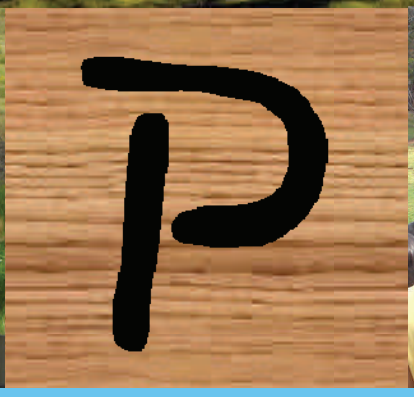
Parker Ranch®

est. 1847

2012 Annual Report



PROUDLY SUPPORTING *Our Beneficiaries*

NORTH HAWAII COMMUNITY HOSPITAL

HPA Hawai'i Preparatory Academy

Parker School Trust Corporation

Hawai'i Community Foundation

MISSION STATEMENT

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

GUIDING PRINCIPLES

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

MESSAGE FROM THE TRUSTEES

October 2013

Aloha,

The year 2012 saw the completion of a comprehensive land asset restructuring designed to optimize long-term Trust asset values and to enhance distributions to beneficiaries in perpetuity, as well as to streamline and simplify the Trust's structure for managing its assets. The new structure will enhance operational efficiency and maximize opportunity to create long-term value and sustainability. The restructuring project became feasible in 2012 due to favorable market and tax conditions. The restructuring had no effect on distributions to beneficiaries and $2 million was distributed for the fourth consecutive year.

Other initiatives advancing in 2012 were designed to enhance the long term sustainability of the Trust and the Ranch and improve the quality of life in Waimea by exploring the potential uses of our natural energy resources and reducing our reliance on imported fossil fuels. Another response to high energy costs has been for Parker Ranch Inc. to explore the merits of pursuing the grass-fed beef cattle market to help achieve local food sustainability and reduce exposure to transportation costs and commodity inputs to livestock production.

Along with these important forward looking energy and livestock sustainability initiatives driven by Parker Ranch's management and staff, the Trust's investment portfolio continued to perform well and created meaningful value in 2012 to support the Trust's beneficiaries: North Hawaii Community Hospital, Hawaii Preparatory Academy, Parker School Trust Corporation and Hawaii Community Foundation. The Trustees thank the beneficiary organizations for their continuing support of the Waimea Community.

Michael W. Gibson, Chair | Timothy E. Johns | B. G. Moynahan

BENEFICIARY PROFILES

North Hawaii Community Hospital (NHCH) is a rural 33-bed acute care hospital located in Kamuela, on the Big Island of Hawaii. NHCH is a private, non-profit; community owned and locally governed hospital serving more than 30,000 residents and visitors in North Hawaii.

NHCH opened in May 1996 after decades of dreaming and nearly ten years of planning. Offering a full spectrum of acute and outpatient services, NHCH delivers high-quality care on a consistent basis. NHCH combines high tech capability with a commitment to honoring blended-care practices and procedures centered on patient needs, creating a healing experience for the whole person – mind, body and spirit. In 2012, NHCH opened an Adult and Family Medicine Clinic and Kaheleaulani, a clinic aimed at providing improved healthcare for our Native Hawaiian community. North Hawaii Community Hospital is a grateful recipient of support from the Parker Ranch Foundation.

Founded in 1949, Hawai‘i Preparatory Academy (HPA) is one of the premier independent, co-educational college-preparatory boarding and day schools in the Pacific Region attracting students from around the world. The school, recently recognized as one of the first-ever U.S. Department of Education Green Ribbon Schools, offers a full range of academic and extracurricular opportunities for 600 students in grades K-12 on two campuses in the heart of world-famous Parker Ranch on the island of Hawai‘i.

Students pursue their passion for learning about the arts, sciences, literature, history, the culture of Hawai‘i, and the world beyond. Our unique island location allows our science department to offer students opportunities outside of the classroom, where 80 percent of the world’s ecosystems can be found. Students work alongside scientists from the Mauna Loa Observatory, where global warming was first discovered; they have access to 13 of the world’s foremost astronomical observatories on the summit of Mauna Kea; they assist in sea turtle conservation through the school’s Collaborative Sea Turtle Research Program, which celebrated its 25th anniversary in 2012; and they can choose from an extensive schedule of Honors and 18 AP classes, as well as a wide variety of sustainability course offerings.

The Energy Lab, located on the 220-acre Upper Campus, serves as the hub for the school’s sustainability program and is the nucleus of an international student network. The Energy Lab is the world’s greenest K-12 school building, as described by the International Living Building Institute, which awarded the Energy Lab its Living Building Challenge certification in April 2011. The Energy Lab also is the first building in Hawai‘i to achieve LEED Platinum certification under the LEED for Schools 2.0 rating system.

The school’s partnerships with Cornell University and Stanford University allow our students to work with visiting professors and college students on various projects. HPA students benefit from

these partnerships and from the strategic advantage of applying to U.S. universities from Hawai‘i. In the last five years, HPA students were admitted to all the Ivy League schools and the following top-tier universities: Stanford

University, MIT, Amherst, Boston College, Boston University, UC Berkeley, University of Chicago, Duke University, New York University, University of Southern California, and Wellesley. HPA is accredited by the Western Association of Schools and Colleges and is a member of the Hawaii Association of Independent Schools.

