

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders'
of Queen City Investments, Inc.

We have audited the accompanying consolidated financial statements of Queen City Investments, Inc. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 auditors' 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 auditors consider 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 Queen City Investments, Inc. and subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Long Beach, California
March 30, 2021

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31,	
	2020	2019
ASSETS		
Cash and cash equivalents	\$ 2,071,682	\$ 1,545,641
Securities held-to-maturity (fair value of \$29,133,809 – 2020; \$26,936,448 – 2019) (Note 2)	28,462,181	26,568,670
Breeding herd, net (Note 4)	625,280	573,755
Property and equipment, net (Note 5)	23,038,160	22,381,384
Other assets (Notes 3 and 6)	<u>3,802,043</u>	<u>3,183,297</u>
TOTAL ASSETS	<u>\$ 57,999,346</u>	<u>\$ 54,252,747</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES		
Accounts payable and accrued expenses	\$ 767,622	\$ 652,490
Other liabilities	304,866	207,992
Deferred income taxes (Note 8)	<u>1,459,532</u>	<u>1,388,984</u>
	<u>2,532,020</u>	<u>2,249,466</u>
COMMITMENTS AND CONTINGENCIES (Note 12)		
STOCKHOLDERS' EQUITY		
Common stock, \$2 par value, authorized 300,000 shares	95,602	95,602
Additional paid-in capital	49,623	49,623
Retained earnings	<u>55,322,101</u>	<u>51,858,056</u>
	<u>55,467,326</u>	<u>52,003,281</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 57,999,346</u>	<u>\$ 54,252,747</u>

The accompanying notes are an integral part of these consolidated financial statements.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	For the Year Ended December 31,	
	<u>2020</u>	<u>2019</u>
TRUST FEES AND COMMISSIONS	\$ 12,303,716	\$ 11,621,131
INTEREST	510,528	535,765
GAIN ON SALE OF CATTLE	828,724	568,931
RENTAL INCOME	2,666,172	2,577,925
OTHER INCOME	<u>600,163</u>	<u>222,989</u>
	<u>16,909,303</u>	<u>15,526,741</u>
OPERATING EXPENSES		
Personnel and benefits	6,529,660	6,485,820
Equipment and other ranch expenses	598,983	682,322
Professional services	1,933,641	2,221,899
Rental operating expenses	1,622,509	1,863,317
General business expenses	<u>743,780</u>	<u>955,411</u>
	<u>11,428,573</u>	<u>12,208,769</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	5,480,730	3,317,972
PROVISION FOR INCOME TAXES	<u>1,538,676</u>	<u>1,021,005</u>
NET INCOME	<u>\$ 3,942,054</u>	<u>\$ 2,296,967</u>

The accompanying notes are an integral part of these consolidated financial statements.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional	Retained	Total
	Shares	Amount	Paid-In	Earnings	Stockholders'
			Capital		Equity
BALANCE,					
JANUARY 1, 2019	47,801	\$ 95,602	\$ 49,623	\$ 50,039,101	\$ 50,184,326
NET INCOME				2,296,967	2,296,967
DIVIDENDS PAID				(478,012)	(478,012)
BALANCE,					
DECEMBER 31, 2019	47,801	95,602	49,623	51,858,056	52,003,281
NET INCOME				3,942,054	3,942,054
DIVIDENDS PAID				(478,009)	(478,009)
BALANCE,					
DECEMBER 31, 2020	47,801	\$ 95,602	\$ 49,623	\$ 55,322,101	\$ 55,467,326

