

**THREE SQUARE**  
**AUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2022 AND 2021**



**THREE SQUARE**  
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together, we can feed everyone



Dear Friends,

It has been said that when the country gets a cold, Las Vegas gets the flu. This is, perhaps, a sensitive metaphor in the context of the coronavirus pandemic; however, it effectively describes the disproportionate impact serious national (and international) events like public health and economic crises have on our community.

How many times have we seen our community rise to the challenge? The enclosed financial statement shows the magnitude of support Three Square received to respond to the public health and economic havoc wreaked by COVID-19. At the onset of the crisis, when no one could predict its depth or duration, donors, volunteers, and community partners of every stripe stretched their own resources to ensure that our neighbors had the food they needed, even as many fought for their own lives and livelihoods.

Over the course of Three Square's FY21 and FY22 fiscal years, an extraordinary outpouring of support created solid ground for our community to stand on during the pandemic and its uncertain aftermath. From the security of that solid ground, we are moving forward.

Normal food bank operations have been resumed, including all childhood nutrition programs. Meanwhile, our Board of Trustees is conducting a national search to replace Brian Burton and Larry Scott, two exemplary members of Three Square's executive team who steered our food bank through years of challenges, successes, and strategic growth with steady and capable hands.

The enclosed financial report is unusual in that it effectively reflects a two-year cycle rather than two one-year cycles represented side-by-side. The important takeaway is that Three Square supporters responded to the pandemic early and with extraordinary generosity, creating the capital reserves needed for an 862-day emergency response resulting in

- 144 million pounds of food distributed
- 119 million meals provided
- 730,000 people served

I hope you take pride in these accomplishments, which were made possible by your donations of time, funds, and food. With your continued support in fiscal year 2023, we will strive to re-establish pre-pandemic annual giving levels while stewarding existing resources to ensure that the next time the country catches a cold, we are ready to knock it back with strong medicine.

With gratitude and warm regards,

Michelle Beck, Interim President & CEO

## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Consolidated Financial Statements**

#### ***Opinion***

We have audited the accompanying consolidated financial statements (financial statements) of Three Square and Subsidiary (both nonprofit organizations) (collectively, Three Square) which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Three Square as of June 30, 2022 and 2021, 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.

#### ***Basis for Opinion***

We conducted our audit 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Three Square and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management 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, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Three Square's ability to continue as a going concern within one year after the date that the consolidated financials are available to be issued.

#### ***Auditor's Responsibility for the Audit of the Financial Statements***

Our objectives are to obtain assurance about whether the consolidated financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our

opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Three Square's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Three Square's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### ***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 is presented for purposes of additional analysis and is not a required part of the consolidated 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 8, 2022 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 solely 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 the effectiveness of Three Square's 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 8, 2022

**THREE SQUARE**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2022 AND 2021**

	<b>2022</b>	<b>2021</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,738,999	\$ 21,336,170
Investments	48,314,124	39,443,415
Investments, restricted	3,010,099	6,989,406
Accounts and other receivables, net	148,563	200,021
Pledges receivable	613,456	540,789
Grants receivable	840,229	1,138,738
Inventory	2,956,967	4,564,275
Prepaid expenses and deposits	424,085	309,469
	60,046,522	74,522,283
<b>OTHER ASSETS</b>		
Pledges receivable, net	-	10,000
Investments, restricted	71,773,040	74,000,000
Property and equipment, net	21,688,077	22,591,691
Property and equipment, net, restricted	2,051,163	2,246,512
	\$ 155,558,802	\$ 173,370,486
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 1,392,400	\$ 709,250
Accrued expenses and other current liabilities	393,054	687,124
Capital lease payable, current portion	264,407	236,066
Long-term debt, current portion	-	1,100,000
	2,049,861	2,732,440
<b>LONG-TERM LIABILITIES</b>		
Capital lease payable, net of current portion	816,005	999,099
Long-term debt, net of current portion	6,122,964	5,928,806
	8,988,830	9,660,345
<b>NET ASSETS</b>		
Without donor restrictions	69,122,216	79,923,435
With donor restrictions	77,447,756	83,786,706
	146,569,972	163,710,141
	\$ 155,558,802	\$ 173,370,486

