



2015 Annual Report

Parker  Ranch[®]
est. 1847

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

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

Message from the Trustees

November 2016

Aloha,

The Parker Ranch Foundation Trust distributed \$2,234,146 in 2015 to its beneficiaries. Since the Distribution Policy took effect in 2010, total distributions to North Hawaii Community Hospital, Parker School, Hawaii Preparatory Academy and the Waimea Community through the Hawaii Community Foundation have exceeded \$12 million.

In 2015, Parker Ranch was in the early stages of refining the master plan concept around a new town center in Waimea. The plan is to preserve and improve Waimea's unique quality of life and its lifestyle choice for current and future residents with thoughtful planning and investment in infrastructure. Waimea is an ideal location for a world class case study in sustainability

Energy resources are being identified and evaluated to benefit the Beneficiaries of the trust, the residents of Waimea as well as The Big Island and the State of Hawaii. In 2015, the Trust and its affiliates identified projects to attract energy partners, and potential partners in biomass and forestry, and looked at how to unlock value in water as a component of renewable energy. The overall goal is to lower energy rates for Parker Ranch and the community in a transformational and sustainable manner while reducing our reliance on fossil fuels.

Paniolo Cattle Company, LLC, is a joint venture with Parker Ranch, Inc., and Ulupono Holdings, which is producing grass-fed cattle that is being sold in Hawaii markets. The benefit of shifting to the grass-fed local market is to lower exposure to volatile energy and feed prices while providing greater local economic benefits.

Finally, in 2015, the Trust made meaningful progress in updating licenses and leases with 3rd party tenants which will increase revenues and provide improved business predictability.

In summary, the Trust's mission statement is at the heart of everything the Trust and its subsidiaries and joint venture partnerships do which is to maintain and improve a unique quality of life in the Waimea area by providing perpetual support for North Hawaii Community Hospital, Parker School, Hawaii Preparatory Academy, and the Waimea Community who are engaged in healthcare, education, and charitable support through sound management and prudent investment of trust assets.

Mahalo



Michael W. Gibson, Chair



Timothy E. Johns



B. G. Moynahan

Beneficiary Profiles



NORTH HAWAII COMMUNITY HOSPITAL

North Hawaii Community Hospital is a 35 bed, full-service, acute-care hospital located in the heart of Kamuela on Hawaii Island. As the only non-profit hospital on the island, North Hawaii Community Hospital serves more than 30,000 residents in North Hawaii, as well as visitors to the island.

North Hawaii Community Hospital opened in 1996 with the mission to improve the health of the people of North Hawaii by improving access to care, and with the vision to be the most healing hospital in the world.

In January 2014, North Hawaii Community Hospital became part of The Queen's Health Systems, a not-for-profit corporation whose hospital was established in 1859 to bring health care to the people of Hawaii and the Pacific Basin. The Queen's Health Systems mission is to fulfill the intent of Queen Emma and King Kamehameha IV to provide in perpetuity quality health care services to improve the wellbeing of Native Hawaiians and all of the people of Hawaii. North Hawaii Community Hospital offers a spectrum of high quality services, including emergency and Level III trauma services, surgical services, rehabilitation, critical care, cancer center services, family birthing center, gastroenterology, orthopedic services, laboratory services, women's health, diabetes counseling, home health care, imaging, cardiopulmonary, dialysis, holistic services and more.

North Hawaii Community Hospital has received the prestigious international recognition as a Baby-Friendly birth facility by Baby-Friendly USA, Inc., a global program sponsored by the World Health Organization and the United Nations Children's Fund. North Hawaii Community Hospital's unique physical environment includes amply sized single patient rooms with natural lighting, garden views and lanai doors, skylights and windows in common areas, landscaped gardens, courtyards with water features, and interior design with warm colors and art. There are many factors that make North Hawaii Community Hospital unique.

Our focus is on the patient, the family, and the culture of healing the whole person. Through our philosophy of patient-centered care, North Hawaii Community Hospital delivers excellent quality health care service within a total healing environment.



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 more than 600 students in grades K-12 on two campuses in the heart of world-famous Parker Ranch on the island of Hawai'i.

Beneficiary Profiles

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 is celebrating its 30th anniversary in 2016-2017; and they can choose from an extensive schedule of Honors and 19 AP classes, as well as a wide variety of sustainability course offerings and independent research projects.

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 top universities. 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.



HAWAI'I COMMUNITY FOUNDATION *Amplify the Power of Giving*

With 100 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 750 funds, including more than 200 scholarship funds, created by donors who desire to transform lives and improve communities. In 2015, \$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, FLEX unrestricted operating support grants for nonprofit organizations, STEM Learning grants, and Connecting for Success support for Waimea Middle School.

Beneficiary Profiles



Parker School is an independent, coeducational, college-preparatory day school in Waimea on the Big Island of Hawai'i, currently serving 339 students in kindergarten through twelfth grade. Parker provides: a rigorous academic curriculum taught by exceptional, accessible educators; enriching extracurricular activities; meaningful community service opportunities; an impressive fine arts program; and strong athletics.

Parker School's mission: At Parker School, every student is known, valued and nurtured. Our small-school setting and dynamic program foster confident, compassionate individuals who are thoroughly prepared for college, who enthusiastically engage in life and who positively contribute to an ever-changing global community.

