Parker Ranch
est. 1847

PROUDLY SUPPORTING OUR BENEFICIARIES

North Hawaii Community Hospital

HPA
Hawai'i Preparatory Academy

Hawai'i Community Foundation

Parker School Trust Corporation

2006 Annual Report

Parker Ranch Foundation Trust

MISSION STATEMENT

To maintain and improve a unique quality of life in the Kamuela 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 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 Kamuela area.

FRONT COVER PHOTO: CHRISTOPHER McCLURE

Message from the Trustees

ALOHA, May 2007

Following a very successful 2005, we are pleased to report that 2006 became another year of significant achievements and new frontiers for Parker Ranch Foundation Trust ("Trust") and its four beneficiaries – North Hawaii Community Hospital, Parker School Trust Corporation, Hawaii Preparatory Academy, and the Richard Smart Fund, administered by the Hawaii Community Foundation.

A strengthened financial picture for Parker Ranch Inc. (PRI) resulted from successfully concluded negotiations with the U.S. Army for its acquisition of approximately 24,000 acres of land in an area known as Keamuku. This allowed a significant portion of long-term debt to be paid off. Investment income from the Trust's portfolio showed promising returns and contributed to the decision to provide $867,000 in distributions to the beneficiaries. It is our goal that future income distributions increase over the coming years.

Among the most significant achievements for 2006 was the tremendous progress made with the beneficiaries on the Ranch's long-term strategic planning process. In particular, a team of experts was brought together to develop a strategic land plan. This effort culminated in November 2006, when the Distribution Committee unanimously endorsed the adoption of long-term guiding principles for the Ranch under the umbrella of our Next Century Plan.

The Plan and its Guiding Principles include operating a profitable working cattle ranch; protecting and supporting an economically sustainable Waimea town and ensuring open spaces; maintaining social and economic diversity; respecting our history and paniolo legacy; participating in a leadership role in planning; and supporting the beneficiaries.

All of these initiatives were choreographed by the leader of the Parker Ranch Inc. team, our President and Chief Executive Officer, Chris Kanazawa. Under Chris' able leadership, the Ranch and Trust continue to move forward to gather ideas and solidify plans for the future direction of the Ranch, to lead and resolve many of the Waimea community's issues, and to explore diversification alternatives for the lands in a sustainable manner, which is respectful of the rich culture and history of this beloved area.

We 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. Because of their efforts, we are moving forward together.

Warren H. Haruki Trustee, Chair	Timothy E. Johns Trustee	John B. Ray Trustee

KONA-KOHALA CHAMBER OF COMMERCE AWARDS PARKER RANCH COMMUNITY SERVICE AND BUSINESS LEADERSHIP AWARDS

The Kona-Kohala Chamber of Commerce Pualu Awards exemplify an organization's commitment to improvement and advancement of the West Hawaii community. In 2006, Parker Ranch was recognized with two awards. The Environmental Awareness Award recognized Parker Ranch's sensitivity to the environment coupled with many of the ranch's innovative practices instituted over the years including our hybrid solar energy project, tree restoration, and safe and responsible outdoor lighting at the Parker Ranch Center. Parker Ranch's leadership in water and land management and stewardship were cited among the best.

A Pualu Award was also given in the Culture & Heritage category for the Annual July 4th Horse Races & Rodeo. This award recognized Parker Ranch for its preservation of a tradition that celebrates Hawaii's multi-cultural heritage. The rodeo tradition clearly demonstrates Hawaii's many dimensions. In presenting the award, the Chamber noted that the sport of rodeo is an American tradition but the memories of a day at the Parker Ranch Arena, with its sense of ohana, aloha, and colorful pageantry unlike anywhere else in the world, are uniquely Hawaiian.

The Parker Ranch Ohana

President's Report

On behalf of the Trustees, Board of Directors and the employees of Parker Ranch, I am pleased to report that the Ranch was successful in achieving its 2006 goals and objectives, resulting in an improvement in its financial results over 2005. The ongoing implementation of a diversification strategy, established by the Trustees and Board of Directors, has continued to result in a positive impact on profitability, liquidity, and asset growth of Parker Ranch.

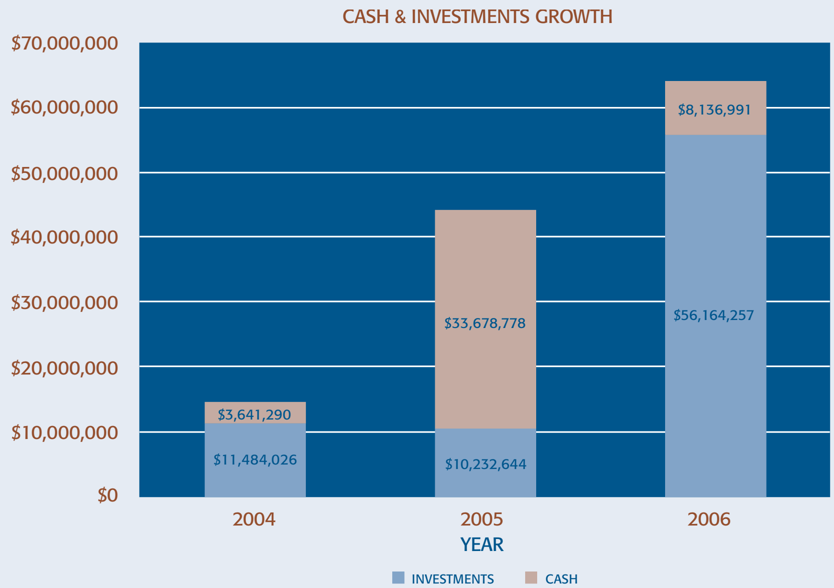
The improvement in 2006 results was due in large part to continued improvement in our operations. Revenues for 2006 totaled approximately $46.5 million, an improvement of 109% from 2005 when our operations generated approximately $22.3 million. Operational expenses increased, but at a substantially lower rate, to approximately $38.6 million during 2006, as compared to approximately $22.1 million in 2005. In addition to improved operational results, our investment portfolio generated approximately $1.5 million of dividend and interest income during 2006, a significant increase from dividend and interest income of $334,540 recorded in 2005. The improvement in our operations, combined with the successful implementation of our investment strategy resulted in nearly $8.0 million of income from operations, a substantial increase from the prior year, when the Ranch generated $247,009 of income from operations.