The accompanying notes are an integral part of these consolidated financial statements.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 3,942,054	\$ 2,296,967
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	852,455	814,455
Noncash rental operating expense	-	151,564
Amortization of premium on securities held-to-maturity	225,158	395,743
Change in deferred income taxes	70,548	223,352
Changes in operating assets and liabilities:		
Breeding herd, net of depreciation	(51,525)	(93,965)
Other assets	(222,272)	(172,094)
Accounts payable and accrued expenses	115,132	(315,046)
Other liabilities	96,874	(124,295)
Net Cash Provided By Operating Activities	<u>5,028,424</u>	<u>3,176,681</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity of securities held-to-maturity	7,167,969	5,285,715
Purchases of securities held-to-maturity	(9,286,638)	(7,005,760)
Purchases of property and equipment	(1,509,231)	(2,176,739)
Proceeds from collection of notes receivable	-	95,000
Issuance of notes receivable	-	(75,000)
Capital call payments, alternative investments	(396,474)	(650,000)
Net Cash Used In Investing Activities	<u>(4,024,374)</u>	<u>(4,526,784)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(478,009)	(478,012)
Net Cash Used In Financing Activities	<u>(478,009)</u>	<u>(478,012)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	526,041	(1,828,115)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,545,641</u>	<u>3,373,756</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,071,682</u>	<u>\$ 1,545,641</u>

The accompanying notes are an integral part of these consolidated financial statements.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

NOTE 1 – Summary of Significant Accounting Policies

This summary of significant accounting policies of Queen City Investments, Inc. and its subsidiaries is presented to assist in understanding the consolidated financial statements. The consolidated financial statements and notes are representations of Queen City Investments, Inc.'s management, who is responsible for their integrity and objectivity. The accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the consolidated financial statements for December 31, 2020 and 2019.

Organization and Nature of Business

Queen City Investments, Inc. (the company) and its subsidiaries are incorporated under the laws of the state of California. The company is the parent company of its three wholly owned subsidiaries, Farmers and Merchants Trust Company of Long Beach, Messer Land and Development Company, Inc., and Golden Forest Properties, Inc. The company is the single member of QCI Real Estate Holdings LLC and QCI Capital Holdings LLC. The accounts of these LLCs are included in the consolidated financial statements. The company owns and leases commercial real estate and buildings in California, and conducts other business through its subsidiaries.

Farmers and Merchants Trust Company of Long Beach (the Trust Co.) is a licensed trust company that provides a full array of investment management and fiduciary services to individual investors, corporations, and estates. These services include investment management, personal trust services, custody services, and administration of employee benefit plans.

Messer Land and Development Company, Inc.'s (Messer Land) primary operation is a cattle ranch located in central California. The ranch breeds and raises cattle for sale at market.

Golden Forest Properties, Inc. (Golden Forest), a company without any substantial assets, which was used for certain transactions such as real property exchanges, was dissolved in December 2019.

Basis of Presentation

The consolidated financial statements of the company include the accounts of Queen City Investments, Inc. and its subsidiaries after the elimination of all material intercompany transactions.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Estimates and Assumptions

Management uses estimates and assumptions in preparing consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, fair value of investments and the provision for current and deferred taxes. Actual results could vary from the estimates that were assumed in preparing the consolidated financial statements.

Fair Value Measurements

The company follows the provisions of accounting guidance required for fair value measurements and disclosures of financial assets and liabilities and nonfinancial items that are recognized or disclosed at fair value on a recurring and nonrecurring basis. This guidance defines fair value, establishes a fair value hierarchy for measuring fair value under generally accepted accounting principles, and enhances disclosures about fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, level 2 inputs consist of observable inputs other than quoted prices for identical assets, and level 3 inputs are unobservable and have the lowest priority. The company uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the company measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs would be used only when level 1 or level 2 inputs were not available. The company's assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

The fair value disclosed in Note 2 for securities held-to-maturity is based on quoted market prices in an inactive market and, therefore, level 2.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the consolidated financial statements, the company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. At December 31, 2020 and 2019 and throughout the years then ended, the company maintained cash and cash equivalents balances in excess of federally insured limits. Historically, the company has not experienced any losses due to such concentration of credit risk.

Securities Held-to-Maturity

Securities held-to-maturity at December 31, 2020 and 2019 consist of state and municipal bonds and U.S treasury bills. In accordance with accounting guidance, and based on the company's intentions regarding these instruments, the company has classified all marketable debt securities as held-to-maturity and has accounted for these investments at amortized cost. The amortization of premiums and discounts are recognized in interest income using a method that approximates the effective-interest method. The company has the ability and intent to hold the investments to maturity.

