



2008 ANNUAL REPORT



PROUDLY SUPPORTING OUR BENEFICIARIES










Parker School
Trust Corporation



Mission Statement...

“To maintain and improve a unique quality of life in the Waimea area by providing perpetual support for designated beneficiaries engaged in healthcare, education and charitable support, through the sound management and prudent investment of Trust assets.”

Guiding Principles....

-  Keeping the land together – with strong, creative Ranch stewardship of our natural and cultural resources.
-  A profitable working cattle ranch – managed as the best-in-the business.
-  Protecting and supporting an economically sustainable town and the wide-open country – the Waimea community and its setting of mountain, sea and sky.
-  Maintaining social and economic diversity – in the community which supports the institutions long term.
-  Respecting our history – linking the past and present generations in our unique, small town.
-  Participate in a leadership role in planning the community’s future.
-  Supporting the Beneficiaries – that enrich the educational, health and cultural life of the Waimea area.

Message from the Trustees

August 2009

Aloha,

Like most businesses, organizations, and endowments in 2008, Parker Ranch Foundation Trust (“Trust”) faced unprecedented challenges in the wake of the global financial crisis. Despite the challenges to the Trust, important steps were taken and much was accomplished in 2008 to ensure continued support to the Trust Beneficiaries and set the stage for future progress.

The new Trust structure approved in 2007 was further refined throughout 2008 by the successor Trustees appointed by the Beneficiaries at the end of 2007: Michael W. Gibson, Warren H. Haruki, Timothy E. Johns, David H. McCoy and B.G. Moynahan. The Trustees critically examined all facets of Trust operations, simplified the management structure of the Trust and its for-profit operating entities, and continued frequent communications with the Beneficiaries. These efforts led to a stronger understanding of the Trust’s Beneficiaries’ short- and long-term needs and how the Trust could better support those needs, including the development of a prudent distribution policy. In addition, in December 2008, the Trust began to evaluate an emergency request for extraordinary financial support from one of its Beneficiaries. The Trust and the Distribution Committee agreed to grant the emergency request in early 2009.

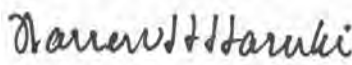
Management of the Trust’s assets was especially challenging in 2008. The Trust’s investment portfolio was stressed throughout the year; however, due to prior prudent diversification of assets, the Trustees were able to implement the commitment by the prior Trustees to distribute \$1,770,833 in March 2008. Parker Ranch’s business units also faced financial stress throughout 2008. In response, Parker Ranch undertook several actions to improve its future financial outlook, including the simplification of Parker Ranch management, the evaluation of all existing business units, the examination of possible new business initiatives, business system upgrades and the analysis of staffing needs and other methods of reducing costs.

The Trust’s Next Century Plan, endorsed by the Beneficiaries in 2007, continued to provide guidance as the Trust considered appropriate diversification alternatives for Trust assets in a manner that sustains our rich cultural heritage. The Next Century Plan and the new Trust structure provide a solid basis for a brighter future for Parker Ranch and the Waimea community.

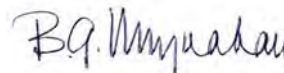
We again thank the many members of the Waimea community, the Beneficiary representatives, government leaders and our dedicated team of employees for their continued dedication and resiliency in these challenging times.



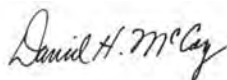
Timothy E. Johns



Warren H. Haruki



Brenden G. Moynahan



David H. McCoy



Michael W. Gibson

Beneficiary Profiles



Founded in 1949, Hawai'i Preparatory Academy (HPA) is one of the premier independent, co-educational college-preparatory boarding and day schools in the Pacific Region attracting students from around the world. The school offers a full range of academic and extracurricular opportunities for 575 students in grades K-12 on two campuses in the heart of world-famous Parker Ranch on the island of Hawai'i.

Students pursue an ambitious, well-rounded course of studies in small classes taught by a dedicated, highly professional faculty using the latest in educational technology. The challenging academic curriculum takes advantage of Hawaii's geographic and social setting to give students a strong sense of Hawai'i and its culture. The marine science program, in collaboration with NOAA, National Marine Fisheries Service, Pacific Islands Fisheries Science Center, offers unrivaled encounters with the island's remarkable ocean environment. Partnerships with its high-tech neighbors such as the Mauna Loa Observatory enable participation in real-world, cutting edge research. The academic curriculum is complemented by strong programs in the visual and performing arts and a comprehensive athletic program that stresses participation and sportsmanship.

Go Green, the school's sustainability program, is a comprehensive campus effort initiated by students to create a healthy and sustainable future for generations to come through education, community outreach, and implementation of sustainable practices.

HPA is poised to make a major contribution to renewable energy studies with the opening of its Energy Lab in January 2010. The building itself is planned as a Leadership in Energy and Environmental Design (LEED) Platinum facility. This certification will mean that the building meets or exceeds certain criteria for "green" energy, construction, and design. Even more ambitious is the school's plan to meet the latest Green Building Council criteria, the Living Building Challenge (LBC), making HPA's energy lab the first K-12 school facility in the world to achieve this goal.

HPA is accredited by the Western Association of Schools and Colleges and is a member of the Hawaii Association of Independent Schools.



North Hawaii Community Hospital (NHCH) in Waimea is a full-service, acute-care hospital that is licensed for 39 beds. As a community owned, not for profit hospital, NHCH is governed by a local board of directors and has a management agreement with Quorum Health Resources (QHR).