With 97 years of community service, the Hawai‘i Community Foundation (HCF) is the leading philanthropic institution in the state. HCF is a steward of more than 650 funds, including more than 180 scholarship funds, created by donors who desire to transform lives and improve communities. In 2012, more than $45 million in grants and contracts were distributed statewide. HCF also serves as a resource on community issues and trends in the nonprofit sector. The Richard Smart Fund is a component of the Hawai‘i 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 programs that benefit the Waimea community including post-secondary education scholarships for first generation students, the Ho’ohui ‘O Waimea grant making program to support community engagement, organizational capacity building grants and support for Waimea organizations participating in the HELP leadership development programs.

Parker School Trust Corporation

Parker School is an independent, coeducational, college-preparatory day school with over 260 students in grades K through 12. In a dynamic small-school setting, Parker provides: a rigorous academic curriculum taught by exceptional, accessible educators; enriching extracurricular activities; meaningful community service opportunities; and strong athletics.

From its inception, the school has been dedicated to serving a diverse student body from communities throughout North and West Hawai‘i and is known for its nurturing, family-like atmosphere. Some examples of Parker School successes include: the debate team winning the 2013 Debate State Championships; producing a U.S. Presidential Scholar; producing six out of ten National Merit Scholars from the Big Island in a three year period; the mixed crew paddling team winning the 2013 BIIF (Big Island Interscholastic Federation) championships; and our students raising five tons of food for local food banks.

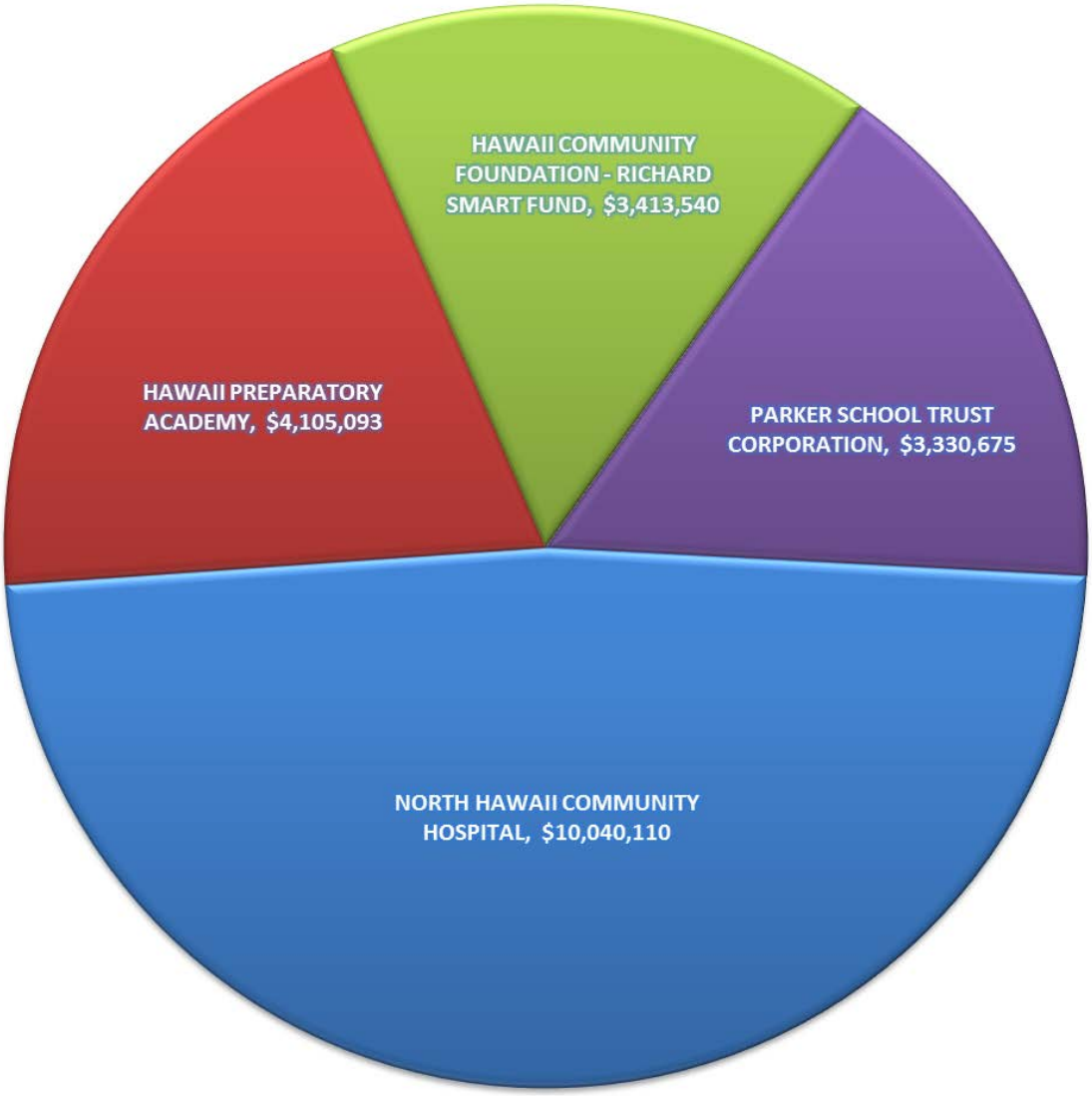
Parker School is fully accredited by the Western Association of Schools and Colleges and the Hawai‘i Association of Independent Schools. Between 92-95% of Parker School graduates go on to attend college, and each year more students are accepted to Ivy League and other top universities and colleges such as Stanford, Harvard, Yale, MIT, Brown, Wellesley and Tufts.

