

HOLLY  
MORTGAGE  
TRUST

2021 ANNUAL REPORT

## **TO OUR SHAREHOLDERS:**

The financial statements of Holly Mortgage Trust (“Holly”) audited by Melton & Melton, L.L.P. for the years ended December 31, 2021, and December 31, 2020, are included at the end of this report. In 2021, revenue increased to \$427,983. Net income was \$292,342, which equates to \$0.18 per share. The increase in income is due to gain realized on the sale of an investment.

The expenses include the payment of dividends on Holly’s two classes of convertible preferred stock. Total dividends paid for 2021 was \$63,475 and the total for 2020 was \$69,300. All dividends are paid on a current basis. Accounting guidelines require us to report these payments as interest expense even though they are treated as dividends for federal income tax purposes.

The strength of the Midland, Texas oil-based economy has benefited Holly through its ownership of the general partner in the partnership that owns the Wilco office building. In 2021, Holly recorded income of \$26,000 from this investment and \$162,300 in 2020. The Wilco building is a 22-story office building, with 197,207 rentable square feet and an attached 10 story parking garage.

### **RETIREMENT OF TRUST MANAGER**

In February of 2022 Independent Trust Manager, Josef Hermans retired from his position as Trust Manager. Josef had served as a Trust Manager since the inception of Holly in 1998 (24 years). He also served on various subcommittees including the audit committee.

We were fortunate to have his stewardship and dedication as Trust Manager. We will miss his friendly disposition and wish him the best in his retirement.

### **RETIREMENT OF PREFERRED SHARES**

Holly redeemed 25,000 of the Preferred shares in 2021.

### **INVESTMENTS**

During 2018, Holly exchanged its \$750,000 equity stake (33.7% of total) in North Hills Village, a 152-unit apartment complex in El Paso, Texas for a \$750,000 equity stake (27.48% of total) in Casitas Investors, LLC which owns the Casitas del Este Apartments, a 78-unit complex, in El Paso, Texas. Also included in the exchange was a contingent assignment of excess cash flow of up to an additional \$750,000 and a promissory note of \$72,000 which was paid off in 2021.

During 2021, the investment in the Casitas Investors, LLC was exchanged for an 84% interest in Sunset Vista, LLC valued at \$400,000. Holly also received cash of \$100,000 along with a note receivable for \$596,000 payable over ten years at 2% interest. Sunset Vista owns a 1.89 acre undeveloped parcel of land in east El Paso. The land is zoned for Multifamily Units.

Holly owns 900 units in Global REIT, LP. Global REIT, LP is an entity set up to acquire interests in real estate throughout the world through investments in regional real

estate entities. Global REIT's portfolio includes assets in the U.S., New Zealand and Ghana.

Below is a picture of the Lodge owned by Global REIT, LP in New Zealand

[www.themarlboroughlodge.co.nz](http://www.themarlboroughlodge.co.nz)



## **WEBSITE**

Holly's website, [www.hollymortgagetrust.com](http://www.hollymortgagetrust.com) contains additional information about the trust. Earlier shareholder reports are posted on the website.

## **NET OPERATING LOSS CARRYFORWARDS**

The Trust has Federal income tax net operating loss carryforwards of \$526,646. These can be used to offset future taxable income. See footnote 5 on page 11 of the audited Financial Statement.

## **FUTURE TAX BENEFITS**

Shareholders can also contact the transfer agent below to change their mailing address, change share registration, obtain copies of IRS Form 1099, and arrange direct deposit of preferred stock dividends to their bank account:

EQ Shareowner Services  
1110 Centre Pointe Curve, Suite 101  
Mendota Heights, MN 55120-4100  
Web: [www.shareowneronline.com](http://www.shareowneronline.com)

Phone: 800-468-9716 Fax: 651-450-4033

The 2021 shareholder meeting is scheduled for Wednesday, December 7, 2022, at 9:00 AM at the offices of its manager, FCA Corp, 791 Town & Country Blvd., Suite 250, Houston, Texas. Please vote your proxy.