Opened in May 1996, NHCH serves the 35,000 plus residents and visitors of the northern region of the Big Island. Offering a full spectrum of acute and outpatient services, NHCH delivers high-quality care on a consistent basis. NHCH has some of the most modern imaging technology available today and combines this high tech capability with a commitment to honoring blended-care practices and procedures. NHCH is a grateful recipient of support from the Parker Ranch Foundation Trust.

Beneficiary Profiles



The Richard Smart Fund is a component of the Hawaii Community Foundation, a statewide charitable services and grant-making institution endowed with contributions from many donors. The Richard Smart Fund is supported by income from the Parker Ranch Foundation Trust and was created to support health care, educational and charitable purposes that improve the general welfare and quality of life for the people of the Kamuela area.

The fund currently supports several grant programs that benefit the Waimea community including a comprehensive school improvement initiative for Waimea Elementary School, organizational capacity building grants for Waimea organizations, organizations participating in the PONO Fellows for executive leadership and the Youth Matters initiative developing network for youth services organizations, and the Ho'ohui 'O Waimea grant making program to support community engagement in Waimea.

Parker School Trust Corporation

The Parker School Trust Corporation was established by Richard Smart in 1978 to provide for private education in North Hawaii. During Mr. Smart's lifetime, Parker School developed both secondary and adult educational programs. The Trust supports Parker School and supports and administers Waimea Community Education.

Parker School is an independent, college-preparatory day school serving students in grades K through 12. Located in the heart of Waimea, Parker strives for personal excellence in the classroom and on the athletic field. Students enjoy small class sizes in a "family atmosphere." Parker integrates community service and physical challenges into its curriculum and focuses on developing personal character, teaching values, and providing an awareness of the world.

Waimea Community Education was established in 1984 and provides over 200 classes each year, serving more than 1,000 community members of all ages in Waimea and North Hawaii with quality, affordable instruction for job training, professional and personal improvement and enjoyment. Class topics are offered in business, computers, languages, arts, communication, movement and exercise, photography, cooking, health, and specialized classes for children and seniors.

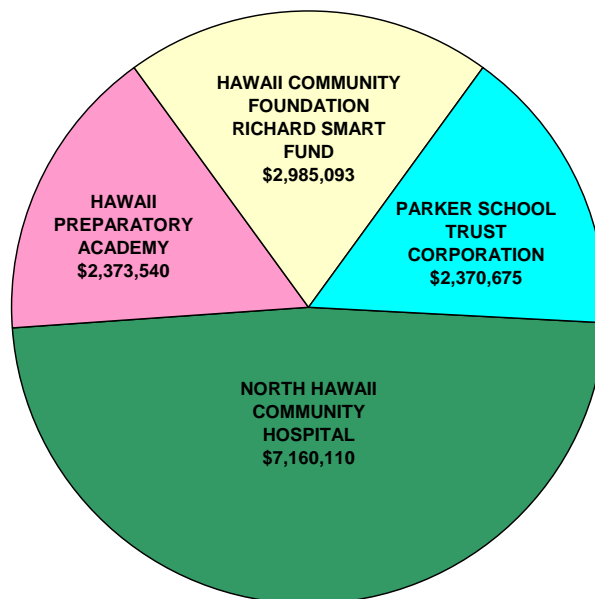
Beneficiary Distributions

Parker Ranch Foundation Trust, through its Distribution Committee, has distributed in 2008 a total of \$1,770,833 in cash, allocated to its four beneficiaries as follows:

- \$850,000 to North Hawaii Community Hospital
- \$354,167 to the Richard Smart Fund of the Hawaii Community Foundation
- \$283,333 to Hawaii Preparatory Academy
- \$283,333 to Parker School Trust Corporation

Cumulative distributions now total \$14,889,418; \$7,160,110 to North Hawaii Community Hospital, \$2,985,093 to the Richard Smart Fund of the Hawaii Community Foundation, \$2,373,540 to Hawaii Preparatory Academy, and \$2,370,675 to Parker School Trust Corporation.

Year Paid	Amount
1998	\$ 250,000
1999	\$ 275,000
2000	\$ 625,000
2001	\$ 850,000
2002	\$ 350,000
2003	\$ 1,676,585
2006	\$ 8,225,000
2007	\$ 867,000
2008	\$ 1,770,833
Total Distributions to Date	\$14,889,418





**PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2008

(With Independent Auditors' Report Thereon)



KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report

The Trustees
Parker Ranch Foundation Trust:

We have audited the accompanying consolidated statement of financial position of Parker Ranch Foundation Trust and subsidiaries (the Organization) as of December 31, 2008, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Parker Ranch Foundation Trust and subsidiaries as of December 31, 2008, and the changes in their net assets and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

April 30, 2009

**PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES**

Consolidated Statement of Financial Position

December 31, 2008

Assets

Cash and cash equivalents	\$ 4,075,836
Accounts receivable, net of allowance of \$14,000	891,879
Related-party notes receivable	276,015
Marketable securities	32,942,782
Other investments	6,548,956
Cattle inventory	8,387,023
Property and equipment, net	245,394,188
Investment in joint venture	5,246,367
Other	1,775,634
	<hr/>
Total assets	\$ <u><u>305,538,680</u></u>

Liabilities and Net Assets

Accounts payable and accrued expenses	\$ 2,120,674
Capital lease obligations	308,371
Notes payable	19,421,980
Postretirement benefits payable	4,523,074
Postemployment benefits payable	452,593
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Total liabilities	26,826,692
Net assets – unrestricted	278,711,988
Commitments and contingencies	
	<hr/>
Total liabilities and net assets	\$ <u><u>305,538,680</u></u>

See accompanying notes to consolidated financial statements.

**PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES**

Consolidated Statement of Activities

Year ended December 31, 2008

Revenues:	
Net realized and unrealized loss on investments	\$ (13,213,996)
Cattle sales	13,149,875
Visitor and retail sales	1,849,256
Dividends and interest	1,499,593
Real estate commissions	680,296
Rental income	776,818
Timber and aggregate sales	401,217
Other	946,077
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Total revenues	6,089,136
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Costs and expenses:	
Cost of cattle sales	13,199,602
Operating costs	4,937,992
General and administrative	1,633,056
Interest	1,444,793
Cost of visitor and retail sales	660,338
Real estate commissions	517,591
Depreciation and amortization	343,561
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Total costs and expenses	22,736,933
	<hr/>
	(16,647,797)
Loss on investment in joint venture	(1,363,223)
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Change in net assets	(18,011,020)
Net assets, beginning of year	296,723,008
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Net assets, end of year	\$ 278,711,988
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See accompanying notes to consolidated financial statements.

**PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES**

Consolidated Statement of Cash Flows

Year ended December 31, 2008

Cash flows from operating activities:	
Change in net assets	\$ (18,011,020)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Net realized and unrealized loss on investments	13,213,996
Loss on investment in joint venture	1,363,223
Loss on disposal of property and equipment	139,932
Depreciation and amortization	343,561
Changes in assets and liabilities:	
Accounts and other receivables, net	5,406,620
Cattle inventory	1,871,161
Other assets	(330,060)
Accounts payable and accrued expenses	(936,336)
Accrued distributions	(1,770,833)
Postretirement benefits payable	289,338
Postemployment benefits payable	(62,826)
Net cash provided by operating activities	<u>1,516,756</u>
Cash flows from investing activities:	
Distributions from joint venture	1,000,000
Capital expenditures	(1,107,822)
Purchases of marketable securities	(41,738,906)
Proceeds on sale of marketable securities	21,789,700
Purchases of other investments	(718,956)
Proceeds on sale of other investments	16,505,255
Repayments on related-party notes receivable	15,065
Proceeds from sale of property and equipment	693,776
Net cash used in investing activities	<u>(3,561,888)</u>
Cash flows from financing activities:	
Payments on notes payable	(537,494)
Payments on capital lease obligations	(171,777)
Net cash used in financing activities	<u>(709,271)</u>
Net decrease in cash and cash equivalents	(2,754,403)
Cash and cash equivalents, beginning of year	<u>6,830,239</u>
Cash and cash equivalents, end of year	<u>\$ 4,075,836</u>
Supplemental disclosure of cash flow information:	
Cash paid for interest, net of amounts capitalized	\$ 1,444,793
Supplemental disclosures of noncash information:	
Net transfer of costs from cattle inventory to breeding herd	\$ 887,802
Net transfer of costs from CIP to property and equipment	(162,504)

See accompanying notes to consolidated financial statements.

**PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2008

(1) Summary of Operations and Significant Accounting Policies

(a) Description of Organization

The Organization was formed on September 10, 1992, and comprises of Parker Ranch Foundation Trust (the Trust), Richard Smart Irrevocable Trust (RST), and all their wholly owned subsidiaries (collectively, the Organization). The subsidiaries include Parker Ranch, Inc. (PRI) and Parker Ranch Center LLC.

PRI, a Hawaii corporation, was incorporated on February 8, 1995 to own and operate the Organization's cattle ranching, real estate, and tourism activities and holds the beneficial interest of the Parker Land Trust. PRI's wholly owned subsidiaries include Waimea Wastewater Company, Inc. (WWC), Parker Ranch Realty, Inc. (PRR), Parker Ranch Livestock LLC (PRL), PRI GP LLC (PRI GP), PRI LP LLC (PRI LP), and Hawaii Meat Company LLC (HMC). WWC operates the assets of a wastewater treatment and collector system and PRR provides real estate brokerage services for the Organization and third parties. PRI GP and PRI LP are the general and limited partners in PRI Cattle LP, a partnership formed and capitalized in 2005 to hold and operate PRI's off-ranch cattle operations. PRL was formed to hold ownership interests in Champion Feeders Cattle Co., LLC and Champion Feeders, LLC (together, Champion Feeders), cattle and feed yard operations located in Texas. HMC holds a land lease formerly held by a liquidated subsidiary.

The Trust is a not-for-profit entity that has been recognized by the Internal Revenue Service as exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and exempt under Hawaii Revised Statutes on income related to the exempt purpose. The Trust's primary objective is to support certain healthcare, educational, and charitable organizations in Waimea, Hawaii. The original trust principal was contributed from RST, as determined by the Last Will and Testament of Richard Smart (the Will). The beneficiaries of the Trust (the Beneficiaries) include the following organizations:

- North Hawaii Community Hospital, Inc. (NHCH)
- Richard Smart Fund, a component of the Hawaii Community Foundation (Smart Fund)
- Hawaii Preparatory Academy (HPA)
- Parker School Trust Corporation (PSTC)

In June 2007, the Trustees and Beneficiaries of the Parker Ranch Foundation Trust petitioned the Hawaii Probate Court (Court) to change the Trust structure in order to best continue Richard Smart's charitable support for the Kamuela community. The Court approved the change in governance structure of the Parker Ranch Foundation Trust in August of 2007.