BENEFICIARY DISTRIBUTIONS

Effective January 1, 2010 the Parker Ranch Foundation Trust with the concurrence of the Distribution Committee, adopted an Investment and Distribution Policy with a nominal annual Distribution Goal of $2 million over the next ten years. The first $2 million under the Investment and Distribution Policy was distributed in 2010 as a result of ongoing efforts to prudently recapitalize assets and debt.

Cumulative distributions through December 31, 2012 total $20,889,418: $10,040,110 to North Hawaii Community Hospital; $3,413,540 to the Richard Smart Fund of the Hawaii Community Foundation; $4,105,093 to Hawaii Preparatory Academy; and $3,330,675 to Parker School Trust Corporation.

Total Distributions through December 31, 2012: $20,889,418



PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

KPMG LLP
PO Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report

The Board of Directors
Parker Ranch Foundation Trust:

We have audited the accompanying consolidated financial statements of Parker Ranch Foundation Trust and its subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 its subsidiaries as of December 31, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Honolulu, HI
May 3, 2013

PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES

Consolidated Statements of Financial Position

December 31, 2012 and 2011

Assets		**2012**	**2011**
Cash and cash equivalents	$	3,459,394	5,255,475
Accounts and interest receivable, net of allowance of $17,000 and $21,000 in 2012 and 2011, respectively		2,336,278	753,510
Note receivable		37,931,587	37,931,587
Related-party notes receivable		1,805,111	2,067,834
Marketable securities		43,502,119	40,900,454
Other investments		7,454,881	7,690,047
Cattle inventory		7,013,410	6,961,547
Investment in joint venture		1,983,973	2,137,000
Property and equipment, net		160,654,045	219,623,013
Other		1,886,819	1,512,817
Total assets	$	268,027,617	324,833,284
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	2,229,129	1,656,528
Feed accounts payable		235,190	933,340
Accrued distributions		2,000,000	2,000,000
Deferred gain on sale of land and land improvements		15,047,080	15,047,080
Debt		18,604,168	19,808,458
Capital lease obligations		40,337	76,742
Other		1,180,031	947,386
Total liabilities		39,335,935	40,469,534
Net assets – unrestricted		228,691,682	284,363,750
Commitments and contingencies			
Total liabilities and net assets	$	268,027,617	324,833,284

See accompanying notes to consolidated financial statements.

PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES

Consolidated Statements of Activities

Years ended December 31, 2012 and 2011

		2012	2011
Revenues:			
Cattle sales	$	7,867,615	13,367,303
Net realized and unrealized gain (loss) on investments		4,606,455	(2,730,357)
Dividends and interest		3,976,903	4,031,031
Rental income		971,187	874,522
Timber and aggregate sales		274,403	233,791
Other		878,904	948,856
Total revenues		18,575,467	16,725,146
Costs and expenses:			
Cost of cattle sales		6,804,191	12,841,985
Operating costs		3,500,306	2,825,738
General and administrative		3,362,697	2,035,613
Interest		964,622	1,175,109
Depreciation and amortization		416,850	347,044
Total costs and expenses		15,048,666	19,225,489
Excess (deficiency) of revenues over costs and expenses		3,526,801	(2,500,343)
Income (loss) on investment in joint venture		143,922	(1,168,124)
Distributions to beneficiaries		(2,000,000)	(2,000,000)
Impairment loss on land and land improvements		(57,482,224)	—
Gain on sales of land and land improvements		139,433	663,299
Change in net assets		(55,672,068)	(5,005,168)
Net assets at beginning of year		284,363,750	289,368,918
Net assets at end of year	$	228,691,682	284,363,750

See accompanying notes to consolidated financial statements.

PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2012 and 2011

		2012	2011
Cash flows from operating activities:			
Change in net assets	$	(55,672,068)	(5,005,168)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Net realized and unrealized loss (gain) on investments		(4,606,455)	2,730,357
Loss (income) on investment in joint venture		(143,922)	1,168,124
Loss (gain) on disposal of property and equipment		89,392	(4,222)
Bad debt expense		(4,000)	—
Gain on sales of land and land improvements		(139,433)	(663,299)
Impairment loss on land and land improvements		57,482,224	—
Depreciation and amortization		416,850	347,044
Changes in assets and liabilities:			
Accounts and interest receivable		(1,578,768)	123,222
Cattle inventory		388,288	3,021,842
Other assets		(425,420)	44,644
Accounts payable and accrued expenses		572,601	97,806
Feed accounts payable		(698,150)	(507,425)
Other		232,645	(7,936)
Net cash provided by (used in) operating activities		(4,086,216)	1,344,989
Cash flows from investing activities:			
Capital expenditures		(311,119)	(994,779)
Distribution from joint venture		296,949	—
Purchases of marketable securities		(14,370,658)	(25,258,779)
Proceeds on sale of marketable securities		16,375,448	25,812,350
Purchases of other investments		(357,447)	(1,110,680)
Proceeds on sale of other investments		592,613	583,714
Net payments on related-party notes receivable		262,723	279,599
Payments on notes receivable		—	1,658,248
Proceeds from sale of property and equipment		1,042,321	839,099
Net cash provided by investing activities		3,530,830	1,808,772
Cash flows from financing activities:			
Proceeds from debt		785,000	900,020
Payments on debt		(1,989,290)	(2,904,541)
Payments on capital lease obligations		(36,405)	(34,647)
Net cash used in financing activities		(1,240,695)	(2,039,168)
Net increase (decrease) in cash and cash equivalents		(1,796,081)	1,114,593
Cash and cash equivalents, beginning of year		5,255,475	4,140,882
Cash and cash equivalents, end of year	$	3,459,394	5,255,475
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of amounts capitalized	$	875,849	1,046,469
Supplemental disclosure of noncash information:			
Net transfer of costs from cattle inventory to breeding livestock	$	419,019	637,621

See accompanying notes to consolidated financial statements.

PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(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 their wholly owned subsidiaries (collectively, the Organization). Parker Ranch, Inc. (PRI) is a subsidiary of the Trust.

The Trust is a not-for-profit entity that has been recognized by the Internal Revenue Service as exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and exempt under Hawaii Revised Statutes on income related to the exempt purpose. The Trust is a supporting organization known as a Type I under Treasury Regulations. The Trust's primary objective is to support certain healthcare, educational, and charitable organizations in Kamuela, 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) are 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 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 unanimous vote of the committee members. The Committee comprises three members appointed by the Trustees and four 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

(Continued)

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.

In 2010, the Trustees adopted an Investment and Distribution Policy Statement, effective January 1, 2010, with an annual nominal Distribution Goal of $2 million that is subject to approval each year by the Trustees in connection with (1) the recommendations of the Distribution Committee, (2) considerations of then-relevant circumstances, and (3) achieved recapitalization of assets and debt in Trust-related entities as necessary to reasonably preserve the overall purchasing power of Trust assets over the long term.

As of December 31, 2012 and 2011, cumulative authorized distributions to Beneficiaries were approximately $22,890,000 and $20,890,000, respectively.

PRI, a Hawaii corporation, was incorporated on February 8, 1995 to own and operate the Organization's cattle ranching and real property management and development, and holds the beneficial interest of the Parker Land Trust. PRI's wholly owned subsidiaries include Waimea Wastewater Company, Inc. (WWC), Parker Ranch Realty, Inc. (PRR), Parker Ranch Livestock LLC (PRL), PRI GP LLC (PRI GP), PRI LP LLC (PRI LP), and Hawaii Meat Company LLC (HMC). WWC operates the assets of a wastewater collection and treatment system. PRR ceased operations and all assets were sold on December 1, 2009. PRI GP and PRI LP are the general and limited partners in PRI Cattle LP, a partnership formed and capitalized in 2005 to hold and operate PRI's off-ranch cattle operations. PRL was formed to hold ownership interests in CF Trucking, LLC, Champion Feeders Cattle Co., LLC, St. Isidore Farms, 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.

Livestock Operations – PRI'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 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 harvest. PRI Cattle LP has entered into various contracts with Wilson Cattle Co., which purchases a 50% undivided interest in PRI's cattle at the time they move off of pasture to the Beef Northwest Feedyard. 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 feed yards, 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 the Organization's assets used in these operations are real estate holdings, which may in the future be developed for residential or commercial uses or marketed to diversify the asset portfolio of the Trust.

(Continued)

(b) Financial Statement Presentation

The consolidated financial statements are presented in accordance with the Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*, as required by U.S. generally accepted accounting principles (GAAP). ASC Topic 958 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 ASC Topic 958, as they are generally available to be utilized for the purposes of the Will, as determined by the Trustees. The initial contribution of assets and liabilities to the Trust was recorded at fair value at November 12, 1992.

(c) Principles of Consolidation

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

(d) Management Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the 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 reporting period. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, valuation allowances for receivables, valuation of investment in joint venture, inventories, deferred income tax assets, obligations related to employee benefits and marketable securities. Actual results could differ from those estimates. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(e) Cash and Cash Equivalents

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

(f) Investments

Marketable securities are stated at fair value. Gains and losses on marketable 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.

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

Investments are considered to be impaired when a decline in fair value as compared to book value is judged to be other than temporary. The Organization evaluates investments for other-than-temporary impairment on an annual 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

(Continued)

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) Accounts and Interest 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 an annual review of all outstanding amounts. Interest receivable represents interest due on a note receivable related to a sale of land and land improvements.

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.

(h) Cattle Inventory

Cattle inventory is stated at the lower of cost (specific-identification method) or market. Costs of raised cattle are comprised of the proportionate costs of breeding, including depreciation of the breeding herd, plus the costs of maintenance through the consolidated statements of financial position date. Purchased cattle are carried at purchase cost plus costs of maintenance through the consolidated statements of financial position date.

(i) 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 the straight-line method over the following estimated useful lives:

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

(j) Real Estate Accounting

Profit on sales of land and land improvements is recognized when title has passed, minimum down payment criterion 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

(Continued)

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.

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

(k) Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Organization first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary.

(l) Other Assets

Other assets include other investments, water credits, prepaid expenses, and deposits.

(m) Financial Instruments

The carrying amounts of the Organization's financial instruments (cash and cash equivalents, accounts receivable, related-party notes receivable, feed accounts payable, accrued distributions, and accounts payable and accrued expenses) as of December 31, 2012 and 2011 approximate fair values because of the short maturity of these instruments. The fair value of marketable securities was $43,502,119 and $40,900,454 at December 31, 2012 and 2011, respectively. The fair value of other investments is based on information provided by the fund managers. At December 31, 2012 and 2011, fair value of other investments was $9,143,137 and $8,747,077, respectively.

As of December 31, 2012 and 2011, the carrying value of note receivable of $37,931,587 approximates fair value as the interest rate approximates those currently charged for receivables of similar terms with comparable risks.

As of December 31, 2012 and 2011, the carrying amounts of debt of $18,604,168 and $19,808,458, 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 amount of capital lease obligations of $40,337 and $76,742 as of December 31, 2012 and 2011, respectively, approximates fair value as the interest rates are commensurate with interest rates offered by local institutions for leases of similar terms.

