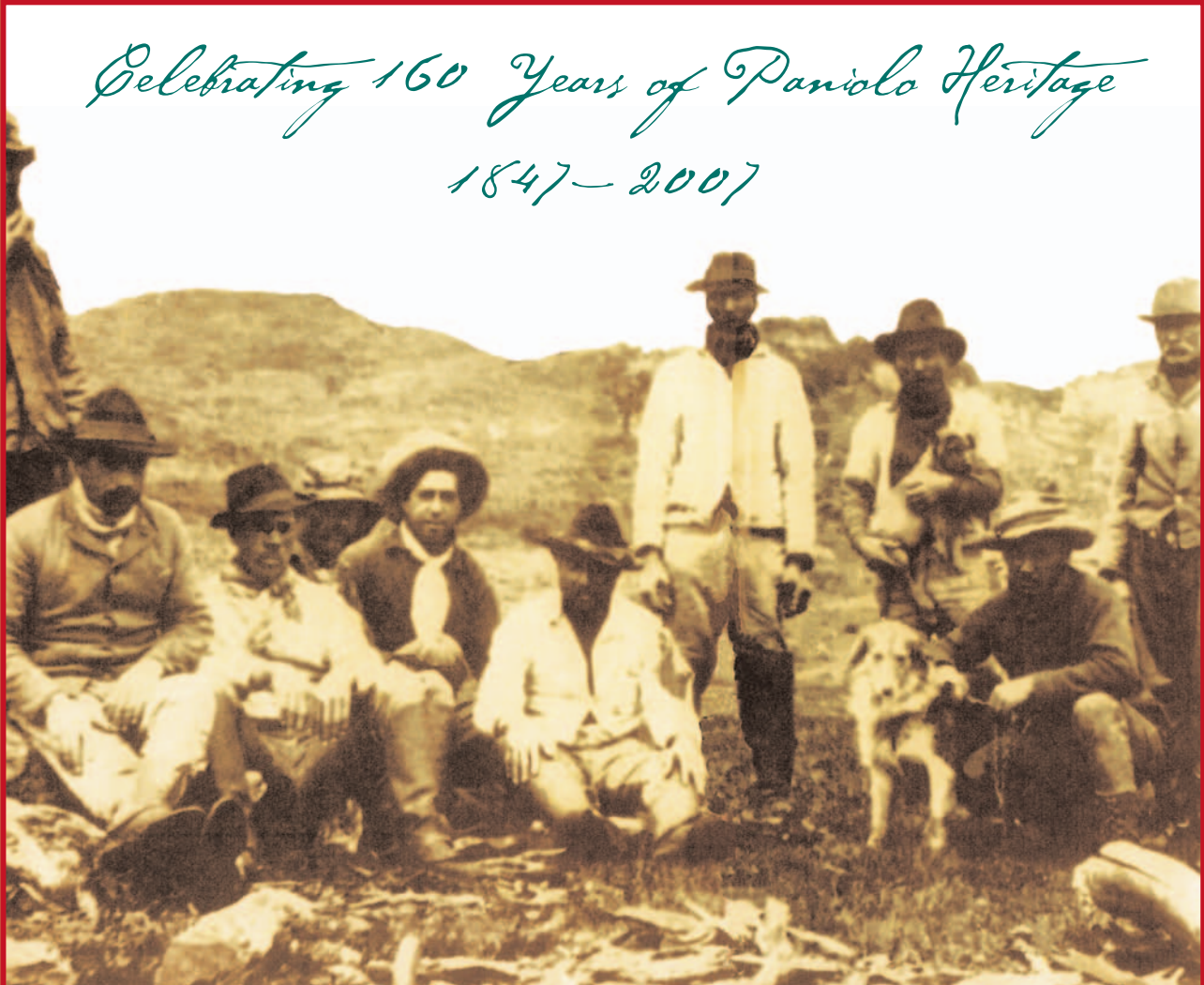


2 0 0 7 A N N U A L R E P O R T

Celebrating 160 Years of Paniolo Heritage
1847-2007



PROUDLY SUPPORTING OUR BENEFICIARIES



NORTH HAWAII
COMMUNITY HOSPITAL



HAWAII COMMUNITY
FOUNDATION



Parker School
Trust Corporation



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.