The reformation requested by the Trustees and the Beneficiaries involved conversion to a Type I supporting organization tax status – from the Trust's former Type III status – in response to federal legislation enacted in 2006, which imposed additional operating restrictions and requirements on Type III supporting organizations (but not on Type I). The new structure allows for more input by

(Continued)

**PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2008

the Beneficiaries, and it provides more flexibility for the Trust in both asset management and annual distributions. Conversion allows the Trustees to move forward with careful and planned asset management to optimize ongoing support to the Beneficiaries over the long term, which was Richard Smart's primary purpose in creating the Parker Ranch Foundation Trust.

The Trustees, based on recommendations from a Distribution Committee (the Committee), determine distributions from the Trust. The six-member Committee reviews the programs, purposes, and financial needs of the Beneficiaries in order to make recommendations to the Trustees regarding distributions of principal, accumulation of net income, and reallocation of the distribution of net income. Recommendations are made based on a simple majority, except if the recommendation relates to the reallocation of the distribution of net income, which requires a vote of five of the six committee members. The Committee is comprised of three members appointed by the Trustees and three members appointed by the Beneficiaries.

Net income, exclusive of principal transactions, is to be distributed at least annually to the Beneficiaries as follows:

NHCH	48%
Smart Fund	20
HPA	16
PSTC	16
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	100%
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To the extent net income is unavailable for distribution, the Trustees, in consultation with the Committee, may distribute to any beneficiary up to 5% of that portion of the principal of the Trust normally allocable to that beneficiary under the proportions indicated above. Such a distribution results in a reduction of the portion of the Trust principal allocable to that beneficiary. Whenever the Trustees make a distribution of principal, the Trustees may accumulate net income normally distributable to the beneficiary who received a principal distribution, until such time as the distributed principal has been restored. As of December 31, 2008, cumulative authorized distributions to Beneficiaries were approximately \$14,890,000.

Livestock Operations – The Organization's livestock division is based on the Big Island of Hawaii where it operates a cattle ranch and a seasonal hunting business. The PRI cattle operation breeds and raises beef cattle, which are shipped to the continental United States for finishing and marketing. Cattle can be marketed at any point after weaning but historically a majority of Parker Ranch cattle is sold as "fed" cattle at slaughter. The Organization recognizes revenue at the time cattle are marketed. PRI cattle operations are subject to the inherent risks involved in agribusiness and the climactic conditions of the Big Island. Other factors include the impact of cost increases in transportation between Hawaii and the continental United States, feed cost for cattle finished in mainland feedyards, and the risk involved in agricultural commodity pricing. The hunting business is comprised primarily of guided hunting excursions.

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**PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2008

The majority of the Organization's assets used in these operations are real estate holdings, which may in the future be developed for residential or commercial uses or marketed to diversify the asset portfolio of PRFT.

Real Estate Operations – Real estate commissions are recognized as revenue at the point in which all services have been performed by the Organization, and title to real property has passed from buyer to seller.

Profit on sales of real estate is recognized when title has passed, minimum down payment criteria are met, the terms of any note received are such as to satisfy continuing investment requirements and collectibility of the note is reasonably assured, the risks and rewards of ownership have been transferred to the buyer, and there is no substantial continuing involvement with the property. If any of the aforementioned criteria are not met, profit is deferred and recognized under the installment, cost-recovery, deposit, or percentage-of-completion method.

(b) *Financial Statement Presentation*

The consolidated financial statements are presented in accordance with the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations* (Statement 117), as required by U.S. generally accepted accounting principles (GAAP). Statement 117 provides for three basic financial statements and the classification of resources into three separate classes of net assets – permanently restricted, temporarily restricted, and unrestricted. All assets of the Organization are classified unrestricted, as defined by Statement 117, as they are generally available to be utilized for the purposes of the Will, as determined by the Trustees. The initial contribution of assets and liabilities to the Trust was recorded at fair value at November 12, 1992.

(c) *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of the Trust, RST, and all their wholly owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

(d) *Management Estimates*

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, valuation allowances for receivables, inventories, and deferred income tax assets, land remediation liabilities, and obligations related to employee benefits. Actual results could differ from those estimates.

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**PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2008

(e) Cash and Cash Equivalents

The Organization primarily maintains its operating cash in bank accounts and had approximately \$2,698,000 in excess of federally insured limits at December 31, 2008. The Organization has not experienced losses in these accounts, and management believes there is no significant credit risk related to cash.

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(f) Marketable Securities

Marketable securities are stated at fair value, as determined by quoted market prices. Gains and losses on marketable securities are recorded as increases or decreases in net assets and are reflected in the accompanying consolidated statement of activities. The cost of securities sold is determined on the specific-identification method.

These investments are considered to be impaired when a decline in fair value is judged to be other-than-temporary. The Organization evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Organization employs a systematic methodology that considers available evidence in evaluating potential impairment of its investments. In the event that the cost of an investment exceeds its fair value, the Organization evaluates, among other factors, the magnitude and duration of the decline in fair value, the financial health of the issuer, and the Organization's intent and ability to hold the investment. Once a decline in fair value is determined to be other than temporary, an impairment charge is recorded in investment income, and a new cost basis in the investment is established.

(g) Other Investments

Other investments consist of privately placed debt and equity investments for which the Organization has no significant influence. Other investments are reported at cost.

(h) Accounts Receivable

Accounts receivable are customer obligations due under normal trade terms and are carried at original invoice amount less an estimate of doubtful accounts based on a monthly review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible, and recoveries of previously written off receivables are recorded when received.

(i) Cattle Inventory

Cattle inventory is stated at the lower of cost (first-in, first-out method) or market. Costs of raised cattle are comprised of the proportionate costs of breeding, including depreciation of the breeding herd, plus the costs of maintenance through the consolidated statement of financial position date.