Established in 1976 to serve children of North Hawai'i's diverse community, many of whom were, and still are, from ranching families, the school has long roots in the paniolo (cowboy) culture of the Big Island. This rich heritage is reflected in Parker School's logo inspired by the 'awe'awe braid of the Hawaiian saddle and Hawai'i's canoe heritage. Each child is encouraged to weave his or her own braid, strengthened by the school's values of excellence, integrity and compassion. After 40 years, Parker School continues to support community families and is proud of this commitment and unique heritage.

Recent Parker School successes include: 17 students recognized by the National Merit Scholarship Program in the last five years (including five finalists); two U.S. Presidential Scholars in the last five years (including one semi-finalists and two candidates); a 2016 Advanced Placement exam pass rate of 100% (state average is 52%); 95% of Parker graduates attended a four-year college in the last five years; Parker athletics earned first place in HMSA's Kama'aina Award the last two years and students have raised over four and a half tons of food for local food banks around Thanksgiving each of the last five years.

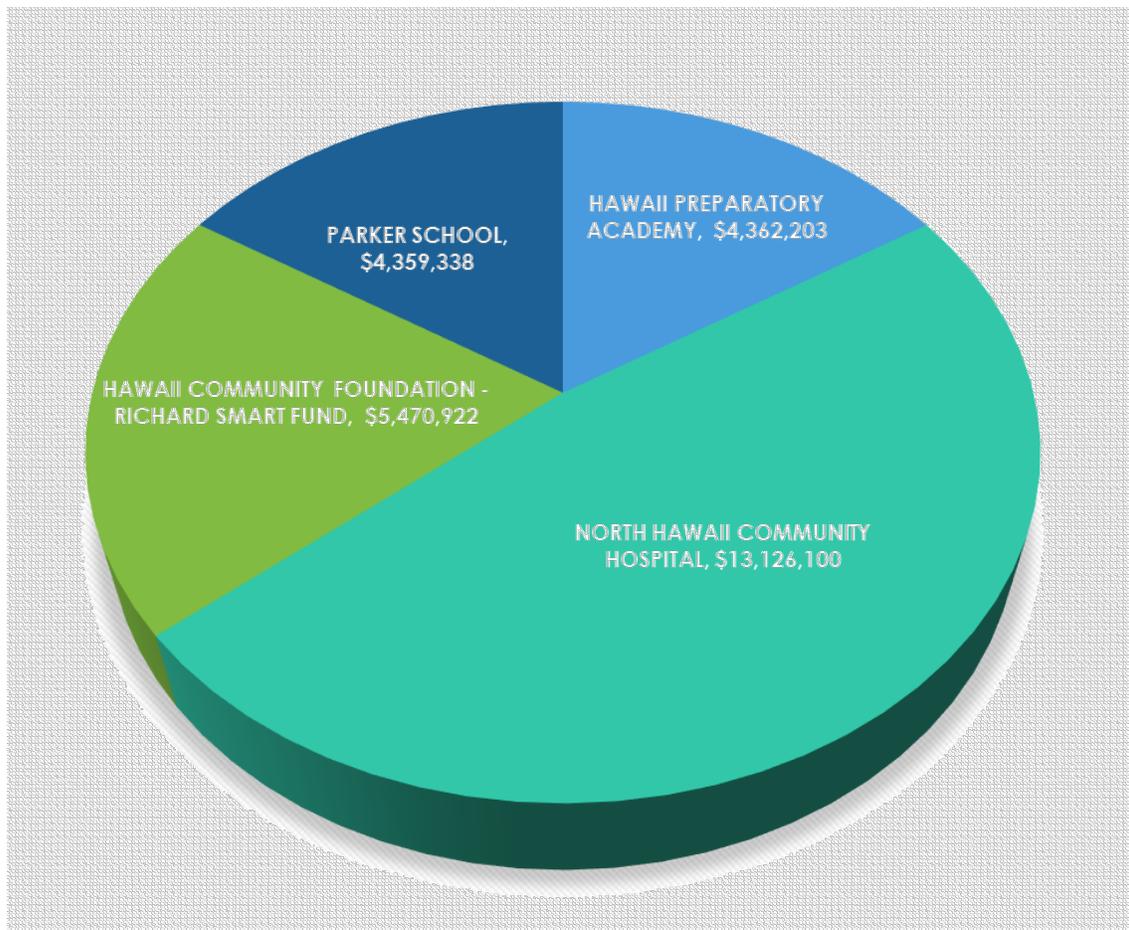
Parker School is fully accredited by the Western Association of Schools and Colleges and the Hawai'i Association of Independent Schools. Parker graduates go on to attend a wide range of four-year colleges or universities across the United States and abroad. Each year students are accepted into Ivy League and other top schools such as: Stanford; University of California, Berkeley; Yale; Brown; Wesleyan; Bennington College; Pomona; Cornell; Duke; and Tufts.

Beneficiary Profiles

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 cash distributions paid to Beneficiaries through December 31, 2015 total \$27,318,564: \$13,126,100 to North Hawaii Community Hospital; \$5,470,922 to the Richard Smart Fund of the Hawaii Community Foundation; \$4,362,203 to Hawaii Preparatory Academy; and \$4,359,338 to Parker School Trust Corporation.

