

THREE SQUARE
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 AND 2022

The logo for HRC, consisting of the letters 'HRC' in white, bold, sans-serif font, centered within a dark blue square with a white border. The logo is positioned in the bottom right corner of the page, overlapping a green decorative shape.

HRC

THREE SQUARE
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Dear Friends,

The 2022-2023 fiscal year reflects Three Square's organizational strength and highlights our impact's very essence. The successes achieved in the last year belong to everyone who poured their heart, soul, time, and resources into our mission.

- 43 million pounds of food distributed
- 36 million nutritious meals provided
- 295,00 people served, including approximately 65,000 children
- 14 million pounds of quality food rescued from retail food partners and diverted from the waste stream
- 900,000 meals and 4.4 million federal dollars brought into local economy through SNAP Outreach and Assistance
- 44,000 hours donated by generous volunteers
- 95 cents of every dollar allocated directly toward Three Square's mission

Last year, Three Square also encountered new challenges that tested our resilience and determination, pushing us to innovate, adapt, and look to each situation for valuable learning experiences.

For the first time, Three Square's primary performance benchmarks went down—primarily due to rising inflation and higher food and transportation costs. And, while the number of food- insecure Southern Nevadans declined—due in large part to the unprecedented public and charitable response to the public health and economic crisis caused by COVID-19—those who remain food insecure report needing more charitable food assistance to make ends meet.

The challenges confronting us underscore the importance of our mission. Embracing vulnerability is an essential step that will propel us toward new opportunities to continue making a meaningful impact in the lives of our food insecure neighbors.

To close Southern Nevada's meal gap, we must be more strategic and collaborative in our partnerships; leverage more public resources; be more alert to the changing face of hunger; more responsive to social and racial inequities in the food distribution system; and adopt more environmentally sustainable practices.

Far from being daunted by these challenges, we are motivated and optimistic. Personally, I couldn't be more thrilled to work with you and learn the insights and ideas you will bring to our shared vision of a hunger-free community in the year ahead.

Thank you for your unwavering dedication.

Beth Martino

Beth Martino,
President & CEO

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Three Square and Subsidiary
4190 N Pecos Rd
Las Vegas, Nevada 89115

Report on the Audit of the 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, 2023 and 2022, 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, 2023 and 2022, 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 opinions.

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.

Responsibilities of Management 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, 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 financial statements are available to be issued.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain assurance about whether the 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 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.

Supplementary 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) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Title 45 U.S. *Code of Federal Regulations* Part 75, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for HHS 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 31, 2023 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
October 31, 2023

THREE SQUARE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022

	2023	2022
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,471,104	\$ 3,738,999
Investments	45,221,386	48,314,124
Investments, restricted	3,673,259	3,010,099
Accounts and other receivables, net	96,310	148,563
Pledges receivable	599,935	613,456
Grants receivable	734,438	840,229
Inventory	4,041,828	2,956,967
Prepaid expenses and deposits	546,174	424,085
	60,384,434	60,046,522
OTHER ASSETS		
Investments, restricted	72,733,451	71,773,040
Property and equipment, net	21,217,399	21,688,077
Property and equipment, net, restricted	1,855,814	2,051,163
	\$ 156,191,098	\$ 155,558,802
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 957,275	\$ 1,392,400
Accrued expenses and other current liabilities	541,581	393,054
Finance lease payable, current portion	398,316	264,407
	1,897,172	2,049,861
LONG-TERM LIABILITIES		
Finance lease payable, net of current portion	1,104,644	816,005
Long-term debt	6,317,121	6,122,964
	9,318,937	8,988,830
NET ASSETS		
Without donor restrictions	67,985,707	69,122,216
With donor restrictions	78,886,454	77,447,756
	146,872,161	146,569,972
	\$ 156,191,098	\$ 155,558,802