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**PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2008

Purchased cattle are carried at purchase cost plus costs of maintenance through the consolidated statement of financial position date.

(j) Property and Equipment

Property and equipment are carried at cost, net of depreciation. Breeding livestock are stated at purchase costs or inventory transfer amounts equal to the lower of cost or market. The costs of normal repairs and maintenance are expensed as incurred.

Depreciation and amortization are provided using straight-line and accelerated methods over the following estimated useful lives:

Buildings and improvements	15 to 40 years
Machinery, fixtures, and equipment	3 to 10 years
Leasehold improvements	10 years
Breeding livestock	5 years

The majority of the Organization's assets are real estate holdings, which will be used for ranch operations, developed for residential and commercial use, or marketed to diversify the Organization's holdings. The Organization's ability to realize its assets and generate cash flows adequate to meet its operating and debt service requirements is dependent upon, among other things, the sale of certain parcels of land at sufficient prices and requisite times.

(k) Long-Lived Assets

In accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets, such as property, plant, and equipment and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Organization first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

(l) Other Assets

Other assets include water credits, merchandise inventories, prepaid expenses, and deposits. Merchandise inventories are stated at the lower of average cost or market.

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**PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2008

(m) Financial Instruments

The carrying amounts of the Organization's financial instruments (cash and cash equivalents, accounts receivable, related-party notes receivable, and accounts payable and accrued expenses) as of December 31, 2008 approximate fair values because of the short maturity of these instruments. The fair value of marketable securities was \$32,942,782 at December 31, 2008. The fair value of other investments is based on information provided by the fund managers. At December 31, 2008, fair value of other investments was \$6,783,932.

As of December 31, 2008, the carrying amounts of notes payable of \$19,421,980, approximate fair value as the interest rate is commensurate with interest rates currently offered by lending institutions for loans of similar terms to companies with comparable credit risk. The carrying amount of capital lease obligations of \$308,371, as of December 31, 2008, approximate fair value as the interest rates are commensurate with interest rates offered by local institutions for leases of similar terms.

(n) Income Taxes

Activities of the Trust are generally exempt from income taxes. Operations conducted through RST and PRI are taxable. Accordingly, income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of current and deferred income taxes.

Deferred income tax assets and liabilities are computed at effective tax rates for the temporary differences between the consolidated financial statement and income tax bases of assets and liabilities in PRI. Deferred tax assets and liabilities represent the future tax return consequences of temporary differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are also recognized for operating loss carryforwards and alternative minimum tax credits that are available to offset future income taxes. A valuation allowance is provided for deferred tax assets considered unrealizable.

(o) Postretirement Plan

The Organization provides retired employees with certain postretirement benefits, primarily related to healthcare coverage. The benefits are the same for all qualified employees.

The Organization records annual amounts relating to its postretirement plan based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, benefit claims, retirement age, and healthcare cost trend rates. The Organization reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. The effect of modifications to those assumptions is recorded in changes in unrestricted net assets and amortized to net periodic cost over future periods using the projected-unit-credit method with benefits attributed ratably to service from date of hire to the date of full eligibility. The Organization believes that the assumptions utilized in recording its obligations under its plan are reasonable based on its experience and market conditions.

(p) Interest Capitalization

Interest is capitalized to major projects during the construction period.

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**PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2008

(q) Fair Value Measurements

On January 1, 2008, the Organization adopted the provisions of FASB Statement No. 157, *Fair Value Measurements* (Statement 157), for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Statement 157 defines fair value 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. Statement 157 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157*, delays the effective date of Statement 157 until fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. In accordance with FSP FAS 157-2, the Organization has not applied the provisions of Statement 157 to nonfinancial assets and nonfinancial liabilities for the year ended December 31, 2008.

On January 1, 2009, the Organization will be required to apply the provisions of Statement 157 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a nonrecurring basis. The Organization is in the process of evaluating the impact, if any, of applying these provisions on its consolidated financial position and change in net assets.

In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, which was effective immediately. FSP FAS 157-3 clarifies the application of Statement 157 in cases where the market for a financial instrument is not active and provides an example to illustrate key considerations in determining fair value in those circumstances. The Organization has considered the guidance provided by FSP FAS 157-3 in its determination of estimated fair values during 2008. The implementation of this standard did not have any impact on the Organization's consolidated financial position, change in net assets, or cash flows.

(r) Recently Issued Accounting Standards

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Options for Financial Assets and Financial Liabilities—including an Amendment of FASB Statement No. 115* (Statement 159). Statement 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of Statement 159 are effective for the fiscal year beginning January 1, 2008. The Organization has chosen not to adopt Statement 159.

In June 2008, the FASB issued FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109*. FIN 48 required that the Organization determine whether a tax position is more likely than not to be sustained upon examination by the applicable tax authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets this recognition threshold, the position is measured to determine the amount of tax benefit or expense to be recognized in the consolidated financial statements.

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December 31, 2008

On December 30, 2008, the FASB issued FSP FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which deferred the effective date of FIN 48. The Organization has elected to take advantage of this deferral and will accrue for liabilities relating to uncertain tax positions, if any should exist, only when such liabilities are probable and reasonably estimable. Therefore, FIN 48 is currently effective for the Organization for the year ending December 31, 2009. The Organization is evaluating the impact of FIN 48 and currently believes that the adoption of FIN 48 will not have a material impact on the Organization's consolidated financial statements.