Total Distributions through December 31, 2015: \$27,318,564



Parker Ranch Foundation Trust

PARKER RANCH FOUNDATION TRUST Trustees

Michael W. Gibson
(Chairman of Trustees)

B. G. Moynahan

Timothy E. Johns

PARKER RANCH, INC. 2015 Board of Directors

B. G. Moynahan
(Chairman of the Board)

Timothy E. Johns

Michael W. Gibson

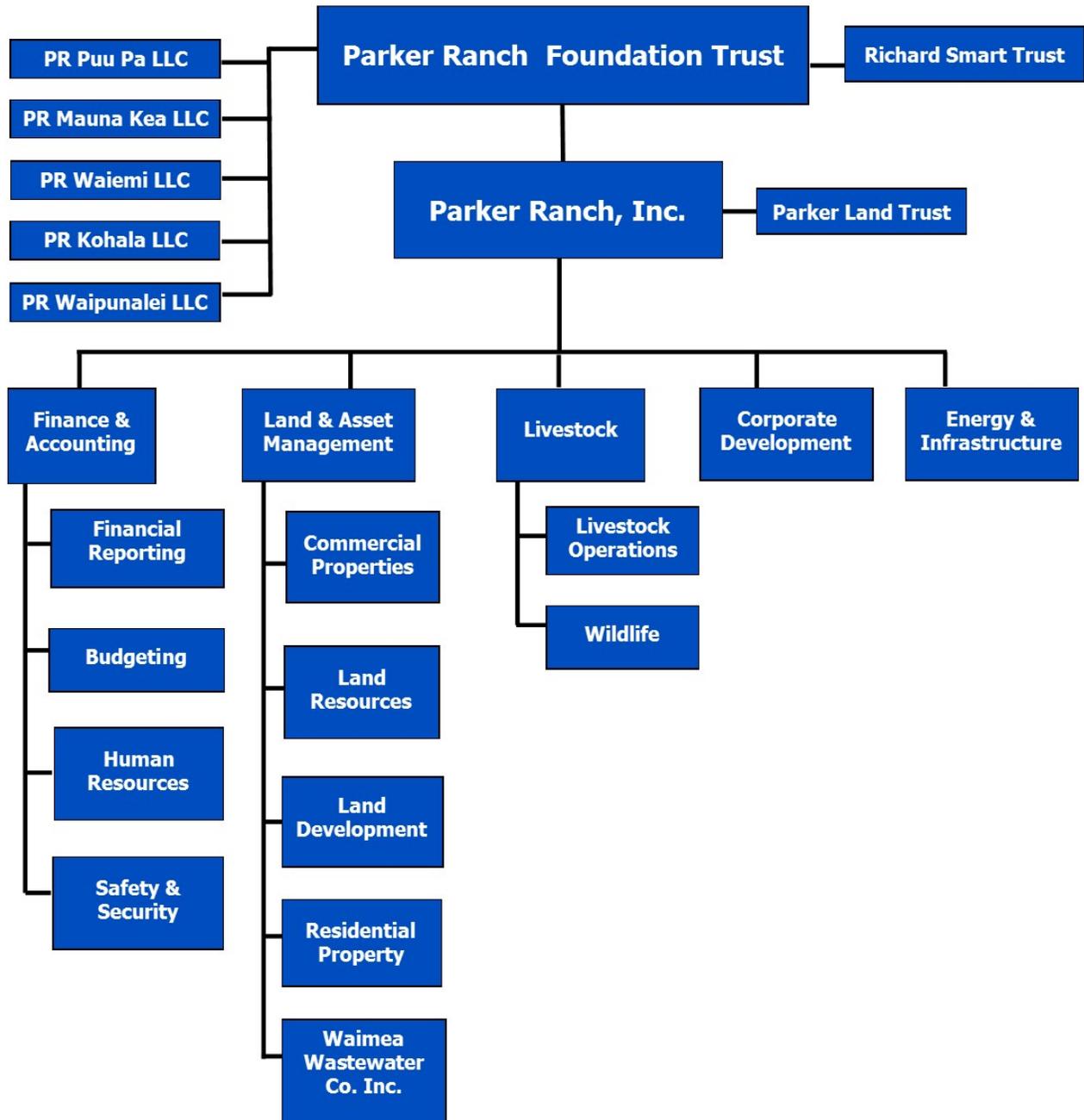
James S. Greenwell

Robert L. Hind III

E. Kyle Datta

Neil "Dutch" Kuyper

Organizational Chart





**PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2100
1003 Bishop Street
Honolulu, HI 96813-6400

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, 2015 and 2014, 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, 2015 and 2014, 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, Hawaii
May 31, 2016

**PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES**

Consolidated Statements of Financial Position

December 31, 2015 and 2014

Assets	2015	2014
Cash and cash equivalents	\$ 2,930,264	4,075,177
Accounts and interest receivable, net of allowance of \$2,576,992 and \$2,359,362 in 2015 and 2014, respectively	1,130,765	656,793
Due from related party	55,628	248,514
Note receivable	37,931,587	37,931,587
Related-party notes receivable	200,006	245,370
Marketable securities	43,675,151	47,479,150
Other investments	7,536,612	6,601,423
Cattle inventory	6,282,555	5,436,294
Investments in joint ventures	1,050,742	2,027,677
Property and equipment, net	159,936,674	159,139,589
Other	836,128	849,831
Total assets	\$ 261,566,112	264,691,405
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 1,797,476	2,280,886
Due to related party	73,379	79,053
Feed accounts payable	194,447	276,621
Accrued distributions	2,262,522	2,234,146
Deferred gain on sale of land and land improvements	15,047,080	15,047,080
Debt	21,285,190	21,285,462
Capital lease obligations	176,469	125,398
Other	1,250,399	965,695
Total liabilities	42,086,962	42,294,341
Net assets – unrestricted	219,479,150	222,397,064
Commitments and contingencies		
Total liabilities and net assets	\$ 261,566,112	264,691,405

See accompanying notes to consolidated financial statements.

**PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES**

Consolidated Statements of Activities

Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Revenues:		
Cattle sales	\$ 5,923,519	9,432,361
Net realized and unrealized (loss) gain on investments	(1,597,069)	794,507
Dividends and interest	1,267,999	1,250,395
Rental income	1,372,177	960,334
Timber and aggregate sales	867,898	317,376
Other	2,295,488	1,650,073
	<u>10,130,012</u>	<u>14,405,046</u>
Costs and expenses:		
Cost of cattle sales	3,797,876	8,094,463
Operating costs	2,515,296	3,344,938
General and administrative	3,642,952	3,448,407
Interest	382,706	395,291
Depreciation and amortization	408,068	446,033
	<u>10,746,898</u>	<u>15,729,132</u>
Excess (deficiency) of revenues over costs and expenses	(616,886)	(1,324,086)
Income on investment in joint venture	23,065	262,231
Distributions to beneficiaries	(2,262,522)	(2,234,146)
Loss on disposal of assets	(61,571)	(7,148)
Loss on sales of land and land improvements	—	(6,289)
	<u>(2,917,914)</u>	<u>(3,309,438)</u>
Change in net assets		
Net assets at beginning of year	<u>222,397,064</u>	<u>225,706,502</u>
Net assets at end of period	<u>\$ 219,479,150</u>	<u>222,397,064</u>

See accompanying notes to consolidated financial statements.

**PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES**

Consolidated Statements of Cash Flows
Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ (2,917,914)	(3,309,438)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net realized and unrealized gain on investments	1,597,069	(794,507)
Income on investments in joint ventures	(23,065)	(262,231)
Gain on disposal of property and equipment	(182,424)	(192,030)
Bad debt expense	217,630	287,997
Loss on sales of land and land improvements	—	6,289
Depreciation and amortization	408,068	446,033
Changes in assets and liabilities:		
Accounts and interest receivable	(691,602)	(524,892)
Due from related party	192,886	(248,514)
Cattle inventory	(1,272,106)	2,055,384
Other assets	(219,319)	(32,325)
Accounts payable and accrued expenses	(483,410)	227,050
Due to related party	(5,674)	79,053
Feed accounts payable	(82,174)	(321,705)
Accrued distributions	28,376	39,146
Other liabilities	284,704	(155,012)
Net cash used in operating activities	(3,148,955)	(2,699,702)
Cash flows from investing activities:		
Capital expenditures	(961,091)	(424,345)
Investment in joint venture	—	(500,000)
Distributions from joint ventures	1,000,000	1,000,000
Purchases of marketable securities	(11,540,588)	(34,685,180)
Proceeds on sale of marketable securities	13,747,518	36,167,409
Purchases of other investments	(1,770,644)	(404,419)
Proceeds on sale of other investments	835,455	800,744
Payments on related-party notes receivable	45,364	1,487,567
Proceeds from sale of other assets	197,648	12,100
Proceeds from sale of property and equipment	485,870	1,510,218
Net cash provided by investing activities	2,039,532	4,964,094
Cash flows from financing activities:		
Proceeds from debt	—	2,064,448
Payments on debt	(272)	(2,506,499)
Payments on capital lease obligations	(35,218)	(16,866)
Net cash used in financing activities	(35,490)	(458,917)
Net (decrease) increase in cash and cash equivalents	(1,144,913)	1,805,475
Cash and cash equivalents, beginning of year	4,075,177	2,269,702
Cash and cash equivalents, end of period	\$ 2,930,264	4,075,177
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 357,464	55,666
Cash paid (received) for income taxes	(399,599)	42,123
Supplemental disclosures of noncash information:		
Net transfer of costs from cattle inventory to breeding livestock	\$ 1,402,145	1,052,147
Net transfer of costs from other assets to breeding livestock	54,865	45,007
Depreciation capitalized to cattle inventory	976,300	927,988
Inception of capital leases	86,289	103,506

See accompanying notes to consolidated financial statements.

**PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(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 (PS)

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 an 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
PS	16
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	100%
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To the extent net income is unavailable for distribution, the Trustees, in consultation with the Committee, may distribute to any beneficiary up to 5% of that portion of the principal of the Trust normally allocable to that beneficiary under the proportions indicated above. Such a distribution results in a reduction of the portion of the Trust principal allocable to that beneficiary. Whenever the Trustees

**PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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, 2015 and 2014, cumulative authorized distributions to Beneficiaries were approximately \$29,581,000 and \$27,319,000, 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), Paniolo Power Company LLC (PPC), 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. PPC was formed in 2014 to pursue renewable energy research and initiatives. PRI GP and PRI LP are the general and limited partners in PRI Cattle LP (PRI Cattle), which was 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. The Company's interest in Champion Feeders was sold on November 29, 2013. 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, the majority of 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 PRI cattle is sold as "fed" cattle at harvest. PRI Cattle has entered into a contract with Wilson Cattle Co., which purchases a 50% undivided interest in PRI's cattle at the time they are transferred to the continental United States. PRI recognizes revenue at the time cattle are received by Wilson Cattle Co. PRI has also entered into a contract with Paniolo Cattle Co LLC (PCC) to supply cattle for PCC's Hawaii operations (see notes 4 and 8). PRI Cattle operations are subject to the inherent risks involved in agribusiness and the climatic conditions. 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.

**PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(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) *Use of Estimates*

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 investments in joint ventures, recoverability of deferred income tax assets, obligations related to employee benefits and fair value of marketable securities. Actual results could differ from those estimates.

(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 the lower of cost or fair value.

Other 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 other 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 other investments. In the event that the cost of an investment exceeds its fair value, the Organization evaluates, among other factors, the

**PARKER RANCH FOUNDATION TRUST
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Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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. Management recorded a reserve of the outstanding interest due on the note receivable due to uncertainty of ultimate collection of the amount due. See note 2, Note Receivable.

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

**PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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.

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, 2015 and 2014 approximate fair value because of the short maturity of these instruments. The fair value of marketable securities was \$43,675,151 and \$47,479,150 at December 31, 2015 and 2014, respectively. The fair value of other investments is based on information provided by the fund managers. At December 31, 2015 and 2014, the fair value of other investments was \$11,633,390 and \$10,495,963, respectively.

As of December 31, 2015 and 2014, the carrying value of the note receivable of \$37,931,587 approximates fair value as the interest rate approximates those currently charged for receivables of similar terms with comparable risk.

As of December 31, 2015 and 2014, the carrying amounts of debt of \$21,285,190 and \$21,285,462, 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 \$176,469 and \$125,398 as of December 31, 2015 and 2014, respectively, approximates fair value as the interest rates are commensurate with interest rates offered by local institutions for leases of similar terms.

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(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. The Organization 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. The Organization records interest related to unrecognized tax benefits in general and administrative expenses.

(o) *Feed Accounts Payable*

Feed accounts payable consist 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 certain 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.

(q) *Interest Capitalization*

Interest is capitalized to major projects during the construction period.

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(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.

(2) Note Receivable

In August 2010, the Organization 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, the Organization received \$5 million in cash and a promissory note from the buyer for \$45 million. The note provided for interest at 7.0% per annum and is secured by the subject land and land improvements in Kohala that were sold. The Organization recorded the sale under the installment method and records gain on sale of land and land improvements as principal payments are received. No gains were recorded since 2011. As of December 31, 2015 and 2014, the deferred gain was \$15,047,080.

In June 2013, the note matured and the borrower failed to make the final payment per terms of the original promissory note. The Organization and the borrower subsequently entered into additional discussions regarding the restructuring and extension of the note in an effort to avoid foreclosure proceedings.

On June 1, 2014, the Organization restructured and extended the note receivable with borrower. Per terms of the restricted and extended note, the interest rate was increased from 7.0% to 8.5% effective June 1, 2014, and the final maturity date was extended to July 31, 2016. No amounts of principal or interest due to the Organization under the terms of the original note were forgiven or reduced under the terms of the new restructured note.

In January 2016, the Company and borrower agreed to an additional restructuring of the note receivable. Per terms of the new agreement, the final maturity date of the note was extended to December 31, 2016, with an option to extend for one additional year to December 31, 2017, if the borrower pays \$5,000,000 by the end of 2016. The interest rate was reduced to 5%, increasing to 6.5% during the option extension period of 2017. In addition, the borrower provided additional collateral consisting of other land on the Island of Hawaii to further secure the note.

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Management concluded that a write down of the note receivable balance was not required as the note receivable of \$37,931,587 as of December 31, 2015 and 2014 is secured by land collateral with a value in excess of the outstanding amount. Due to the uncertainty regarding the timing of future payments on the interest related to the note receivable, the Organization does not record the interest receivable and will recognize interest income only as interest payments are received. In 2013, the Organization also recorded a full reserve in the amount of \$2,046,565 against interest receivable previously recorded related to the note.

(3) Marketable Securities and Other Investments

A summary of marketable securities, marketable securities held for collateral and other investments at December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Corporate equity securities	\$ 25,298,680	34,279,810
Corporate debt securities	7,027,085	7,538,095
Mutual funds	5,864,310	3,300,172
Structured debt securities	2,854,997	—
U.S. government agency obligations	<u>2,630,079</u>	<u>2,361,073</u>
Total marketable securities	43,675,151	47,479,150
Other investments	<u>7,536,612</u>	<u>6,601,423</u>
Total	<u>\$ 51,211,763</u>	<u>54,080,573</u>

The Organization has pledged marketable securities with a fair value of \$23,637,737 at December 31, 2015 as security for a loan that PRI has with a bank (note 6).

The Organization's other investments consist of funds invested in hedge funds, United States and foreign securities, and limited partnerships and are reported at cost.

Investment management fees for the years ended December 31, 2015 and 2014 amounted to approximately \$286,000 and \$338,000, respectively.