See notes to the consolidated financial statements

**THREE SQUARE
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2023**

	Without Donor Restrictions	With Donor Restrictions	Total
UNRESTRICTED NET ASSETS			
Revenue, gains and other support:			
In-kind contributions	\$ 63,767,701	\$ -	\$ 63,767,701
Donations and contributions	12,615,949	292,205	12,908,154
Government grants	4,532,308	-	4,532,308
Program fees	809,273	-	809,273
Investment return, net	7,849,687	1,603,154	9,452,841
Other income	7,107	-	7,107
	<u>89,582,025</u>	<u>1,895,359</u>	<u>91,477,384</u>
Net assets released from restrictions	<u>456,661</u>	<u>(456,661)</u>	<u>-</u>
	90,038,686	1,438,698	91,477,384
Expenses and losses:			
Food program	86,381,471	-	86,381,471
Management and general	1,769,431	-	1,769,431
Fundraising	2,979,564	-	2,979,564
	<u>91,130,466</u>	<u>-</u>	<u>91,130,466</u>
Loss on disposal of assets	12,201	-	12,201
Bad debt expense	32,528	-	32,528
	<u>91,175,195</u>	<u>-</u>	<u>91,175,195</u>
(DECREASE) INCREASE IN NET ASSETS	<u>(1,136,509)</u>	<u>1,438,698</u>	<u>302,189</u>
NET ASSETS, BEGINNING OF YEAR	<u>69,122,216</u>	<u>77,447,756</u>	<u>146,569,972</u>
NET ASSETS, END OF YEAR	<u>\$ 67,985,707</u>	<u>\$ 78,886,454</u>	<u>\$ 146,872,161</u>

See notes to the consolidated financial statements

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
UNRESTRICTED NET ASSETS			
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 STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2023

	Food program	Management & general	Fundraising	Total
Inventory disbursed	\$ 72,942,330	\$ -	\$ -	\$ 72,942,330
Salaries, taxes and benefits	6,404,047	992,512	1,472,645	8,869,204
Depreciation and amortization	1,460,942	35,805	67,833	1,564,580
Grants	2,598,640	-	-	2,598,640
Professional fees	285,766	367,193	161,100	814,059
Vehicle expenses	869,063	-	1,824	870,887
Occupancy	556,188	23,369	31,497	611,054
Rent and rental expense	40,944	3,073	181,134	225,151
Printing	122,378	1,353	360,353	484,084
Advertising	45,589	-	313,425	359,014
Insurance	234,592	3,335	6,399	244,326
Office	83,001	12,294	171,883	267,178
Program materials	188,898	-	-	188,898
Repairs and maintenance	167,222	3,213	5,696	176,131
Supplies	29,402	1,105	14,919	45,426
Interest	137,702	278,618	-	416,320
Travel	94,713	4,070	568	99,351
Computer support	87,844	4,880	49,499	142,223
Dues and subscriptions	14,832	21,525	1,355	37,712
Bank service charges	-	2,866	112,983	115,849
Meals	12,943	13,035	26,451	52,429
Conferences	4,435	1,185	-	5,620
	<u>\$ 86,381,471</u>	<u>\$ 1,769,431</u>	<u>\$ 2,979,564</u>	<u>\$ 91,130,466</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
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 302,189	\$ (17,140,169)
Adjustments to reconcile change in net assets to net cash:		
Depreciation and amortization	1,564,580	1,432,119
Amortization of debt issuance costs	194,157	194,157
Donated securities	(39,167)	(93,619)
Donated food received	(63,416,772)	(76,743,626)
Donated food distributed	62,000,617	78,624,514
Change in allowance for doubtful accounts	30,608	50,169
Change in net present value discount for pledges	-	(476)
Realized and unrealized (gain) loss on investments	(6,752,806)	16,397,699
Loss (gain) on disposal of assets	12,201	(40,512)
Changes in operating assets and liabilities:		
Accounts and other receivable	21,645	7,582
Grants receivable	105,791	298,509
Pledges receivable	13,521	(68,485)
Prepaid expenses	(122,239)	(514,716)
Inventory	331,294	(273,580)
Accounts payable	(435,126)	679,501
Accrued expenses and other	44,086	130,564
Net cash (used in) provided by operating activities	(6,145,421)	2,939,631
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(153,075)	(264,612)
Sales of property and equipment	258	42,000
Sales of investments	39,849,746	151,412,594
Purchases of investments	(31,484,013)	(170,377,468)
Net cash provided by (used in) investing activities	8,212,916	(19,187,486)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of finance lease obligations	(335,390)	(249,316)
Forgiveness of debt	-	(1,100,000)
Net cash used in financing activities	(335,390)	(1,349,316)
INCREASE (DECREASE) IN CASH	1,732,105	(17,597,171)
CASH, BEGINNING OF YEAR	3,738,999	21,336,170
CASH, END OF YEAR	\$ 5,471,104	\$ 3,738,999
SUPPLEMENTAL DISCLOSURES		
Capital assets acquired through finance leases	\$ 493,181	\$ 94,563
Cash paid for interest	\$ 213,840	\$ 190,199