Alternative Investments

The company has equity investments in certain private companies for which fair value is not readily determinable. These alternative investments are accounted for under the measurement alternative in accordance with Accounting Standards Update No. 2016-01, *Financial Instruments-Overall* (Topic 825). Under the measurement alternative, the company measures these non-marketable investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

Valuations of alternative investments are inherently more complex due to the lack of readily available market data. Recording upward and downward adjustments to the carrying value of the alternative investments as a result of observable price changes requires quantitative assessments of the fair value of investments and involves the use of estimates. Management has performed a qualitative and quantitative analysis of each investment individually and determined no impairment or observable price change adjustments are required for the years ended December 31, 2020 and 2019.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Breeding Herd

The breeding herd is stated at cost. Depreciation is computed using the straight-line method over five years.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are computed principally using the straight-line method over the estimated useful lives of the assets ranging from three to thirty-nine years. Leasehold improvements as lessee and tenant improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the lease term. Maintenance and repairs, including costs of minor replacements, are charged to operations as incurred.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Recoverability of assets is measured by comparison of the carrying amount of the asset to the net undiscounted future cash flows expected to be generated from the asset. If the future undiscounted cash flows are not sufficient to recover the carrying value of the asset, the asset's carrying value is adjusted to fair value. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values, and third-party independent appraisals, as appropriate. Assets to be disposed of would be separately presented in the consolidated balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets. To date, no impairment has been recorded.

Revenue From Contracts with Clients

The company primarily derives its revenue from contracts with clients associated with providing investment and management services, custodial services, and trust services. As such, revenue for these services is recognized when the performance obligations related to the underlying transaction are completed. The company earned approximately 73% and 75% of its revenue from trust fees and commissions for providing these services during the years ended December 31, 2020 and 2019, respectively.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Revenue From Contracts with Clients (Continued)

The company also derives revenue from contracts with clients associated with leasing commercial real estate and buildings in California. As such, revenue for these services is recognized on the first day of each month. The company earned approximately 16% and 17% of its revenue from rental income during the years ended December 31, 2020 and 2019, respectively.

A performance obligation is a promise in a contract to transfer a distinct good or service to the client. For all contracts with clients, the client contracts provide distinct services for an established rate, such as executing investment transactions or performing trust services. For any contracts with multiple performance obligations, the transaction price is allocated to each performance obligation based on the relative standalone selling price of each distinct service in the contract. The relative standalone selling price of each distinct service is generally observable as they are laid out in each contract.

Provision for Income Taxes

In filing its federal and State income tax returns, the company combines its results of operations with its subsidiaries. Current and deferred income taxes are allocated to the company and its subsidiaries as if each were a separate taxpayer. Deferred taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. Valuation allowances are provided against assets, which are not likely to be recognized.

The company had various deferred tax assets and liabilities made up primarily of the expected future tax effects of the current year's state franchise and income tax accrual and the difference in depreciation method and investment basis for book and tax purposes. The deferred tax assets and liabilities represent the future tax return consequences of the differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through income tax expense.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Provision for Income Taxes (Continued)

The company recognizes the tax benefits from uncertain tax positions taken or expected to be taken in a tax return only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position.

Recognized income tax positions are measured at the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. Additionally, previously recognized tax positions that no longer meet the more-likely-than-not threshold should be derecognized in the first financial reporting period in which that threshold is no longer met. Changes in recognition or measurement will be reflected in the period in which the change in judgment occurs. The company had no material adjustments to its liabilities for unrecognized income taxes and believes their estimates are appropriate based on current facts and circumstances.

The company's income tax filings are subject to audit by various taxing authorities. The statute of limitations for federal and state purposes is three and four years, respectively. In evaluating the company's tax provisions and accruals, future taxable income, and the reversal of temporary differences, interpretations, and tax planning strategies are considered.

There are inherent uncertainties related to the interpretation of tax regulations in the jurisdictions in which the company transacts business. The judgments and estimates made at a point in time may change based on the outcome of tax audits, as well as changes to, or further interpretations of, regulations.