(Continued)

(n) Income Taxes

Activities of the Trust are generally exempt from income taxes. Operations conducted by RST and PRI are taxable. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. PRI recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. PRI records interest related to unrecognized tax benefits in interest expense and penalties in selling, general, and administrative expenses.

(o) Feed Accounts Payable

Feed accounts payable consist of $235,190 and $933,340 as of December 31, 2012 and 2011, respectively, of feed yard costs for the Organization's cattle at third-party feed yards. The feed accounts payable will be satisfied with the proceeds from the sale of the cattle. Interest is accrued on outstanding balances at rates ranging from 4% to 5%.

(p) Benefit Plans

Postretirement Plan

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

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

Postemployment Plan

PRI has a postemployment benefit plan which covers a closed group of former employees under a voluntary separation program. The plan offers various benefits, including medical and dental insurance benefits for qualified terminated employees, their spouse, and dependents. Medical and dental benefits cease at age 65. PRI records annual amounts relating to its postemployment benefit plan based on calculations that incorporate actuarial and other assumptions, including healthcare cost

(Continued)

trends. PRI reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is appropriate to do so. PRI believes that the assumptions utilized in recording its obligation under the postemployment benefit plan are reasonable based on experience and market conditions.

(q) Interest Capitalization

Interest is capitalized to major projects during the construction period.

(r) Fair Value Measurements

The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Organization determines fair values based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* The new standard does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it is already required or permitted under IFRS or U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. The ASU also requires additional disclosures for nonpublic entities to provide quantitative information about significant unobservable inputs used for all Level 3 measurements and a description of the valuation process used. The provisions of the ASU are effective for annual or interim reporting periods beginning after December 15, 2011. The Organization adopted the provisions of the ASU in 2012. The adoption of ASU 2011-04 did not have a material effect on the Organization's consolidated financial statements.

(2) Note Receivable

In August 2010, PRI sold approximately 3,500 acres of land and land improvements in Kohala, Hawaii for $50 million to an unrelated third party. In conjunction with the sale, PRI received $5 million in cash and a promissory note from the buyer for $45 million. PRI recorded the sale under the installment method and recorded a gain on sale of land and land improvements of $0 and $663,299 in 2012 and 2011, respectively.

(Continued)

As of December 31, 2012 and 2011, the deferred gain amounts to $15,047,080. As of December 31, 2012, PRI had recognized $4,827,365 of gain on the sale and related accrued interest.

The note provides for interest at 6.75% per annum and is secured by the subject land and land improvements, the fair value of which exceeds the outstanding balance on the note receivable at December 31, 2012. Payment of outstanding principal and interest is due in full on June 30, 2013.

There is no allowance for uncollectible amounts on the note receivable as of December 31, 2012. Included in accounts receivable is accrued interest receivable on the note of $2,046,565 and $213,365 as of December 31, 2012 and 2011, respectively.

(3) Related-Party Notes Receivable

The following is a summary of notes receivable from related parties at December 31, 2012 and 2011:

		2012	2011
Principal due on note from NHCH, bearing interest at the margin loan rate plus 300 basis points (5.5% at December 31, 2012), due December 1, 2015	$	1,615,000	1,836,000
Principal due on interest-only subordinated notes from Champion Feeders, bearing interest of LIBOR + 3.25%, (3.4635% at December 31, 2012), due May 2016		125,947	159,098
Principal due on retiree notes on land sales, bearing interest of 7.375%, secured by real property, due at various dates through June 2019		64,164	72,736
	$	1,805,111	2,067,834

(4) Investments

A summary of marketable securities and marketable securities held for collateral at December 31, 2012 and 2011 is as follows:

		2012	2011
Corporate equity securities	$	23,625,094	20,306,590
Public equity securities		5,304,861	7,581,473
Corporate debt securities		7,872,938	8,146,127
U.S. government agency obligations		3,106,133	1,857,527
Mutual funds		3,593,093	3,008,737
Total	$	43,502,119	40,900,454

The Organization has pledged marketable securities with a market value of $22,961,508 at December 31, 2012 as security for a loan that the Organization has with a bank (note 7).

(Continued)

The Organization's other investments consist of funds invested in hedge funds, United States and foreign securities, and limited partnerships. Other investments amounted to $7,454,881 and $7,690,047 at December 31, 2012 and 2011, respectively, and are reported at cost.

Investment management fees for the years ended December 31, 2012 and 2011 amounted to approximately $350,000 and $486,000, respectively.

(5) Investment in Joint Venture

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

At December 31, 2012 and 2011, Kaomalo's total assets amounted to approximately $5,153,702 and $5,860,366, respectively, which is substantially comprised of real estate inventory. Total liabilities as of December 31, 2012 and 2011 were $2,020,395 and $2,742,012, respectively.

PRI's investment in Kaomalo included in the accompanying consolidated statements of financial position amounted to $1,983,973 and $2,137,000 at December 31, 2012 and 2011, respectively, and its share of the operating income (loss) from the joint venture, net of amortization of basis differences, was $143,922 and $(206,600), respectively. In 2011, the Organization also recorded an impairment loss on its investment in Kaomalo of $961,524.

The investment in Kaomaolo was measured at fair value at December 31, 2011 due to future expected losses on real estate sales. This fair value was measured on a nonrecurring basis using a discounted future net cash flow based on significant unobservable inputs (Level 3).