Message from the Trustees

The completion of a new Parker Ranch Foundation Trust (“Trust”) structure was achieved with the full support of our beneficiaries – North Hawaii Community Hospital, Parker School Trust Corporation, Hawaii Preparatory Academy and the Richard Smart Fund, administered by the Hawaii Community Foundation.

In June 2007, trustees and beneficiaries petitioned the Hawaii Probate Court to change the Trust structure in order to best continue Richard Smart’s charitable support for the Waimea community. By August, the Court had approved the petition converting the Trust to a Type I supporting organization, a different federal tax status. Under the new structure, beneficiaries appoint trustees, giving them more input and control in Trust matters. In addition, there is more flexibility for the Trust’s annual distributions, better ensuring continuation of meaningful distributions to the four beneficiary groups.

A beneficiary-appointed selection committee carefully considered all applicants and trustees Warren H. Haruki and Timothy E. Johns were reappointed, along with new trustees Michael W. Gibson, David H. McCoy and B. G. (“Pete”) Moynahan.

Continued progress with the beneficiaries on the Trust’s long-term strategic planning process led to the Distribution Committee’s unanimous endorsement to adopt guiding principles for the Trust, under the umbrella of our Next Century Plan. We are now strategically poised to begin implementation of key elements of the Plan.

A distribution to the four beneficiaries totaling \$1,770,833 was committed for 2007 and 2008, payable in March 2008. This distribution is indicative of the flexibility afforded the Trust under the new Type I structure. The collaborative efforts of the beneficiaries, the leadership of CEO Chris Kanazawa, and the hard work of our Parker Ranch employees made this distribution possible. Total distributions to beneficiaries now approach \$15 million over the past eleven years.

Conversion to a Type I supporting organization has already begun to strengthen plans for the future direction of the Trust, to lead in the resolution of community issues, and to explore diversification alternatives for Trust assets in a manner that sustains our rich cultural heritage. It is our hope these efforts will serve to better preserve the character of the community over the next 160 years.

Thank you for your interest and support in continuing to have the Trust provide for the greater needs of our beneficiaries and the Waimea community at large.

Warren H. Haruki
Trustee, Chair

Timothy E. Johns
Trustee

Michael W. Gibson
Trustee

David H. McCoy
Trustee

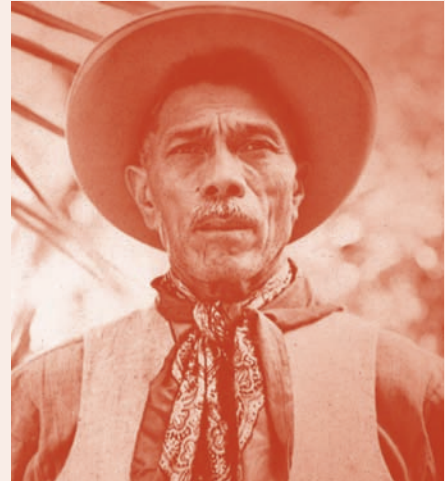
Brendan G. Moynahan
Trustee



Celebrating 160 Years of Paniolo Heritage

In 2007, Parker Ranch President & CEO Chris Kanazawa was on hand for the induction of Ikuia Purdy to the Cheyenne Frontier Days' Hall of Fame. The induction was an unprecedented move by the Wyoming-based organization.

Born on Christmas Eve 1873 on the ranch lands of Parker Ranch, Purdy was the great grandson of John Palmer Parker and his wife, Kipikane. As a grown man he was a master with rope, horse, and steer using his natural ability to gather and secure livestock with the least amount of stress on man and animal.



Ikuia Purdy

Headlines in island and Wyoming newspapers in August of 1908 announced rodeo history. Twelve thousand spectators—a huge number for those days—watched Ikuia Purdy, Jack Low, and Archie Ka'aua carry off top awards at the world-famous Cheyenne Rodeo. Unlike today's calf-roping, riders in 1908 lassoed powerful, full-grown steers. The Cheyenne paper reported that the performances of the dashing Hawaiians, in their vaquero-style clothing and flower-covered slouch hats, "took the breath of the American cowboys." Under drizzling skies, Purdy won the World's Steer Roping Championship—roping, throwing, and tying the steer in 56 seconds flat. Ka'aua and Low took third and sixth place respectively.