See notes to the consolidated financial statements

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 and 2022

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, 2023 and 2022

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. Management reviews accounts receivable balances to determine if an allowance for doubtful accounts is necessary. The allowance for uncollectible receivables was \$56,932 and \$26,324 as of June 30, 2023 and 2022, 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 \$1.93 and \$1.92 as of June 30, 2023 and 2022, respectively. Government commodities are also recorded when received at an estimated fair value per pound, provided by Feeding America, of \$1.57 and \$1.53 as of June 30, 2023 and 2022, respectively.

	As of June 30,	
	2023	2022
Purchased inventory	\$ 1,400,362	\$ 1,731,656
Donated inventory	499,214	924,372
Government commodity inventory	2,142,252	300,939
Total inventory	\$ 4,041,828	\$ 2,956,967

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 and 2022

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.

Leases

We determine if an arrangement contains a lease at inception. An arrangement contains a lease if there are identified assets and the right to control the use of an identified asset is conveyed for a period of time in exchange for consideration. Control over the use of the identified asset means the lessee has both the right to obtain substantially all of the economic benefit from the use of the asset and the right to direct the use of the asset.

For leases with terms greater than twelve months, the right-of-use assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. Lease terms include options to extend the lease when it is reasonably certain that such option will be exercised. For operating leases, lease expense is recognized on a straight-line basis over the expected lease term. For finance leases, the right-of-use asset depreciates on a straight-line basis over the shorter of the lease term or useful life of the right-of-use asset. The lease liability accretes interest based on the interest method using the discount rate determined at lease commencement. For leases that do not provide an implicit rate, we use a risk-free rate based on the information available at commencement date in determining the present value of the lease payments.

Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 and 2022

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2023 and 2022, advertising costs totaled \$359,014 and \$460,371, respectively.

Recent Accounting Pronouncements

During the fiscal year ended June 30, 2023, we adopted *ASU 2016-02, Leases (Topic 842)*, which replaces the existing guidance in Topic 840, "Leases". This guidance requires a lessee to account for lease agreements as either finance or operating. Both finance and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability. For finance leases, the lessee will recognize interest expense associated with the lease liability and depreciation expense associated with the right-of-use asset; and for operating leases, the lessee will recognize straight-line lease expense.

We have opted to use the simplified transition method and as such did not recast comparative period financial information. We elected the available practical expedients to account for our existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 and 2022

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

Subsequent events have been evaluated through October 31, 2023, which is the date the financial statements were available to be issued.

NOTE 2. PLEDGES RECEIVABLE

The pledges receivable balance consists of unrestricted and restricted pledges. All pledges are expected to be received after one year, so no pledges have been discounted. All pledges were deemed fully collectible for the years ended June 30, 2023 and 2022.

	As of June 30,	
	2023	2022
Time restricted (no purpose restriction)	\$ 182,455	\$ 195,976
Childhood nutrition	417,480	417,480
Total pledges receivable	\$ 599,935	\$ 613,456
Receivable in less than one year	\$ 599,935	\$ 613,456

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, 2023 and 2022, 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, 2023 and 2022 are summarized as follows.

			June 30, 2023
	Level 1	Level 2	
Marketable securities	\$ 63,621,615	\$ -	\$ 63,621,615
Fixed income and preferred securities	37,770,215	-	37,770,215
Alternate investments	331,844	19,904,422	20,236,266
Total investments	\$101,723,674	\$ 19,904,422	\$121,628,096
			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	\$105,655,540	\$ 17,441,723	\$123,097,263

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 and 2022

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following.

