CHARLES HUMPHREY KEATING IV FOUNDATION AND SUBSIDIARY

INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

CHARLES HUMPHREY KEATING IV FOUNDATION AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Charles Humphrey Keating IV Foundation
San Diego, California

We have audited the accompanying consolidated financial statements of Charles Humphrey Keating IV Foundation (a nonprofit corporation) and Subsidiary, which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Charles Humphrey Keating IV Foundation and Subsidiary as of December 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Lavine, Lofgren, Morris & Engelberg, LLP

La Jolla, California
October 26, 2020

CHARLES HUMPHREY KEATING IV FOUNDATION AND SUBSIDIARY

Consolidated Statement of Financial Position
As of December 31, 2018

ASSETS		
Cash and cash equivalents	$	10,365
Prepaid expenses		211,882
Property and equipment, net		9,405,988
Total assets	$	9,628,235
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$	2,210
Accrued expenses		45,113
Notes payable (including related party), net		7,079,364
Total liabilities		7,126,687
Net assets without donor restriction		2,501,548
Total liabilities and net assets	$	9,628,235

See accompanying notes to consolidated financial statements
and independent auditors' report.

CHARLES HUMPHREY KEATING IV FOUNDATION AND SUBSIDIARY

Consolidated Statement of Activities
For the Year Ended December 31, 2018

	Without Donor Restriction
Revenue and support:	
Contributions	$ 2,718,525
Product sales	33,859
Special events, net of direct benefits to donors of $43,146	26,028
Investment income, net	517
Total revenue and support	2,778,929
Expenses:	
Program services	456,945
Management and general	52,815
Fundraising	37,154
Total expenses	546,914
Change in net assets	2,232,015
Net assets at beginning of year	269,533
Net assets at end of year	$ 2,501,548

See accompanying notes to consolidated financial statements
and independent auditors' report.

Charles Humphrey Keating IV Foundation and Subsidiary

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2018

	Program Services	Supporting Services: Management & General	Supporting Services: Fundraising	Total Supporting Services	Total
Interest	$ 135,887	$ 663	$ -	$ 663	$ 136,550
Salaries and wages	70,163	7,500	15,888	23,388	93,551
Depreciation and amortization	92,216	-	-	-	92,216
Contracted services	49,616	29,489	4,719	34,208	83,824
Website development	17,667	1,884	4,005	5,889	23,556
Ranch and livestock supplies	18,613	-	-	-	18,613
Conferences and meetings	13,830	1,475	3,135	4,610	18,440
Insurance	16,150	975	-	975	17,125
Taxes and license fees	13,849	110	-	110	13,959
Miscellaneous	4,058	3,261	2,206	5,467	9,525
Office supplies	6,656	791	333	1,124	7,780
Payroll taxes and fees	5,756	692	1,305	1,997	7,753
Utilities	7,422	-	-	-	7,422
Community development	-	-	5,563	5,563	5,563
Auto expense	4,010	-	-	-	4,010
Postage and shipping	-	3,708	-	3,708	3,708
Facility and equipment	1,052	2,267	-	2,267	3,319
	$ 456,945	$ 52,815	$ 37,154	$ 89,969	$ 546,914

See accompanying notes to consolidated financial statements
and independent auditors' report.

Charles Humphrey Keating IV Foundation and Subsidiary

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2018

Cash flows from operating activities:	
Change in net assets	$ 2,232,015
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization, including of debt issuance costs	92,216
Realized gain on sale of investments	(692)
Non-cash contribution of property	(1,000,000)
Changes in operating assets and liabilities:	
Prepaid expenses	(211,882)
Accounts payable	2,210
Accrued expenses	45,113
Net cash provided by operating activities	1,158,980
Cash flows from investing activities:	
Purchases of property and equipment	(8,491,249)
Proceeds from sales of investments	160,244
Net cash used in investing activities	(8,331,005)
Cash flows from financing activities:	
Proceeds from issuance of notes payable	7,135,000
Cash paid for debt issuance costs	(62,591)
Net cash provided by financing activities	7,072,409
Decrease in cash and cash equivalents	(99,616)
Cash and cash equivalents, beginning of year	109,981
Cash and cash equivalents, end of year	$ 10,365
Supplemental cash flow information:	
Cash paid for interest	$ 304,999

See accompanying notes to consolidated financial statements
and independent auditors' report.

NOTE 1. NATURE OF ACTIVITIES

Charles Humphrey Keating IV Foundation and Subsidiary (together the "Organization") consist of Charles Humphrey Keating IV Foundation (the "Foundation"), an Arizona nonprofit corporation formed in June 2017, and CHK4 Ranch, LLC (the "Ranch"), an Arizona limited liability company formed in June 2018 and wholly owned by the Foundation.