(4) Investments in Joint Ventures

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, 2015 and 2014, Kaomalo's total assets amounted to approximately \$1,418,435 and \$4,006,129, respectively, which is substantially comprised of cash and real estate inventory. Total liabilities as of December 31, 2015 and 2014 were \$254,476 and \$339,992, respectively.

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PRI's investment in Kaomalo included in the accompanying consolidated statements of financial position amounted to \$586,276 and \$1,586,276 at December 31, 2015 and 2014, respectively, and its share of the operating income from the joint venture, net of amortization of basis differences and anticipated inventory reductions, was \$0 and \$320,830, respectively.

As of December 31, 2015, Kaomalo has sold all residential units and has ceased operations. In 2015, PRI received a distribution of capital of \$1,000,000. In March 2016, the Organization received an additional \$500,000 distribution.

PRI is a 25% member of Paniolo Cattle Company LLC (PCC), a joint venture formed in 2014, to expand the production of and develop markets for locally raised natural beef. The Organization accounts for its investment in PCC under the equity method. See note 8 Related Party Transactions.

PCC's total assets amounted to approximately \$2,311,546 and \$2,037,241 at December 31, 2015 and 2014, respectively, which is substantially comprised of cash and cattle inventory. Total liabilities as of December 31, 2015 and 2014 were approximately \$453,679 and \$271,636, respectively.

PRI's investment in PCC included in the accompanying consolidated statements of financial position amounted to \$464,467 and \$441,401 as of December 31, 2015 and 2014, respectively, and its share of the operating income (loss) from the joint venture was \$23,065 and (\$58,599), respectively.

(5) Property and Equipment

Land, equipment and related assets at December 31, 2015 and 2014 consist of the following:

	2015	2014
Land and land improvements	\$ 147,107,107	147,031,647
Buildings and leasehold improvements	18,680,314	21,497,361
Machinery, fixtures, and equipment	5,140,947	5,495,521
Breeding livestock	6,207,123	5,244,775
Water rights	2,670,000	2,670,000
Construction in progress	387,519	114,527
	180,193,010	182,053,831
Accumulated depreciation and amortization	(20,256,336)	(22,914,242)
	\$ 159,936,674	159,139,589

In 2015 and 2014, depreciation and amortization charges, net of amounts capitalized to cattle inventory of approximately \$976,300 and \$927,988, were \$408,068 and \$446,033, respectively.

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(6) Debt

Debt at December 31, 2015 and 2014 consists of the following:

	2015	2014
Borrowings under Revolving Credit Agreement with First Hawaiian Bank (FHB), interest at one-month LIBOR plus 1.25% (1.48% and 1.42% at December 31, 2015 and 2014, respectively) per annum, monthly interest-only payments, secured by certain investments of PRFT, due October 2017	\$ 14,885,758	14,885,758
Borrowings under a Cattle-Financing Arrangement with AG Texas, interest at one-month LIBOR plus an applicable margin (3.18% and 2.92% at December 31, 2015 and 2014, respectively) per annum, secured by cattle, monthly interest-only payments, due October 2016	3,399,432	3,399,704
Margin loan with Goldman Sachs, interest at one-month LIBOR plus 1.25% (1.68% and 1.42% at December 31, 2015 and 2014, respectively)	2,215,000	2,215,000
Fixed rate loan with Goldman Sachs, interest at 2.05%, at December 31, 2015 and 2014, due January 2018	785,000	785,000
Total debt	\$ 21,285,190	21,285,462

In October 2009, and amended in August 2010, PRI entered into a financing arrangement with AG Texas (formerly Great Plains Ag Credit), which allowed PRI to borrow up to \$4,800,000, subject to a borrowing base. In 2014, the cattle-financing arrangement was amended to allow PRI to borrow up to \$4,500,000, subject to a borrowing base. No amendments were made in 2015. The borrowing base is calculated based on cattle pledged as collateral. The cattle-financing arrangement expires in October 2016. As of December 31, 2015 and 2014, the outstanding balance was \$3,399,432 and \$3,399,704, respectively.

In March 2014, PRI entered into a revolving credit facility with FHB that allows PRI to borrow up to \$16,000,000 through October 2017. The agreement provides for interest-only payments at a floating rate option which allows PRI 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, 2015 and 2014, PRI had \$14,885,758 outstanding on the revolving credit facility.

In 2009, the Organization entered into a Margin Account Agreement with Goldman Sachs & Co (Goldman Sachs), which allowed for the extension of credit to the Organization that allows the Organization the ability to borrow money from Goldman Sachs secured by certain securities owned by the Organization and held by Goldman Sachs. In October 2012, Goldman Sachs agreed to charge a debit rate of one month LIBOR plus 125 basis points on such loans. Interest is charged daily based on the daily balance and daily one month LIBOR rate and paid monthly. Principal is payable upon demand by Goldman Sachs.

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In January 2013, the Organization entered into a supplement to the Margin Account Agreement, which allowed the Organization to borrow funds at a fixed rate of interest (2.05%) with the option to convert to a floating rate under the terms of the Margin Account Agreement. The agreement expires in January 2018, and principal is due upon demand by Goldman Sachs.