The progress made in our operations resulted in increased strength of the balance sheet and greater liquidity. We began 2006 with approximately $292 million of net unrestricted assets and $44 million of cash, cash equivalents, and investments. By year end, this balance had increased by over seven million dollars to approximately $299 million, and our liquidity had improved substantially, with the combined balance of cash, cash equivalents, and investments growing by 46% to an ending balance of slightly over $64 million. Further strengthening our financial base, we paid down a large portion of our debt during 2006, reducing our notes payable by approximately $7.6 million.

As mentioned earlier, a major component of our diversification strategy is management of cash to increase the value of our investment portfolio. At year-end, the balance of our investment portfolio was approximately $56 million, an

President's Report

increase of approximately $46 million from the beginning of 2006. Our strategy is to use cash from our operations to steadily increase the value of this portfolio in order to increase interest and dividend income for future distributions to our beneficiaries.



As reported last year, Parker Ranch initiated a comprehensive strategic planning effort in 2005 to update and refresh its vision statement and strategic principles. We are pleased to report that with the guidance and leadership of our Trustees and Board of Directors, the commitment of our management team, and the involvement of the beneficiaries of the Parker Ranch Foundation Trust, we have accomplished a great deal in this strategic planning effort. In 2006, we developed a set of "Guiding Principles" that establish the framework for all of our strategic activities. These Guiding Principles speak to a vision of stewardship and sustainability. They recognize the importance of protecting the rich history and legacy of Parker Ranch, preserving the wide open country of Waimea, promoting sustainability of our community and lifestyle, sustaining profitable and "Best of Class" business operations, and providing meaningful financial support for our beneficiaries. With these Guiding Principles, we are able to follow a defined process in evaluating creative approaches to enhance the value of our land holdings and improve our business operations.

I am excited about this "new beginning" for Parker Ranch. Our financial performance continues to improve and with the completion of the strategic planning process, Parker Ranch is well positioned to be proactive in seeking new business opportunities. I want to express my appreciation for the leadership of our Trustees and Board of Directors, the commitment of our employees, and the active involvement of our beneficiaries in 2006.

Aloha,

Chris J. Kanazawa

Chris J. Kanazawa
President and Chief Executive Officer

Beneficiary Profiles

North Hawaii Community Hospital (NHCH) in Waimea is a full-service, acute-care hospital that is licensed for 50 beds. As a community owned, not for profit hospital, NHCH is governed by a local board of directors and has a management agreement with Adventist Health of Roseville, California. Opened in May 1996, NHCH serves the 30,000 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. With the Harry & Jeanette Weinberg Patient Care and Imaging Pavilions, NHCH has the most modern technology available today.

This is combined with a mission of caring for the whole person and a commitment to honoring blended-care practices and procedures. The Waimea Women's Center, a division of the hospital, offers complete healthcare to women of all ages and now operates a specialty clinic in Kona. The Hawaii Heart Brain Center at NHCH brings high-quality cardiovascluar and neurovascular care to the Island. NHCH is a grateful recipient of support from the Parker Ranch Foundation Trust.

Founded in 1949, Hawaii Preparatory Academy (HPA) is one of the premier independent 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 585 students in grades K-12 on two campuses in the heart of the world-famous Parker Ranch on the island of Hawaii.

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 Hawaii and its culture. The marine science program, in collaboration with NOAA, National Marine Fisheries Service, Pacific Islands Fisheries Center, offers unrivaled encounters with the island's remarkable ocean environment. Partnerships with high-tech neighbors near and far such as the W.M. Keck Observatory and Akimeka, a native Hawaiian company, enable participation in real-world, cutting-edge projects. The academic curriculum is complemented by strong programs in the visual and performing arts and a comprehensive athletic program that stresses participation and sportsmanship.

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

Beneficiary Profiles

PARKER SCHOOL TRUST CORPORATION

The Parker School Trust 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

Waimea Community Education offers over 200 classes each year, serving more than 800 community members of all ages in Waimea and North Hawaii.

HAWAII COMMUNITY FOUNDATION

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 a comprehensive school improvement plan at Waimea Elementary School to improve curriculum, instruction and evaluation to achieve higher student performance; build a culture of and capacity for leadership among administration, faculty and staff to promote change throughout the school; and develop programs to encourage stronger community involvement.