Robert W. Scharar  
President



Robert A. Burns  
Treasurer

October 20, 2022

HOLLY MORTGAGE TRUST

FINANCIAL STATEMENTS  
FOR THE  
YEARS ENDED DECEMBER 31, 2021 AND 2020  
AND  
INDEPENDENT AUDITOR'S REPORT



MELTON & MELTON, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS

**HOLLY MORTGAGE TRUST**

**TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor’s Report.....	1
Balance Sheets .....	3
Statements of Operations .....	4
Statements of Changes in Shareholders’ Deficit.....	5
Statements of Cash Flows .....	6
Notes to Financial Statements.....	8





## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Trust Managers of  
**Holly Mortgage Trust**

### **Qualified Opinion**

We have audited the accompanying financial statements of Holly Mortgage Trust, which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of operations, changes in shareholders' deficit, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, except for the effects on the financial statements of not consolidating the investment in A. R. Goldrick Company, Inc., a wholly owned subsidiary, as described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of Holly Mortgage Trust 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 Qualified Opinion**

Holly Mortgage Trust has not included in its financial statements the accounts of A. R. Goldrick Company, Inc., a wholly owned subsidiary of Holly Mortgage Trust, as of and for the years ended December 31, 2021 and 2020. Accounting principles generally accepted in the United States of America require that a majority-owned subsidiary be accounted for on a consolidated basis. The investment in A. R. Goldrick Company, Inc. is accounted for on the cost minus impairment method of accounting. The effects of this departure from accounting principles generally accepted in the United States of America on the accompanying financial statements could not be determined.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Holly Mortgage Trust 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 qualified audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Holly Mortgage Trust's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.



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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 Holly Mortgage Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Holly Mortgage Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Mull : Mull, C. L. P.*

Houston, Texas  
February 14, 2022

**HOLLY MORTGAGE TRUST**  
**BALANCE SHEETS**  
**December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 6,481	\$ 11,892
Investments	670,000	948,000
Notes receivable	<u>591,953</u>	<u>14,000</u>
	<b><u>\$ 1,268,434</u></b>	<b><u>\$ 973,892</u></b>

**LIABILITIES AND SHAREHOLDERS' DEFICIT**

**Liabilities:**

Accounts payable and accrued expenses	\$ 107,825	\$ 80,625
Notes payable	365,000	365,000
Preferential cumulative mandatorily redeemable shares of beneficial interest	<u>1,245,000</u>	<u>1,270,000</u>
	<u>1,717,825</u>	<u>1,715,625</u>

**Shareholders' Deficit:**

Shares of beneficial interest, no par value, 20,000,000 shares authorized, 1,604,232 shares issued and outstanding	1,536,119	1,536,119
Accumulated deficit	<u>(1,985,510)</u>	<u>(2,277,852)</u>
	<u>(449,391)</u>	<u>(741,733)</u>
	<b><u>\$ 1,268,434</u></b>	<b><u>\$ 973,892</u></b>

(See Notes to Financial Statements)

**HOLLY MORTGAGE TRUST**  
**STATEMENTS OF OPERATIONS**  
**For the Years Ended December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>Revenue:</b>		
Gain on sale of investment	\$ 400,000	\$ -
Other income	<u>27,983</u>	<u>162,300</u>
	<u>427,983</u>	<u>162,300</u>
 <b>Costs and Expenses:</b>		
Professional fees	53,418	45,888
Interest expense	77,708	86,705
General and administrative	<u>4,515</u>	<u>6,696</u>
	<u>135,641</u>	<u>139,289</u>
Net income	<u>\$ 292,342</u>	<u>\$ 23,011</u>
Weighted average shares outstanding	<u>1,640,232</u>	<u>1,604,232</u>
Net income per share, basic and diluted	<u>\$ 0.18</u>	<u>\$ 0.01</u>

(See Notes to Financial Statements)

**HOLLY MORTGAGE TRUST**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIT**  
**For the Years Ended December 31, 2021 and 2020**

