Type B programs was \$1,249,245.
9. Three Square does 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, 2021**

PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

None

PRIOR YEAR FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2020-001 Internal Control Systems Over Allowable Costs – U.S. Department of Agriculture, Trade Mitigation Program Eligible Recipient Agency Operational Funds, CFDA #10.178, Passed Through the State of Nevada Department of Agriculture

Criteria: In accordance with 2 CFR 200.62, the auditee must maintain a system of internal controls to provide reasonable assurance that federal funds expended by the auditee are allowable in accordance with the terms and conditions outlined in the federal award.

Condition: Management was unable to provide evidence of review and approval by an authorized individual for certain federal expenditures.

Context: Of the twenty-seven items selected for testing, two selections included fuel costs from a vendor purchased with federal funds. Management was unable to provide evidence of the review and approval by an authorized individual for these purchases.

Cause: The implementation of internal controls over allowable costs was not effective.

Effect: Improper implementation of internal controls could result in expenditures of federal awards on unallowable costs.

Recommendation: We recommend that management implement a system of internal controls that includes maintaining evidence of review and approval of all federal expenditures by an individual familiar with the costs allowable in accordance with the terms and conditions outlined in the federal award.

Views of Responsible Officials and Planned Corrective Actions: The fuel costs selected were reviewed, however, the Logistics Manager reviewing the charges failed to sign the invoice to indicate evidence of review. This oversight was due to employee turnover and training. The newly hired Logistics Manager has now been properly trained on evidence of review, and our new manager training now includes a discussion of evidence of review. We believe all charges to have been reviewed, just without the evidence to indicate such review had occurred. While we understand the necessity for this control finding, this is not indicative of our internal control environment as this finding was limited to one type of expense and one reviewer.

Current Status: Corrective action has been implemented.