(2) Investments

A summary of marketable securities at December 31, 2008 is as follows:

Corporate equity securities	\$	10,687,145
Mutual funds		9,249,367
Public equity securities		7,610,377
Corporate debt securities		2,678,141
U.S. government securities		<u>2,717,752</u>
Total	\$	<u><u>32,942,782</u></u>

The Organization's other investments consist of funds invested in hedge funds, U.S. and foreign securities, and limited partnerships. Other investments amounted to approximately \$6,548,956 at December 2008 and are reported at cost.

Investment management fees for the year ended December 2008 amounted to approximately \$388,000.

(3) Related-Party Notes Receivable

The following is a summary of notes receivable from related parties at December 31, 2008:

Principal due on interest-only subordinated notes from Champion Feeders, bearing interest of 6%, due July 2009	\$	181,038
Principal due on employee and other notes, bearing interest of 5% to 10%, secured by real property, due at various dates through November 2021		<u>94,977</u>
	\$	<u><u>276,015</u></u>

The notes receivable from employees relate to land sales.

(4) Investment in Joint Venture

The Organization is a 50% member of Kaomalo LLC (Kaomalo), a real estate joint venture, under an operating agreement to develop residential units on certain parcels in Kamuela, Hawaii. The Organization accounts for its investment in Kaomalo under the equity method.

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At December 31, 2008, Kaomalo's total assets amounted to approximately \$11,477,000, which is substantially comprised of real estate inventory. Total liabilities were \$1,081,000.

The Organization's investment in Kaomalo included in the accompanying consolidated statement of financial position amounted to \$5,246,367 at December 31, 2008, and its share of the loss from the joint venture was \$1,363,223.

(5) Property and Equipment, Net

Ranch land and related assets at December 31, 2008 consist of the following:

Land	\$ 226,678,812
Buildings and leasehold improvements	21,410,031
Machinery, fixtures, and equipment	6,845,492
Breeding livestock	6,637,634
Water rights	2,670,000
Construction in progress	<u>2,186,635</u>
	266,428,604
Accumulated depreciation and amortization	<u>(21,034,416)</u>
	<u>\$ 245,394,188</u>

In 2008, depreciation and amortization charges, net of amounts capitalized to cattle inventory of approximately \$887,802, were \$343,561.

In 2008, interest capitalized to construction in progress was \$134,383.

(6) Debt

In December 1999, PRFT and PRI entered into a loan agreement with an insurance company and executed a \$20 million mortgage note bearing interest at 7.81%. The outstanding balance of this note amounted to \$17,783,596 at December 31, 2008. The note requires the Organization to make aggregate semiannual principal and interest payments of approximately \$868,000. Prepayment on the note is subject to penalties until December 2009, when the interest rate is scheduled to be renegotiated. After such renegotiation, the rate will remain fixed until the maturity date of December 2014. The note is secured by approximately 70,400 acres of land with a carrying value of approximately \$63 million.

At December 31, 2008, notes payable include a \$1,847,000 note issued to the seller in conjunction with the 2007 purchase of the Kukuipahu parcel, bearing interest at 7.5%. The outstanding balance of this note amounted to \$1,638,384 at December 31, 2008. The note requires the Organization to make aggregate semiannual principal and interest payments of approximately \$172,000. The maturity date of the note is December 2014 and prepayment is permissible without penalty.

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The annual principal payments on notes payable at December 31, 2008 are approximately as follows:

Year ending December 31:		
2009	\$	579,618
2010		625,045
2011		674,033
2012		726,863
2013		783,834
Thereafter		<u>16,032,587</u>
	\$	<u><u>19,421,980</u></u>

(7) Income Taxes

Income tax expense for the year ended December 31, 2008 consisted of the following:

	Current	Deferred	Total
Federal	\$ —	—	—
State	<u>6,000</u>	<u>—</u>	<u>6,000</u>
	<u>\$ 6,000</u>	<u>—</u>	<u>6,000</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below as of December 31, 2008:

Deferred tax assets:

Differences in book and tax carrying values of property and equipment, primarily resulting from write-downs of land	\$ 26,552,000
Net operating loss carryforwards	19,507,000
Postemployment and postretirement benefits	1,844,000
Other	<u>136,000</u>
Total gross deferred tax assets	48,039,000
Less valuation allowance	<u>(48,039,000)</u>
Deferred income taxes, net	<u><u>\$ —</u></u>

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The valuation allowance for deferred tax assets as of December 31, 2008 was \$48,039,000. The net change in total valuation allowance was an increase of \$1,140,000 in 2008. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that PRI will not realize the benefits of these deductible differences.

PRI has approximately \$51.9 million of net operating loss carryforwards available to offset future taxable income. These carryforwards expire in various years through 2028. The Organization also has approximately \$141,000 of alternative minimum tax credits for use in future years.

(8) Leases

(a) Lessor

PRI leases certain lands under operating leases expiring in various years through 2059. Approximate minimum future lease rentals to be received, excluding percentage rents and cost reimbursements, are as follows:

Year ending December 31:	
2009	\$ 368,000
2010	308,000
2011	303,000
2012	304,000
2013	264,000
Thereafter	<u>1,180,000</u>
	<u>\$ 2,727,000</u>

(b) Lessee

PRI leases pasture land, commercial space, and equipment under operating and capital leases expiring in various years through 2032. Commercial leases provide for the payment of percentage rents, reimbursement of certain costs, and renewal options. Capital leases have remaining terms of two years.

