

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2023 and 2022

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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, 2023 and 2022, 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, 2023 and 2022, 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 Consolidated 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 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 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 consolidated 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.



Long Beach, California
March 28, 2024

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31,	
	2023	2022
ASSETS		
Cash and cash equivalents	\$ 8,443,530	\$ 5,220,949
Securities held-to-maturity (fair value of \$23,878,664 – 2023; \$24,687,463 – 2022) (Note 2)	24,734,582	26,093,744
Alternative investments (Note 3)	1,854,418	1,774,180
Breeding herd, net (Note 4)	360,453	196,994
Property and equipment, net (Note 5)	29,896,738	29,208,978
Notes receivable	55,000	133,317
Operating lease right-of-use asset (Note 8)	768,851	812,747
Other assets (Note 6)	2,526,681	2,026,145
TOTAL ASSETS	\$ 68,640,253	\$ 65,467,054

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Accounts payable and accrued expenses	\$ 1,164,891	\$ 1,041,839
Other liabilities	154,963	157,084
Operating lease liability (Note 8)	797,517	826,928
Deferred taxes (Note 9)	1,620,987	1,487,917
	3,738,358	3,513,768

CONTINGENCIES (Note 12)

STOCKHOLDERS' EQUITY

Common stock, \$2 par value, authorized 300,000 shares	94,490	94,902
Additional paid-in capital	49,045	49,259
Retained earnings	64,758,360	61,809,125
	64,901,895	61,953,286

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 68,640,253	\$ 65,467,054
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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>2023</u>	<u>2022</u>
TRUST FEES AND COMMISSIONS	\$ 14,918,003	\$ 14,348,867
INTEREST	563,189	391,393
GAIN ON SALE OF CATTLE	865,184	750,714
RENTAL INCOME	3,360,965	2,967,119
OTHER INCOME	<u>262,343</u>	<u>360,967</u>
	<u>19,969,684</u>	<u>18,819,060</u>
OPERATING EXPENSES		
Personnel and benefits	7,814,956	7,565,832
Equipment and other ranch expenses	682,921	761,591
Professional services	2,732,184	2,344,235
Rental operating expenses	1,868,991	1,438,377
General business expenses	1,701,635	1,430,243
Interest expense	<u>-</u>	<u>68,905</u>
	<u>14,800,687</u>	<u>13,609,183</u>
INCOME BEFORE PROVISION FOR INCOME TAXES	5,168,997	5,209,877
PROVISION FOR INCOME TAXES	<u>1,503,236</u>	<u>1,571,673</u>
NET INCOME	<u>\$ 3,665,761</u>	<u>\$ 3,638,204</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

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Earnings</u>	<u>Stockholders'</u>
			<u>Capital</u>		<u>Equity</u>
BALANCE, JANUARY 1, 2022	47,739	\$ 95,478	\$ 49,558	\$ 59,005,534	\$ 59,150,570
NET INCOME				3,638,204	3,638,204
SHARES RETIRED	(288)	(576)	(299)	(359,453)	(360,328)
DIVIDENDS PAID				(475,160)	(475,160)
BALANCE, DECEMBER 31, 2022	47,451	94,902	49,259	61,809,125	61,953,286
NET INCOME				3,665,761	3,665,761
SHARES RETIRED	(206)	(412)	(214)	(244,076)	(244,702)
DIVIDENDS PAID				(472,450)	(472,450)
BALANCE, DECEMBER 31, 2023	<u>47,245</u>	<u>\$ 94,490</u>	<u>\$ 49,045</u>	<u>\$ 64,758,360</u>	<u>\$ 64,901,895</u>

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,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 3,665,761	\$ 3,638,204
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,078,335	923,175
Loss on disposal of equipment	3,037	-
Amortization of premium on securities held-to-maturity	133,312	231,321
Amortization on operating lease assets	43,896	298,435
Change in deferred taxes	133,070	179,743
Changes in operating assets and liabilities:		
Breeding herd, net of depreciation	(163,459)	87,698
Other assets	(500,536)	(169,095)
Accounts payable and accrued expenses	123,052	185,705
Operating lease liabilities	(29,411)	(284,254)
Other liabilities	(2,121)	6,458
Net Cash Provided By Operating Activities	4,484,936	5,097,390
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital call payments, alternative investments	(120,000)	(737,308)
Proceeds from alternative investments	39,762	675,944
Purchases of securities held-to-maturity	(4,768,875)	(4,016,402)
Proceeds from maturity of securities held-to-maturity	5,994,725	6,989,340
Purchases of property and equipment	(1,769,132)	(727,857)
Collection of notes receivable	133,317	-
Issuance of notes receivable	(55,000)	(13,317)
Net Cash (Used In) Provided By Investing Activities	(545,203)	2,170,400

