

**CHARLES HUMPHREY KEATING IV FOUNDATION  
AND SUBSIDIARY**

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

**For the Year Ended December 31, 2022**

**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

### Opinion

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, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, 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.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Charles Humphrey Keating IV Foundation and Subsidiary and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole 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 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Charles Humphrey Keating IV Foundation and Subsidiary'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Charles Humphrey Keating IV Foundation and Subsidiary'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.

*Lavine, Lofgren, Maris & Engberg LLP*

La Jolla, California  
August 8, 2023

# CHARLES HUMPHREY KEATING IV FOUNDATION AND SUBSIDIARY

## Consolidated Statement of Financial Position As of December 31, 2022

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### ASSETS

Cash	\$	918,083
Restricted pledges receivable		250,000
Donations receivable		62,981
Prepaid expenses		36,766
Property and equipment, net		<u>10,546,902</u>

**Total assets** \$ 11,814,732

### LIABILITIES AND NET ASSETS

#### Liabilities:

Accounts payable	\$	161,003
Accrued expenses and other current liabilities		213,790
Notes payable (including related party), net		<u>5,204,970</u>

**Total liabilities** 5,579,763

Net assets with donor restrictions		197,500
Net assets without donor restrictions		<u>6,037,469</u>

**Total net assets** 6,234,969

**Total liabilities and net assets** \$ 11,814,732

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, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and support:			
Contributions	\$ 2,579,135	\$ 430,000	\$ 3,009,135
Special events, net of direct benefits to donors of \$192,407	1,242,427	-	1,242,427
In-kind contributions	75,653	-	75,653
Sales of product	14,858	-	14,858
Other income (expense)	(2,697)	-	(2,697)
Net assets released from restriction	232,500	(232,500)	-
<b>Total revenue and support</b>	<u>4,141,876</u>	<u>197,500</u>	<u>4,339,376</u>
Expenses:			
Program services	1,679,430	-	1,679,430
Management and general	186,192	-	186,192
Fundraising	419,406	-	419,406
<b>Total expenses</b>	<u>2,285,028</u>	<u>-</u>	<u>2,285,028</u>
<b>Change in net assets</b>	<u>1,856,848</u>	<u>197,500</u>	<u>2,054,348</u>
Net assets at beginning of year	<u>4,180,621</u>	<u>-</u>	<u>4,180,621</u>
Net assets at end of year	<u>\$ 6,037,469</u>	<u>\$ 197,500</u>	<u>\$ 6,234,969</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, 2022

	Program Services	Supporting Services		Total Supporting Services	Total
		Management & General	Fundraising		
Auto expense	\$ 5,935	\$ -	\$ -	\$ -	\$ 5,935
Bank and merchant fees	3,766	1,088	33,277	34,365	38,131
Computer and software expense	2,763	1,256	3,969	5,225	7,988
Contracted services	233,260	78,132	208,308	286,440	519,700
Depreciation and amortization	332,956	12,655	-	12,655	345,611
Dues and subscriptions	13	12,773	60	12,833	12,846
Facility and equipment	12,097	-	-	-	12,097
Fire prevention	13,693	-	-	-	13,693
Food, beverage, and catering	95,233	-	-	-	95,233
Insurance	55,655	1,138	-	1,138	56,793
Interest	216,772	10,000	-	10,000	226,772
Marketing	13,300	345	6,273	6,618	19,918
Meals and entertainment	4,597	4,815	17,924	22,739	27,336
Miscellaneous	55,747	7,763	1,200	8,963	64,710
Office supplies	4,379	982	-	982	5,361
Payroll taxes and fees	10,892	8,639	1,913	10,552	21,444
Postage and shipping	21	3,238	2,637	5,875	5,896
Printing and copying	1,410	856	62	918	2,328
Promotional items	7,497	1,195	19,770	20,965	28,462
Ranch and livestock supplies	153,627	-	-	-	153,627
Repair and maintenance	41,243	-	-	-	41,243
Salaries and wages	239,181	21,563	42,620	64,183	303,364
Taxes and license fees	18,937	361	-	361	19,298
Travel	55,007	8,797	68,508	77,305	132,312
Utilities	82,121	3,057	-	3,057	85,178
Website development	19,328	7,539	12,885	20,424	39,752
	<u>\$ 1,679,430</u>	<u>\$ 186,192</u>	<u>\$ 419,406</u>	<u>\$ 605,598</u>	<u>\$ 2,285,028</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, 2022