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December 31, 2008

At December 31, 2008, approximate future minimum lease payments are as follows:

	Capital	Operating
Year ending December 31:		
2009	\$ 169,685	251,915
2010	148,505	250,351
2011	—	233,529
2012	—	165,730
2013	—	51,788
Thereafter	—	57,096
Future minimum lease payments	318,190	\$ 1,010,409
Amounts representing interest at 3.0%	(9,819)	
Present value of minimum lease payments	\$ 308,371	

Equipment held under capital leases was approximately \$1,655,000 less accumulated amortization of approximately \$905,000 at December 31, 2008. Of the related amortization expense, approximately \$63,000 was capitalized into breeding cattle and cattle inventory in 2008. Rent expense related to operating leases was approximately \$364,000 for the year ended December 31, 2008.

(9) Benefit Plans

(a) Postretirement Benefits

The Organization provides retired employees with certain postretirement benefits, primarily related to healthcare coverage. The unfunded benefit obligation at December 31, 2008 was computed based on management's current estimates of benefits to be paid, discounted at 6.28%, and assuming healthcare cost increases of 13.00% in 2009, 7.00% in 2010, and 5.00% in 2011 and thereafter.

The Organization uses a December 31 measurement date.

The accrued liability for postretirement benefits at December 31, 2008 is as follows:

Change in benefit obligation:		
Benefit obligation at beginning of year	\$	4,233,736
Interest cost		236,810
Benefits paid		(356,116)
Actuarial loss		202,461
Medicare Part D subsidy		206,183
Benefit obligation at end of year	\$	4,523,074

(Continued)

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Notes to Consolidated Financial Statements

December 31, 2008

Postretirement benefit expense for the year ended December 31, 2008 is as follows:

Interest cost	\$	236,810
Amortization of actuarial loss		89,431
Medicare Part D subsidy		206,183
		206,183
Postretirement benefit expense	\$	532,424

At December 31, 2008, future estimated benefit payments during the next 10 years are as follows:

Year ending December 31:		
2009	\$	264,950
2010		311,986
2011		317,548
2012		326,385
2013		335,551
2014 – 2018		1,750,500
		1,750,500
	\$	3,306,920

(b) Postemployment Benefits

PRI previously offered a voluntary separation program (the Program) to eligible employees as part of PRI's efforts to reduce its fixed overhead cost structure. In addition to salary continuation payments that ended in 2004, the Program also offered a variety of benefits to be paid for a specified period to employees who chose to participate in the Program. The unfunded benefit obligation at December 31, 2008 of \$452,593 was computed based on management's current estimates of undiscounted benefits to be paid, and assuming healthcare cost increases of 13% in 2009, 7% in 2010, and 5% in 2011 and thereafter, with such costs shared equally between PRI and participants in the Program. During 2008, PRI reduced its obligation by approximately \$63,000 based on the results of an actuarial analysis. Additionally, PRI paid benefits of approximately \$91,000 during the year ended December 31, 2008.

(c) 401(k) Retirement Savings Plan

PRI sponsors the Parker Ranch 401(k) Retirement Savings matching Plan (the Plan), which covers substantially all employees. The Plan provides for PRI to make annual contributions of up to 6% of eligible employee compensation. Eligible employees may make contributions not to exceed amounts allowable under the Internal Revenue Code. PRI made contributions of approximately \$120,000 during the year ended December 31, 2008.

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**PARKER RANCH FOUNDATION TRUST
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Notes to Consolidated Financial Statements

December 31, 2008

(10) Fair Value Measurements

As discussed in note 1(q) to the consolidated financial statements, the Organization adopted the provisions of Statement 157 as of January 1, 2008, for fair value measurements of all financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis.

Fair Value Hierarchy

Statement 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents assets that are measured or disclosed at fair value on a recurring basis by level at December 31, 2008:

	December 31, 2008	Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Corporate equity securities	\$ 10,687,145	10,687,145	—	—
Mutual funds	9,249,367	9,249,367	—	—
Public equity securities	7,610,377	7,610,377	—	—
Corporate debt securities	2,678,141	—	2,678,141	—
U.S. government securities	2,717,752	—	2,717,752	—
Total	<u>\$ 32,942,782</u>	<u>27,546,889</u>	<u>5,395,893</u>	<u>—</u>

(Continued)

**PARKER RANCH FOUNDATION TRUST
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Notes to Consolidated Financial Statements

December 31, 2008

The consolidated financial statements as of and for the year ended December 31, 2008 do not include any nonrecurring fair value measurements relating to assets or liabilities for which the Organization has adopted the provisions of Statement 157. All nonrecurring fair value measurements for 2008 involved nonfinancial assets, and the Organization will not adopt the provisions of Statement 157 for nonrecurring fair value measurements involving nonfinancial assets and nonfinancial liabilities until January 1, 2009 as discussed in note 1(q).

(11) Customer Concentration

To obtain premium pricing on cattle, PRI markets its cattle through a limited number of customers. Cattle sales to two customers represented approximately 82% of cattle sales and 60% of total PRI revenues in 2008. As cattle are a commodity product, management believes alternative customers could be identified as necessary.

(12) Contingencies

In the normal course of the Organization's activities, or the conduct of PRI's operations, the Organization is subject to potential claims and litigation. Management of the Organization believes that such matters will not have a material adverse effect on the Organization's consolidated financial position.

(13) Functional Allocation of Expenses

The costs of fulfilling program requirements and supporting activities are summarized below. Expenses as reflected in the accompanying consolidated statement of activities have been allocated to the program and general and administrative activities as follows:

Supporting services:	
Cattle sales	\$ 13,551,519
Rental/property management income	2,639,749
Visitor and retail sales	1,910,396
Real estate commissions	756,558
Other supporting services	<u>3,878,711</u>
	<u>\$ 22,736,933</u>

(14) Commitments

As of December 31, 2008, the Organization is committed to construct part of a connector road to the Waimea Town Center. Management estimates the cost of the connector road to be approximately \$8 million with construction to be completed in May 2010.