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

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued)

	For the Year Ended	
	December 31,	
	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in line of credit	-	(4,000,000)
Repurchase of stock	(244,702)	(360,328)
Dividends paid	(472,450)	(475,160)
Net Cash Used In Financing Activities	<u>(717,152)</u>	<u>(4,835,488)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,222,581	2,432,302
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,220,949</u>	<u>2,788,647</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 8,443,530</u>	<u>\$ 5,220,949</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, 2023 AND 2022

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 in the United States of America (U.S. GAAP) and have been consistently applied in the preparation of the consolidated financial statements for December 31, 2023 and 2022.

Organization and Nature of Business

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

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’s 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 (collectively, the company) after the elimination of all material intercompany transactions.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Estimates and Assumptions

Management uses estimates and assumptions in preparing consolidated financial statements in accordance with U.S. GAAP. 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 U.S. GAAP, 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 management's 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, 2023 AND 2022

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, 2023 and 2022 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, 2023 and 2022 consist of state and municipal bonds and U.S treasury securities. 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.

Allowance for Credit Losses

Securities Held-to Maturity and Accrued Interest Receivables

The allowance for credit losses on debt securities held-to-maturity is estimated using the current expected credit loss (CECL) methodology. Any expected credit loss is provided through the allowance for credit loss on held-to-maturity securities and is deducted from the amortized cost basis of the security so that the consolidated balance sheets reflects the net amount the company expects to collect. Nearly all the company's held-to-maturity debt securities are issued by the U.S. government and state entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. Accordingly, there is a zero-credit loss expectation on these securities.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses

Securities Held-to Maturity and Accrued Interest Receivables (Continued)

Accrued interest receivable on held-to-maturity debt securities totaled approximately \$175,000 and \$137,000 as of December 31, 2023 and 2022, respectively, and is included within other assets on the company's consolidated balance sheets. This amount is excluded from the estimate of expected credit losses. Generally, held-to-maturity debt securities are classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest. When held-to-maturity debt securities are placed on nonaccrual status, unpaid interest credited to income is reversed against interest income.

Other Financial Instruments

The company measures expected credit losses on trust fees receivable and leasing commissions receivable, included in other assets on the consolidated balance sheets, and non-related party notes receivable based on a range of relevant information, such as past events, current conditions, and reasonable and supportable forecasts. Management considers forward-looking factors including, but not limited to, historical loss experience, current economic conditions, and changes in borrower creditworthiness. As of December 31, 2023 and 2022, there was no expected credit loss provision for these accounts.

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 ASU 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.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Alternative Investments (Continued)

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, 2023 and 2022.

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.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Revenue From Contracts with Clients

The company primarily derives its revenue from contracts lessors providing investment and management, custodial, 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 76% of its revenue from trust fees and commissions for providing these services during the years ended December 31, 2023 and 2022, respectively.

The company also derives revenue from contracts with lessors 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 17% and 16% of its revenue from rental income for the years ended December 31, 2023 and 2022, 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, performing trust services or providing use of the leased space. 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, Queen City combines its results of operations with its subsidiaries. Current and deferred income taxes are allocated to Queen City 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 realized.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Provision for Income Taxes (Continued)

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.

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, 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.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Pronouncement

Beginning January 1, 2022, the company adopted ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and its related amendments, which replaces the incurred loss methodology with an expected loss methodology referred to as the CECL methodology. This ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This ASU also requires the company to use forward-looking information to better formulate its credit loss estimates.

The ASU permits the use of either a prospective transition method or a modified-retrospective transition method with the cumulative-effect adjustment to the opening balance of retained earnings. The company has elected the use of the modified-retrospective transition method. The transition method selected resulted in no adjustment to the opening balance of retained earnings.

