

**CHARLES HUMPHREY KEATING IV FOUNDATION  
AND SUBSIDIARY**

**INDEPENDENT AUDITORS' REPORT AND  
CONSOLIDATED FINANCIAL STATEMENTS**

**For the Year Ended December 31, 2020**

**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, 2020, 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, 2020, 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  
July 6, 2022

# CHARLES HUMPHREY KEATING IV FOUNDATION AND SUBSIDIARY

## Consolidated Statement of Financial Position As of December 31, 2020

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### ASSETS

Cash	\$	884,448
Prepaid expenses		38,523
Property and equipment, net		<u>9,460,789</u>
<b>Total assets</b>	<b>\$</b>	<b><u><u>10,383,760</u></u></b>

### LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$	81,679
Accrued expenses		115,474
Notes payable (including related party), net		<u>6,716,092</u>
<b>Total liabilities</b>		6,913,245
Net assets without donor restriction		<u>3,470,515</u>
<b>Total liabilities and net assets</b>	<b>\$</b>	<b><u><u>10,383,760</u></u></b>

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, 2020

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	<u>Without Donor Restriction</u>
Revenue and support:	
Contributions	\$ 2,259,584
Special events, net of direct benefits to donors of \$56,792	24,941
In-kind donations	27,026
Other income	<u>84,100</u>
<b>Total revenue and support</b>	<u>2,395,651</u>
Expenses:	
Program services	1,067,941
Management and general	180,511
Fundraising	<u>24,237</u>
<b>Total expenses</b>	<u>1,272,689</u>
<b>Change in net assets</b>	1,122,962
Net assets at beginning of year	<u>2,347,553</u>
Net assets at end of year	<u><u>\$ 3,470,515</u></u>

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, 2020

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total Supporting Services</u>	<u>Total</u>
		<u>Management &amp; General</u>	<u>Fundraising</u>		
Auto expense	\$ 16,244	\$ 3,860	\$ -	\$ 3,860	\$ 20,104
Computer and software expense	-	2,193	-	2,193	2,193
Conferences and meetings	-	642	-	642	642
Contracted services	26,740	104,981	43	105,024	131,764
Depreciation and amortization	293,461	-	-	-	293,461
Dues and subscriptions	-	7,762	-	7,762	7,762
Facility and equipment	6,189	1,869	-	1,869	8,058
Insurance	16,214	929	-	929	17,143
Interest	350,079	4,639	-	4,639	354,718
Marketing	31,444	2,701	396	3,097	34,541
Meals and entertainment	811	7,537	414	7,951	8,762
Miscellaneous	19,952	3,366	3,284	6,650	26,602
Office supplies	8,595	12,440	-	12,440	21,035
Payroll taxes and fees	6,164	575	1,479	2,054	8,218
Postage and shipping	-	6,294	-	6,294	6,294
Printing and copying	147	1,218	-	1,218	1,365
Ranch and livestock supplies	166,097	-	-	-	166,097
Repair and maintenance	5,452	2,260	-	2,260	7,712
Salaries and wages	77,588	7,242	18,621	25,863	103,451
Taxes and license fees	272	4,274	-	4,274	4,546
Travel	1,482	4,929	-	4,929	6,411
Utilities	30,097	-	-	-	30,097
Website development	10,913	800	-	800	11,713
	<u>\$ 1,067,941</u>	<u>\$ 180,511</u>	<u>\$ 24,237</u>	<u>\$ 204,748</u>	<u>\$ 1,272,689</u>

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, 2020

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Cash flows from operating activities:	
Change in net assets	\$ 1,122,962
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization, including of debt issuance costs	293,461
Changes in operating assets and liabilities:	
Prepaid expenses	(34,162)
Vehicle held for auction	100,000
Accounts payable	(12,525)
Accrued expenses	49,572
	<hr/>
<b>Net cash provided by operating activities</b>	<b>1,519,308</b>
	<hr/>
Cash flows from investing activities:	
Purchases of property and equipment	(484,166)
	<hr/>
<b>Net cash used in investing activities</b>	<b>(484,166)</b>
	<hr/>
Cash flows from financing activities:	
Proceeds from issuance of notes payable	33,000
Repayments of notes payable	(250,000)
	<hr/>
<b>Net cash used in financing activities</b>	<b>(217,000)</b>
	<hr/>
<b>Increase in cash and cash equivalents</b>	<b>818,142</b>
	<hr/>
Cash, beginning of year	66,306
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Cash, end of year	\$ 884,448
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Supplemental cash flow information:	
Cash paid during the year for interest	\$ 312,403
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See accompanying notes to consolidated financial statements  
and independent auditors' report.



# CHARLES HUMPHREY KEATING IV FOUNDATION AND SUBSIDIARY

## Consolidated Notes to Financial Statements For the Year Ended December 31, 2020

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### 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, the Organization considers highly liquid investments purchased with maturities of three months or less to be cash equivalents. As of December 31, 2020, the Organization did not hold any 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.

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, 2020.

# CHARLES HUMPHREY KEATING IV FOUNDATION AND SUBSIDIARY

## Consolidated Notes to Financial Statements For the Year Ended December 31, 2020

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### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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, 2020, 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.