The various debt agreements contain tangible net worth requirements of PRI and the Organization and other nonfinancial covenants. The Organization is in compliance with the covenants in its debt agreements including financial ratios and other restrictions, except for certain nonfinancial covenants for which the Organization received waivers from its lenders.

The annual principal payments on debt at December 31, 2015 are as follows:

Year ending December 31:		
2016	\$	5,614,432
2017		14,885,758
2018		<u>785,000</u>
	\$	<u><u>21,285,190</u></u>

(7) Income Taxes

Income tax expense (benefit) for the years ended December 31, 2015 and 2014 consisted of the following:

	Current	Deferred	Total
2015:			
Federal	\$ (123,327)	—	(123,327)
State	<u>(692,136)</u>	<u>—</u>	<u>(692,136)</u>
	<u>\$ (815,463)</u>	<u>—</u>	<u>(815,463)</u>
2014:			
Federal	\$ 20,000	—	20,000
State	<u>(1,140)</u>	<u>—</u>	<u>(1,140)</u>
	<u>\$ 18,860</u>	<u>—</u>	<u>18,860</u>

The income tax benefit for 2015 is primarily the result of refundable income tax credits associated with the Company's important agricultural lands.

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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, 2015 and 2014:

	2015	2014
Deferred tax assets:		
Differences in book and tax carrying values of property and equipment, primarily resulting from write-downs of land in a prior year	\$ 4,460,000	8,306,000
Net operating loss carryforwards	11,344,000	11,590,000
Postemployment and postretirement benefits	462,000	339,000
Allowance for accrued interest on note receivable	4,361,000	3,108,000
Other	309,000	(10,000)
Total gross deferred tax assets	20,936,000	23,333,000
Less valuation allowance	(20,936,000)	(23,333,000)
Deferred income taxes, net	\$ —	—

The valuation allowance for deferred tax assets as of December 31, 2015 and 2014 was \$20,936,000 and \$23,333,000, respectively. The net change in total valuation allowance as of December 31, 2015 and 2014 was a decrease of \$2,397,000 and a decrease of \$12,000, respectively.

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 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 the Organization will not realize the benefits of these deductible differences.

PRI has approximately \$28.2 million of net operating loss carryforwards available to offset future taxable income. These carryforwards expire in various years through 2034. PRI also has approximately \$176,000 of alternative minimum tax credits for use in future years. For years before 2012, the Organization 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. In 2015 and 2014, an additional \$15,000 and \$10,000, respectively, was recorded for potential interest. These amounts are classified as liabilities and no amounts have been recorded for potential penalties.

(8) Related Party Transactions

(a) Due from/to Related Party

At December 31, 2015 and 2014, PCC owed PRI \$55,081 and \$248,115, respectively, for accrued but unpaid amounts owed under various contracts. Additionally, at December 31, 2015 and 2014, PRI owed PCC \$71,510 and \$78,654, respectively for cattle sales accrued but unpaid.

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(b) Related Party Notes Receivable

The Organization had certain related party notes receivable totaling \$200,006 and \$245,370 at December 31, 2015 and 2014, respectively, as follows:

The following is a summary of notes receivable from related parties at December 31, 2015 and 2014:

	2015	2014
Principal due on note receivable from PRI CEO, bearing interest at 2.81%, due at various dates through January 2023	\$ 200,000	225,000
Principal due on retiree notes related to land sales, bearing interest of 7.38%, secured by real property due at various dates through June 2019	6	20,370
	\$ 200,006	245,370

(c) Administrative Services Agreement

In February 2014, PRI entered into an administrative services agreement with PCC to provide specific administrative support and bookkeeping services to PCC for an annual fee of \$150,000 plus out-of-pocket costs, over a three year term. The amount of the annual fee may be increased if additional services are added to the agreement. The administrative fee invoiced to PCC by PRI in 2015 and 2014 amounted to \$165,000 and \$137,500, respectively.

(d) Cattle Supply Agreement

In February 2014, PRI entered into a three-year agreement to supply cattle to PCC for use in conducting its business. The agreement calls for the delivery of approximately 1,400 head of cattle during calendar year 2015 and 2014, respectively, with the price paid determined based on the sex of the animal and a base price per pound. For weaned calves, there is a sliding adjustment for the difference between the actual weight and base weight of the cattle. For heifers there is no sliding adjustment. The number of head purchased and price paid year 3 of the contract will be determined by mutual agreement of PRI and PCC. In 2015 and 2014, the Company sold 1,363 and 1,404 head to PCC under the terms of the agreement, and recognized revenue in cattle sales, totaling \$885,408 and \$798,357, respectively.

(e) Cattle Services Agreement

In February 2014, PRI entered into a three-year agreement to provide cattle feeding and finishing services to PCC. Under the agreement, PRI is paid \$0.70 per pound of gain, based on an agreed-upon production schedule and a target weight of 800 pounds. Additionally, PRI is reimbursed by PCC for certain other costs, including transportation and veterinary costs. The cattle are grazed on land owned or leased by PRI. In 2015 and 2014, PRI recorded \$564,751 and \$239,386, respectively, as other income of which \$411,541 and \$0, respectively was recorded in accounts receivable for cattle services under the agreement.