	<u>Shares of</u> <u>Beneficial Interest</u>		<u>Accumulated</u> <u>Deficit</u>	<u>Shareholders'</u> <u>Deficit</u>
	<u>Number</u>	<u>Amount</u>		
<b>Balance</b> , December 31, 2019	1,604,232	\$ 1,536,119	\$ (2,300,863)	\$ (764,744)
Net income	-	-	23,011	23,011
<b>Balance</b> , December 31, 2020	1,604,232	1,536,119	(2,277,852)	(741,733)
Net income	-	-	292,342	292,342
<b>Balance</b> , December 31, 2021	<u>1,604,232</u>	<u>\$ 1,536,119</u>	<u>\$ (1,985,510)</u>	<u>\$ (449,391)</u>

(See Notes to Financial Statements)

**HOLLY MORTGAGE TRUST**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 292,342	\$ 23,011
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Gain on sale of investment	(400,000)	-
Changes in operating assets and liabilities:		
Accounts payable and accrued expenses	<u>1,400</u>	<u>868</u>
Net cash provided by (used in) operating activities	<u>(106,258)</u>	<u>23,879</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sale of investment	100,000	-
Purchase of investment	(19,200)	-
Principal collected on notes receivable	<u>18,047</u>	<u>24,000</u>
Net cash provided by investing activities	<u>98,847</u>	<u>24,000</u>
<b>Cash Flows from Financing Activities:</b>		
Purchase of preferential cumulatively mandatorily redeemable shares of beneficial interest	(25,000)	(80,000)
Advance from (payment to) Global REIT, L.P.	(10,000)	10,000
Advance from First Commonwealth Mortgage Trust ("FCMT")	37,000	-
Payments on notes payable	<u>-</u>	<u>(8,716)</u>
Net cash provided by (used in) financing activities	<u>2,000</u>	<u>(78,716)</u>
Net decrease in cash and cash equivalents	(5,411)	(30,837)
<b>Cash and Cash Equivalents, beginning of year</b>	<u>11,892</u>	<u>42,729</u>
<b>Cash and Cash Equivalents, end of year</b>	<u><u>\$ 6,481</u></u>	<u><u>\$ 11,892</u></u>

(See Notes to Financial Statements)

**HOLLY MORTGAGE TRUST**  
**STATEMENTS OF CASH FLOWS (CONTINUED)**  
**For the Years Ended December 31, 2021 and 2020**

	<u>2021</u>	<u>2020</u>
<b>Supplemental Information:</b>		
Cash paid for interest	<u>\$ 74,708</u>	<u>\$ 83,705</u>
<b>Noncash Investing and Financing Activities:</b>		
Purchase of investment with accounts payable		<u>\$ 19,200</u>
Sale of investment in exchange for assets:		
Cash	\$ 100,000	
Note receivable	596,000	
Investment	<u>400,000</u>	
Total assets acquired	1,096,000	
Less: Sold investment	(678,000)	
Preferential return to third-party investor	<u>(18,000)</u>	
Gain on sale of investment	<u>\$ 400,000</u>	

(See Notes to Financial Statements)

**HOLLY MORTGAGE TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Organization**

Holly Mortgage Trust (the “Trust”) is organized as a Texas real estate investment trust. The Trust has a termination date of December 31, 2030. The Trust is engaged primarily in the business of investing in second mortgages, equity participation mortgages, and multi-family residential properties.

**Cash and Cash Equivalents**

The Trust considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

The Trust maintains cash balances in a bank, which at times exceed federally insured limits. The Trust monitors the financial condition of the bank and has experienced no losses associated with the account.

**Accrued Interest Receivable and Allowance for Losses**

Accrued interest receivable from a mortgage note receivable is carried at its unpaid balance less an allowance for losses. At December 31, 2021 and 2020, there are no outstanding mortgage notes receivable. An allowance for losses is based on management’s estimate of potentially uncollectible accounts after consideration of existing economic conditions, borrowers’ performance in reducing the outstanding balance, and other relevant factors. Receivables are charged off against the allowance for losses when management determines the balance is uncollectible. Subsequent interest collected is recognized as revenue. During 2020, accrued interest was fully collected.