The Foundation was formed to provide support and resources for active duty NAVY SEALs and their families. The Ranch was formed to hold property for the charitable purposes of the Foundation. The goal of the Organization is to research, develop, and implement evidence-based solutions to maintain family unity while improving the transition from front lines to home front. Revenue and support are derived principally from public contributions.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements of the Organization include the accounts of the Foundation and the Ranch, its wholly owned subsidiary. All material inter-entity balances and transactions have been eliminated in consolidation.

Method of Accounting

The consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, cash and cash equivalents include cash in banks and liquid money market accounts. The Organization has deposits in financial institutions that may, at times exceed federally insured or other protected limits. The Organization manages the risk by using institutions management believes to be of high quality. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to cash and cash equivalents.

Prepaid Expenses

Prepaid expenses consist of $211,882 in a prepaid interest reserve required by the terms of a note payable agreement entered into during 2018 for the purchase of the Ranch property (Note 5).

Property and Equipment

Property and equipment are recorded on the basis of cost for items purchased or estimated fair market value at the date of gift for donated items. Acquisitions totaling over $1,000 and an economic life in excess of one year are capitalized and depreciated using the straight-line method over five to thirty-nine years, with no salvage value. Expenditures for major repairs and improvements that extend the life of the asset are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is included in revenue or expenses.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

The Organization reviews its property and equipment for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value of the asset exceeds the fair value of the asset. The Organization has determined that no impairment to property and equipment occurred during the year ended December 31, 2018.

Debt Issuance Costs

In conjunction with certain of its debt financings, the Organization has incurred and prepaid certain deferred financing costs including loan fees and other transaction costs related to closing the financing agreements. Debt issuance costs are presented as a deduction to the related notes payable balances (Note 5). Debt issuance costs are amortized to interest expense over the lives of their respective loans on a straight-line basis.

Classification of Net Assets

Net assets without donor restrictions represent the portion of expendable funds that are available for support of the Organization's operations. Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time or purpose restrictions. As of December 31, 2018, all of the Organization's net assets were without donor restriction.

Recognition of Revenue and Support

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets with or without donor restriction, as applicable. The Organization reports gifts of cash and other assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the consolidated statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as revenue without donor restriction.

The Organization reports gifts of goods, and property and equipment as contributions without donor restriction unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as contributions with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services, Goods, and Facilities

A substantial number of volunteers have donated time to the Organization's program services during the year; however, these donated services are not reflected in the consolidated financial statements since the services do not require specialized skills. Donated professional services (which include accounting and legal services) are reflected in the consolidated statement of activities at their fair value. Materials and other assets received as donations are recorded and reflected in the accompanying consolidated financial statements at their fair values at the date of receipt.

Functional Allocation of Expenses

The costs of providing the Organization's programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of functional expenses. Where costs can be specifically identified with a particular program or activity, they are categorized accordingly. Where costs are common to more than one function, they have been allocated among program services and supporting services based on time records and other estimates made by the Organization's management.

Income Taxes

Under Section 501(c)(3) of the IRC, the Foundation is exempt from the payment of taxes on income other than net unrelated business income. For the year ended December 31, 2018, no provision for income taxes was made as the Organization had no significant unrelated business income.

The Ranch is a limited liability company which is not a tax-paying entity for federal or state income tax purposes. The taxable income or loss of the Ranch is reportable by its owner, the Foundation, in accordance with its tax situation.

The Organization follows the authoritative guidance relating to accounting for uncertainty in income taxes included in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 740, *Income Taxes*. These provisions provide guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Organization has evaluated its tax positions for the year ended December 31, 2018, and determined that there were no matters that would require recognition in the consolidated financial statements or that may have any effect on its tax-exempt status. As of December 31, 2018, the statute of limitations for the Organization's initial tax year, 2017, remained open for federal and state jurisdictions in which the Organization files tax returns. It is the Organization's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense. As of December 31, 2018, the Organization had no accruals for interest and/or penalties.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and support and expenses during the reporting period. Accordingly, actual results could differ from those assumptions and estimates.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

During 2018, the Organization adopted FASB Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. ASU 2016-14 changes how a not-for-profit organization classifies its net assets, as well as the information it presents in the financial statements and notes regarding its liquidity, financial performance, and cash flows. ASU 2016-14 amends required disclosures to provide more relevant information about an organization's resources, and the changes therein, to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (i) net asset classes, (ii) investment returns, (iii) expenses, (iv) liquidity and availability of resources, and (v) presentation of operating cash flows. ASU 2016-14 was effective for annual financial statements beginning after December 15, 2017. There were no reclassifications made to net assets presented as of December 31, 2017 as a result of the implementation of ASU 2016-14.

Subsequent Events

Subsequent events were evaluated through the date of the independent auditor's report, which is the date these consolidated financial statements were available to be issued (Note 7).