Also in 2007 Michael "Corky" Bryan joined eighteen other Parker Ranch affiliated cowboys as an inductee to the Oahu Cattlemen's Association Paniolo Hall of Fame. Bryan joined Parker Ranch in 1991 as the Livestock Marketing Manager. In 2000 he was promoted to Vice President Livestock Operations.



Michael "Corky" Bryan

Always active in the cattle business and the community, Bryan is currently serving as President of the Ag Leadership Foundation of Hawaii Board. He is a committee member of the National Cattlemen's Beef Association and chair of the Transportation Committee of the Hawaii Cattlemen's Council and Hawaii Cattlemen's Association. He is also a member of the Hawaii Farm Bureau Commodity Advisory Group, the Puuwaawaa Advisory Council, the Kansas Livestock Feeders Association, the Texas Cattle Feeders Association and the California Cattlemen's Association. He is on the Executive board of the Rancher's Renaissance Co-op and a board member of the Country Natural Beef Co-op. In 2006, Bryan was honored as Hawaii Cattleman of the Year.



President's Report



Paniolo who epitomized the "Cowboy Up" way of life are seen here at Kawaihae Harbor.
Image from the Parker Ranch collection of historical images.

The accomplishments during 2007, while under difficult conditions are a testament to the "Cowboy Up" spirit of the Parker Ranch employees; the same spirit that has allowed Parker Ranch to thrive for over 160 years. While it is encouraging to report that Parker Ranch Foundation Trust was able to complete its reformation of the Trust to a Type I Supporting Organization and approve a cash distribution of \$1.8 million to our beneficiaries, I am quite aware that our organization must remain focused on continuous improvement and operational efficiency. Recognizing the challenges ahead, it is the "Cowboy Up" spirit that allows me to be cautiously optimistic as we approach the coming years. The reality of this past year is that the change in US economic conditions that began in mid-2007 affected all aspects of our operations either in lowered revenues or increased costs. This resulted in a decrease in net assets of \$2.6 million for 2007; a sharp contrast to the nearly \$7.3 million of increase in net assets recorded in 2006.

The divisions that were most noticeably impacted were those related to real estate such as Parker Ranch Realty and Kaomalo, our joint venture with Schuler Homes Hawaii/DR Horton. In 2007, these two operations generated gross revenues of \$16 million as compared to 2006 when these same operations generated gross revenues of \$27 million; a decrease of approximately 40%.

The remaining aspects of our operations recorded slightly improved revenues but produced mixed results in context of contribution. In total, other operations (Livestock, Visitor, Retail, Property Management, Timber and Quarry) generated nearly \$17 million in 2007, a 6% increase over the 2006 revenue of \$16 million. In spite of this improvement, costs related to these operations increased at a much faster rate. The impact of these rapidly increasing costs can be seen most clearly in our Livestock division where, benefiting from strong beef prices, the cattle operation recorded gross revenues of \$12.6



President's Report

million, nearly 11% higher than gross revenues of \$11.4 million recorded in 2006. However, this level of increased revenue was offset in entirety by fuel, transportation and corn-based feed costs which were nearly 26% higher in 2007 as compared to 2006. Clearly, our goals for the future are to make certain that we improve each of our operations to insure that revenues grow at a faster rate in order to offset rapidly rising costs.



Just another day at work for longtime cowboys Bernard Hoopai, Klem Kaniho and Keeki Wood (L-R).
PHOTO: ANTHONY ROBERTS



Parker Ranch paniolo of today gather for a rare group shot following another day of hard work.
PHOTO: ANTHONY ROBERTS

To this end, our management team is focused on evaluating our existing business models and investigating new, complementary business opportunities that will strengthen our organization-wide profitability. Building on the foundation of the "Guiding Principals" that we have developed over these past three years and with the guidance of our Trustees and Directors, we face these challenges with strong conviction to succeed. The vision embodied in these Guiding Principals combined with

our stable financial foundation provides me with confidence that Parker Ranch can maintain its progress in providing support for our beneficiaries into the future.

Aloha,

Chris J. Kanazawa
President and Chief Operating Officer



Beneficiary Profiles



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 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 cardiovascular 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 590 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, the Pacific Disaster Center, and ESRI 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 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.



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 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 a network for youth services organizations, and a new grant-making program to support community engagement in Waimea.



