CHARLES HUMPHREY KEATING IV FOUNDATION AND SUBSIDIARY

INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 2019

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, 2019, 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, 2019, 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
August 25, 2021

Charles Humphrey Keating IV Foundation and Subsidiary

Consolidated Statement of Financial Position
As of December 31, 2019

ASSETS		
Cash and cash equivalents	$	66,306
Prepaid expenses		4,361
Vehicle held for auction		100,000
Property and equipment, net		9,249,220
Total assets	$	9,419,887
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$	94,204
Accrued expenses		65,902
Notes payable (including related party), net		6,912,228
Total liabilities		7,072,334
Net assets without donor restriction		2,347,553
Total liabilities and net assets	$	9,419,887

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, 2019

	Without Donor Restriction
Revenue and support:	
Contributions	$ 776,001
Product sales, net cost of sales of $22,429	4,539
Special events, net of direct benefits to donors of $31,757	162,162
In-kind donations	105,500
Total revenue and support	1,048,202
Expenses:	
Program services	1,039,908
Management and general	81,777
Fundraising	80,512
Total expenses	1,202,197
Change in net assets	(153,995)
Net assets at beginning of year	2,501,548
Net assets at end of year	$ 2,347,553

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, 2019

	Program Services	Supporting Services: Management & General	Supporting Services: Fundraising	Total Supporting Services	Total
Interest	$ 383,470	$ -	$ -	$ -	$ 383,470
Depreciation and amortization	276,068	5,533	-	5,533	281,601
Contracted services	72,612	24,612	6,311	30,923	103,535
Taxes and license fees	80,121	980	2,076	3,056	83,177
Salaries and wages	50,631	4,726	12,151	16,877	67,508
Ranch and livestock supplies	41,150	-	-	-	41,150
Marketing	18,647	12,216	7,607	19,823	38,470
Insurance	35,039	1,163	-	1,163	36,202
Utilities	33,165	1,237	-	1,237	34,402
Meals and entertainment	393	4,136	16,658	20,794	21,187
Travel	-	2,453	16,813	19,266	19,266
Auto expense	17,089	240	-	240	17,329
Miscellaneous	7,278	6,490	412	6,902	14,180
Office supplies	7,075	3,274	2,840	6,114	13,189
Printing and copying	1,351	2,850	7,262	10,112	11,463
Website development	2,488	6,013	2,683	8,696	11,184
Repair and maintenance	6,765	959	-	959	7,724
Conferences and meetings	2,986	597	2,389	2,986	5,972
Payroll taxes and fees	3,547	331	851	1,182	4,729
Facility and equipment	-	1,690	2,120	3,810	3,810
Postage and shipping	33	2,277	339	2,616	2,649
	$ 1,039,908	$ 81,777	$ 80,512	$ 162,289	$ 1,202,197

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, 2019

Cash flows from operating activities:		
Change in net assets	$	(153,995)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization, including of debt issuance costs		281,601
In-kind donation of vehicle held for auction		(100,000)
Changes in operating assets and liabilities:		
Prepaid expenses		207,521
Accounts payable		91,994
Accrued expenses		20,789
Net cash provided by operating activities		347,910
Cash flows from investing activities:		
Purchases of property and equipment		(103,969)
Net cash used in investing activities		(103,969)
Cash flows from financing activities:		
Proceeds from issuance of notes payable		817,000
Repayments of notes payable		(1,005,000)
Net cash used in financing activities		(188,000)
Increase in cash and cash equivalents		55,941
Cash and cash equivalents, beginning of year		10,365
Cash and cash equivalents, end of year	$	66,306
Supplemental cash flow information:		
Cash paid during the year for interest	$	150,266

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.

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 (Continued)

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, 2019.

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, 2019, 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)

In-kind Donations and Donated Services

Materials and other assets received as in-kind donations are recorded and reflected in the accompanying consolidated financial statements at their fair values at the date of receipt.

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.

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, 2019, 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, 2019, 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, 2019, the statute of limitations for the Organization's initial tax year, 2017 and 2018 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. The Organization's consolidated financial statements do not include a provision for interest or penalties as of and for the year ended December 31, 2019.

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 Guidance

In May 2014, the FASB issued ASC Update No. 2014-09, (Topic 606) *Revenue from Contracts with Customers*. This ASU is a comprehensive new revenue recognition model that requires an organization to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This updated guidance impacts not-for-profit entities that have revenue transactions other than contributions. This standard was adopted by the Organization effective January 1, 2019. The adoption of this standard did not result in a material change to the Organization's consolidated financial statements.