The change in the accrued interest receivable allowance for losses during the year ended December 31, 2020 is summarized as follows:

Balance, beginning of year	\$141,000
Recovery of amounts previously charged off	<u>(141,000)</u>
Balance, end of year	<u>\$ -</u>

**Net Income Per Share**

Net income per share is calculated by dividing net income by the weighted average number of shares of beneficial interest outstanding during the year. The Trust has no items that give rise to antidilutive shares. Accordingly, basic and dilutive shares presented are the same.



**HOLLY MORTGAGE TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Management Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

**NOTE 2 - INVESTMENTS**

Investments that do not have a readily determinable fair value are measured and recorded using a measurement alternative that measures the investments at cost minus impairment, if any, plus or minus changes resulting from qualifying observable price changes.

Investments consist of the following at December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
A.R. Goldrick Company, Inc.	\$ -	\$ -
Global REIT, L.P.	270,000	270,000
Casitas Investors, LLC	-	678,000
Sunset Vista, LLC	<u>400,000</u>	<u>-</u>
	<u>\$670,000</u>	<u>\$948,000</u>

The Trust owns 100% of the common stock of A. R. Goldrick Company, Inc. (a C corporation) (“A. R. Goldrick”). A. R. Goldrick is the general partner of Wilco Building Partners, Ltd., a limited partnership that owns and operates an office building in Midland, Texas. The financial statements of A. R. Goldrick have not been consolidated with those of the Trust. The investment in A. R. Goldrick was written off in full as permanently impaired in prior years. In 2021 and 2020, the Trust received \$26,000 and \$21,300 respectively, from A. R. Goldrick as a return on the investment. In 2020, the Trust also received \$141,000 from Wilco Building Partners, Ltd. as recovery of accrued interest receivable previously charged off. The amounts are included in other income on the statements of operations.

At December 31, 2021 and 2020, the Trust owns 900 partnership units of Global REIT, L.P. (“Global”). At December 31, 2020, the Trust owned a 27.48% interest in Casitas Investors, LLC (“Casitas”); and contingent future sale proceeds from Casitas Apartments. In October 2021, the Trust sold its interest in Casitas and contingent future sale proceeds for \$1.096 million, including an 84% interest in Sunset Vista, LLC (“Sunset Vista”) valued at \$400,000 and recognized a gain on sale of investment on the statements of operations for \$400,000. The Trust has no control or influence on management of Global, Casitas, or Sunset Vista.

**HOLLY MORTGAGE TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**NOTE 2 - INVESTMENTS (CONTINUED)**

The carrying value of the investments is adjusted for any qualifying observable price changes. The Trust did not identify any qualifying observable price changes in the investments in 2021 or 2020 and there were no upward or downward adjustments to the carrying value of the investments. The investments are also subject to impairment reviews when indicators of impairment exist. The Trust did not identify any indicators of impairment for the investments in 2021 or 2020.

**NOTE 3 - NOTES RECEIVABLE**

Through July 2021, the Trust had a \$72,000 unsecured, non-interest bearing note receivable with an unrelated third-party. Principal was payable in monthly installments of \$2,000 with a final payment made in July 2021. At December 31, 2020, the note receivable balance was \$14,000.

On October 1, 2021, the Trust entered into a \$596,000 note receivable agreement as partial payment on the sale of the Trust's interest in Casitas and contingent future sale proceeds (Note 2). Principal is payable in monthly installments of \$3,015, including interest at 2%. The note receivable is guaranteed by an unrelated third-party and matures on the earlier of October 1, 2031, or the refinanced, final payment, released, or discharged date of the note. At December 31, 2021, the note receivable balance was \$591,953.

**NOTE 4 - NOTES PAYABLE**

Notes payable consist of the following as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Unsecured 6% note, payable to a living trust in December 2022, interest payable quarterly.	\$ 50,000	\$ 50,000
Note, payable to a financial institution, interest payable monthly at 4.4% through October 2020 and 3.5% thereafter, principal due at maturity in October 2022, secured by a certificate of deposit held by FCMT, and guaranteed by FCMT. FCMT is related to the Trust through common management.	<u>315,000</u>	<u>315,000</u>
	<u>\$365,000</u>	<u>\$365,000</u>

At December 31, 2021, future maturities of notes payable are due in 2022 for \$365,000.