See notes to the consolidated financial statements

**THREE SQUARE  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2022**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>UNRESTRICTED NET ASSETS</b>			
Revenue, gains and other support:			
In-kind contributions	\$ 77,258,777	\$ -	\$ 77,258,777
Donations and contributions	15,038,760	183,800	15,222,560
Government grants	4,829,205	-	4,829,205
Program fees	1,180,286	-	1,180,286
Investment return, net	(9,635,641)	(4,205,423)	(13,841,064)
Gain on debt forgiveness	1,100,000	-	1,100,000
Other income	110,927	-	110,927
	<u>89,882,314</u>	<u>(4,021,623)</u>	<u>85,860,691</u>
Net assets released from restrictions	<u>2,317,327</u>	<u>(2,317,327)</u>	<u>-</u>
	92,199,641	(6,338,950)	85,860,691
Expenses and losses:			
Food program	98,336,468	-	98,336,468
Management and general	1,674,118	-	1,674,118
Fundraising	2,990,274	-	2,990,274
	<u>103,000,860</u>	<u>-</u>	<u>103,000,860</u>
DECREASE IN NET ASSETS	<u>(10,801,219)</u>	<u>(6,338,950)</u>	<u>(17,140,169)</u>
NET ASSETS, BEGINNING OF YEAR	<u>79,923,435</u>	<u>83,786,706</u>	<u>163,710,141</u>
NET ASSETS, END OF YEAR	<u>\$ 69,122,216</u>	<u>\$ 77,447,756</u>	<u>\$ 146,569,972</u>

See notes to the consolidated financial statements



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

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>UNRESTRICTED NET ASSETS</b>			
Revenue, gains and other support:			
In-kind contributions	\$ 109,583,450	\$ -	\$ 109,583,450
Donations and contributions	43,223,119	62,469,374	105,692,493
Government grants	7,632,921	-	7,632,921
Program fees	1,079,084	-	1,079,084
Investment return, net	8,169,783	3,179,299	11,349,082
Other income	39,552	-	39,552
	<u>169,727,909</u>	<u>65,648,673</u>	<u>235,376,582</u>
Net assets released from restrictions	<u>5,421,360</u>	<u>(5,421,360)</u>	<u>-</u>
	175,149,269	60,227,313	235,376,582
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>
<b>INCREASE IN NET ASSETS</b>	<u>44,251,128</u>	<u>60,227,313</u>	<u>104,478,441</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>35,672,307</u>	<u>23,559,393</u>	<u>59,231,700</u>
<b>NET ASSETS, END OF YEAR</b>	<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 STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2022**

	Food program	Management & general	Fundraising	Total
Inventory disbursed	\$ 86,743,162	\$ -	\$ -	\$ 86,743,162
Salaries, taxes and benefits	5,915,489	1,029,646	1,366,024	8,311,159
Depreciation	1,301,936	48,093	82,090	1,432,119
Grants	1,446,204	-	-	1,446,204
Professional fees	181,161	203,390	283,479	668,030
Vehicle expenses	850,146	-	-	850,146
Occupancy	475,807	24,317	30,173	530,297
Rent and rental expense	131,138	2,779	174,584	308,501
Printing	74,647	632	346,530	421,809
Advertising	152,909	206	307,256	460,371
Insurance	194,158	3,300	5,697	203,155
Office	81,020	9,466	192,789	283,275
Program materials	282,344	-	-	282,344
Repairs and maintenance	171,448	3,656	6,346	181,450
Supplies	20,527	939	15,451	36,917
Interest	109,708	274,648	-	384,356
Travel	42,036	5,324	359	47,719
Computer support	132,164	10,841	33,319	176,324
Dues and subscriptions	14,878	28,119	6,235	49,232
Bank service charges	33	6,678	119,170	125,881
Meals	9,018	11,940	15,214	36,172
Conferences	6,535	10,144	5,558	22,237
	<u>\$ 98,336,468</u>	<u>\$ 1,674,118</u>	<u>\$ 2,990,274</u>	<u>\$ 103,000,860</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 and rental expense	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  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (17,140,169)	\$ 104,478,441
Adjustments to reconcile change in net assets to net cash:		
Depreciation	1,432,119	1,301,144
Amortization of debt issuance costs	194,157	182,507
Donated securities	(93,619)	(40,921)
Donated food received	(76,743,626)	(109,475,654)
Donated food distributed	78,624,514	109,048,677
Contributions restricted for investment in endowment	-	(62,000,000)
Change in allowance for doubtful accounts	50,169	4,382
Change in net present value discount for pledges	(476)	413
Realized and unrealized loss (gain) on investments	16,397,699	(10,364,882)
(Gain) loss on disposal of assets	(40,512)	201,321
Changes in operating assets and liabilities:		
Accounts and other receivable	7,582	364,652
Grants receivable	298,509	(282,554)
Pledges receivable	(68,485)	(31,442)
Prepaid expenses	(514,716)	97,873
Inventory	(273,580)	(141,169)
Accounts payable	679,501	(495,524)
Accrued expenses and other	130,564	(45,165)
Net cash provided by operating activities	<u>2,939,631</u>	<u>32,802,099</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(264,612)	(3,090,862)
Sales of property and equipment	42,000	14,008
Sales of investments	151,412,594	95,006,266
Purchases of investments	(170,377,468)	(184,664,137)
Net cash used in investing activities	<u>(19,187,486)</u>	<u>(92,734,725)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from contributions restricted for:		
Investments in endowments	-	62,000,000
Payments of capital lease obligations	(249,316)	(289,175)
Proceeds from long-term debt	-	3,069,217
Payments of long-term debt	-	(41,548)
Forgiveness of debt	(1,100,000)	-
Net cash (used in) provided by financing activities	<u>(1,349,316)</u>	<u>64,738,494</u>
(DECREASE) INCREASE IN CASH	(17,597,171)	4,805,868
CASH, BEGINNING OF YEAR	21,336,170	16,530,302
CASH, END OF YEAR	<u>\$ 3,738,999</u>	<u>\$ 21,336,170</u>
<b>SUPPLEMENTAL DISCLOSURES</b>		
Capital assets acquired through capital leases	\$ 94,563	\$ 143,738
Cash paid for interest	\$ 190,199	\$ 192,136