(6) Property and Equipment, Net

Ranch land and related assets at December 31, 2012 and 2011 consist of the following:

	2012	2011
Land, land improvements, and land held for sale	$ 147,691,832	205,881,568
Buildings and leasehold improvements	20,900,212	20,403,490
Machinery, fixtures, and equipment	6,060,122	5,920,626
Breeding livestock	4,835,798	5,242,699
Water rights	2,670,000	2,670,000
Construction in progress	400,137	688,372
	182,558,101	240,806,755
Accumulated depreciation and amortization	(21,904,056)	(21,183,742)
	$ 160,654,045	219,623,013

In 2012 and 2011, depreciation and amortization charges, net of amounts capitalized to cattle inventory of approximately $859,000 and $912,000, were $417,000 and $347,000, respectively.

(Continued)

In 2012 and 2011, interest capitalized to construction in progress was approximately $7,000 and $16,000, respectively.

In 2012, PRI recorded an impairment charge of $57,482,224 to adjust the carrying value of the certain land and land improvements to fair value. Fair value was determined using a third-party independent appraisal. The fair values were measured on a nonrecurring basis using discounted net cash flows and market data based on significant unobservable inputs (Level 3).

(7) Debt

Debt at December 31, 2012 and 2011 consists of the following:

	2012	2011
Promissory note with First Hawaiian Bank (FHB), interest at one-month LIBOR plus 1.25% (1.459% at December 31, 2012) per annum, monthly principal and interest payments, secured by certain investments of PRFT, final payment due October 2017	$ 4,765,825	—
Borrowings under Revolving Credit agreement with FHB, interest at one-month LIBOR plus 1.25% (1.459% at December 31, 2012) per annum, monthly interest-only payments, secured by certain investments of PRFT, due October 2014	10,000,000	—
Borrowings under a Cattle-Financing Arrangement with Great Plains Ag Credit, interest at one-month LIBOR plus an applicable margin (3.52% and 2.96% at December 31, 2012 and 2011, respectively) per annum, secured by cattle, monthly interest only payments, due August 2013	1,003,343	1,097,130
Margin loan with Goldman Sachs, interest payable monthly at federal funds rate, plus 1.75% (1.4597% and 2.5% at December 31, 2012 and 2011, respectively)	2,835,000	2,050,000
5.25% promissory note with FHB, refinanced in 2012	—	16,661,328
Total debt	$ 18,604,168	19,808,458

In October 2009, and amended in August 2010, PRI entered into a financing arrangement with Great Plains Ag Credit, which allowed PRI to borrow up to $4,800,000, subject to a borrowing base. In 2012, the cattle-financing arrangement was amended to allow PRI to borrow up to $2,500,000, subject to a borrowing base. The borrowing base is calculated based on cattle pledged as collateral. The cattle-financing arrangement expires in August 2013.

In 2012, the Company entered into a revolving credit facility with FHB that permits the Company to borrow $10,000,000 through October 2014, at a floating rate option which allows the Company to select the rate upon which interest on the unpaid principal balance is based and can be converted from time to time from among (1) FHB's prime rate, (2) one-month LIBOR plus 1.25%, (3) two-month LIBOR plus a

(Continued)

LIBOR margin or (4) three-month LIBOR plus a LIBOR margin. As of December 31, 2012 the Company had $10,000,000 outstanding on the revolving credit facility.

In 2012, the Company entered into a promissory note with FHB for $4,941,992 at a floating rate option which allows the Company to select the rate upon which interest on the unpaid principal balance is based and can be converted from time to time from among (1) FHB's prime rate, (2) one-month LIBOR plus 1.25%, (3) two-month LIBOR plus a LIBOR margin or (4) three-month LIBOR plus a LIBOR margin. As of December 31, 2012, the outstanding balance was $4,765,825 with interest at one-month LIBOR plus 1.25%. Principal and interest payments are due monthly in the amount equal to an amortization period of 7 years with a total principal and interest outstanding due in October 2017.

The various debt agreements contain tangible net worth requirements of PRI and the Company and other nonfinancial covenants.

The annual principal payments on debt at December 31, 2012 are as follows:

Years ending December 31:		
2013	$	4,544,339
2014		10,705,995
2015		705,996
2016		705,996
Thereafter		1,941,842
	$	18,604,168

In 2013, PRI borrowed an additional $1,495,677 under the financing arrangement with Great Plains Ag Credit, for a total outstanding principal balance of $2,499,020 at May 3, 2013.

(8) Income Taxes

Income tax expense for the years ended December 31, 2012 and 2011 consisted of the following:

		Current	Deferred	Total
2012:				
Federal	$	347,121	—	347,121
State		800	—	800
	$	347,921	—	347,921
2011:				
Federal	$	1,947	—	1,947
State		17,188	—	17,188
	$	19,135	—	19,135

(Continued)

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, 2012 and 2011:

	2012	2011
Deferred tax assets:		
Differences in book and tax carrying values of property and equipment, primarily resulting from write-downs of land	$ 8,432,000	26,062,000
Net operating loss carryforwards	13,694,000	19,888,000
Postemployment and postretirement benefits	425,000	333,000
Other	148,000	562,000
Total gross deferred tax assets	22,699,000	46,845,000
Less valuation allowance	(22,699,000)	(46,845,000)
Deferred income taxes, net	$ —	—

The valuation allowance for deferred tax assets as of December 31, 2012 and 2011 was $22,699,000 and $46,845,000, respectively. The net change in total valuation allowance as of December 31, 2012 and 2011 was a decrease of $24,146,000 and $103,000, respectively. In assessing the reliability 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 on the level of historical taxable income and projections for future taxable income over the periods in which 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 $36.5 million of net operating loss carryforwards available to offset future taxable income. These carryforwards expire in various years through 2030. PRI also has approximately $141,000 of alternative minimum tax credits for use in future years. For years before 2009, the Company is no longer subject to U.S. federal or state income tax examinations.