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Cash flows from operating activities:	
Change in net assets	\$ 2,054,348
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization, including of debt issuance costs	345,611
In-kind contributions	(75,653)
Changes in operating assets and liabilities:	
Restricted pledges receivable	(250,000)
Donations receivable	(62,981)
Prepaid expenses	(5,114)
Accounts payable	110,161
Accrued expenses and other current liabilities	59,828
	<hr/>
<b>Net cash provided by operating activities</b>	<b>2,176,200</b>
	<hr/>
Cash flows from investing activities:	
Purchases of property and equipment	(1,100,544)
	<hr/>
<b>Net cash used in investing activities</b>	<b>(1,100,544)</b>
	<hr/>
Cash flows from financing activities:	
Debt issuance costs in connection with renegotiated note payable	(24,025)
Repayments of notes payable	(178,808)
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<b>Net cash used in financing activities</b>	<b>(202,833)</b>
	<hr/>
<b>Increase in cash and cash equivalents</b>	<b>872,823</b>
	<hr/>
Cash, beginning of year	45,260
	<hr/>
Cash, end of year	\$ 918,083
	<hr/> <hr/>
Supplemental cash flow information:	
Cash paid during the year for interest	\$ 185,763
	<hr/> <hr/>

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, 2022

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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”).

The Organization follows the provision of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958-205, *Not-for-Profit Entities: Presentation of Financial Statements*, which requires that information regarding an entity’s financial position and activities be classified as net assets without donor restrictions and net assets with donor restrictions as follows:

- *Net assets without donor restrictions* represent expendable funds available for operations, which are not otherwise limited by donor restrictions. These net assets may be used at the discretion of the Organization’s management and board of directors.
- *Net assets with donor restrictions* consist of contributed funds subject to donor-imposed restrictions for specific performance of a future event or a specific passage of time before the Organization may spend the funds. Other donor-imposed restrictions are perpetual in nature, requiring that the assets be maintained in perpetuity usually for the purpose of generating investment income to fund current operations.

When a restriction is met or expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statement of activities.

#### 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, 2022, the Organization did not hold any cash equivalents.

# CHARLES HUMPHREY KEATING IV FOUNDATION AND SUBSIDIARY

## Consolidated Notes to Financial Statements For the Year Ended December 31, 2022

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

#### 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, 2022.

#### 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. Debt issuance costs are amortized to interest expense over the term of the respective loan on a straight-line basis.

#### 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.

# CHARLES HUMPHREY KEATING IV FOUNDATION AND SUBSIDIARY

## Consolidated Notes to Financial Statements For the Year Ended December 31, 2022

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### 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. Materials and architectural services in the amount of \$75,653 were donated during the year ended December 31, 2022. This amount was capitalized to property and equipment and is also included as in-kind contributions on the accompanying consolidated statement of activities.

In addition, 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.

#### 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, 2022, 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, 2022 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. Generally, the Organization is subject to income tax examinations by major taxing authorities during the three-year period (US federal) and four-year period (state) prior to the period covered by these consolidated financial statements. It is the Organization's policy to recognize interest and/or penalties related to uncertainty in income taxes, if any, in income tax expense.

#### 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.

# CHARLES HUMPHREY KEATING IV FOUNDATION AND SUBSIDIARY

## Consolidated Notes to Financial Statements For the Year Ended December 31, 2022

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

#### 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 3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2022:

Land	\$	4,748,900
Building		3,560,672
Land improvements		2,794,893
Furniture and equipment		155,059
Vehicles		403,767
Website development		<u>125,038</u>
Total property and equipment		11,788,329
Less: accumulated depreciation		<u>(1,241,427)</u>
Property and equipment, net	\$	<u><u>10,546,902</u></u>

Depreciation expense related to property and equipment for the year ended December 31, 2022 was \$342,808.

### NOTE 4. CONCENTRATIONS

During the year ended December 31, 2022, contributions received from two donors represented approximately 31% 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.