See notes to the consolidated financial statements

**THREE SQUARE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2022 and 2021**

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.

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.

**THREE SQUARE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2022 and 2021**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$26,324 and \$76,493 as of June 30, 2022 and 2021, 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 \$1.92 and \$1.79 as of June 30, 2022 and 2021, respectively. Government commodities are also recorded when received at an estimated fair value per pound, provided by Feeding America, of \$1.53 and \$1.70 as of June 30, 2022 and 2021, respectively.

	As of June 30,	
	2022	2021
Purchased inventory	\$ 1,731,656	\$ 1,458,076
Donated inventory	924,372	1,535,766
Government commodity inventory	300,939	1,570,433
Total inventory	<u>\$ 2,956,967</u>	<u>\$ 4,564,275</u>

**THREE SQUARE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2022 and 2021**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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, 2022 and 2021, advertising costs totaled \$460,371 and \$656,964, respectively.

**THREE SQUARE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2022 and 2021**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Subsequent events have been evaluated through November 8, 2022, which is the date the financial statements were available to be issued.

Recent Accounting Pronouncements

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.

During the year ended June 30, 2022, Three Square adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (Topic 958)*, which is effective for fiscal years beginning after June 15, 2021. This update is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts in-kind, for not-for-profit organizations. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, along with expanded disclosure requirements. Adoption of this ASU had no effect on the balance of net assets for any period presented.

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, 2022 and 2021.

	As of June 30,	
	2022	2021
Time restricted (no purpose restriction)	\$ 195,976	\$ 101,265
Childhood nutrition	417,480	450,000
Total pledges receivable	<u>\$ 613,456</u>	<u>\$ 551,265</u>
Receivable in less than one year	\$ 613,456	\$ 541,265
Receivable in one to five years	-	10,000
	<u>613,456</u>	<u>551,265</u>
Less: unamortized discount	-	(476)
	<u>613,456</u>	<u>550,789</u>
Less: current portion	(613,456)	(540,789)
Long-term portion	<u>\$ -</u>	<u>\$ 10,000</u>



**THREE SQUARE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2022 and 2021**

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, 2022 and 2021, 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, 2022 and 2021 are summarized as follows.

	Level 1	Level 2	June 30, 2022
Marketable securities	\$ 67,668,215	\$ -	\$ 67,668,215
Fixed income and preferred securities	37,670,167	-	37,670,167
Alternate investments	317,158	17,441,723	17,758,881
Total investments	<u>\$105,655,540</u>	<u>\$ 17,441,723</u>	<u>\$123,097,263</u>
	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>

**THREE SQUARE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2022 and 2021**

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following.

