# Queen City Investments, Inc. and Subsidiaries

## Consolidated Financial Statements

December 31, 2021 and 2020

WINDES
AUDIT | TAX | ADVISORY

**CONTENTS**

# INDEPENDENT AUDITORS' REPORT

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

## Opinion

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, 2021 and 2020, 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.

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, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Queen City Investments, Inc. and subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 Consolidated 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 Queen City Investments, Inc. and subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

**Auditors' 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 auditors' 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, including omissions, 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 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 Queen City Investments, Inc. and subsidiaries' 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Queen City Investments, Inc. and subsidiaries' 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.

Windes, Inc.

Long Beach, California
March 22, 2022

## QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

### ASSETS

| | December 31, 2021 | | December 31, 2020 | |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ | 2,788,647 | $ | 2,071,682 |
| Securities held-to-maturity (fair value of $29,277,677– 2021; $29,133,809 – 2020) (Note 2) | | 29,298,003 | | 28,462,181 |
| Breeding herd, net (Note 4) | | 284,692 | | 625,280 |
| Property and equipment, net (Note 5) | | 29,404,296 | | 23,038,160 |
| Notes receivable | | 120,000 | | |
| Other assets (Note 3 and 6) | | 3,569,866 | | 3,802,043 |
| **TOTAL ASSETS** | $ | 65,465,504 | $ | 57,999,346 |

### LIABILITIES AND STOCKHOLDERS' EQUITY

| | December 31, 2021 | | December 31, 2020 | |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| Accounts payable and accrued expenses | $ | 856,134 | $ | 767,622 |
| Line of credit (Note 8) | | 4,000,000 | | |
| Other liabilities | | 150,626 | | 304,866 |
| Deferred taxes (Note 9) | | 1,308,174 | | 1,459,532 |
| | | 6,314,934 | | 2,532,020 |
| **COMMITMENTS AND CONTINGENCIES** (Note 13) | | | | |
| **STOCKHOLDERS' EQUITY** | | | | |
| Common stock, $2 par value, authorized 300,000 shares | | 95,478 | | 95,602 |
| Additional paid-in capital | | 49,558 | | 49,623 |
| Retained earnings | | 59,005,534 | | 55,322,101 |
| | | 59,150,570 | | 55,467,326 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ | 65,465,504 | $ | 57,999,346 |

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, 2021 | For the Year Ended December 31, 2020 |
|---|---|---|
| **TRUST FEES AND COMMISSIONS** | $ 13,450,578 | $ 12,303,716 |
| **INTEREST** | 436,353 | 510,528 |
| **GAIN ON SALE OF CATTLE** | 724,316 | 828,724 |
| **RENTAL INCOME** | 2,839,610 | 2,666,172 |
| **OTHER INCOME** | 415,217 | 600,163 |
| | 17,866,074 | 16,909,303 |
| **OPERATING EXPENSES** | | |
| Personnel and benefits | 6,519,054 | 6,529,660 |
| Equipment and other ranch expenses | 957,163 | 530,287 |
| Professional services | 2,003,574 | 1,933,641 |
| Rental operating expenses | 1,679,576 | 1,622,509 |
| General business expenses | 895,995 | 812,476 |
| Interest expense | 13,398 | |
| | 12,068,760 | 11,428,573 |
| **INCOME BEFORE PROVISION FOR INCOME TAXES** | 5,797,314 | 5,480,730 |
| **PROVISION FOR INCOME TAXES** | 1,569,878 | 1,538,676 |
| **NET INCOME** | $ 4,227,436 | $ 3,942,054 |

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 Paid-In Capital | Retained Earnings | Total Stockholders' Equity |
|---|---|---|---|---|---|
| | Shares | Amount | | | |
| BALANCE, JANUARY 1, 2020 | 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 |
| NET INCOME | | | | 4,227,436 | 4,227,436 |
| SHARES RETIRED | (62) | (124) | (65) | (66,613) | (66,802) |
| DIVIDENDS PAID | | | | (477,390) | (477,390) |
| BALANCE, DECEMBER 31, 2021 | 47,739 | $ 95,478 | $ 49,558 | $ 59,005,534 | $ 59,150,570 |