	As of June 30,	
	2023	2022
Building and building improvements	\$ 25,978,500	\$ 25,969,437
Vehicles	506,389	2,307,355
Furniture and equipment	2,609,313	2,702,113
Land	1,959,953	1,959,953
Computer equipment and software	1,267,278	1,223,111
Website design	138,164	138,164
Construction-in-progress	-	47,430
Total property and equipment	32,459,597	34,347,563
Less: accumulated depreciation	(10,811,884)	(10,608,323)
Finance leases right-of-use assets, net	1,425,500	-
Total property and equipment, net	\$ 23,073,213	\$ 23,739,240

NOTE 5. LEASES

We lease real estate and various equipment under finance lease arrangements. The depreciation related to these right-of-use assets is included in depreciation expense. These right-of-use assets are as follows. These are included in Property and equipment on the Statement of Financial Position.

	As of June 30, 2023
Furniture and equipment	\$ 363,566
Vehicles	1,900,986
Land ⁽¹⁾	252,431
	2,516,983
Less: accumulated depreciation	(1,091,483)
Finance leases right-of-use assets, net	\$ 1,425,500

(1) 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.

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 and 2022

NOTE 5. LEASES (CONTINUED)

Total lease costs for the year ended June 30, 2023 are as follows.

Short-term lease costs	\$ 225,150
Finance lease costs:	
Interest expense	7,235
Amortization of right-of-use assets	43,680
	<u>\$ 276,065</u>

As of June 30, 2023, the weighted-average remaining lease term of finance leases was 49 months and the weighted-average discount rate was 4.21%.

Future minimum lease payments under these lease arrangements are as follows:

Fiscal year ending June 30,	
2024	\$ 519,127
2025	519,624
2026	351,749
2027	189,657
2028 and thereafter	216,369
	<u>1,796,526</u>
Less: amount representing interest	(293,566)
Less: current portion	(398,316)
Long-term capital lease obligations	<u>\$ 1,104,644</u>

Prior period disclosures

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,
	<u>2022</u>
Furniture and equipment	\$ 143,738
Vehicles	1,733,268
Less: accumulated amortization	(902,387)
Total net assets under capital lease obligations	<u>\$ 974,619</u>

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 and 2022

NOTE 6. LONG-TERM DEBT

Long-term debt consists of the following:

	As of June 30,	
	2023	2022
Term loan due January 10, 2050 ⁽¹⁾	\$ 3,034,900	\$ 3,034,900
Term loan 1 due July 22, 2055 ⁽²⁾	441,177	441,177
Term loan 2 due July 22, 2055 ⁽²⁾	912,028	912,028
Term loan 3 due July 22, 2055 ⁽²⁾	673,663	673,663
Term loan 4 due July 22, 2055 ⁽²⁾	673,662	673,662
Term loan 5 due July 22, 2055 ⁽²⁾	673,662	673,662
Term loan 6 due July 22, 2055 ⁽²⁾	673,662	673,662
Total long-term debt	7,082,754	7,082,754
Less: debt issuance costs	(765,633)	(959,790)
Less: current maturities of long-term debt	-	-
Total	\$ 6,317,121	\$ 6,122,964

- (2) 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, 2023 Three Square was in compliance with all required debt covenants. For further information regarding the NMTC financing transaction, see Note 12.
- (3) 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, 2023, Three Square was in compliance with all required debt covenants. For further information regarding the NMTC transaction, see Note 12.

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

Fiscal year ending June 30,	
2024-2026	\$ -
2027 and thereafter	7,082,754
Total minimum payments	\$ 7,082,754

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 and 2022

NOTE 7. NET ASSETS WITH DONOR RESTRICTIONS

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

	As of June 30,	
	2023	2022
Subject to expenditure for specific purpose:		
School pantries	\$ 1,436,428	\$ 1,612,023
Building maintenance	678,412	583,318
Childhood nutrition programs	538,273	433,056
Senior nutrition programs	168,418	-
Transportation	2,651	3,170
Agency capacity enhancement	2,261	-
Employee training programs	732	-
Food purchases	-	41,600
Food rescue	-	12,000
Government affairs	-	2,500
Total subject to expenditure for specific purpose	<u>2,827,175</u>	<u>2,687,667</u>
Subject to the passage of time:		
Building and land ⁽¹⁾	1,855,814	2,051,163
Pledges receivable, net	182,455	195,976
Total subject to the passage of time	<u>2,038,269</u>	<u>2,247,139</u>
Subject to endowment spending policy and appropriation, donor-restricted in perpetuity:		
Hilton endowment ⁽²⁾	2,670,815	2,515,973
Englestad endowment ⁽²⁾	10,616,745	10,223,937
Senior Hunger endowment	60,733,450	59,773,040
	<u>74,021,010</u>	<u>72,512,950</u>
Total nets assets with donor restrictions	<u>\$ 78,886,454</u>	<u>\$ 77,447,756</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, 2023 and 2022