Reclassification

Certain amounts in the 2022 consolidated financial statements have been reclassified to conform to the 2023 consolidated 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 28, 2024, the date the consolidated financial statements were available to be issued, and has determined that there were no items to disclose.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 2 – Securities Held-to-Maturity

Cost and fair value of securities held-to-maturity at December 31, 2023 are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized</u>		<u>Value</u>
		<u>Gain</u>	<u>Loss</u>	
U.S. Treasury securities	<u>\$ 24,734,582</u>	<u>\$ 14,234</u>	<u>\$ (870,152)</u>	<u>\$ 23,878,664</u>

Cost and fair value of securities held-to-maturity at December 31, 2022 are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized</u>		<u>Value</u>
		<u>Gain</u>	<u>Loss</u>	
State and municipal bonds	\$ 1,006,716	\$ 740	\$ (2,031)	\$ 1,005,425
U.S. Treasury securities	<u>25,087,028</u>	<u>2,127</u>	<u>(1,407,117)</u>	<u>23,682,038</u>
	<u>\$ 26,093,744</u>	<u>\$ 2,867</u>	<u>\$ (1,409,148)</u>	<u>\$ 24,687,463</u>

Securities held-to-maturity consists of the following:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Maturities due		
Within one year or less	\$ 7,948,290	\$ 6,003,068
After one year through five years	<u>16,786,292</u>	<u>20,090,676</u>
	<u>\$ 24,734,582</u>	<u>\$ 26,093,744</u>

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

NOTE 3 – Alternative Investments

In April 2018, the company, through QCI Capital, contributed \$500,000 to CapRock Partners Fund IV, L.P. (Fund IV). An additional \$500,000 capital contribution was made during the year ended December 31, 2019. The company received returns of capital totaling \$626,000 in 2022 resulting in a capital balance of \$324,000 at December 31, 2022. The company received returns of capital totaling \$39,762 in 2023 resulting in a capital balance of \$284,000 at December 31, 2023. The company's investment represents approximately 4% of Fund IV. Fund IV is an investment vehicle of CapRock Partners, an investment firm focused on private industrial real estate.

In March 2019, the company, through QCI Capital, 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 increasing its investment by \$75,000 and adding 1,630 Class B common units. In March 2022, the company purchased an additional 455 Class B common units for a purchase price of \$125,125. 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, 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, 2023 and 2022, the company has contributed \$270,000 and 150,000 of its Funding III capital commitment, respectively. The company's investment commitment represents less than 1% of Fund III.

In April 2022, the company, through QCI Capital, purchased 318,000 Series F preferred shares of Genea Energy Partners, Inc. for \$500,000 through a confidential private placement. The shares are convertible to common stock, are eligible for an 8% per annum dividend at the declaration of the Board of Directors of Genea Energy Partners and carry liquidation preference to all previously issued preferred and common shares. Genea Energy Partners, Inc. automates overtime HVAC, sub-metered billing, and access control for owners of commercial real estate.

In October 2022, the company, through QCI Capital, entered into an agreement to become a limited partner of and contribute up to \$1,000,000 to CapRock Bridge Fund II (Fund II). As of December 31, 2023 and 2022, the company has contributed \$100,000 of its Fund II capital commitment. The company's investment commitment represents approximately 3% of Fund II.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 4 – Breeding Herd

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

	December 31,	
	2023	2022
Breeding herd	\$ 492,720	\$ 364,337
Less accumulated depreciation	(132,267)	(167,343)
	\$ 360,453	\$ 196,994

Depreciation expense for the years ended December 31, 2023 and 2022 totaled approximately \$119,000 and \$115,000, respectively.

NOTE 5 – Property and Equipment

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

	December 31,	
	2023	2022
Buildings	\$ 11,370,615	11,370,615
Furniture and equipment	3,481,533	3,303,432
Building and leasehold improvements	4,607,528	4,583,566
Tenant improvements	4,746,177	3,741,448
	24,205,853	22,999,061
Less accumulated depreciation and amortization	(9,471,381)	(8,541,803)
	14,734,472	14,457,258
Construction in progress	602,749	192,203
Land	14,559,517	14,559,517
	\$ 29,896,738	\$ 29,208,978

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 5 – Property and Equipment (Continued)

Depreciation and amortization expense for the years ended December 31, 2023 and 2022 totaled approximately \$1,078,000 and \$923,000, respectively.