The fund also provides grants to nonprofit organizations in the Waimea area for organizational capacity building. Organizational capacity building grants are intended to enhance a nonprofit's ability to achieve its mission by improving the management or governance of the organization.

Beneficiary Distributions

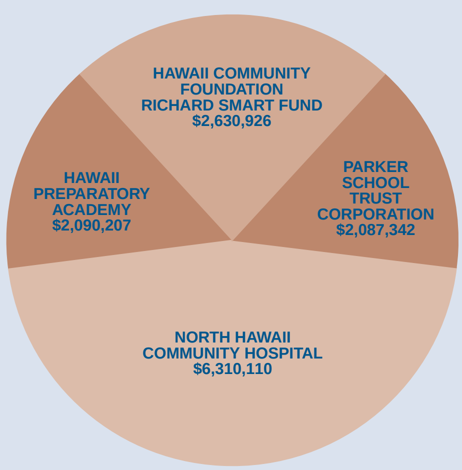
Parker Ranch Foundation Trust, through its Distribution Committee, has cumulatively declared a total of $867,000 in cash through 2006 to its Beneficiaries.

Declared in 2006 for allocation to the four beneficiary organizations was as follows:

- $416,160 to North Hawaii Community Hospital
- $173,400 to the Richard Smart Fund of the Hawaii Community Foundation
- $138,720 to Hawaii Preparatory Academy
- $138,720 to Parker School Trust Corporation

Cumulative distributions now total $6,310,110 for North Hawaii Community Hospital, $2,630,926 for the Richard Smart Fund of the Hawaii Community Foundation, $2,090,207 for Hawaii Preparatory Academy and $2,087,342 for Parker School Trust Corporation.

APPLICABLE YEAR	YEAR PAID	AMOUNT
1996	1998	$ 250,000
1997	1999	$ 275,000
1998	2000	$ 300,000
1999	2000	$ 325,000
2000	2001	$ 850,000
2000	2002	$ 350,000
2000	2003	$1,301,585
2001	2003	$ 375,000
2005	2006	$8,225,000
2006	2007	$ 867,000
TOTAL DISTRIBUTIONS TO DATE		$13,118,585



CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

KPMG

KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

TO THE TRUSTEES OF
PARKER RANCH FOUNDATION TRUST:

We have audited the accompanying consolidated statements of financial position of Parker Ranch Foundation Trust and subsidiaries (the Organization) as of December 31, 2006 and 2005, and the related consolidated statements of activities and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audits provide 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, 2006 and 2005, and the changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

June 18, 2007

PARKER RANCH FOUNDATION TRUST AND SUBSIDIARIES

Consolidated Statements of Financial Position
December 31, 2006 and 2005

Assets

		2006	2005
Cash and cash equivalents, including restricted cash equivalents of approximately $2,100,000 and $2,000,000 in 2006 and 2005, respectively	$	8,136,991	33,687,778
Accounts receivable, net of allowances of $37,000 and $456,000 in 2006 and 2005, respectively		615,842	1,380,820
Marketable securities		22,464,257	10,232,644
Other investments		33,700,000	––
Notes receivable		376,350	516,507
Land held for sale or distribution		––	34,367,247
Real estate inventory		12,857,611	9,953,445
Cattle inventory		10,253,715	9,002,355
Property and equipment, net		243,982,579	244,134,465
Deferred income taxes		500,000	500,000
Other assets		1,617,552	1,987,474
Total assets	$	334,504,897	345,753,735

Liabilities and Net Assets

		2006	2005
Notes payable	$	18,415,639	25,980,420
Accounts payable and accrued expenses		4,316,622	5,471,028
Accrued distributions		867,000	8,225,000
Due to joint venture partner		766,036	6,100,602
Capital lease obligations		618,936	794,116
Postretirement benefits payable		4,397,591	4,005,239
Postemployment benefits payable		675,000	1,052,371
Reserve for land remediation		100,000	400,000
Total liabilities		30,156,824	52,028,776
Noncontrolling interest in joint venture		4,993,246	1,626,165
Net assets – unrestricted		299,354,827	292,098,794
Commitments and contingencies		––	––
Total liabilities and net assets	$	334,504,897	345,753,735

See accompanying notes to consolidated financial statements.

PARKER RANCH FOUNDATION TRUST AND SUBSIDIARIES

Consolidated Statements of Activities
Years ended December 31, 2006 and 2005

	2006	2005
Revenues:		
Real estate sales	$ 25,136,368	––
Cattle sales	11,424,302	11,974,377
Visitor and retail sales	2,352,400	2,328,433
Real estate commissions	1,983,618	2,767,290
Net realized and unrealized gain on marketable securities	1,979,681	––
Dividends and interest	1,482,191	334,540
Timber and aggregate sales	694,994	662,740
Rental income	690,147	3,169,763
Other	801,150	1,080,435
Total revenues	46,544,851	22,317,578
Costs and expenses:		
Cost of real estate sales	17,847,213	––
Cost of cattle sales	9,805,111	9,118,491
Cost of visitor and retail sales	852,939	857,223
Real estate commission expense	1,500,625	2,119,967
Operating costs	4,662,697	5,838,315
General and administrative	1,732,901	1,083,562
Interest expense	1,815,202	2,198,640
Depreciation and amortization	358,409	854,371
Total costs and expenses	38,575,097	22,070,569
	7,969,754	247,009
Gain (loss) on sales and distribution of land and improvements	4,329,914	(2,342,029)
Noncontrolling interest in joint venture	(3,367,081)	46,601
Distributions to beneficiaries	(867,000)	(8,225,000)
Writedowns on property and equipment, net	(809,554)	(13,800,000)
Change in net assets	7,256,033	(24,073,419)
Net assets, beginning of year	292,098,794	316,172,213
Net assets, end of year	$ 299,354,827	292,098,794

See accompanying notes to consolidated financial statements.