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,	
	2023	2022
Financial assets:		
Cash and cash equivalents	\$ 5,471,104	\$ 3,738,999
Accounts and other receivables, net	96,310	148,563
Pledges receivable, net	599,935	613,456
Total financial assets	6,167,349	4,501,018
Liquidity resources		
Bank line of credit	15,000,000	15,000,000
Total financial assets and liquidity resources	\$ 21,167,349	\$ 19,501,018

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, 2023 or 2022. 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, 2023 and 2022

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 \$60,733,450 and a deficiency of \$1,266,550 as of June 30, 2023. This deficiency resulted from unfavorable market 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, 2023:

	Without Donor Restriction	With Donor Restriction	Total
Board designated	\$ 4,761,583	\$ -	\$ 4,761,583
Donor restricted endowment funds	-	74,021,010	74,021,010
Total endowment funds	\$ 4,761,583	\$ 74,021,010	\$ 78,782,593

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 and 2022

NOTE 9. ENDOWMENTS (CONTINUED)

Changes in endowment net assets for the year ended June 30, 2023:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	\$ 3,961,583	\$72,512,950	\$76,474,533
Investment return, net	3,550,000	2,308,060	5,858,060
Transfer to operations	(3,550,000)	-	(3,550,000)
Appropriations	800,000	(800,000)	-
Endowment net assets, end of year	\$ 4,761,583	\$74,021,010	\$78,782,593

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

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

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, 2023 and 2022

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, 2023 and 2022, nearly 100% of all in-kind contributions were contributions of food and approximately 29% and 26%, respectively, were contributed by one source. For the years ended June 30, 2023 and 2022, in-kind food donations represented 69% and 89%, respectively, of total revenues. Additionally, as of June 30, 2023 and 2022, 70% and 66%, 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, 2023.

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, 2023 and 2022 were \$183,846 and \$159,335, respectively.

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 and 2022

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, 2023 and 2022

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, 2023.

STATEMENT OF FINANCIAL POSITION

	East Campus POB	Headquarters POB	Non-POB	Total
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ 5,471,104	\$ 5,471,104
Investments	-	-	121,628,096	121,628,096
Accounts and other receivables, net	-	1,211,622	219,061	1,430,683
Inventory	1,625,996	2,415,832	-	4,041,828
Prepaid expenses and deposits	-	546,174	-	546,174
Property and equipment, net	6,670,994	16,402,219	-	23,073,213
	<u>\$ 8,296,990</u>	<u>\$ 20,575,847</u>	<u>\$ 127,318,261</u>	<u>\$ 156,191,098</u>
LIABILITIES AND NET ASSETS				
Accounts payable	\$ 220,464	\$ 602,175	\$ 134,636	\$ 957,275
Accrued expenses and other	65,960	334,573	141,048	541,581
Capital lease payable	-	1,502,960	-	1,502,960
Long-term debt	-	-	6,317,121	6,317,121
	<u>286,424</u>	<u>2,439,708</u>	<u>6,592,805</u>	<u>9,318,937</u>
Net assets	<u>8,010,566</u>	<u>18,136,139</u>	<u>120,725,456</u>	<u>146,872,161</u>
	<u>\$ 8,296,990</u>	<u>\$ 20,575,847</u>	<u>\$ 127,318,261</u>	<u>\$ 156,191,098</u>