Included in property and equipment at December 31, 2023 and 2022 is approximately \$27,200,000 and \$25,979,000, respectively, of productive rental properties with related accumulated depreciation of \$7,029,000 and \$6,209,000, respectively.

NOTE 6 – Other Assets

Other assets consists of the following:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Trust fees receivable	\$ 1,405,348	\$ 1,327,019
Leasing commissions, net	160,611	181,001
Interest receivable	155,493	115,452
Prepaid taxes	320,914	242,078
Prepaid expenses	247,108	86,561
Loan fees, net	12,888	25,074
Utility deposit	6,745	6,745
Other receivables	<u>217,574</u>	<u>42,215</u>
	<u>\$ 2,526,681</u>	<u>\$ 2,026,145</u>

NOTE 7 – 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 (8.50% at December 31, 2023) or 2.50%. There was no outstanding balance on the line of credit for each of the years ended December 31, 2023 and 2022. The agreement expired in February 2024 and was not renewed.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 8 – Leasing Arrangements

Lessee Arrangements

The Company has various operating leases with affiliated and non-related parties for office space which end at various dates through December 2027. The facilities' lease agreements includes renewal options which can extend the lease terms up to four years. The exercise of these renewal options is at the sole discretion of the company, and only lease options that the company believes are reasonably certain to exercise are included in the measurement of the lease assets and liabilities.

The following summarizes the line items in the consolidated balance sheets which include amounts for operating leases as follows:

	For the Year Ended December 31,	
	2023	2022
Operating lease right-of-use assets:		
Affiliated parties	\$ 703,102	\$ 686,926
Other	<u>65,749</u>	<u>125,821</u>
	<u>\$ 768,851</u>	<u>\$ 812,747</u>

	For the Year Ended December 31,	
	2023	2022
Operating lease liabilities:		
Affiliated parties	\$ 729,852	\$ 699,262
Other	<u>67,665</u>	<u>127,666</u>
	<u>\$ 797,517</u>	<u>\$ 826,928</u>

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 8 – Leasing Arrangements (Continued)

Lessee Arrangements (Continued)

The components of operating lease expenses that are included in general business expenses in the consolidated statements of income were as follows:

	For the Year Ended December 31,	
	2023	2022
Operating lease costs:		
Affiliated parties	\$ 278,413	\$ 229,721
Other	60,995	79,996
Variable and short-term lease costs	65,625	264,171
	\$ 405,033	\$ 573,888

The following summarizes the cash flow information related to leases for the year ended December 31, 2023:

	Affiliated Parties	Other	Total
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	\$ 263,999	\$ 60,925	\$ 324,924
Noncash investing and financing activity:			
Right-of-use asset obtained in exchange for operating lease liability	\$ 277,514	\$ -	\$ 277,514

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 8 – Leasing Arrangements (Continued)

Lessee Arrangements (Continued)

The following summarizes the cash flow information related to leases for the year ended December 31, 2022:

	<u>Affiliated Parties</u>	<u>Other</u>	<u>Total</u>
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	\$ 217,386	\$ 78,150	\$ 295,536
Noncash investing and financing activity:			
Right-of-use asset obtained in exchange for operating lease liability in adoption ASC 842	\$ 906,897	\$ 204,285	\$ 1,111,182

The weighted-average remaining lease term and discount rate of the December 31, 2023 were as follows:

Weighted-average remaining lease term - operating leases	3.57
Weighted-average discount rate - operating leases	2.02%

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 8 – Leasing Arrangements (Continued)

Lessee Arrangements (Continued)

The maturities of operating lease liabilities as of December 31, 2023 are as follows:

<u>Year Ending December 31,</u>	<u>Affiliated Parties</u>	<u>Other</u>	<u>Total</u>
2024	\$ 214,813	\$ 62,752	\$ 277,565
2025	176,887	5,242	182,129
2026	181,629	-	181,629
2027	186,674	-	186,674
Total discounted cash flow	760,003	67,994	827,997
Less present value discount	<u>(30,151)</u>	<u>(329)</u>	<u>(30,480)</u>
	<u>\$ 729,852</u>	<u>\$ 67,665</u>	<u>\$ 797,517</u>