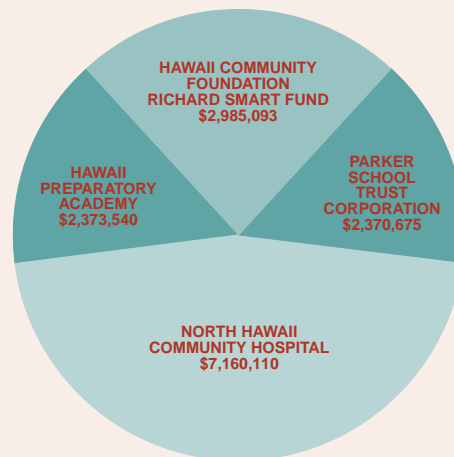
Beneficiary Distributions

In 2007 Trustees of Parker Ranch Foundation Trust declared a commitment to distribute \$1,770,833 in cash, allocated to its four beneficiary organizations 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.

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
2007	2008	\$1,770,833
TOTAL DISTRIBUTIONS TO DATE		\$14,889,418





Parker Ranch Foundation & Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

Independent Auditors' Report



KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

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, 2007 and 2006, 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, 2007 and 2006, 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.

As discussed in notes 1 and 8 to the consolidated financial statements, the Organization adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of December 31, 2007.

A stylized, handwritten signature of 'KPMG LLP' in dark green ink, enclosed within a white rectangular box.

August 4, 2008

Consolidated Statements of Financial Position

PARKER RANCH FOUNDATION TRUST AND SUBSIDIARIES

Consolidated Statements of Financial Position
December 31, 2007 and 2006

Assets

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents, including restricted cash equivalents of approximately \$0 in 2007 and \$2,100,000 in 2006	\$ 6,830,239	8,136,991
Accounts receivable, net of allowances of \$41,000 in 2007 and \$37,000 in 2006	824,898	615,842
Receivable on redemption of investment	5,473,601	—
Due from joint venture partner	2,758,454	—
Notes receivable	291,080	376,350
Marketable securities	32,450,901	22,464,257
Other investments	16,091,926	33,700,000
Real estate inventory	16,287,493	12,857,611
Cattle inventory	10,258,185	10,253,715
Property and equipment, net	246,129,863	243,982,579
Deferred income taxes	—	500,000
Other	1,447,080	1,617,552
Total assets	<u>\$ 338,843,720</u>	<u>334,504,897</u>

Liabilities and Net Assets

Notes payable	\$ 19,959,474	18,415,639
Accounts payable and accrued expenses	6,418,758	4,316,622
Accrued distributions	1,770,833	867,000
Due to joint venture partner	—	766,036
Capital lease obligations	480,148	618,936
Postretirement benefits payable	4,233,736	4,397,591
Postemployment benefits payable	515,419	675,000
Reserve for land remediation	—	100,000
Total liabilities	<u>33,378,368</u>	<u>30,156,824</u>
Noncontrolling interest in joint venture	8,742,344	4,993,246
Net assets – unrestricted	296,723,008	299,354,827
Commitments and contingencies		
Total liabilities and net assets	<u>\$ 338,843,720</u>	<u>344,504,897</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Activities

PARKER RANCH FOUNDATION TRUST AND SUBSIDIARIES

Consolidated Statements of Activities
Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues:		
Real estate sales	\$ 14,758,209	25,136,368
Cattle sales	12,640,803	11,424,302
Visitor and retail sales	2,238,478	2,352,400
Real estate commissions	1,409,374	1,983,618
Dividends and interest	1,087,921	1,482,191
Net realized and unrealized gain on investments	549,506	1,979,681
Rental income	687,385	690,147
Timber and aggregate sales	526,383	694,994
Other	808,131	801,150
	<u>34,706,190</u>	<u>46,544,851</u>
Total revenues		
Costs and expenses:		
Cost of real estate sales	10,593,260	17,847,213
Cost of cattle sales	12,323,777	9,805,111
Cost of visitor and retail sales	824,621	852,939
Real estate commission expense	1,127,708	1,500,625
Operating costs	5,203,446	4,662,697
General and administrative	1,667,133	1,732,901
Interest expense	1,314,858	1,815,202
Depreciation and amortization	622,032	358,409
	<u>33,676,835</u>	<u>38,575,097</u>
Total costs and expenses		
	1,029,355	7,969,754
Noncontrolling interest in joint venture	(1,859,537)	(3,367,081)
Distributions to beneficiaries	(1,770,833)	(867,000)
Gain (loss) on sales and distribution of land and improvements	(28,633)	4,329,914
Writedowns on property and equipment, net	(2,171)	(809,554)
	<u>(2,631,819)</u>	<u>7,256,033</u>
Change in net assets		
Net assets, beginning of year	<u>299,354,827</u>	<u>292,098,794</u>
Net assets, end of year	<u>\$ 296,723,008</u>	<u>299,354,827</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flow