THREE SQUARE
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2023 and 2022

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	\$ 5,364	\$ 63,425,307	\$ 337,030	\$ 63,767,701
Contributions and grants	2,191,437	14,187,205	1,061,820	17,440,462
Program fees	35,256	774,017	-	809,273
Investment return	4,711,174	-	4,741,667	9,452,841
Other income	-	6,933	174	7,107
	6,943,231	78,393,462	6,140,691	91,477,384
Expenses and losses:				
Inventory disbursed	3,150,044	69,792,286	-	72,942,330
Salaries, taxes and benefits	1,445,366	3,849,820	3,574,018	8,869,204
Other	1,806,259	5,111,433	2,445,969	9,363,661
	6,401,669	78,753,539	6,019,987	91,175,195
Increase (decrease) in net assets	\$ 541,562	\$ (360,077)	\$ 120,704	\$ 302,189

**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 and Subsidiary
4190 N Pecos Rd
Las Vegas, Nevada 89115

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) (collectively, Three Square), which comprise the consolidated statements of financial position as of June 30, 2023, 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 31, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated 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 or significant deficiencies may exist that were 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.

Holdsworth, Russo & Company, P.C.

Las Vegas, Nevada
October 31, 2023

**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 and Subsidiary
4190 N Pecos Rd
Las Vegas, Nevada 89115

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Three Square and Subsidiary’s (collectively, Three Square), compliance with the types of compliance requirements identified as subject to audit 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, 2023. 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.

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, 2023.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Three Square and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Three Square’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable Three Square’s federal programs.

Auditor’s Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion



on Three Square's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Three Square's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Three Square's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Three Square's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Three Square's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on Three Square's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. Three Square's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 31, 2023

**THREE SQUARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023**

<u>Grantor and Program Title</u>	<u>Federal Assistance Listing Number</u>	<u>Pass Through Identifying Number</u>	<u>Total Federal Expenditures</u>	<u>Passed Through to Subrecipients</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Passed Through the Nevada Department of Agriculture:				
Child Nutrition Cluster				
Summer Food Service Program	10.559	TUFEHHFJ2P79	\$ 705,873	\$ -
Total Child Nutrition Cluster			705,873	-
Child and Adult Care Food Program	10.558	TUFEHHFJ2P79	767,902	-
Food Distribution Cluster				
The Emergency Food Assistance Program - Administrative Costs	10.568	TUFEHHFJ2P79	691,360	-
The Emergency Food Assistance Program Build Back Better	10.568	TUFEHHFJ2P79	688,339	-
The Emergency Food Assistance Program - Food Commodities	10.569	TUFEHHFJ2P79	13,804,241	13,804,241
Total Food Distribution Cluster			15,183,940	13,804,241
Passed through the Nevada Department of Health and Human Services:				
SNAP Cluster				
Supplemental Nutrition Assistance Program - Outreach	10.561	OUT2211	355,174	-
Total SNAP Cluster			355,174	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			17,012,889	13,804,241
<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	N/A	85,000	-
Total CDGB-Entitlement Grants Cluster			85,000	-
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			85,000	-
<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	21872	580	-
Passed through National Council on Aging:				
Medicare Enrollment Assistance Program	93.071	N/A	60,000	-
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			60,580	-
<u>U.S. DEPARTMENT OF THE TREASURY</u>				
Passed Through Clark County, Nevada:				
COVID-19 State and Local Fiscal Recovery Funds	21.027	N/A	390,206	-
Passed Through the City of Las Vegas, Nevada:				
COVID-19 State and Local Fiscal Recovery Funds	21.027	N/A	20,806	-
Passed Through the Nevada Department of Agriculture:				
COVID-19 State and Local Fiscal Recovery Funds	21.027	N/A	37,430	-
Passed Through the City of North Las Vegas, Nevada:				
COVID-19 State and Local Fiscal Recovery Funds	21.027	N/A	97,917	-
TOTAL U.S. DEPARTMENT OF THE TREASURY			546,359	-
U.S. DEPARTMENT OF HOMELAND SECURITY				
Passed through Clark County, Nevada				
Emergency Food and Shelter National Board Program	97.024	N/A	30,412	-
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			30,412	-
TOTAL FEDERAL EXPENDITURES			\$ 17,735,240	\$ 13,804,241

THREE SQUARE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2023

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, 2023. 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) and Title 45 U.S. *Code of Federal Regulations* Part 75, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for HHS Awards*. 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 not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**THREE SQUARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2023**

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 instances of material weaknesses and one instance of significant deficiency 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 on all major programs.
6. Audit findings that are required to be reported in accordance with 2 CFR 200.516 (a) are included in this schedule.
7. The programs tested as major programs were the U.S. Department of Agriculture Food Distribution Cluster and the U.S. Department of Agriculture, Child and Adult Care Food Program, Assistance Listing Number 10.558.
8. The threshold used for distinguishing between Type A and Type B programs was \$750,000.
9. Three Square does not qualify as a low-risk auditee.