	As of June 30,	
	2022	2021
Building and building improvements	\$ 25,969,437	\$ 25,969,437
Vehicles	2,307,355	2,632,494
Furniture and equipment	2,702,113	2,640,320
Land	1,959,953	1,959,953
Computer equipment and software	1,223,111	1,215,847
Website design	138,164	25,364
Construction-in-progress	47,430	121,769
Total property and equipment	34,347,563	34,565,184
Less: accumulated depreciation	(10,608,323)	(9,726,981)
Total property and equipment, net	\$ 23,739,240	\$ 24,838,203

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,	
	2022	2021
Furniture and equipment	\$ 143,738	\$ 143,738
Vehicles	1,733,268	1,710,110
Less: accumulated amortization	(902,387)	(711,469)
Total net assets under capital lease obligations	\$ 974,619	\$ 1,142,379

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

Fiscal year ending June 30,	
2023	\$ 359,361
2024	359,361
2025	359,361
2026	200,551
2027 and thereafter	47,218
	1,325,852
Less: amount representing interest	(245,440)
Less: current portion	(264,407)
Long-term capital lease obligations	\$ 816,005

**THREE SQUARE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2022 and 2021**

NOTE 6. LONG-TERM DEBT

Long-term debt consists of the following:

	As of June 30,	
	2022	2021
Term loan due January 10, 2050 <sup>(1)</sup>	\$ 3,034,900	\$ 3,034,900
Term loan 1 due July 22, 2055 <sup>(2)</sup>	441,177	441,177
Term loan 2 due July 22, 2055 <sup>(2)</sup>	912,028	912,028
Term loan 3 due July 22, 2055 <sup>(2)</sup>	673,663	673,663
Term loan 4 due July 22, 2055 <sup>(2)</sup>	673,662	673,662
Term loan 5 due July 22, 2055 <sup>(2)</sup>	673,662	673,662
Term loan 6 due July 22, 2055 <sup>(2)</sup>	673,662	673,662
Paycheck Protection Program <sup>(3)</sup>	-	1,100,000
Total long-term debt	7,082,754	8,182,754
Less: debt issuance costs	(959,790)	(1,153,948)
Less: current maturities of long-term debt	-	(1,100,000)
Total	\$ 6,122,964	\$ 5,928,806

- (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, 2022, 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, 2022, 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. On July 29, 2021, the amount was fully forgiven.

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

Fiscal year ending June 30, 2023-2027	\$ -
Thereafter	7,082,754
Total minimum payments	\$ 7,082,754

**THREE SQUARE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2022 and 2021**

NOTE 7. NET ASSETS WITH DONOR RESTRICTIONS

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

	As of June 30,	
	2022	2021
Subject to expenditure for specific purpose:		
School pantries	\$ 1,612,023	\$ 1,551,413
Building maintenance	583,318	914,835
Childhood nutrition programs	433,056	883,991
Food purchases	41,600	11,154
Food rescue	12,000	-
Transportation	3,170	269,357
Government affairs	2,500	-
Senior nutrition programs	-	290,246
Agency capacity enhancement	-	37
Total subject to expenditure for specific purpose	<u>2,687,667</u>	<u>3,921,033</u>
Subject to the passage of time:		
Building and land <sup>(1)</sup>	2,051,163	2,246,512
Pledges receivable, net	<u>195,976</u>	<u>100,788</u>
Total subject to the passage of time	<u>2,247,139</u>	<u>2,347,300</u>
Subject to endowment spending policy and appropriation, donor-restricted in perpetuity:		
Hilton endowment <sup>(2)</sup>	2,515,973	2,925,201
Englestad endowment <sup>(2)</sup>	10,223,937	12,413,514
Senior Hunger endowment	<u>59,773,040</u>	<u>62,179,658</u>
	<u>72,512,950</u>	<u>77,518,373</u>
Total nets assets with donor restrictions	<u>\$ 77,447,756</u>	<u>\$ 83,786,706</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, 2022 and 2021**

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,	
	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 3,738,999	\$ 21,336,170
Accounts and other receivables, net	148,563	200,021
Pledges receivable, net	613,456	540,789
Total financial assets	4,501,018	22,076,980
Liquidity resources		
Bank line of credit	15,000,000	8,094,829
Total financial assets and liquidity resources	\$ 19,501,018	\$ 30,171,809

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, 2022 or 2021. 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, 2022 and 2021**

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 exist in one donor restricted endowment fund, which has an original gift value of \$62,000,000, and a fair value of \$59,773,040 and a deficiency of \$2,226,960 as of June 30, 2022. This deficiency resulted from unfavorable marked fluctuations. Continued appropriation for the applicable restricted programs was deemed prudent by the Board of Directors.