During 2012, PRI recorded an accrual of $342,000 for an uncertain tax position related to 2012. This amount is classified as a current liability and no amounts have been recorded for potential interest or penalties. No unrecognized tax benefits existed in the prior year.

(Continued)

(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 for the years ending December 31, excluding percentage rents and cost reimbursements, are as follows:

Year ending December 31:		
2013	$	643,986
2014		548,325
2015		273,854
2016		91,042
2017		74,139
Thereafter		1,106,275
	$	2,737,621

(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 expire in 2015.

At December 31, 2012, approximate future minimum lease payments are as follows:

		Capital		Operating
Year ending December 31:				
2013	$	38,600		127,500
2014		2,400		71,000
2015		1,000		48,900
2016		—		8,000
2017		—		8,000
Thereafter		—		31,500
Future minimum lease payments		42,000	$	294,900
Amounts representing interest at 7.37%		(1,663)		
Present value of minimum lease payments	$	40,337		

Equipment held under capital leases was approximately $1,394,000 and $1,597,000 less accumulated amortization of approximately $866,300 and $935,000 at December 31, 2012 and 2011, respectively. Of the related amortization expense, approximately $62,600 and $63,000 was capitalized into breeding cattle and cattle inventory in 2012 and 2011, respectively. Rent expense related to operating leases, including rent capitalized into cattle inventory, was approximately $159,400 and $189,000 for the years ended December 31, 2012 and 2011, respectively.

(Continued)

(10) Benefit Plans

(a) Postretirement Benefits

The Company provides retired employees with certain postretirement benefits, primarily related to healthcare coverage. The unfunded benefit obligation at December 31, 2012 and 2011 was computed based on management's current estimates of benefits to be paid, discounted at 4.03% and 4.7%, respectively. Healthcare cost increase assumptions for 2012 were 6.5% in 2013, 6% in 2014, 5.5% in 2015, 5% in 2016, 4.5% in 2017, and 4.5% thereafter.

The accrued liability for postretirement benefits at December 31, 2012 and 2011 is as follows:

		2012	2011
Change in benefit obligation:			
Benefit obligation at beginning of year	$	657,006	626,905
Interest cost		28,355	31,561
Benefits paid		(44,502)	(42,918)
Actuarial loss		118,205	18,593
Medicare Part D Subsidy		24,632	22,865
Benefit obligation at end of year	$	783,696	657,006

Postretirement benefit expense for the years ended December 31, 2012 and 2011 is included in operating costs in the accompanying consolidated statements of activities as follows:

		2012	2011
Interest cost	$	28,355	31,561
Amortization of actuarial loss		118,205	18,593
Postretirement benefit	$	146,560	50,154

At December 31, 2012, future estimated benefit payments for the next 10 years are as follows:

Year ending December 31:		
2013	$	49,235
2014		51,959
2015		52,750
2016		53,419
2017		51,654
2018 – 2022		235,436
	$	494,453

(Continued)

(b) Postemployment Benefits

The Company previously offered a voluntary separation program (the Program) to eligible employees as part of the Company'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. The unfunded benefit obligation at December 31, 2012 and 2011 was computed based on management's current estimates of undiscounted benefits to be paid and assuming healthcare cost increases of 7.5% in 2013, 7% in 2014, 6.5% in 2015, 6% in 2016, 5.5% in 2017, 5% in 2018, and 4.5% thereafter, with such costs shared equally between the Company and participants in the Program.

The accrued liability for the Program benefits at December 31, 2012 and 2011 is as follows:

		2012	2011
Program obligation at beginning of year	$	290,380	328,417
Benefits paid		(59,000)	(58,000)
Actuarial adjustment		17,848	19,963
Program obligation at end of year	$	249,228	290,380

(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 annual contributions of up to 6% of eligible employee compensation. Eligible employees may make contributions not to exceed amounts allowable under the Internal Revenue Code. PRI made contributions of approximately $112,000 and $90,000 during the years ended December 31, 2012 and 2011, respectively.

(Continued)

(11) Fair Value Measurements

The following tables present assets that are measured or disclosed at fair value on a recurring basis by level at December 31, 2012 and 2011:

		Fair value measurements at reporting date using		
	December 31, 2012	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets:				
Public equity securities	$ 5,304,861	5,304,861	—	—
Corporate equity securities	23,625,094	23,625,094	—	—
Corporate debt securities	7,872,938	7,872,938	—	—
Mutual funds	3,593,093	3,593,093	—	—
U.S. government agency obligations	3,106,133	—	3,106,133	—
Total	$ 43,502,119	40,395,986	3,106,133	—

		Fair value measurements at reporting date using		
	December 31, 2011	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets:				
Public equity securities	$ 7,581,473	7,581,473	—	—
Corporate equity securities	20,306,590	20,306,590	—	—
Corporate debt securities	8,146,127	8,146,127	—	—
Mutual funds	3,008,737	3,008,737	—	—
U.S. government agency obligations	1,857,527	—	1,857,527	—
Total	$ 40,900,454	39,042,927	1,857,527	—

(Continued)

The investment in Kaomalo was measured at fair value at December 31, 2011 due to future expected losses on real estate sales. This fair value was measured on a nonrecurring basis using a discounted future net cash flow based on significant unobservable inputs (Level 3).