PARKER RANCH FOUNDATION TRUST AND SUBSIDIARIES

Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ (2,631,819)	7,256,033
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gain on investments	(549,506)	(1,979,681)
Noncontrolling interest in joint venture	1,859,537	3,367,081
Net loss (gain) on sales or distribution of land and improvements	28,633	(4,329,914)
Writedowns on property and equipment	2,171	809,554
Depreciation and amortization	622,032	358,409
Deferred income tax benefit	500,000	—
Changes in assets and liabilities:		
Accounts and other receivables	(5,682,657)	764,978
Real estate inventory	(3,429,882)	(2,904,166)
Cattle inventory	838,303	(387,185)
Due from (to) joint venture partner	(3,524,490)	(5,334,566)
Other assets	168,463	369,922
Accounts payable and accrued expenses	2,102,136	124,287
Accrued distributions	903,833	(4,061,746)
Postretirement benefits payable	(163,855)	392,352
Postemployment benefits payable	(159,581)	(377,371)
Reserve for land remediation	(100,000)	(300,000)
Net cash used in operating activities	<u>(9,216,682)</u>	<u>(6,232,013)</u>
Cash flows from investing activities:		
Contributions from noncontrolling joint venture partner	2,889,559	—
Distributions to noncontrolling joint venture partner	(1,000,000)	—
Purchase of land	(3,052,234)	—
Capital expenditures	(560,014)	(2,125,285)
Purchases of marketable securities	(25,956,146)	(103,101,743)
Proceeds on sale of marketable securities and other investments	35,528,448	92,849,811
Purchases of other investments	(1,430,000)	(33,700,000)
Repayments on notes receivable	85,270	140,157
Net proceeds from sales of land held for sale or distribution	—	34,367,247
Net cash provided by (used in) investing activities	<u>6,504,883</u>	<u>(11,569,813)</u>
Cash flows from financing activities:		
Issuance of note payable	1,847,757	—
Payments on notes payable	(303,922)	(7,564,781)
Payments on capital lease obligations	(138,788)	(175,180)
Net cash provided by (used in) financing activities	<u>1,405,047</u>	<u>(7,739,961)</u>
Net decrease in cash and cash equivalents	<u>(1,306,752)</u>	<u>(25,541,787)</u>
Cash and cash equivalents, beginning of year	8,136,991	33,678,778
Cash and cash equivalents, end of year	<u>\$ 6,830,239</u>	<u>8,136,991</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 1,425,518	1,871,980
Supplemental disclosures of noncash information:		
Net transfer of costs from cattle inventory to breeding herd	\$ 842,773	892,250
Net transfer of costs from property and equipment to real estate inventory	1,089,069	—
Accrual of costs primarily related to land held for sale	—	148,424

See accompanying notes to consolidated financial statements.

PARKER RANCH FOUNDATION TRUST AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2007 and 2006

(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).

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)

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's). The new structure allows for more input by 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
	<hr/>
	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, 2007 and 2006, cumulative authorized distributions to Beneficiaries were approximately \$14,890,000 and \$13,119,000, respectively.

PARKER RANCH FOUNDATION TRUST AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2007 and 2006

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 on PRI fee simple land.

The majority of 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 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 (FIN 46R), *Consolidation of Variable Interest Entities*. 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, 2006, included in the accompanying consolidated balance sheets are Kaomalo's total assets of approximately \$12,858,000 (which was substantially comprised of real estate inventory), total liabilities of approximately \$2,783,000 (which included amounts due to joint venture partner of approximately \$766,000), and members' equity of 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.

At December 31, 2007, Kaomalo's total assets amounted to approximately \$19,046,000, which is substantially comprised of real estate inventory and includes amounts due from the joint venture partner of approximately \$2,758,000. Total liabilities were approximately \$1,561,000, and members' equity totaled approximately \$17,485,000 (which included a noncontrolling interest in joint venture of approximately \$8,742,000). Included in change in net assets in the accompanying consolidated statements of activities for the year ended December 31, 2007 is Kaomalo's net income of approximately \$3,631,000.