FINDINGS AND QUESTIONED COSTS – FINANCIAL STATEMENT AUDIT

None

**THREE SQUARE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2023**

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2023-001 Internal Control Systems Over Special Tests and Provisions (Accountability for USDA Foods)
– U.S. Department of Agriculture Food Distribution Cluster, Passed Through the State of
Nevada Department of Agriculture

Criteria: In accordance with 2 CFR 200.303(a), the auditee must maintain a system of internal controls to provide reasonable assurance that accurate and complete records are maintained with respect to the receipt, distribution, and inventory of USDA foods.

Condition: Three Square’s internal controls, as designed, require an individual to verify that the weight of each product recorded in the inventory system is accurate. During inventory observation and testing audit procedures, twelve items were sampled. Of the twelve items, a discrepancy was discovered in the weight of one product when compared to the weight of the product recorded in the inventory system.

Context: Of the twelve products selected for testing, the weight of one product was improperly recorded within Three Square’s inventory system.

Cause: Internal controls over accountability for USDA foods were not operating effectively.

Effect: Improper implementation of internal controls could result in improper tracking and reporting of costs of USDA foods.

Recommendation: We recommend that management ensure that the system of internal controls over accountability for USDA foods is followed as designed.

Views of Responsible Officials and Planned Corrective Actions: The weight of inventory is recorded within Three Square’s inventory management system as part of the receiving process. To ensure that all weight is properly recorded, Three Square will implement a verification process. Inventory control specialists, who are not part of the receiving process, will verify 10% of all items received weekly. This verification process will include independent weighing of items, and a review of the item description, quantity and dimensions recorded in the inventory management system. Any discrepancies will be reported to team leads to be rectified. Three Square is committed to ensuring that the system of internal controls is sufficient to ensure all records are accurate and complete. Anticipated completion is November 6, 2023.

**THREE SQUARE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2023**

PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

None

PRIOR YEAR FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

2022-001 Internal Controls Systems and Compliance Over Eligibility – U.S. Department of Agriculture Food Distribution Cluster, Passed Through the State of Nevada Department of Agriculture

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

Condition: The Emergency Food Assistance Program (TEFAP) Agency Partner Services Agreement includes specific terms and conditions that an Agency Partner must agree to in order to be eligible to receive federal commodities. In accordance with 7 CFR 251.2, Three Square must obtain written agreements with Agency Partners before federal commodities are distributed. Of the 12 TEFAP Agency Partners selected for testing, management was unable to provide signed TEFAP Agency Partner Services Agreements for 4 entities.

Context: Four Agency Partners received TEFAP commodities for which no evidence of eligibility was able to be produced by management.

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

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

Recommendation: We recommend management design and implement a system whereby a fully executed TEFAP Agency Partner Services Agreement is obtained prior to any TEFAP distribution being made to an Agency Partner.

Views of Responsible Officials and Planned Corrective Actions: During the pandemic, the TEFAP program was expanded using COVID-19 relief funds. Three Square had a misunderstanding in the classification of these supplemental commodities, and believed them to be part of COVID-19 relief and as such did not necessitate an executed TEFAP Agency Partner Services Agreement. The four entities mentioned in the finding who received TEFAP commodities only received these supplemental COVID-19 commodities. This finding was not pervasive throughout the organization, but rather isolated to a temporary program, which has now ended.

To ensure effective internal controls, Three Square has designed a system to ensure an executed TEFAP Agency Partner Services Agreement is obtained prior to any TEFAP distribution to an Agency Partner. Moving forward, our agency services team will review all orders containing any federal commodity, regardless of the federal program. They will verify eligibility before approval is given to the warehouse to deliver the products.

Current Status: Corrective action has been implemented.