The Trust incurred loan guarantee fees of \$3,150 and \$6,300 in 2021 and 2020, respectively, which are included in general and administrative expenses in the statements of operations.

**HOLLY MORTGAGE TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**NOTE 5 - FEDERAL INCOME TAXES**

The Trust operates in such a manner to qualify as a “real estate investment trust” under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations promulgated thereunder. Under those sections, the Trust will not be taxed on that portion of its qualifying income distributed to shareholders so long as at least 90% of the Trust’s otherwise taxable income is distributed to shareholders each year and other requirements of a qualified real estate investment trust are met. The Trust satisfied the income distribution requirements for the years ending December 31, 2021 and 2020. Management believes that all other requirements of a qualified real estate investment trust have been met.

The tax status of per-share dividend distributions declared attributable to the years presented is as follows:

	<u>2021</u>	<u>2020</u>
Ordinary income	100%	100%
Return of capital	<u>0</u>	<u>0</u>
	<u>100%</u>	<u>100%</u>

As of December 31, 2021, the Trust had a net operating loss carryforward of approximately \$2.5 million that can be deducted against future taxable income. The carryforward amount expires in 2023 - 2037. The Trust does not expect to pay federal income taxes, thus the tax effect of the net operating loss carryforward has been adjusted to zero by a valuation allowance at December 31, 2021 and 2020. The valuation allowance decreased by \$60,276 and \$57,154 in 2021 and 2020, respectively.

Significant components of the Trust’s net deferred income taxes at December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Deferred income tax assets relating to:		
Net operating loss	\$ 521,998	\$ 597,013
Other	<u>4,648</u>	<u>(10,091)</u>
	526,646	586,922
Valuation allowance	<u>(526,646)</u>	<u>(586,922)</u>
	<u>\$ -</u>	<u>\$ -</u>

Management has evaluated the Trust’s tax positions and concluded that the Trust has taken no uncertain income tax positions that require adjustment to the financial statements. Tax-related interest and penalties are recorded in income tax expense in the statements of operations. The Trust incurred no tax-related interest or penalties in 2021 or 2020. The Trust is subject to income tax examinations by federal and state tax authorities for years beginning in 2018 and after.

**HOLLY MORTGAGE TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**NOTE 6 - PREFERENTIAL SHARES OF BENEFICIAL INTEREST**

Except for the rights and preferences in payment of dividends and in liquidations, the Preferential Shares of Beneficial Interest (“Preferential Shares”) have the same voting and other rights as the Shares of Beneficial Interest (“Common Shares”). The Preferential Shares issued in 2004 are entitled to receive cumulative preferential dividends at the annual rate of five cents (\$0.05) per share before any dividends are paid on the Common Shares. The Preferential Shares issued in 2009 and 2008 are entitled to receive cumulative preferential dividends at the annual rate of four cents (\$0.04) or eight cents (\$0.08) per share, depending on the amount selected by the shareholder beginning on a quarterly basis in July 2018, for 2021 and 2020, before any dividends are paid on the Common Shares.

In the event of liquidation of the Trust, the assets available for distribution will be distributed first to the holders of the Preferential Shares up to one dollar (\$1) per share plus any deferred dividends, then second to the holders of Common Shares up to one dollar (\$1) per share and then equally on all of the shares of Preferential and Common Shares.

The 2004 Preferential Shares (950,000 shares authorized and 505,000 shares issued and outstanding at December 31, 2021; and 530,000 shares issued and outstanding at December 31, 2020) are subject to redemption at any time after January 1, 2009 upon not less than 30 days’ prior written notice, in whole or in part, at the election of the Trust at the redemption price of one dollar (\$1) per share plus all unpaid dividends accrued to the redemption date of September 30, 2020. At December 31, 2021, the outstanding 2004 Preferential Shares issued in 2004 have not been redeemed. Management is currently discussing the redemption of these shares.