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 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.

(e) Cash and Cash Equivalents

The Organization primarily maintains its operating cash in bank deposit accounts and had approximately \$3,305,000 and \$4,567,000, respectively, in excess of federally insured limits at December 31, 2007 and 2006. The Organization has not experienced losses in these accounts and management believes there is no significant credit risk related to cash.

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

PARKER RANCH FOUNDATION TRUST AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2007 and 2006

(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 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 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*

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 PRFT 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. Real estate inventory and land held-for-sale or distribution is 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.

Cost of real estate sales in Kaomalo 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. Direct overhead costs are capitalized during development and construction; indirect overhead costs are expensed as incurred.

Interest capitalized to real estate inventory pertains to amounts due to joint venture partner during 2007 and 2006 and amounted to approximately \$54,000 and \$700,000, respectively, during the years ended December 31, 2007 and 2006. Interest was based on prime plus 0.50% (7.75% and 8.75% at December 31, 2007 and 2006, 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

PARKER RANCH FOUNDATION TRUST AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2007 and 2006

(l) 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, receivable on redemption of investment, notes receivable, accounts payable and accrued expenses, and due to/from joint venture partner) as of December 31, 2007 and 2006 approximate fair values because of the short maturity of these instruments. The fair value of marketable securities was \$32,450,901 and \$22,464,257 at December 31, 2007 and 2006, respectively. The fair value of other investments is based on information provided by the fund managers. At December 31, 2007, fair value of other investments was approximately \$16,092,000. Other investments were valued at \$33,700,000 at December 31, 2006.

As of December 31, 2007 and 2006, the carrying amounts of notes payable of \$19,959,474 and \$18,415,639, 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 \$480,148 and \$618,936 as of December 31, 2007 and 2006, 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) 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 assumption 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.

Effective December 31, 2007, the Organization adopted the recognition and disclosure provisions of FASB Statement No. 158 (Statement 158), *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. Statement 158 requires companies to recognize the funded status of the postretirement plan as a net asset or liability and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets to the extent those changes are not included in the net periodic cost. The implementation of applying Statement 158 had no significant impact on the Organization's financial statements as of December 31, 2007.

PARKER RANCH FOUNDATION TRUST AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2007 and 2006

(2) Investments

A summary of marketable securities at December 31, 2007 and 2006 follows:

	2007	2006
Corporate equity securities	\$ 13,173,449	2,553,854
Mutual funds	9,777,062	7,491,789
Corporate debt securities	8,086,531	9,242,940
U.S. government securities	1,413,859	3,175,674
Total	\$ 32,450,901	22,464,257

The Organization's other investments consisted of hedge funds, funds invested in real estate, U.S. and foreign securities, and limited partnerships. Other investments, including receivables for a year-end redemption, amounted to approximately \$21,566,000 and \$33,700,000, at December 2007 and 2006, respectively and are reported at cost.

Investment management fees for the years ended December 2007 and 2006 amounted to \$347,000 and \$110,000, respectively.

(3) Related-Party Notes Receivable

The following is a summary of notes receivable from related parties at December 31, 2007 and 2006:

	2007	2006
Principal due on interest-only subordinated notes from Champion Feeders, bearing interest of 6%, due July 2009	\$ 181,038	194,344
Principal due on employee and other notes, bearing interest of 5% to 10%, secured by real property, due at various dates through November 2021	110,042	138,577
Principal due on unsecured noninterest-bearing note, due in monthly installments through May 2007	--	43,429
	\$ 291,080	376,350

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

(4) Property and Equipment, Net

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

	2007	2006
Land	\$ 226,678,812	224,321,641
Buildings and improvements	21,237,569	20,816,937
Machinery, fixtures, and equipment	6,599,325	6,339,571
Breeding livestock	6,757,607	6,818,624
Water rights	2,670,000	2,670,000
Construction in progress	2,419,761	2,413,876
	266,363,074	263,380,649
Accumulated depreciation and amortization	(20,233,211)	(19,398,070)
	\$ 246,129,863	243,982,579

In 2007 and 2006, respectively, depreciation and amortization charges, net of amounts capitalized to cattle inventory of approximately \$843,000 and \$1,286,000, were \$622,000 and \$358,000.