#### 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.

# CHARLES HUMPHREY KEATING IV FOUNDATION AND SUBSIDIARY

## Consolidated Notes to Financial Statements For the Year Ended December 31, 2020

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### NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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, 2020, 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, 2020 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, 2020, the statute of limitations for the Organization's initial tax year, 2017, through 2019 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, 2020.

#### 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.

#### 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 8).

# CHARLES HUMPHREY KEATING IV FOUNDATION AND SUBSIDIARY

## Consolidated Notes to Financial Statements For the Year Ended December 31, 2020

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### NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2020:

Land	\$	4,554,343
Building		2,997,882
Land improvements		2,079,255
Furniture and equipment		403,640
Vehicles		<u>44,264</u>
Total property and equipment		10,079,384
Less: accumulated depreciation		<u>(618,595)</u>
Property and equipment, net	\$	<u><u>9,460,789</u></u>

Depreciation expense related to property and equipment for the year ended December 31, 2020 was \$272,597.

### NOTE 4. CONCENTRATIONS

During the year ended December 31, 2020, contributions received from two donors represented approximately 41% of total contributions for the year. Should such contributions decrease or not recur in future periods, the Organization may be adversely affected.

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.

### NOTE 5. NOTES PAYABLE

Notes payable consist of the following at December 31, 2020:

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 each. Secured by Ranch property and guaranteed by an officer of the Organization.

\$ 5,300,000

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

# CHARLES HUMPHREY KEATING IV FOUNDATION AND SUBSIDIARY

## Consolidated Notes to Financial Statements For the Year Ended December 31, 2020

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### NOTE 5. NOTES PAYABLE (Continued)

Unsecured note payable to a charitable foundation, not subject to interest. Principal is due in four equal installments of \$125,000 with the first installment due March 2020 and, as amended in September 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	375,000
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 self-directed IRA, interest at 2% per annum. Principal and accrued interest due in full December 2022.	<u>33,000</u>
Subtotal - total notes payable	6,730,000
Less: Debt issuance costs, net of accumulated amortization of \$48,683	<u>(13,908)</u>
Notes payable, net	<u><u>\$ 6,716,092</u></u>

The future principal payments on the notes payable balances as of December 31, 2020, are as follows (includes amended repayment terms noted above):

<u>For the Year Ended December 31,</u>	
2021	\$ 2,597,000
2022	1,483,000
2023	<u>2,650,000</u>
Total	<u><u>\$ 6,730,000</u></u>

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

### NOTE 6. LIQUIDITY AND AVAILABILITY OF RESOURCES

As of December 31, 2020, 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 \$884,448. 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.

# CHARLES HUMPHREY KEATING IV FOUNDATION AND SUBSIDIARY

## Consolidated Notes to Financial Statements For the Year Ended December 31, 2020

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### NOTE 7. COVID-19

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 and 2021 as a result of mandated closings of businesses designated as non-essential, certain other social distancing measures across the U.S. The effects of the pandemic are ongoing, and uncertainty remains regarding the continued necessity of restrictions and regulations, as well as the long-term effectiveness of vaccines. As such, management is unable to estimate the impacts, if any, of the pandemic on the Organization’s future operations.

### NOTE 8. SUBSEQUENT EVENTS

#### Notes Payable

Subsequent to December 31, 2020, there was significant activity with respect to the Organization’s notes payable (Note 5), as follows:

- In January 2021 and July 2021, in return for borrowing a combined amount of \$250,000, the Organization issued two unsecured notes in the amount \$125,000 each, payable to an individual’s self-directed individual retirement account (“IRA”). The notes payable bear interest at 2% per annum, with principal and accrued interest due in full December 2022. In addition, during 2021, the existing \$217,000 note payable to this individual’s IRA was restated to extend the maturity date to December 31, 2022.
- In September 2021, the Organization exercised the first of its one-year extensions on its \$5.3 million note payable to Pacific Western Bank. In connection therewith, it also paid down \$1.325 million of principal on the loan. Subsequently, in April 2022, the Organization renegotiated this loan, then with a balance of \$3,975,000. The terms of the renegotiated loan include an interest-only payment due May 7, 2022, based on an annual interest rate of 5.00%, with 58 monthly payments of principal and interest beginning June 7, 2022 in the amount of \$21,112, with interest accruing at 4.00%, with all remaining principal (scheduled to be \$3,493,793) and any accrued interest due on March 31, 2027.

The renegotiated note payable also replaced the remaining existing extension option with an option to extend the loan for an additional five years from March 2027, provided the Organization is in compliance with certain requirements defined in the agreement, makes a one-time principal payment of \$250,000, and pays an extension fee of 0.25% of the outstanding commitment on the note payable, among other items. In addition, the guarantor of the loan was changed to the Foundation. The note continues to be secured by the related Ranch property.

- In December 2021, the Organization agreed with the lender of its \$500,000 and its \$305,000 notes payable to extend the maturity dates of those notes to December 31, 2022.
- During 2022, the Organization completed repayment of the \$375,000 note payable to a charitable foundation.