NOTE 3. PROPERTY AND EQUIPMENT

During 2018, the Organization purchased a ranch and related furniture in Santa Ysabel, California valued at $9,491,249. In connection with the acquisition, the seller contributed $1 million of the value of the property and also provided financing of $1 million (Note 5). The Organization also obtained an additional $5.3 million in financing from a bank (Note 5), with the balance paid in cash. Property and equipment consists of the following as of December 31, 2018:

Land	$ 4,554,343
Building	2,991,176
Land improvements	1,910,730
Furniture	35,000
Total property and equipment	$ 9,491,249
Less: accumulated depreciation	(85,261)
Property and equipment, net	$ 9,405,988

Depreciation expense related to property and equipment for the year ended December 31, 2018 was $85,261.

NOTE 4. CONCENTRATIONS

During the year ended December 31, 2018, contributions totaling $1,800,000 were received from three donors. Contributions from these donors represent 65% of total revenue and support for the year ended December 31, 2018. Should contributions from these donors decrease or not recur, the Organization may be adversely affected.

NOTE 5. NOTES PAYABLE

Notes payable consist of the following at December 31, 2018:

Note payable to Pacific Western Bank, interest at 5.75% per annum. Monthly interest-only payments due with remaining unpaid principal and interest due in full September 2021, with two one-year extension options available with pay-downs of $1.325 million and $994 thousand, respectively. Secured by Ranch property and guaranteed by an officer of the Organization.	$	5,300,000
Note payable to corporate seller of Ranch property, interest at 7% per annum. Principal and accrued interest due in full September 2019. Secured by a deed of trust subordinate to the deed of trust securing the note payable to Pacific Western Bank and guaranteed by two officers of the Organization and their son and also via a second lien deed of trust on an Arizona residence of an officer.		1,000,000
Unsecured note payable to a charitable foundation, interest at 5% per annum. Principal and accrued interest due in full December 2021.		500,000
Unsecured note payable to a charitable foundation, interest at 5% per annum. Principal and accrued interest due in full December 2021.		305,000
Unsecured note payable to the son of an officer of the Organization, interest at 7% per annum. Principal and accrued interest due in full September 2019.		30,000
Subtotal - total notes payable		7,135,000
Less: Debt issuance costs, net of accumulated amortization of $6,955		(55,636)
Notes payable, net	$	7,079,364

The future principal payments on the notes payable are as follows as of December 31, 2018:

For the Year Ended December 31,		
2019	$	1,000,000
2020		30,000
2021		6,105,000
Total	$	7,135,000

See Note 7 for subsequent events affecting certain of the above notes payable.

NOTE 6. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization's only financial asset available within one year of the date of the statement of financial position for general expenditure is cash totaling $10,365 as of December 31, 2018. In addition, prepaid expenses consist of prepaid interest for the note payable to Pacific Western Bank (Note 5). The Organization's cash flows have seasonal variations during the year due primarily to the timing of special events and fundraising.

NOTE 7. SUBSEQUENT EVENTS

Notes Payable

Subsequent to December 31, 2018, there was significant activity with respect to the Organization's notes payable (Note 5), as follows:

- In September 2019, the Organization amended its related party note payable to the son of an officer of the Organization by extending the due date to February 2020, at which time the Organization repaid all outstanding principal and interest.
- In September 2020, the Organization amended its notes payable to a charitable foundation totaling $805,000 by extending their due dates to December 2021.
- In August 2019, the Organization repaid all outstanding principal and interest related to its note payable to the corporate seller of the Ranch property.

In addition, in August 2019, the Organization entered into a new note payable agreement with another charitable foundation for $500,000. This note, which is due in September 2021, is not subject to interest. Principal is due in four equal installments of $125,000 every six months beginning in March 2020. Subsequent to making the first installment payment in February 2020, the Organization and the foundation agreed to amend the payment schedule such that the remaining payments would be due March 6, 2021, September 6, 2021, and March 6, 2022. The note is secured by a deed of trust subordinate to the deed of trust securing the note payable to Pacific Western Bank.

In August and September 2019, the Organization entered into two additional unsecured notes payable in the amounts of $217,000 and $100,000, respectively. The notes bear interest at 2% and 0%, respectively, and are due through June 1, 2021. The Organization repaid the $100,000 note payable in January 2020.

Other

In December 2019, a novel strain of coronavirus was reported to have surfaced in China. The spread of this virus beyond China and within the United States of America ("U.S.") has caused business disruption as a result of mandated closings of businesses designated as non-essential and certain other social distancing measures in California and across the U.S. While this disruption is currently expected to be temporary, there I considerable uncertainty around the duration of the closings and other measures. Although the Organization has not experienced a decline in activity to date, anticipated fundraising is uncertain. At this time, the duration of the pandemic and any related financial impact cannot be reasonably estimated.