PARKER RANCH FOUNDATION TRUST AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years ended December 31, 2006 and 2005

	2006	2005
Cash flows from operating activities:		
Change in net assets	$ 7,256,033	(24,073,419)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net loss (gain) on sales or distribution of land and improvements	(4,329,914)	2,342,029
Net realized and unrealized loss (gain) on investments	(1,979,681)	39,930
Noncontrolling interest in joint venture	3,367,081	(46,601)
Writedowns on property and equipment	809,554	13,800,000
Depreciation and amortization	358,409	854,371
Deferred income tax benefit	––	(500,000)
Amortization of premiums on marketable debt securities	––	181,191
Forgiveness and loss on notes receivable	––	47,048
Loss on disposal of property and equipment	––	36,591
Changes in assets and liabilities:		
Accounts receivable	764,978	(548,533)
Real estate inventory	(2,904,166)	(3,463,037)
Cattle inventory	(387,185)	101,422
Other assets	369,922	(333,474)
Accounts payable and accrued expenses	124,287	158,909
Accrued distributions	(4,061,746)	8,225,000
Due to joint venture partner	(5,334,566)	3,566,788
Postretirement benefits payable	392,352	134,072
Postemployment benefits payable	(377,371)	(388,995)
Reserve for land remediation	(300,000)	(100,000)
Net cash provided by (used in) operating activities	(6,232,013)	33,292
Cash flows from investing activities:		
Net proceeds from sales of land held for sale or distribution	34,367,247	32,655,336
Capital expenditures	(2,125,285)	(1,836,243)
Purchases of marketable securities	(103,101,743)	(12,239,576)
Proceeds on sale of marketable securities and other investments	92,849,811	––
Purchases of other investments	(33,700,000)	––
Proceeds from maturities of marketable debt securities	––	9,968,779
Repayments on notes receivable	140,157	17,110
Issuance of notes receivable	––	(55,487)
Investments	––	37,421
Net cash provided by (used in) investing activities	(11,569,813)	28,547,340
Cash flows from financing activities:		
Payments on notes payable	(7,564,781)	(1,469,541)
Payments on capital lease obligations	(175,180)	(178,505)
Net cash used in financing activities	(7,739,961)	(1,648,046)
Net increase (decrease) in cash and cash equivalents	(25,541,787)	26,932,586
Cash and cash equivalents, beginning of year	33,678,778	6,746,192
Cash and cash equivalents, end of year	$ 8,136,991	33,678,778
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,871,980	2,201,723
Supplemental disclosures of noncash information:		
Accrual of costs primarily related to land held for sale	$ 148,424	1,553,571
Net transfer of costs from cattle inventory to breeding herd	892,250	899,963
Relief of other assets related to sale of shopping center	––	228,169
Relief of accrued liabilities related to sale of shopping center	––	170,155

See accompanying notes to consolidated financial statements.

(1) Summary of Operations and Significant Accounting Policies

(a) Description of Organization

The Organization was formed on September 10, 1992, and is comprised of Parker Ranch Foundation Trust (the Trust), Richard Smart Irrevocable Trust (RST), and all wholly owned subsidiaries (collectively, the Organization). The subsidiaries included Parker Ranch, Inc. (PRI) and Parker Ranch Center LLC (PRC). In December 2005, PRC was sold (see note 5).

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). PRI also consolidates its interest in Kaomalo LLC (Kaomalo), a real estate development joint venture. WWC was formed to operate the assets of a wastewater treatment and collector system and PRR was incorporated to provide 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 (PRI Cattle), 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 (IRS) 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)

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
	100%

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, 2006 and 2005, cumulative authorized distributions to Beneficiaries were approximately $13,119,000 and $12,252,000, respectively.

Livestock Operations: Except for the finishing and marketing of cattle on the U.S. Mainland, substantially all of the Organization's assets and operations are located on the Big Island of Hawaii. Accordingly, the Organization's operations are dependent on the economic and climatic conditions of the Big Island of Hawaii and subject to the inherent risks of agricultural commodities. The majority of the Organization's assets are real estate holdings, which will be used for ranch operations, developed for 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 are dependent upon, among other things, the sale of certain parcels of land at sufficient prices and at requisite times.

The Organization recognizes revenue from cattle sales at the time cattle are sold.

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 (SFAS No. 117), *Financial Statements of Not-for-Profit Organizations,* as required by U.S. generally accepted accounting principles (GAAP). SFAS No. 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 SFAS No. 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 consolidated financial statements include the accounts of the Trust, RST, and all wholly owned subsidiaries, as well as the accounts of variable interest entities required to be consolidated pursuant to FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities* (FIN 46R). All significant intercompany accounts and transactions have been eliminated in consolidation.