During the years ended December 31, 2007 and 2006, the Organization recorded a writedown of approximately \$2,200 and \$810,000, respectively, on certain residential and commercial properties and equipment to reduce the Organization's carrying value to fair value.

During 2007, PRI completed purchase of a 37-acre parcel of land in North Kohala (Kukuipahu). The purchase price of this parcel amounted to approximately \$3 million.

PARKER RANCH FOUNDATION TRUST AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2007 and 2006

(5) Debt

In December 1999, PRFT and 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 required the Organization to make aggregate semiannual principal and interest payments of approximately \$1,309,000. Prepayment of Tranche B was prohibited until December 2004 and prepayment on each note was subject to penalties until December 2009, when the interest rate on each note was scheduled to be renegotiated. After such renegotiation of interest, the rate will remain fixed until the maturity date of December 2014.

Tranche B was retired in July 2006, and at December 31, 2007 and 2006, the outstanding balance of Tranche A amounted to \$18,111,717 and \$18,415,639, respectively. Tranche A is secured by approximately 70,400 acres of land with a carrying value of approximately \$88 million.

At December 31, 2007, notes payable also includes a \$1,847,757 note issued to the seller in conjunction with the purchase of the Kukuipahu parcel, bearing interest of 7.5%. 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.

The annual principal payments on notes payable at December 31, 2007 are as follows:

Year ending December 31:		
2008	\$	537,000
2009		580,000
2010		625,000
2011		674,000
2012		727,000
Thereafter		<u>16,816,474</u>
	\$	<u>19,959,474</u>

(6) Income Taxes

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, 2007 and 2006:

	2007	2006
Deferred tax assets:		
Differences in the book and tax carrying values of property and equipment, primarily resulting from writedowns of land	\$ 25,934,000	26,452,000
Net operating loss carryforwards	19,138,000	19,631,000
Postemployment and postretirement benefits	1,666,000	1,959,000
Alternative minimum tax credit carryforwards	141,000	141,000
Other	<u>20,000</u>	<u>147,000</u>
Total gross deferred tax assets	46,899,000	48,330,000
Less valuation allowance	<u>(46,899,000)</u>	<u>(47,830,000)</u>
Deferred income taxes, net	<u>\$ --</u>	<u>500,000</u>

Income tax expense (benefit) for the year ended December 31, 2007 consisted of the following:

	Current	Deferred	Total
2007:			
Federal	\$ --	425,000	425,000
State	<u>(3,000)</u>	<u>75,000</u>	<u>72,000</u>
	<u>\$ (3,000)</u>	<u>500,000</u>	<u>497,000</u>

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 \$50.1 million of net operating loss carryforwards available to offset future taxable income. These carryforwards expire in various years through 2027. PRI also has approximately \$141,000 of alternative minimum tax credits for use in future years.

PARKER RANCH FOUNDATION TRUST AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2007 and 2006

(7) 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:		
2008	\$	364,000
2009		316,000
2010		273,000
2011		272,000
2012		274,000
Thereafter		1,406,000
		\$ 2,905,000

(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 up to four years.

At December 31, 2007, approximate future minimum lease payments are as follows:

	Capital	Operating
Year ending December 31:		
2008	\$ 170,000	212,000
2009	170,000	195,000
2010	170,000	195,000
2011	—	188,000
2012	—	142,000
Thereafter	—	118,000
Future minimum lease payments	510,000	\$ 1,050,000
Amounts representing interest at 3.0%	(29,852)	
Present value of minimum lease payments	\$ 480,148	

Accumulated amortization related to equipment held under capital leases was approximately \$842,000 and \$808,000 at December 31, 2007 and 2006, respectively. Of the related amortization expense, approximately \$63,000 and \$64,000 was capitalized into breeding cattle and cattle inventory in 2007 and 2006, respectively. Rent expense related to operating leases was approximately \$420,000 and \$460,000 for the years ended December 31, 2007 and 2006, respectively.

(8) Benefit Plans

(a) Postretirement Benefits

As discussed in note 1(p), the Organization provides retired employees with certain postretirement benefits, primarily related to healthcare coverage. The unfunded benefit obligation at December 31, 2007 and 2006 was computed based on management's current estimates of benefits to be paid, discounted at 6.00% and 5.75%, respectively, and assuming healthcare costs increase 7.50% in 2008, 6.50% in 2009, 5.50% in 2010, 5.00% in 2011, and 5.00% in 2012 and thereafter.