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, 2021 | For the Year Ended December 31, 2020 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | $ 4,227,436 | $ 3,942,054 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 910,201 | 852,455 |
| Amortization of premium on securities held-to-maturity | 104,537 | 225,158 |
| Change in deferred taxes | (151,358) | 70,548 |
| Changes in operating assets and liabilities: | | |
| Breeding herd, net of depreciation | 340,588 | (51,525) |
| Other assets | 232,177 | (222,272) |
| Accounts payable and accrued expenses | 88,512 | 115,132 |
| Other liabilities | (154,240) | 96,874 |
| Net Cash Provided By Operating Activities | 5,597,853 | 5,028,424 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases of securities held-to-maturity | (4,305,685) | (9,286,638) |
| Proceeds from maturity of securities held-to-maturity | 3,365,326 | 7,167,969 |
| Purchases of property and equipment | (7,276,337) | (1,509,231) |
| Capital call payments, alternative investments | | (396,474) |
| Issuance of notes receivable | (120,000) | |
| Net Cash Used In Investing Activities | (8,336,696) | (4,024,374) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from line of credit | 4,000,000 | |
| Repurchase of stock | (66,802) | |
| Dividends paid | (477,390) | (478,009) |
| Net Cash Provided By (Used In) Financing Activities | 3,455,808 | (478,009) |
| **NET CHANGE IN CASH AND CASH EQUIVALENTS** | 716,965 | 526,041 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 2,071,682 | 1,545,641 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | $ 2,788,647 | $ 2,071,682 |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
## DECEMBER 31, 2021 AND 2020

### 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, 2021 and 2020.

***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 two wholly owned subsidiaries, Farmers and Merchants Trust Company of Long Beach and Messer Land and Development Company, 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.

***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.

## 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.

**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, 2021 and 2020 and throughout the years then ended, the company maintained cash and cash equivalent 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, 2021 and 2020 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, 2021 and 2020.

**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 75% and 73% of its revenue from trust fees and commissions for providing these services during the years ended December 31, 2021 and 2020, respectively.

## 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% of its revenue from rental income for each of the years ended December 31, 2021 and 2020.

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.

## 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 deferred 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.

## NOTE 1 – Summary of Significant Accounting Policies (Continued)

***Subsequent Events***

In preparing these consolidated financial statements, the company's management has evaluated events and transactions for potential recognition or disclosure through March 22, 2022, 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, 2021 are as follows:

| | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value |
|---|---|---|---|---|
| State and municipal bonds | $ 2,050,264 | $ 29,596 | $ - | $ 2,079,860 |
| U.S treasury bills | 27,247,739 | 201,163 | (251,085) | 27,197,817 |
| | $ 29,298,003 | $ 230,759 | $ (251,085) | $ 29,277,677 |

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

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

Securities held-to-maturity consists of the following:

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| Maturities due | | |
| Within one year or less | $ 6,509,053 | $ 4,370,460 |
| After one year through five years | 22,279,312 | 22,749,237 |
| After five years through ten years | 509,638 | 1,342,484 |
| | $ 29,298,003 | $ 28,462,181 |

**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, 2021, 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.

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, 2021, the company has contributed approximately $138,000 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, 2021 | December 31, 2020 |
|---|---|---|
| Breeding herd | $ 435,355 | $ 884,211 |
| Less accumulated depreciation | (150,663) | (258,931) |
| | $ 284,692 | $ 625,280 |

Depreciation expense for the years ended December 31, 2021 and 2020 totaled approximately $105,000 and $161,000, respectively.

## NOTE 5 – Property and Equipment

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

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| Buildings | $ 11,370,615 | $ 10,361,188 |
| Furniture and equipment | 3,247,822 | 2,956,134 |
| Building and leasehold improvements | 4,439,255 | 2,847,571 |
| Tenant improvements | 3,405,715 | 3,325,242 |
| | 22,463,407 | 19,490,135 |
| Less accumulated depreciation and amortization | (7,618,628) | (6,708,426) |
| | 14,844,779 | 12,781,709 |
| Construction in progress | - | 1,066,162 |
| Land | 14,559,517 | 9,190,289 |
| | $ 29,404,296 | $ 23,038,160 |

Depreciation and amortization expense for the years ended December 31, 2021 and 2020 totaled $910,201 and $852,455, respectively.

**NOTE 5 – Property and Equipment (Continued)**

Included in property and equipment at December 31, 2021 and 2020 is $25,477,258 and $24,888,475, respectively, of productive rental properties with related accumulated depreciation of $5,432,827 and $4,678,155, respectively.

At December 31, 2020, construction in progress was comprised of several projects related to productive rental properties which were completed and placed in service during 2021.

**NOTE 6 – Other Assets**

Other assets consists of the following:

| | December 31, | |
|---|---|---|
| | 2021 | 2020 |
| Alternative investments | $ 1,712,816 | $ 1,646,474 |
| Fees receivable | 1,401,366 | 1,257,214 |
| Leasing commissions, net | 125,772 | 145,340 |
| Interest receivable | 134,047 | 222,662 |
| Prepaid taxes | 81,690 | - |
| Prepaid expenses | 79,852 | 84,710 |
| Loan fees, net | 24,625 | 4,682 |
| Utility deposit | 6,745 | 6,745 |
| Other receivables | 2,953 | 434,216 |
| | $ 3,569,866 | $ 3,802,043 |

**NOTE 7 – Trust Assets**

The Trust Co. has trust assets under administration totaling approximately $6.17 billion and $4.34 billion, representing 1,391 and 1,304 accounts, at market value as of December 31, 2021 and 2020, 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.