Recently Issued Standard

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02). The guidance in this ASU supersedes the leasing guidance in *Leases (Topic 840)*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheets for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. In June 2020, the FASB issued ASU 2020-05, which defers the effective date of ASU 2016-02 an additional year, making it effective for the fiscal year ending December 31, 2022. The company is currently evaluating the impact of the adoption of the new standard on the financial statements.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 financial statement presentation.

Subsequent Events

In preparing these consolidated financial statements, the company’s management has evaluated events and transactions for potential recognition or disclosure through March 30, 2021, the date the consolidated financial statements were available to be issued, and has determined that there were no items to disclose.

NOTE 2 – Securities Held-to-Maturity

Cost and fair value of securities held-to-maturity at December 31, 2020 are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gain</u>	<u>Loss</u>	<u>Fair Value</u>
State and municipal bonds	\$ 5,299,801	\$ 81,442	\$ -	\$ 5,381,243
U.S treasury bills	<u>23,162,380</u>	<u>601,185</u>	<u>(10,999)</u>	<u>23,752,566</u>
	<u>\$ 28,462,181</u>	<u>\$ 682,627</u>	<u>\$ (10,999)</u>	<u>\$ 29,133,809</u>

Cost and fair value of securities held-to-maturity at December 31, 2019 are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gain</u>	<u>Loss</u>	<u>Fair Value</u>
State and municipal bonds	\$ 9,134,959	\$ 74,611	\$ (1,807)	\$ 9,207,763
U.S treasury bills	<u>17,433,711</u>	<u>308,305</u>	<u>(13,331)</u>	<u>17,728,685</u>
	<u>\$ 26,568,670</u>	<u>\$ 382,916</u>	<u>\$ (15,138)</u>	<u>\$ 26,936,448</u>

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 2 – Securities Held-to-Maturity (Continued)

Securities held-to-maturity consists of the following:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Maturities due		
Within one year or less	\$ 4,370,460	\$ 6,586,865
After one year through five years	22,749,237	18,594,645
After five years through ten years	<u>1,342,484</u>	<u>1,387,160</u>
	<u>\$ 28,462,181</u>	<u>\$ 26,568,670</u>

NOTE 3 – Alternative Investments

In April 2018, the company, through QCI Capital Holdings LLC, entered into an agreement to contribute up to \$1,000,000 to CapRock Partners Fund IV, L.P. (Fund IV), which included an initial contribution of \$500,000 on the date of the agreement. As part of the agreement, the company agreed to become a limited partner and contributed an additional \$500,000 during the year ended December 31, 2019 as called by Fund IV. As of December 31, 2020, the company has contributed the total commitment of \$1,000,000. The company's investment commitment represents approximately 4% of Fund IV. CapRock Partners Fund IV, L.P. is an investment vehicle of CapRock Partners, an investment firm focused on private industrial real estate.

In March 2019, the company, through QCI Capital Holdings LLC, purchased 500 preferred units of Nadavon Investment Partners LLC for \$500,000 through a confidential private placement. These preferred units entitle the company to receive a priority distribution of 100% of the amount invested, a cumulative preferred return equal to ten percent (10%) per annum, compounded annually, and 500 Class A common units. In August 2020, the company participated in the buyout of another shareholder's preferred units and increased its investment by \$75,000 and 1,630 Class B common units. Nadavon Investment Partners LLC is an investment vehicle of Nadavon Capital Partners, an investment firm focused on financial technology.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 3 – Alternative Investments (Continued)

In February 2020, the company, through QCI Capital Holdings LLC, entered into an agreement to become a limited partner of and to contribute up to \$500,000 to CapRock Partners Value Add Industrial Fund III, L.P. (Fund III). As of December 31, 2020, the company has contributed \$71,474 of its commitment. The company's investment commitment represents less than 1% of Fund III. CapRock Partners Value Add Industrial Fund III, L.P. is an investment vehicle of CapRock Partners, an investment firm focused on private industrial real estate.

Alternative investments are reported at cost, less any impairment, and are included in other assets on the accompanying consolidated balance sheets. (See Note 6.)