In June 2018, the FASB issued ASC Update No. 2018-08, (Topic 958) *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The ASU also provides additional guidance to help determine whether a contribution is conditional or unconditional. This standard was adopted by the Organization effective January 1, 2019. This ASU provides organizations with the option of applying the clarified guidance in the initial year of implementation on a prospective basis. The Organization chose this option, and accordingly, has not restated its 2018 revenue balances or opening net assets in the 2019 consolidated financial statements.

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

Property and equipment consist of the following as of December 31, 2019:

Land	$ 4,554,343
Building	2,991,176
Land improvements	1,910,730
Furniture and equipment	94,705
Vehicles	44,264
Total property and equipment	9,595,218
Less: accumulated depreciation	(345,998)
Property and equipment, net	$ 9,249,220

Depreciation expense related to property and equipment for the year ended December 31, 2019 was $260,737.

NOTE 4. CONCENTRATIONS

During the year ended December 31, 2019, contributions received from a donor and the donor's family trust represented approximately 33% of total revenue and support for the year. Should such contributions decrease or not recur in future periods, the Organization may be adversely affected.

NOTE 5. NOTES PAYABLE

Notes payable consist of the following at December 31, 2019:

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
Principal is due in four equal installments of $125,000 with the first installment due March 2020 and, as amended in Sepatember 2020, the remaining three installments due every six months beginning in March 2021 and ending March 2022. Secured by a deed of trust subordinate to the deed of trust securing the note payable to Pacific Western Bank	500,000
Unsecured note payable to a charitable foundation, interest at 5% per annum. As amended in September 2020, principal and accrued interest are due in full December 2021.	500,000
Unsecured note payable to a charitable foundation, interest at 5% per annum. As amended in September 2020, principal and accrued interest are due in full December 2021.	305,000
Unsecured note payable to a self-directed IRA, interest at 2% per annum. Principal and accrued interest due in full December 2021.	217,000
Unsecured note payable to a charitable foundation, not subject to interest. Principal and accrued interest due in full March 2020.	100,000
Unsecured note payable to the son of an officer of the Organization, interest at 7% per annum. Principal and accrued interest due in full February 2020.	25,000
Subtotal - total notes payable	6,947,000
Less: Debt issuance costs, net of accumulated amortization of $27,819	(34,772)
Notes payable, net	$ 6,912,228

NOTE 5. NOTES PAYABLE (Continued)

The future principal payments on the notes payable balances as of December 31, 2019, are as follows (includes amended repayment terms noted above):

For the Year Ended December 31,		
2020	$	250,000
2021		6,572,000
2022		125,000
Total	$	6,947,000

See Note 8 for subsequent events affecting certain of the above notes payable.

NOTE 6. VEHICLE HELD FOR AUCTION

In December 2019, the Organization was the recipient of a donated antique car with an estimated fair value of $100,000. In January 2020, the Organization sold the car at a fundraiser auction for $300,000.

NOTE 7. LIQUIDITY AND AVAILABILITY OF RESOURCES

As of December 31, 2019, 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 $66,306. The Organization's cash flows have seasonal variations during the year due primarily to the timing of special events and fundraising. The Organization's primary source of support are donations from the public. During the year ended December 31, 2020, the Organization's financial assets became available as its expenditures and obligations came due.

NOTE 8. SUBSEQUENT EVENTS

Notes Payable

Subsequent to December 31, 2019, there was significant activity with respect to the Organization's notes payable (Note 5), as follows:

- In September 2020, the Organization amended its notes payables to a charitable foundation totaling $805,000 by extending their due dates to December 2021.
- In January 2020, the Organization repaid the $100,000 note payable to a charitable foundation that was due in March 2020.
- In February 2020, the Organization repaid the $25,000 note payable along with accrued interest to the son of an officer of the Organization that was due in February 2020.
- In June 2020, January 2021, and July 2021, the Organization issued three unsecured notes to an individual's self-directed individual retirement account in return for $33,000, $125,000 and $125,000, respectively, with interest at 2% per annum. Principal and accrued interest are due in full December 2022.

NOTE 8. SUBSEQUENT EVENTS

Other

In December 2019, a novel strain of coronavirus was reported to have surfaced in China. On March 11, 2020, the World Health Organization declared COVID-19, the illness caused by the coronavirus, a pandemic. The spread of this virus beyond China and within the United States of America ("U.S.") caused business disruption throughout 2020 as a result of mandated closings of businesses designated as non-essential and certain other social distancing measures across the U.S. The effects of the pandemic are ongoing, and uncertainty around the duration of restrictions and the long-term effectiveness of vaccines remains. While the Organization has not realized any declines in support or a significant impact in operations through the date of the independent auditors' report, management is unable to estimate the ultimate impact of the pandemic on the Organization's future operations. The financial statements contain no adjustments relating to the potential future effects of the pandemic.