## NOTE 8 – Line of Credit

During 2021 the company entered into a line of credit agreement with a non-related financial institution whereby it may borrow up to $6,000,000. The line of credit bears interest at the greater of the Prime Rate (3.25% at December 31, 2021) or 2.50%. The agreement expires in February 2024 and is secured a deed of trust covering certain real and personal property. At December 31, 2021, the outstanding balance on the line of credit totaled $4,000,000.

## NOTE 9 – 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, 2021 | For the Year Ended December 31, 2020 |
|---|---|---|
| Expected provision for federal and State income taxes | $ 1,581,449 | $ 1,559,601 |
| Tax effect of permanent differences: | | |
| Tax-exempt dividends | (12,242) | (22,257) |
| Nondeductible expenses | 671 | 1,332 |
| | $ 1,569,878 | $ 1,538,676 |

The provision for income taxes consists of the following:

| | 2021 | 2020 |
|---|---|---|
| Current: | | |
| Federal | $ 1,103,630 | $ 894,395 |
| State | 617,606 | 573,733 |
| Deferred | (151,358) | 70,548 |
| | $ 1,569,878 | $ 1,538,676 |

## NOTE 9 – Provision for Income Taxes (Continued)

Deferred tax assets and liabilities consists of the following:

| | December 31, 2021 | December 31, 2020 |
|---|---|---|
| Deferred tax assets | | |
| Current year state tax | $ 175,523 | $ 178,189 |
| Deferred tax liabilities | | |
| Excess of tax depreciation over book | (1,451,631) | (1,617,055) |
| Excess of book investment income over tax | (32,066) | (20,666) |
| Total deferred tax liabilities | (1,483,697) | (1,637,721) |
| Net deferred tax liabilities | $ (1,308,174) | $ (1,459,532) |

## NOTE 10 – 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, 2021 and 2020. 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, 2021 and 2020. The benefits received from the Bank, which were charged to operations during the years ended December 31, 2021 and 2020, totaled approximately $394,000 and $349,000, respectively.

The Bank leases a branch location from the company, which expires February 2026. Under the lease agreement, the company received approximately $312,000 and $300,000 of rental income and common area maintenance charges from the Bank for the years ended December 31, 2021 and 2020, 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 $214,000 and $209,000 during the years ended December 31, 2021 and 2020, respectively.

## NOTE 10 – Related-Party Transactions (Continued)

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 11 – Profit-Sharing and Safe Harbor Plan

The Trust Co. has a profit-sharing and safe harbor plan covering substantially all eligible employees. The annual contributions are a percentage of employee compensation based on available net profits. The percentage may range from 3% to 15%, at the discretion of the board of directors. The profit-sharing and safe harbor expense for the years ended December 31, 2021 and 2020 was approximately $509,000 and $495,000, respectively.

## NOTE 12 – 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:

| Year Ending December 31, | Affiliated Parties | Other | Total |
|---|---|---|---|
| 2022 | $ 296,828 | $ 1,519,672 | $ 1,816,500 |
| 2023 | 293,050 | 1,090,626 | 1,383,676 |
| 2024 | 301,807 | 904,729 | 1,206,536 |
| 2025 | 310,896 | 586,068 | 896,964 |
| 2026 | 52,070 | 501,997 | 554,067 |
| Thereafter | - | 565,625 | 565,625 |
| | $ 1,254,651 | $ 5,168,717 | $ 6,423,368 |

## NOTE 13 – Commitments and Contingencies

***Pledged Assets***

At December 31, 2021 and 2020, corporate assets of the Trust Co., with a book value of approximately $832,000 and $846,000, 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 $523,000 and $489,000 for the years ended December 31, 2021 and 2020, respectively, which includes lease expense paid to the related party as discussed in Note 10.

The following is a schedule of future minimum lease payments:

| Year Ending December 31, | Affiliated Parties | Other | Total |
|---|---|---|---|
| 2022 | $ 222,767 | $ 313,088 | $ 535,855 |
| 2023 | 64,584 | 279,442 | 344,026 |
| 2024 | 44,276 | 83,803 | 128,079 |
| 2025 | - | 8,344 | 8,344 |
| | $ 331,627 | $ 684,677 | $ 1,016,304 |

## NOTE 14 – Supplemental Disclosures of Cash Flow Information

***Cash paid during the year for:***

| | For the Year Ended December 31, 2021 | 2020 |
|---|---|---|
| Income taxes | $ 1,211,000 | $ 818,000 |
| Interest | $ 13,398 | $ - |