*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, 2022:

	Without Donor Restriction	With Donor Restriction	Total
Board designated	\$ 3,961,583	\$ -	\$ 3,961,583
Donor restricted endowment funds	-	72,512,950	72,512,950
Total endowment funds	\$ 3,961,583	\$ 72,512,950	\$ 76,474,533

**THREE SQUARE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2022 and 2021**

NOTE 9. ENDOWMENTS (CONTINUED)

Changes in endowment net assets for the year ended June 30, 2022:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 7,501,583	\$77,518,373	\$85,019,956
Investment return, net	(3,836,256)	(4,205,423)	(8,041,679)
Transfer to operations	(503,744)	-	(503,744)
Appropriations	800,000	(800,000)	-
Endowment net assets, end of year	\$ 3,961,583	\$72,512,950	\$76,474,533

Endowment net asset composition by type of fund as of June 30, 2021:

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

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

	Without Donor Restriction	With Donor Restriction	Total
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	\$ 7,501,583	\$77,518,373	\$85,019,956

*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.

**THREE SQUARE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2022 and 2021**

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 two investment brokers. 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, 2022 and 2021, nearly 100% of all in-kind contributions were contributions of food and approximately 26% and 32%, respectively, were contributed by one source. For the years ended June 30, 2022 and 2021, in-kind food donations represented 89% and 47%, respectively, of total revenues. Additionally, as of June 30, 2022 and 2021, 66% and 82%, respectively, of our outstanding pledge receivable balance was due from one source.

NOTE 11. COMMITMENTS

In November 2021, we entered into a liquidity access line of credit with our investment broker allowing Three Square to receive a non-purpose loan up to \$15 million, secured by our unrestricted investment holdings. This liquidity access line is payable upon demand at a variable interest rate based on the Secured Overnight Financing Rate plus a Variable Rate Adjustment or spread adjustment. No amount was drawn on the loan as of June 30, 2022. This new liquidity access line of credit replaced our previously held loan management account agreement. This previous agreement allowed for non-purpose loans secured by our investment holdings. No amount was drawn on this loan as of June 30, 2021.

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 6% of eligible employee compensation. The matching contributions for the years ended June 30, 2022 and 2021 were \$159,335 and \$141,028, 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 \$38,956 and \$37,729 for the years ended June 30, 2022 and 2021, respectively.



**THREE SQUARE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2022 and 2021**

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 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, 2022 and 2021**

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, 2022.

STATEMENT OF FINANCIAL POSITION

	East Campus POB	Headquarters POB	Non-POB	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ -	\$ 3,738,999	\$ 3,738,999
Investments	-	-	123,097,263	123,097,263
Accounts and other receivables, net	-	1,392,485	209,763	1,602,248
Inventory	937,620	2,019,347	-	2,956,967
Prepaid expenses and deposits	-	424,085	-	424,085
Property and equipment, net	6,867,146	16,872,094	-	23,739,240
	<u>\$ 7,804,766</u>	<u>\$ 20,708,011</u>	<u>\$ 127,046,025</u>	<u>\$ 155,558,802</u>
<b>LIABILITIES AND NET ASSETS</b>				
Accounts payable	\$ 272,854	\$ 939,695	\$ 179,851	\$ 1,392,400
Accrued expenses and other	62,908	191,688	138,458	393,054
Capital lease payable	-	1,080,412	-	1,080,412
Long-term debt	-	-	6,122,964	6,122,964
	<u>335,762</u>	<u>2,211,795</u>	<u>6,441,273</u>	<u>8,988,830</u>
Net assets	<u>7,469,004</u>	<u>18,496,216</u>	<u>120,604,752</u>	<u>146,569,972</u>
	<u>\$ 7,804,766</u>	<u>\$ 20,708,011</u>	<u>\$ 127,046,025</u>	<u>\$ 155,558,802</u>

**THREE SQUARE**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2022 and 2021**

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	\$ 21,655	\$ 77,070,948	\$ 166,174	\$ 77,258,777
Contributions and grants	5,506,363	11,788,674	2,756,728	20,051,765
Program fees	21,602	1,158,684	-	1,180,286
Investment return	-	-	(13,841,064)	(13,841,064)
Other income	-	105,853	1,105,074	1,210,927
	5,549,620	90,124,159	(9,813,088)	85,860,691
Expenses and losses:				
Inventory disbursed	2,614,705	84,128,457	-	86,743,162
Salaries, taxes and benefits	1,430,491	3,648,882	3,231,786	8,311,159
Other	1,656,606	4,076,757	2,213,176	7,946,539
	5,701,802	91,854,096	5,444,962	103,000,860
Increase (decrease) in net assets	\$ (152,182)	\$ (1,729,937)	\$ (15,258,050)	\$ (17,140,169)

**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 (financial statements) of Three Square and Subsidiary (both nonprofit organizations) (collectively, Three Square), which comprise the consolidated statements of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 8, 2022.

**Report on 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) as a basis for designing 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.

**Report on 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.

*Houldsworth, Russo & Company, P.C.*

Las Vegas, Nevada  
November 8, 2022