The Organization is a 50% member of Kaomalo under an operating agreement to develop residential units on certain parcels of land in Kamuela, Hawaii. At December 31, 2005, included in the accompanying consolidated balance sheets are Kaomalo's total assets of approximately $9,953,000 (which was substantially comprised of real estate inventory), total liabilities of approximately $6,701,000 (which included amounts due to joint venture partner of approximately $6,101,000), and members' equity of approximately $3,252,000 (which included a noncontrolling interest in joint venture of approximately $1,626,000). Included in change in net assets in the accompanying consolidated statements of activities for the year ended December 31, 2005 is Kaomalo's net income of approximately $93,000.

At December 31, 2006, Kaomalo's total assets amounted to approximately $12,858,000, which is substantially comprised of real estate inventory. Total liabilities were approximately $2,783,000 (which included amounts due to joint venture partner of approximately $766,000). Members' equity totaled approximately $10,075,000 (which included a noncontrolling interest in joint venture of approximately $4,993,000). Included in change in net assets in the accompanying consolidated statements of activities for the year ended December 31, 2006 is Kaomalo's net income of approximately $6,823,000.

Despite the effects of consolidation, the creditors of Kaomalo have no recourse against the Organization.

(d) *Management Estimates*

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. 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.

(e) *Cash and Cash Equivalents*

The Organization primarily maintains its operating cash in bank deposit accounts and had approximately $4,567,000 and $2,927,000, respectively, in excess of federally insured limits at December 31, 2006 and 2005. The Organization has not experienced losses in these accounts and management believes there is no significant credit risk related to cash.

Cash equivalents are uninsured money market funds, government agency notes, and corporate bonds with maturities of three months or less at the time of purchase.

(f) *Marketable Securities*

Marketable securities are stated at fair value, as determined by quoted market prices. Gains and losses on marketable debt securities are recorded as increases or decreases in net assets and are reflected in the accompanying consolidated statements 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 recorded 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 is comprised of the proportionate costs of breeding, including depreciation of the breeding herd, plus the costs of maintenance through the balance sheet date. Purchased cattle are carried at purchase cost plus costs of maintenance through the balance sheet date.

(j) Real Estate Inventory and Land Held-for-Sale or Distribution

Real estate inventory and land held-for-sale or distribution are stated at cost, unless such costs would not be recovered from the cash flows generated by future disposition. In this instance, such inventories are measured at fair value, less disposal costs. The cost of real estate inventory and land held-for-sale or distribution includes land, land development, and home construction costs, as well as interest and real estate taxes related to property under development and construction. Direct overhead costs are capitalized during development and construction; indirect overhead costs are expensed as incurred.

Cost of real estate sales includes the specific construction costs of each home closed, land acquisition, and land development costs allocated on a pro rata basis, closing costs and sales commissions, related interest and real estate taxes, and an estimate of future warranty and related costs for the homes closed.

Interest capitalized to real estate inventory pertains to amounts due to joint venture partner during 2006 and 2005 and amounted to approximately $700,000 and $280,000, respectively, during the years ended December 31, 2006 and 2005. Interest was based on prime plus 0.5% (8.75% and 7.75% at December 31, 2006 and 2005, respectively).

(k) 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
Breeding livestock	5 years

(l) Accounting for Long-Lived Assets

The carrying values of long-lived assets are reviewed when events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. If the undiscounted future cash flows (without interest charges) are less than the carrying amount of an asset, an impairment loss is recognized to the extent that the asset's carrying amount exceeds its fair value. Fair value is reduced by the amount of estimated selling costs for impaired assets that are held-for-sale.

The estimation of future cash flows is inherently uncertain, and relies significantly upon the availability of capital and the Organization's ability to market real estate in an orderly fashion at prices equal to or exceeding the related carrying values. The future availability of capital, the timing of real estate sales, and changes in the estimates of future cash flows could impact the carrying amount of real estate assets.

(m) Other Assets

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

(n) *Financial Instruments*

The carrying amounts of the Organization's financial instruments (cash and cash equivalents, accounts receivable, notes receivable, accounts payable, and accrued expenses due to joint venture partner) as of December 31, 2006 and 2005 approximate fair values because of the short maturity of these instruments. The fair value of marketable securities was $22,464,257 and $10,232,644 at December 31, 2006 and 2005, respectively. The fair value of other investments at December 31, 2006 was approximately $35,700,000 and is based on information provided by the fund managers.

As of December 31, 2006 and 2005, the carrying amounts of notes payable of $18,415,639 and $25,980,420, respectively, 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 amounts of capital lease obligations of $618,936 and $794,116 as of December 31, 2006 and 2005, respectively, approximate fair value as the interest rates are commensurate with interest rates offered by local institutions for leases of similar terms.

(o) *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 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 be either 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.

(p) *Reclassifications*

Certain reclassifications were made to 2005 amounts to conform to 2006 presentations. Such reclassifications had no impact on previously reported change in net assets.

(2) Investments

A summary of marketable securities at December 31, 2006 and 2005 follows:

	2006	2005
Corporate debt securities	$ 9,242,940	4,435,029
Mutual funds	7,491,789	––
U.S. government securities	3,175,674	5,797,615
Corporate equity securities	2,553,854	––
Total	$ 22,464,257	10,232,644

At December 31, 2006, the Organization's other investments of $33,700,000, consisted of hedge funds and other funds invested in real estate, U.S. and foreign securities, and limited partnership.

Investment management fees for the years ended December 2006 and 2005 amounted to $109,600 and $0, respectively.