The Organization has committed to contribute additional capital of approximately \$4,101,000 to other investments consisting of hedge funds, funds invested in real estate, U.S. and foreign securities, and limited partnerships.

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**PARKER RANCH FOUNDATION TRUST
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December 31, 2008

(15) Subsequent Event

In March 2009, the Organization extended a short-term loan to a Trust Beneficiary. The Organization established a margin account in its investment portfolio from which the short-term loan draws can be made to support the Trust Beneficiary's near-term cash flow requirements to a maximum of \$3,000,000. On April 29, 2009, the maximum loan amount of \$3,000,000 was withdrawn and is outstanding. Terms of the loan agreement require the funds to be repaid at the end of six months, with an option of the Trust Beneficiary to extend the terms by 90 days by providing a 30-day written notice. Interest at the greater of the margin rate (as defined) or 3% per annum is required to be paid monthly on any outstanding balances.

PARKER RANCH FOUNDATION TRUST

Trustees

Timothy E. Johns
(Chairman of Trustees)

Warren H. Haruki

Brenden G. Moynahan

David H. McCoy

Michael W. Gibson

PARKER RANCH INCORPORATED

2009 Board of Directors

Brenden G. Moynahan
(Chairman of the Board)

Warren H. Haruki

Michael W. Gibson

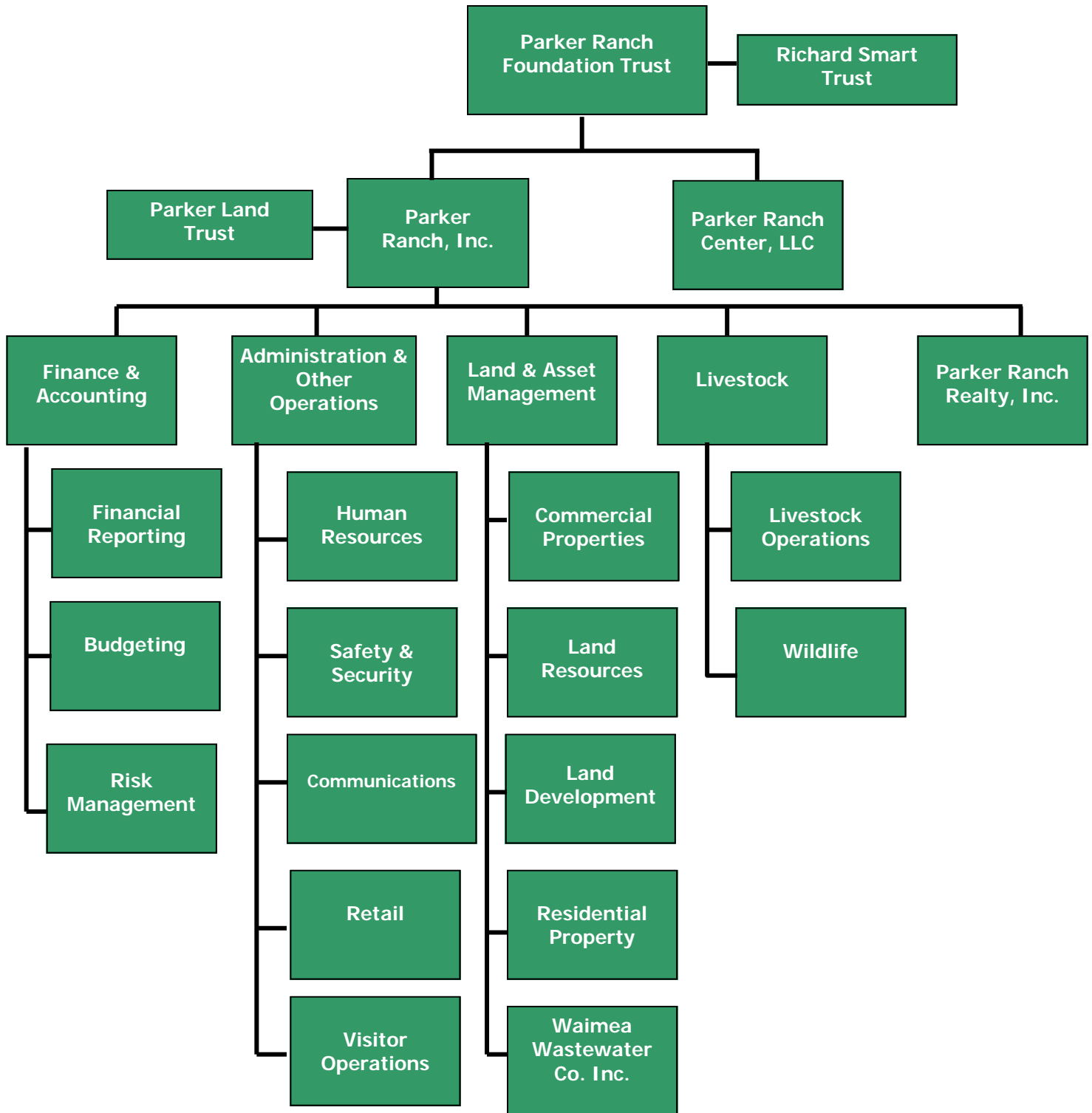
Arthur C. Tokin

Robert L. Hind III

James S. Greenwell

Herbert “Monty” Richards, Jr.

Organizational Chart





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