As discussed in note 1(p), effective December 31, 2007, the Organization adopted the recognition and disclosure provisions of Statement 158. Statement 158 requires companies to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability on its balance sheet.

The Organization uses a December 31 measurement date.

PARKER RANCH FOUNDATION TRUST AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2007 and 2006

The accrued liability for postretirement benefits at December 31, 2007 and 2006 is as follows:

	2007	2006
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 4,397,591	4,005,239
Interest cost	236,184	218,746
Benefits paid	(237,846)	(234,684)
Actuarial loss (gain)	(162,193)	408,290
Benefit obligation at end of year	\$ 4,233,736	4,397,591

Postretirement benefit expense for the years ended December 31, 2007 and 2006 is as follows:

	2007	2006
Interest cost	\$ 236,184	218,746
Amortization of actuarial loss (gain)	(162,193)	408,290
Postretirement benefits expense	\$ 73,991	627,036

At December 31, 2007, future estimated benefit payments during the next 10 years are as follows:

Year ending December 31:	
2008	\$ 261,000
2009	261,000
2010	290,000
2011	292,000
2012	301,000
2013 – 2017	1,595,000
	\$ 3,000,000

(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, 2007 was computed based on management's current estimates of undiscounted benefits to be paid, and assuming healthcare costs increase 7.5% in 2008, 6.5% in 2009, 5.5% in 2010, 5.0% in 2011 and 5.0% in 2012 and thereafter, with such costs shared equally between PRI and participants in the Program. During 2007 and 2006, PRI reduced its obligation by approximately \$61,000 and \$257,000, respectively, based on the results of an actuarial analysis. Additionally, PRI paid benefits of approximately \$98,000 and \$120,000, respectively, during the years ended December 31, 2007 and 2006.

(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 \$141,000 and \$100,000 during the years ended December 31, 2007 and 2006, respectively.

(9) 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, which ended in 2007. During 2007 and 2006, PRI paid approximately \$123,000 and \$58,000, respectively, related to the control of this infestation. The reserve for land remediation amounted to \$100,000 at December 31, 2006.

(10) 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 87% and 89% of cattle sales and 34% and 24% of total PRFT revenues in 2007 and 2006, respectively. As cattle is a commodity product, management believes alternative customers could be identified as necessary.

PARKER RANCH FOUNDATION TRUST AND SUBSIDIARIES

Notes to Consolidated Financial Statements
December 31, 2007 and 2006

(11) 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.

(12) 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:

	<u>2007</u>	<u>2006</u>
Supporting services:		
Real estate sales	\$ 11,127,519	18,313,816
Cattle sales	12,754,514	10,081,559
Rental/property management income	2,307,739	2,357,660
Visitor and retail sales	2,264,851	2,302,429
Real estate commissions	1,376,615	1,759,275
Other supporting services	3,845,597	3,760,358
	<u>\$ 33,676,835</u>	<u>38,575,097</u>

(13) Commitments

As of December 31, 2007, the Organization had outstanding contract commitments totaling approximately \$10,957,000, comprised of design, engineering and construction costs for a road and commitments for construction for the Kaomalo joint venture.

As of December 31, 2007, the Organization had capital contribution commitments for one of its limited partnership investments of approximately \$1,320,000.



Trustees and Board of Directors

PARKER RANCH FOUNDATION TRUST TRUSTEES

Warren H. Haruki
Trustee Chair

Timothy E. Johns Michael W. Gibson David H. McCoy

Brendan G. Moynahan

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Board Of Directors

David H McCoy
Chairman of the Board

Michael W. Gibson Warren H. Haruki Robert L. Hind III

Timothy E. Johns Chris J. Kanazawa Harold S. Masumoto

Randolph G. Moore Brendan G. "Pete" Moynahan Herbert "Monty" Richards, Jr.

Arthur C. Tokin

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Waimea Wastewater Company, Inc.

Chris J. Kanazawa
President/Treasurer

Michael W. Gibson Chris J. Kanazawa
Director Director

Parker Ranch Realty Inc.

Chris J. Kanazawa
President/Treasurer

David H. McCoy Chris J. Kanazawa
Director Director



Organizational Chart