Lessor Arrangements

The company leases commercial property to various tenants under noncancelable operating leases that expire at various dates through January 2033. The lease agreements provide for specific monthly payments plus reimbursement of a percentage share of common operating expenses.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 8 – Leasing Arrangements (Continued)

Lessor Arrangements (Continued)

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>
2024	\$ 362,878	\$ 1,973,252	\$ 2,336,130
2025	373,799	1,658,385	2,032,184
2026	116,860	1,562,001	1,678,861
2027	66,734	1,155,566	1,222,300
2028	-	901,112	901,112
Thereafter	-	3,566,100	3,566,100
	<u>\$ 920,271</u>	<u>\$ 10,816,416</u>	<u>\$ 11,736,687</u>

NOTE 9 – Provision for Income Taxes

The provision for income taxes consists of the following:

	<u>For the Year Ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Current:		
Federal	\$ 797,680	\$ 826,057
State	572,485	565,873
Deferred	<u>133,071</u>	<u>179,743</u>
	<u>\$ 1,503,236</u>	<u>\$ 1,571,673</u>

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 9 – Provision for Income Taxes (Continued)

Deferred tax assets and liabilities consists of the following:

	For the Year Ended December 31,	
	2023	2022
Deferred tax assets		
Current year tax	\$ 55,366	\$ 60,591
Deferred tax liabilities		
Excess of tax depreciation over book	(1,676,353)	(1,548,508)
Net deferred tax liabilities	\$ (1,620,987)	\$ (1,487,917)

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

	For the Year Ended December 31,	
	2023	2022
Expected provision for federal and state income taxes	\$ 1,528,445	\$ 1,532,376
Tax effect of permanent differences:		
Tax-exempt dividends	(3,606)	(8,793)
Nondeductible expenses	3,139	48,090
Other	(24,742)	-
	\$ 1,503,236	\$ 1,571,673

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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, 2023 and 2022. 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, 2023 and 2022. The benefits received from the Bank, which were charged to operations during the years ended December 31, 2023 and 2022, totaled approximately \$256,000 and \$407,000, respectively.

The Bank leases a branch location from the company, which expires February 2026. Under the lease agreement, the company received approximately \$325,000 and \$312,000 of rental income and common area maintenance charges from the Bank for the years ended December 31, 2023 and 2022, respectively. The future rental income from the Bank is included in the summary of minimum future rentals in Note 8.

The company leases office space from the Bank under various lease agreements, which end at various dates through December 2027. Rent expense paid to the Bank under these agreements totaled approximately \$224,000 and \$217,000 during the years ended December 31, 2023 and 2022, respectively. The future minimum lease payments to the Bank are included in the summary of future minimum lease payments in Note 8.

Queen City and the Bank have a substantial percentage of their respective outstanding shares held by common shareholders, which include some directors of the Queen City and the Trust Co. In addition, certain officers and/or directors of Queen City 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 of the Bank and the Trust Co. 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, 2023 and 2022 was approximately \$592,000 and \$551,000, respectively.

QUEEN CITY INVESTMENTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022

NOTE 12 - Contingencies

Pledged Assets

At December 31, 2023 and 2022, corporate assets of the Trust Co., with a book value of approximately \$806,000 and \$819,000, respectively, have been pledged to the Treasurer of the State of California to ensure the faithful performance of fiduciary duties.

Contingent Liabilities

The Trust Co. has trust assets under administration at fair market value of approximately \$6.31 billion and \$5.74 billion, representing 1,557 and 1,448 accounts as of December 31, 2023 and 2022, respectively. These amounts are not included in the accompanying consolidated balance sheets.

The Trust Co., as a fiduciary, 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 company's management believes that the fiduciary insurance coverage held by the company is sufficient to cover any potential losses.

NOTE 13 – Supplemental Disclosures of Cash Flow Information

Cash paid during the year for:

	For the Year Ended December 31,	
	2023	2022
Income taxes	\$ 1,690,670	\$ 1,139,000
Interest	\$ -	\$ 68,905