(12) Customer Concentration

To obtain premium pricing on cattle, PRI markets its cattle through a limited number of customers. Sales to four customers represented approximately 85% and 94% of total cattle sales and 53% and 70% of total revenues in 2012 and 2011, respectively. As cattle are a commodity product, management believes alternative customers could be identified as necessary.

(13) Contingencies

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

(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:

		2012	2011
Supporting services:			
Cattle sales	$	7,177,102	13,164,250
Rental/property management income		1,419,340	1,255,200
Other supporting services		6,452,224	4,806,039
	$	15,048,666	19,225,489

(15) Commitments

The Organization is committed to contribute additional capital of approximately $1,773,000 at December 31, 2012, to other investments consisting of hedge funds, funds invested in real estate, U.S. and foreign securities, and limited partnerships.

(16) Subsequent Events

The Organization has evaluated subsequent events from the consolidated statement of financial position date through May 3, 2013, the date at which the consolidated financial statements were available to be issued, and determined that there are no other items to disclose.

ORGANIZATIONAL INFORMATION

PARKER RANCH FOUNDATION TRUST

TRUSTEES

Michael W. Gibson
(Chairman of Trustees)

B. G. Moynahan

Timothy E. Johns

PARKER RANCH, INC.

2013 BOARD OF DIRECTORS

B. G Moynahan
(Chairman of the Board)

Timothy E. Johns

Michael W. Gibson

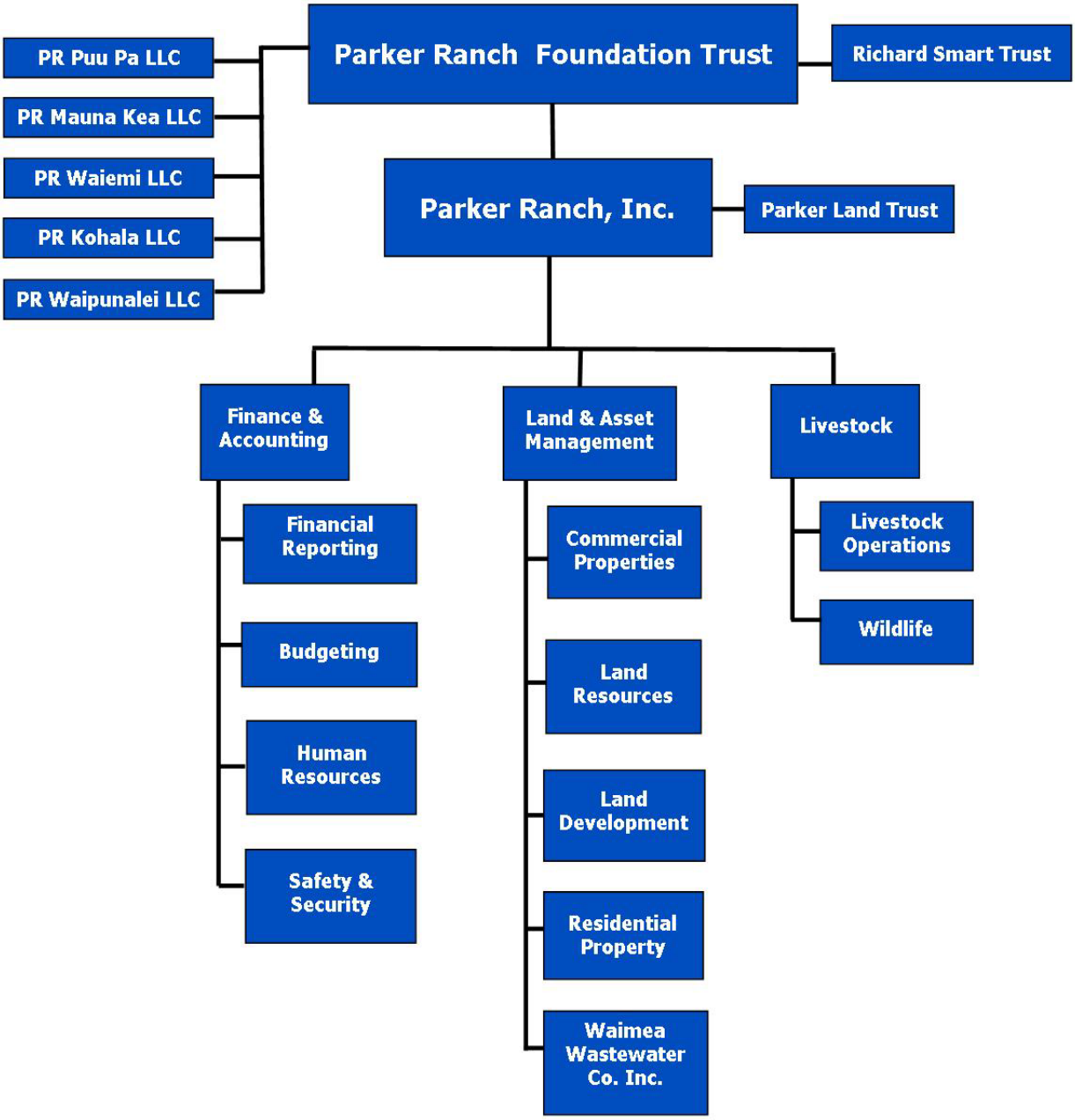
James S. Greenwell

Robert L. Hind III

E. Kyle Datta

Neil “Dutch” Kuyper

ORGANIZATIONAL CHART



Parker Ranch®
est. 1847
66-1304 Mamalahoa Highway
Kamuela, Hawaii 96743
808.885.7311 * www.parkerranch.com