NOTE 4 – Breeding Herd

A summary of the breeding herd, at cost, is as follows:

	December 31,	
	2020	2019
Breeding herd	\$ 884,211	\$ 834,279
Less accumulated depreciation	<u>(258,931)</u>	<u>(260,524)</u>
	<u>\$ 625,280</u>	<u>\$ 573,755</u>

Depreciation expense for the years ended December 31, 2020 and 2019 totaled \$160,724 and \$106,711, respectively.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 5 – Property and Equipment

A summary of property and equipment at cost, including rental properties, is as follows:

	December 31,	
	2020	2019
Buildings	\$ 10,361,188	\$ 10,361,188
Furniture and equipment	2,956,134	2,713,641
Building and leasehold improvements	2,847,571	2,383,992
Tenant improvements	3,325,242	3,306,610
	19,490,135	18,765,431
Less accumulated depreciation and amortization	(6,708,426)	(5,921,612)
	12,781,709	12,843,819
Construction in progress	1,066,162	347,276
Land	9,190,289	9,190,289
	\$ 23,038,160	\$ 22,381,384

Depreciation and amortization expense for the years ended December 31, 2020 and 2019 totaled \$852,455 and \$814,455, respectively.

Included in property and equipment at December 31, 2020 and 2019 is \$24,888,475 and \$23,687,378, respectively, of productive rental properties with related accumulated depreciation of \$4,678,155 and \$3,978,959, respectively.

Construction in progress is comprised of several projects related to productive rental properties. The company expects to incur an additional \$134,000 to complete the projects. The projects are expected to be placed in service in March 2021.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 6 – Other Assets

Other assets consists of the following:

	December 31,	
	2020	2019
Alternative investments	\$ 1,646,474	\$ 1,250,000
Fees receivable	1,257,214	1,076,339
Prepaid taxes	-	338,640
Leasing commissions, net	145,340	160,742
Interest receivable	222,662	245,811
Other receivables	434,216	21,057
Prepaid expenses	84,710	78,714
Utility deposit	6,745	6,745
Loan fees, net	4,682	5,249
	<u>\$ 3,802,043</u>	<u>\$ 3,183,297</u>

NOTE 7 – Trust Assets

The Trust Co. has trust assets under administration totaling approximately \$4.34 billion and \$3.35 billion, representing 1,304 and 1,218 accounts, at market value as of December 31, 2020 and 2019, respectively. These amounts are not included in the accompanying consolidated balance sheets.

As a fiduciary, the Trust Co. has responsibility for the proper administration of all assets held in trust and, therefore, has a contingent liability for any loss of assets or breach of fiduciary duty. The Trust Co.'s management feels that the fiduciary insurance coverage held by the Trust Co. is sufficient to cover any potential losses.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 8 – Provision for Income Taxes

The following schedule indicates how the provision for income taxes varies from the expected rate:

	For the Year Ended December 31,	
	2020	2019
Expected provision for federal and State income taxes	\$ 1,559,601	\$ 1,052,068
Tax effect of permanent differences:		
Tax-exempt dividends	(22,257)	(35,143)
Nondeductible expenses	1,332	4,080
	\$ 1,538,676	\$ 1,021,005

The provision for income taxes consists of the following:

Current:		
Federal	\$ 894,395	\$ 398,606
State	573,733	399,047
Deferred	70,548	223,352
	\$ 1,538,676	\$ 1,021,005

Deferred tax assets and liabilities consists of the following:

	December 31,	
	2020	2019
Deferred tax assets		
Current year state tax	\$ 178,189	\$ 160,458
Deferred tax liabilities		
Excess of tax depreciation over book	(1,617,055)	(1,512,427)
Excess of book investment income over tax	(20,666)	(37,015)
Total deferred tax liabilities	(1,637,721)	(1,549,442)
Net deferred tax liabilities	\$ (1,459,532)	\$ (1,388,984)

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 9 – Related-Party Transactions

Under an exchange-of-services agreement, Farmers and Merchants Bank (the Bank), a related-party, provides administrative, accounting and data processing services, as well as office space, to the Trust Co. at various times throughout the years ended December 31, 2020 and 2019. The Trust Co. provides trustee and financial management services to the Bank and maintains deposits with the Bank. The exchange of services agreement provides for periodic settlement of amounts which may be owed by one party to the other, and such amounts were not material at December 31, 2020 and 2019. The benefits received from the Bank, which were charged to operations during the years ended December 31, 2020 and 2019, totaled approximately \$349,000 and \$348,000, respectively.