(3) Notes Receivable

The following is a summary of notes receivable from related parties at December 31, 2006 and 2005:

	2006	2005
Principal due on interest-only subordinated notes from Champion Feeders, bearing interest of 6%, due July 2009	$ 194,344	285,539
Principal due on employee and other notes, bearing interest of 5% to 10%, secured by real property, due at various dates through November 2021	138,577	175,540
Principal due on unsecured noninterest-bearing note, due in monthly installments through May 2007	43,429	55,428
	$ 376,350	516,507

The notes receivable from employees relate to land sales and educational loans.

(4) Land Held-for-Sale or Distribution

At December 31, 2005, land held-for-sale or distribution consisted of approximately 24,000 acres of land to be sold to the U.S. government under threat of condemnation and several parcels of land to be returned to the Trust for distribution to the Trust's beneficiaries. Writedowns of approximately $13.3 million were recorded during 2005 on land held-for-sale, which was written down to its estimated sales price of $31.5 million and included an accrual of approximately $1.5 million of estimated costs to be incurred related to the land. Of the land parcels held for distribution, one parcel was written down by approximately $500,000 during 2005 to reduce the Organization's carrying value to fair value.

In July 2006, the Organization sold the 24,000 acre parcel of grazing land (Keamuku) classified as land held-for-sale, to the U.S. government for $31.5 million.

(5) Property and Equipment, Net

During the year ended December 31, 2005, the Organization sold Parker Ranch Center for $31.3 million as a component of their overall diversification plan and as a means to capitalize on favorable market conditions. A loss on the transaction of approximately $3,478,000 was recorded during the year ended December 31, 2005. Revenues and expenses related to Parker Ranch Center amounted to approximately $2,470,000 and $2,190,000, respectively, for the year ended December 31, 2005.

During the year ended December 31, 2006, the Organization recorded a writedown of approximately $810,000 on certain residential and commercial properties to reduce the Organization's carrying value to fair value.

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

	2006	2005
Land	$ 224,321,641	224,486,303
Buildings and improvements	20,816,937	23,486,169
Machinery, fixtures, and equipment	6,339,571	5,309,663
Breeding livestock	6,818,624	6,588,524
Water rights	2,670,000	2,670,000
Construction in progress	2,413,876	1,606,651
	263,380,649	264,147,310
Accumulated depreciation and amortization	(19,398,070)	(20,012,845)
	$ 243,982,579	244,134,465

In 2006 and 2005, respectively, depreciation and amortization charges, net of amounts capitalized to cattle inventory of approximately $1,286,000 and $1,512,000 were $358,409 and $854,371.

(6) Debt

In December 1999, PRI entered into a loan agreement with an insurance company and executed $20 million (Tranche A) and $10 million (Tranche B) mortgage notes bearing interest at 7.81% and 7.96%, respectively. The notes require PRI to make aggregate semiannual principal and interest payments of approximately $1,309,000. Interest rates are scheduled to be renegotiated in December 2009 and remain fixed until the maturity date of December 2014. Prepayments are subject to penalties until the interest rate renegotiation date. In addition, prepayments on the $10 million note were prohibited for the first five years. The mortgage notes are secured by $2 million of cash equivalents held by the lender in an interest-bearing escrow account and reported on the Organization's balance sheet, and approximately 70,400 acres of land, with a carrying value of approximately $88 million.

In July 2006, Tranche B was retired with a portion of the proceeds from the sale of Keamuku. At December 31, 2006, notes payable consists solely of Tranche A, which has a remaining principal balance of $18,415,639.

The annual principal payments on notes payable at December 31, 2006 are as follows:

Year ending December 31:	
2007	$ 304,000
2008	328,000
2009	354,000
2010	382,000
2011	413,000
Thereafter	16,634,639
	$ 18,415,639

(7) Income Taxes

Income tax benefit for the year ended December 31, 2005 consisted of the following:

	Current	Deferred	Total
Federal	$ ––	425,000	425,000
State	––	75,000	75,000
	$ ––	500,000	500,000

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, 2006 and 2005:

	2006	2005
Deferred tax assets:		
Differences in the book and tax carrying values of property and equipment, primarily resulting from writedowns of land	$ 26,452,000	31,375,000
Net operating loss carryforwards	19,631,000	14,994,000
Postemployment and postretirement benefits	1,959,000	2,003,000
Alternative minimum tax credit carryforwards	141,000	141,000
Other	147,000	107,000
Total gross deferred tax assets	48,330,000	48,620,000
Less valuation allowance	(47,830,000)	(48,120,000)
Deferred income taxes, net	$ 500,000	500,000

During the years ended December 31, 2006 and 2005, PRI recorded deferred income tax benefits of approximately $290,000 and $4.9 million, respectively, and an offsetting valuation allowance of approximately $290,000 and $4.4 million, respectively, which are included in general and administrative expenses in the accompanying consolidated statements of activities.

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 realize a portion of the benefits of these deductible differences. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

PRI has approximately $49.1 million of net operating loss carryforwards available to offset future taxable income. These carryforwards expire in various years from 2010 through 2025. PRI also has approximately $141,000 of alternative minimum tax credits for use in future years.

(8) Related-Party Transactions

Richard Smart selected the original Trustees for the Trust. Successor Trustees are selected by the remaining Trustees. The Trust calls for a minimum of three Trustees and maximum of five. The Trust currently has three Trustees who are responsible for the administration, control, and safekeeping of the Trust's assets.