# **CHARLES HUMPHREY KEATING IV FOUNDATION AND SUBSIDIARY**

## **Consolidated Notes to Financial Statements For the Year Ended December 31, 2022**

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### **NOTE 5. NOTES PAYABLE**

Notes payable consist of the following at December 31, 2022:

# CHARLES HUMPHREY KEATING IV FOUNDATION AND SUBSIDIARY

## Consolidated Notes to Financial Statements For the Year Ended December 31, 2022

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Note payable to Pacific Western Bank. As renegotiated in April 2022, terms include an interest-only payment on May 7, 2022 based on annual interest rate of 5.00% followed by 58 monthly payments of principal and interest, beginning June 7, 2022, in the amount of \$21,112, with interest accruing at 4.00%. All remaining principal (scheduled to be \$3,484,501) and any accrued interest is due on March 31, 2027. The note includes an option to extend for an additional 5 years provided (i) the Organization is in compliance with certain requirements defined in the agreement, (ii) makes a one-time principal payment of \$250,000, and (iii) pays an extension fee of 0.25% of the outstanding commitment on the note payable, among other items. Guaranteed by the Foundation. Secured by the related Ranch property.	\$ 3,921,192
Unsecured note payable to a related party charitable foundation, interest at 5% per annum. As extended in February 2023, interest accrued through December 31, 2022 is due in March 2023. Thereafter, annual principal payments in the amount of \$100,000, plus accrued interest, are due each March, through the note's scheduled maturity in March 2028.	500,000
Unsecured note payable to a related party charitable foundation, interest at 5% per annum. As extended in February 2023, interest accrued through December 31, 2022 is due in March 2023. Thereafter, annual principal payments in the amount of \$61,000, plus accrued interest, are due each March through the note's scheduled maturity in March 2028.	305,000
Unsecured note payable to a related party self-directed IRA, interest at 2% per annum. This party has verbally agreed to extend payment of all principal and accrued interest to December 2024.	217,000
Unsecured note payable to a related party self-directed IRA, interest at 2% per annum. This party has verbally agreed to extend payment of all principal and accrued interest to December 2024.	125,000
Unsecured note payable to a related party self-directed IRA, interest at 2% per annum. This party has verbally agreed to extend payment of all principal and accrued interest to December 2024.	125,000
Unsecured note payable to a related party self-directed IRA, interest at 2% per annum. This party has verbally agreed to extend payment of all principal and accrued interest to December 2024.	<u>33,000</u>
Total notes payable	5,226,192
Less: debt issuance costs of \$24,025, net of accumulated amortization of \$2,803	<u>(21,222)</u>
Total notes payable, net	<u><u>\$ 5,204,970</u></u>

# CHARLES HUMPHREY KEATING IV FOUNDATION AND SUBSIDIARY

## Consolidated Notes to Financial Statements For the Year Ended December 31, 2022

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### NOTE 5. NOTES PAYABLE (Continued)

Future principal payments due on the notes payable balances as of December 31, 2022, are as follows:

<u>For the Year Ended December 31,</u>	
2023	\$ 96,096
2024	760,630
2025	265,183
2026	269,487
2027	3,673,796
Thereafter	<u>161,000</u>
Total	<u>\$ 5,226,192</u>

### NOTE 6. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization's financial assets available for general expenditures within one year of the December 31, 2022 consolidated statement of financial position are as follows:

Cash	\$ 918,083
Donations receivable	<u>62,981</u>
Financial assets available within one year	<u>\$ 981,064</u>

The Organization's cash flows have seasonal variations during the year due primarily to the timing of special events and fundraising efforts. The Organization's primary source of support are donations from the public. During the year ended December 31, 2022, the Organization's financial assets became available as its expenditures and obligations came due, and management expects that to be the case for 2023.

### NOTE 7. RELATED PARTY TRANSACTIONS

During 2020, the Organization entered into two notes payable to a charitable foundation with which it has a common board member. As of December 31, 2022, the balance due on these related party foundation notes payable is \$805,000 (Note 5). Interest expense for the year ended December 31, 2022 and accrued interest as of December 31, 2022 related to these notes are \$39,432 and \$180,666, respectively. During 2022, this charitable foundation also pledged \$200,000 toward the Organization's roadway project, of which \$100,000 remains in restricted pledges receivable as of December 31, 2022. In addition, during 2022, a family member of the aforementioned common board member donated \$50,000 to the Organization.

Also during 2020, the Organization entered into two notes payable to a self-directed IRA of another of its board members. During 2021, the Organization entered into two additional notes payable with the same related party self-directed IRA. These notes, in the aggregate amount of \$500,000 remain outstanding as of December 31, 2022 (Note 5); related accrued interest and interest expense were \$10,000 as of and for the year ended December 31, 2022.