The Bank leases a branch location from the company, which expires in February 2026. Under the lease agreement, the company received approximately \$300,000 and \$292,000 of rental income and common area maintenance charges from the Bank for the years ended December 31, 2020 and 2019, respectively. The future rental income from the Bank is included in the summary of minimum future rentals in Note 12.

The Trust Co. leases office space from the Bank under various lease agreements. One agreement is a month-to-month lease and the other agreements end at various dates through August 2024. Rent expense paid to the Bank under these agreements totaled approximately \$209,000 and \$204,000 during the years ended December 31, 2020 and 2019, respectively.

Queen City Investments, Inc. and the Bank have a substantial percentage of their respective outstanding shares held by common shareholders, which include some directors of the Queen City Investments, Inc. and the Trust Co. In addition, certain officers and/or directors of the Queen City Investments, Inc. and the Trust Co. are also officers and/or directors of the Bank.

NOTE 10 – Profit-Sharing Plan

The Trust Co. has a profit-sharing plan covering substantially all eligible employees. The annual contribution is a percentage of employee compensation based on available net profits. The percentage may range from 0% to 15%, at the discretion of the board of directors. The profit-sharing expense for the years ended December 31, 2020 and 2019 was approximately \$495,000 and \$480,000, respectively.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 11 – Leasing Arrangements as Lessor

The company leases commercial property to various tenants under noncancelable operating leases that expire at various dates through 2030. The lease agreements provide for specific monthly payments plus reimbursement of a percentage share of common operating expenses. The following is a summary of minimum future rental income under these noncancelable operating leases:

<u>Year Ending December 31,</u>	<u>Affiliated Parties</u>	<u>Other</u>	<u>Total</u>
2021	\$ 300,435	\$ 1,838,592	\$ 2,139,027
2022	296,828	1,306,741	1,603,569
2023	293,050	937,995	1,231,045
2024	301,807	750,010	1,051,817
2025	310,896	402,014	712,910
Thereafter	<u>52,070</u>	<u>946,869</u>	<u>998,939</u>
	<u>\$ 1,555,086</u>	<u>\$ 6,182,221</u>	<u>\$ 7,737,307</u>

NOTE 12 – Commitments and Contingencies

Pledged Assets

At December 31, 2020 and 2019, corporate assets of the Trust Co., with a book value of approximately \$846,000 and \$820,000, respectively, have been pledged to the Treasurer of the State of California to ensure the faithful performance of fiduciary duties.

Operating Leases

The Trust Co. has an operating lease for software services expiring in October 2023 and also leases office space from affiliated parties as discussed in Note 9. The lease expense associated with operating leases, including those with terms of less than one year, was approximately \$489,000 and \$418,000 for the years ended December 31, 2020 and 2019, respectively, which includes lease expense paid to the related party as discussed in Note 9.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 12 – Commitments and Contingencies (Continued)

Operating Leases (Continued)

The following is a schedule of future minimum lease payments:

<u>Year Ending December 31,</u>	<u>Affiliated Parties</u>	<u>Other</u>	<u>Total</u>
2021	\$ 230,506	\$ 310,788	\$ 541,294
2022	179,579	313,088	492,667
2023	64,584	265,942	330,526
2024	44,276	83,803	128,079
2025	-	8,344	8,344
	<u>\$ 518,945</u>	<u>\$ 981,965</u>	<u>\$ 1,500,910</u>

Business Risks Associated with the Impact of COVID-19

Because of the severity and global nature of the COVID-19 pandemic, it is reasonably possible that the estimates in the financial statements will change in the near term and the effect of such change could be material. The impact on the company’s operations could be significant and have a material impact on its financial position and operating results. There is significant uncertainty and management is in the process of evaluating the potential future impact on its business and financial statements.

NOTE 13 – Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:

	<u>For the Year Ended December 31,</u>	
	<u>2020</u>	<u>2019</u>
Income taxes	\$ 818,000	\$ 835,000