The 2008 Preferential Shares (990,000 shares authorized; 740,000 shares issued and outstanding at December 31, 2021 and 2020) are subject to redemption at any time after January 1, 2012 upon not less than 30 days’ prior written notice, in whole or in part, at the election of the Trust at the redemption price of one dollar (\$1) per share plus all unpaid dividends accrued to the redemption date. Any 2008 Preferential Shares issued in 2009 and 2008 that are outstanding on September 30, 2023 will be redeemed on that date. Management is currently discussing the redemption of these shares.

Accounting Standards Codification (“ASC”) 480, *Distinguishing Liabilities from Equity*, establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. ASC 480 requires an issuer to classify a financial instrument issued in the form of shares that is mandatorily redeemable and embodies an unconditional obligation to redeem it by transferring its assets at a specified or determinable date or upon an event that is certain to occur as liabilities. The Trust has adopted these provisions in its financial statements and has included mandatorily redeemable preferred shares in liabilities in the balance sheets and dividends of \$63,475 and \$69,300 for 2021 and 2020, respectively, on the mandatorily redeemable preferred shares as interest expense in the statements of operations.

**HOLLY MORTGAGE TRUST**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

**NOTE 7 - MANAGEMENT AGREEMENT AND RELATED-PARTY TRANSACTIONS**

FCA Corp (“FCA”) is the Trust’s compensated manager and is related to the Trust through common management. Annual management fees are equal to the greater of \$50,000 or 1.4% of beginning of year Trust assets. FCA waived the management fees in 2021 and 2020 and has consented to waive its management fees through May 2022.

At December 31, 2021, the Trust has a liability due to FCMT of \$37,000 for advances. The liability is included in accounts payable and accrued expenses on the balance sheets. There was no liability due to FCMT at December 31, 2020.

**NOTE 8 - FINANCIAL CONDITION**

The Trust incurred annual net losses from 2009 through 2015 and again in 2017, which has resulted in a shareholders’ deficit since December 31, 2011. The Trust had net income in 2016 and 2018 through 2021. In the prior years, the Trust had problems in collecting mortgage notes receivable and accrued interest and experienced a decline in value of its investments. In response, the Trust discussed a sale of the Wilco Building that could generate a gain to A.R. Goldrick. However, the sale efforts have been put on hold. Also, the collection of accrued interest from A.R. Goldrick totaling approximately \$1,000,000 for the Trust began in 2015. Payments of \$10,000 per month were received, and the balance was fully collected in 2020. Total amounts collected in 2021 and 2020, including returns on investment in A.R. Goldrick, were \$26,000 and \$162,300, respectively. Negotiations were completed in October 2021 for sale of the Casitas Investors, LLC property and swap for another property. The sale generated cash to the Trust and provided an investment with ongoing positive cash flows. As a result, management believes the Trust will have sufficient resources and cash to continue as a going concern entity.

**NOTE 9 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through February 14, 2022, the date the financial statements were available to be issued.

# HOLLY MORTGAGE TRUST

## BOARD OF TRUST MANAGERS

**George Beatty, Jr.**  
*Retired Environmental Consultant*

Mr. Beatty also serves as a trust manager of First Commonwealth Mortgage Trust and is a manager of Africap, LLC.

**Ben Wacksman**  
*Real Estate Consultant*

Mr. Wacksman serves as a trust manager and has numerous years of experience as a real estate entrepreneur.

**Robert W. Scharar**  
*President, Holly Mortgage Trust*

Mr. Scharar also serves as a trust manager of First Commonwealth Mortgage Trust and holds positions with other entities, including but not limited to, Commonwealth International Series Trust, Africap, LLC, and FCA Corp.

## EXECUTIVE OFFICERS

**Robert W. Scharar**  
*President*

**Robert A. Burns**  
*Treasurer*

**Clint Dennis, Esq.**  
*Secretary*

**Garrett Gish**  
*Vice-President*

**Thomas Koch**  
*Vice-President*

**Marcelo Prieto**  
*Assistant Treasurer*

Robert W. Scharar, Robert A. Burns, Garrett Gish and Thomas Koch are employees of FCA Corp and serve as officers of other entities.

## TRANSFER AGENT

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