In 2003, PRI entered into an agreement with a Trustee of PRFT, whereby the Trustee provided real estate consulting services. PRI paid approximately $21,000 related to this agreement in 2005. This contract was terminated effective March 31, 2005. There was no related-party activity during 2006.

(9) 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:	
2007	$ 350,000
2008	348,000
2009	300,000
2010	265,000
2011	266,000
Thereafter	1,077,000
	$ 2,606,000

(b) Lessee

PRI leases pasture land, commercial space, and equipment under operating and capital leases expiring in various years through 2032. Pasture land leases expiring in 2011 provided for renegotiations of rent in 2006. Commercial leases provide for the payment of percentage rents, reimbursement of certain costs, and renewal options. Capital leases have remaining terms of up to four years.

At December 31, 2006, approximate future minimum lease payments are as follows:

	Capital	Operating
Year ending December 31:		
2007	$ 170,000	221,000
2008	170,000	212,000
2009	170,000	195,000
2010	170,000	195,000
2011	––	170,000
Thereafter	––	257,000
Future minimum lease payments	680,000	$ 1,250,000
Amounts representing interest at 3.0%	(61,064)	
Present value of minimum lease payments	$ 618,936	

Accumulated amortization related to equipment held under capital leases was approximately $808,000 and $770,000 at December 31, 2006 and 2005, respectively. Of the related amortization expense, approximately $64,000 and $69,000 was capitalized into breading cattle and cattle inventory in 2006 and 2005, respectively. An additional $4,000 and $28,000 of this amortization expense was categorized as depreciation and amortization expense in the accompanying consolidated statements of activities in 2006 and 2005, respectively. Rent expense related to operating leases was approximately $460,000 and $324,000 for the years ended December 31, 2006 and 2005, respectively.

(10) 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, 2006 was computed based on management's current estimates of benefits to be paid, discounted at 5.75% and assuming healthcare costs increase 7.5% in 2007, 6.5% in 2008, 5.5% in 2009, 5.0% in 2010, and 5.0% in 2011 and thereafter.

In accordance with FASB Staff Position Financial Accounting Standards No. 106-2 (FSP FAS 106-2), *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003,* the Company, based on an evaluation performed by independent actuaries, determined that its plan was at least actuarially equivalent to the Medicare benefit on January 1, 2005 and, accordingly, it is entitled to receive the federal subsidies. FSP FAS 106-2 requires treating the initial effect of the employer subsidy on the accumulated postretirement benefit obligation (APBO) as an actuarial gain. The subsidy also affects the estimate of service cost in measuring the cost of benefits attributable to current service.

In September 2006, FASB issued Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R).* SFAS No. 158 requires employers to recognize the funded status of a defined postretirement benefit plan (other than a multiemployer plan) as an asset or liability in its balance sheet and to report changes in that funded status in the year in which the changes occur as a change in unrestricted net assets. An employer without publicly traded equity securities is required to adopt SFAS No. 158 as of the end of the fiscal year ending after June 15, 2007. The Organization will adopt SFAS No. 158 for its consolidated financial statements for the year ending December 31, 2007.

The accrued liability for postretirement benefits at December 31, 2006 and 2005 is as follows:

	2006	2005
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 4,005,239	3,871,167
Interest cost	218,746	219,551
Benefits paid	(234,684)	(227,049)
Actuarial loss	408,290	141,570
Benefit obligation at end of year	$ 4,397,591	4,005,239

Postretirement benefit expense for the years ended December 31, 2006 and 2005 is as follows:

	2006	2005
Interest cost	$ 218,746	219,551
Amortization of actuarial loss	408,290	141,570
Postretirement benefits expense	$ 627,036	361,121

At December 31, 2006, future estimated benefit payments during the next 10 years are as follows:

Year ending December 31:	
2007	$ 267,000
2008	284,000
2009	287,000
2010	313,000
2011	311,000
2012 – 2016	1,623,000
	$ 3,085,000

(b) *Postemployment Benefits*

PRI previously offered a voluntary separation program (the Program) to eligible employees as part of the Organization'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, 2006 was computed based on management's current estimates of undiscounted benefits to be paid, and assuming healthcare costs increase 7.5% in 2007, 6.5% in 2008, 5.5% in 2009, 5.0% in 2010 and 5.0% in 2011 and thereafter, with such costs shared equally between PRI and participants in the Program. During 2006 and 2005, PRI reduced its obligation by approximately $257,000 and $87,000, respectively, based on the results of an actuarial analysis. Additionally, PRI paid benefits of approximately $120,000 and $302,000, respectively during the years ended December 31, 2006 and 2005.

(c) *401(k) Retirement Savings Plan*

PRI sponsors the Parker Ranch 401(k) Retirement Savings Plan (the Plan), which covers substantially all employees. The Plan provides for PRI to make minimum annual contributions of 3% of eligible employee compensation and allows for discretionary contributions to a maximum of 15%. Eligible employees may make contributions not to exceed amounts allowable under the Internal Revenue Code. PRI made contributions of approximately $100,000 and $95,000, during the years ended December 31, 2006 and 2005, respectively.