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(f) Purchase and Sale Agreement

In March 2014, PRI entered into a three-year agreement wherein it will purchase finished cattle from PCC, arrange for the processing of the finished animals by third parties, and sell the processed and packaged meat to PPC for resale. The purchase price paid by PRI is based upon the fair market value of the cattle on the date of purchase. Following the processing and packaging of the processed meat, PRI sells the product to PCC for a calculated "Processed Meat Price," which is designed to reimburse PRI for the costs incurred by it for the purchase of the cattle and the processing and packaging of the processed meat, less any amounts received by PRI for sales of the cattle purchased by third parties. The Company recognizes the purchase and resell of cattle to PCC on a net basis resulting in revenue recognition of only incremental costs incurred to process and package the meat totaling \$61,419 and \$79,627 in 2015 and 2014, respectively.

(9) Leases

(a) Lessor

The Organization leases certain lands under noncancelable 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:	
2016	\$ 289,324
2017	245,976
2018	246,442
2019	241,038
2020	202,971
Thereafter	<u>811,172</u>
	<u>\$ 2,036,923</u>

(b) Lessee

PRI leases pasture land, commercial space, and equipment under operating and capital leases expiring in various years through 2032. Commercial leases provide for the payment of percentage rents, reimbursement of certain costs, and renewal options. Capital leases expire in 2018 and 2019.

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At December 31, 2015, approximate future minimum lease payments are as follows:

	Capital	Operating
Year ending December 31:		
2016	\$ 58,745	239,051
2017	58,745	219,957
2018	61,550	44,957
2019	11,585	43,614
2020	—	43,167
Thereafter	—	174,112
Future minimum lease payments	190,625	\$ 764,858
Amounts representing interest at 4.59%	(14,156)	
Present value of minimum lease payments	\$ 176,469	

Equipment held under capital leases was approximately \$455,000 and \$369,000 less accumulated amortization of approximately \$236,000 and \$189,000 at December 31, 2015 and 2014, respectively. Of the related amortization expense, approximately \$27,000 and \$15,000 was capitalized into breeding cattle and cattle inventory in 2015 and 2014, respectively. Rent expense related to operating leases, including rent capitalized into cattle inventory, was approximately \$145,000 and \$166,000 for the years ended December 31, 2015 and 2014, respectively.

(10) Benefit Plans

(a) Postretirement Benefits

The Organization provides certain retired employees with certain postretirement benefits, primarily related to healthcare coverage. The unfunded benefit obligation at December 31, 2015 and 2014 was computed based on management's current estimates of benefits to be paid, discounted at 4.29% and 4.01%, respectively. Healthcare cost increase assumptions for 2015 were 6.5% in 2016; decreasing by 0.25% per year to 4.5% in 2024, and 4.5% per year thereafter.

The accrued liability for postretirement benefits at December 31, 2015 and 2014 is as follows:

	2015	2014
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 797,358	924,072
Interest cost	30,293	41,254
Benefits paid	(43,857)	(61,546)
Actuarial (gain) loss	328,183	(106,422)
Benefit obligation at end of year	\$ 1,111,977	797,358

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Postretirement benefit expense for the years ended December 31, 2015 and 2014 is included in operating costs in the accompanying consolidated statements of activities as follows:

	2015	2014
Interest cost	\$ 30,293	41,254
Actuarial (gain) loss	328,183	(106,422)
Postretirement benefit expense	\$ 358,476	(65,168)

At December 31, 2015, future estimated benefit payments for the next 10 years are as follows:

Years ending December 31:		
2016	\$	71,363
2017		71,920
2018		74,350
2019		69,408
2020		70,479
2021–2025		352,945
	\$	710,465

(b) 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 \$163,000 and \$141,000 during the years ended December 31, 2015 and 2014, respectively.

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(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, 2015 and 2014:

	December 31, 2015	Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Corporate equity securities	\$ 25,298,680	25,298,680	—	—
Corporate debt securities	7,027,085	7,027,085	—	—
Mutual funds	5,864,310	5,864,310	—	—
Structured debt securities	2,854,997	—	2,854,997	—
U.S. government agency obligations	2,630,079	—	2,630,079	—
Total	<u>\$ 43,675,151</u>	<u>38,190,075</u>	<u>5,485,076</u>	<u>—</u>

	December 31, 2014	Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Corporate equity securities	\$ 34,279,810	34,279,810	—	—
Corporate debt securities	7,538,095	7,538,095	—	—
Mutual funds	3,300,172	3,300,172	—	—
U.S. government agency obligations	2,361,073	—	2,361,073	—
Total	<u>\$ 47,479,150</u>	<u>45,118,077</u>	<u>2,361,073</u>	<u>—</u>

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(12) Customer Concentration

To obtain premium pricing on cattle, PRI markets its cattle through a limited number of customers. Sales to two customers represented approximately 68% and 67% of total cattle sales and 44% and 44% of total revenues in 2015 and 2014, 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 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:

	<u>2015</u>	<u>2014</u>
Supporting services:		
Cattle sales	\$ 4,808,165	8,537,534
Rental/property management income	1,919,945	1,831,490
Other supporting services	<u>4,018,788</u>	<u>5,360,108</u>
	\$ <u>10,746,898</u>	<u>15,729,132</u>

(15) Commitments

The Organization is committed to contribute additional capital of approximately \$4,135,000 at December 31, 2015, 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 31, 2016, the date at which the consolidated financial statements were available to be issued, and determined that except for the disclosures in notes 2 and 4, there are no other items to disclose.

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