(11) Reserve for Land Remediation

During 2002, leasehold interests expired on lands previously used by PRI for grazing cattle. Pursuant to the conditions of the leases and related agreements, PRI may have a commitment to help control the perimeter of a noxious weed infestation on the leased lands. In order to resolve any contingencies related to PRI's responsibilities for controlling the infestation, management proposed and accrued a settlement in 2002 to be paid to the lessor over a period of several years. During 2006 and 2005, PRI paid approximately $58,000 and $100,000, respectively, related to the control of this infestation. The reserve for land remediation amounted to $100,000 and $400,000 at December 31, 2006 and 2005, respectively. Although negotiations with the lessor of the previously leased land are ongoing, management does not expect the outcome of these negotiations to have a material adverse effect on the Organization's financial position.

(12) 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 89% and 77% of cattle sales and 22% and 42% of total revenues in 2006 and 2005, respectively. As cattle is a commodity product, management believes alternative customers could be identified as necessary.

(13) 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 financial position.

(14) Functional Allocation of Expenses

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

	2006	2005
Supporting services:		
Real estate sales	$ 18,313,816	93,205
Cattle sales	10,081,559	10,681,900
Rental/property management income	2,357,660	3,045,385
Visitor and retail sales	2,302,429	2,659,757
Real estate commissions	1,759,275	2,437,922
Other supporting services	3,760,358	3,152,400
	$ 38,575,097	22,070,569

(15) Commitments

As of December 31, 2006, Kaomalo had outstanding contract commitments for construction of approximately $5,340,000.

PARKER RANCH INCORPORATED

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Chairman of the Board

Warren H. Haruki

Timothy E. Johns

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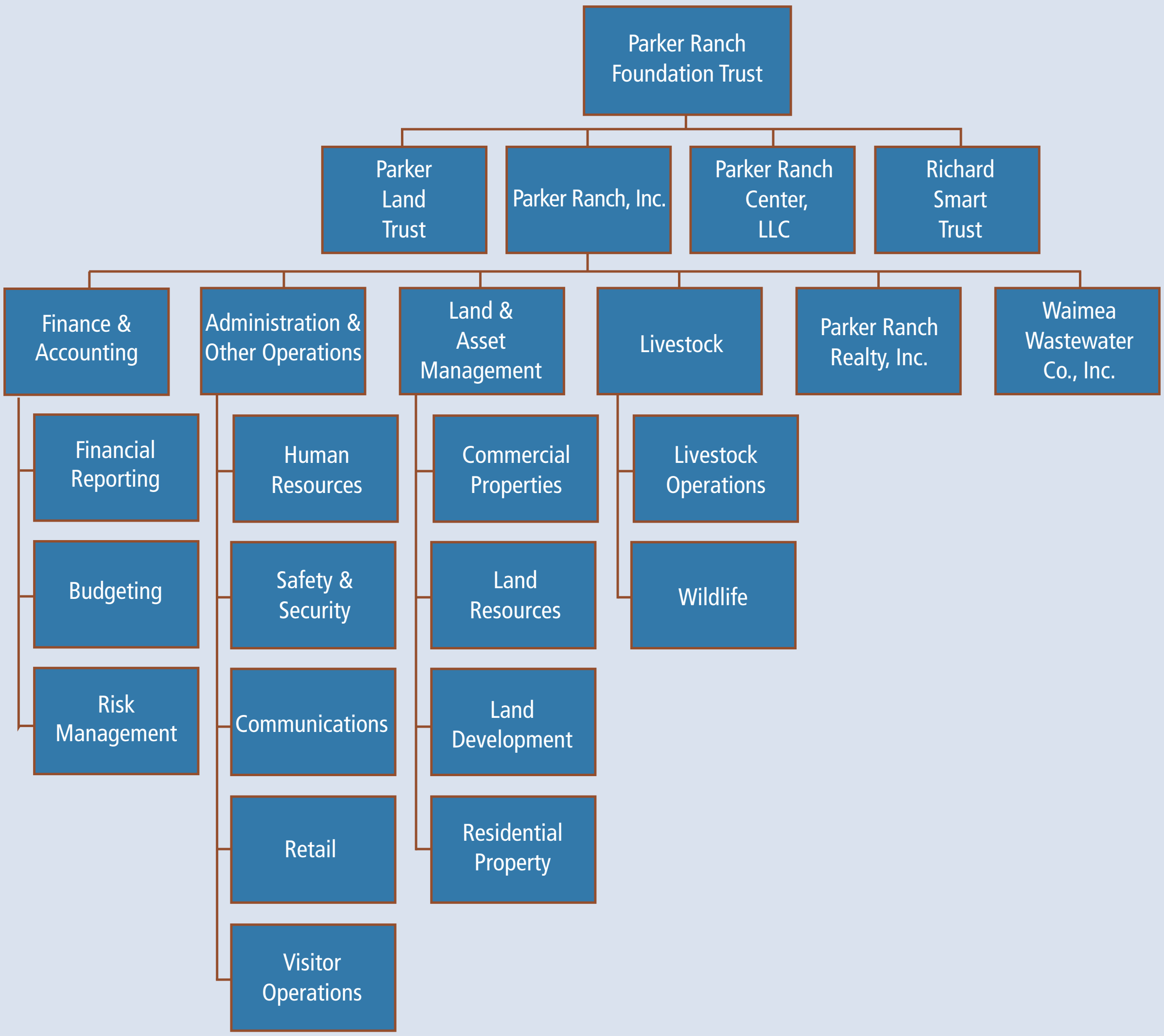
Organizational Chart



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