Parker Ranch®

est. 1847

ANNUAL REPORT 2017

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

September 2018

Aloha,

2017 was a year of progress and transition for the Parker Ranch Foundation Trust. In fulfilling our mission, we distributed over $2,355,684 to our beneficiaries. Since the new Distribution Policy was instituted in 2010, total distributions to North Hawaii Community Hospital, Parker School, Hawaii Preparatory School, and the Richard Smart Fund of the Hawaii Community Foundation have exceeded $16.5 million.

In 2017, the Trustees continued to focus on managing all the Trust assets to maximize the current and long-term support for the beneficiaries, with a special emphasis in 2017 on the investment portfolio and its management and integration with the rest of the Trust assets.

The performance of our core cattle operations remained strong, supplemented by the steady progress of our grass-fed cattle program under the auspices of our Paniolo Cattle Company LLC.

We intensified our planning and marketing efforts this year in connection with the redevelopment of a new town center in Waimea. This community development will preserve and improve Waimea's unique quality of life and bring much needed new housing, investment in infrastructure and affiliated land uses, as well as provide a longer-term source of distributable income for our beneficiaries.

Our various property management activities stepped up this year, with very positive results. These activities will continue to produce increased revenues and improved business predictability into the future.

Our energy subsidiary Paniolo Power Company LLC continues to lead the way in developing sustainable lower cost energy to our community. A definitive agreement was reached with an internationally recognized partner to develop an innovative integrated solar, wind and pumped storage hydro energy project on Parker Ranch lands.

We made significant progress toward completing a comprehensive sustainable forest management plan for our forestry resources, and we are optimistic about the long-term prospects of this effort.

2017 also marked a significant transition for the Trust with the retirement of Trustee B.G. ("Pete") Moynahan. Pete has been serving the Waimea community, Parker Ranch, and the Trust's beneficiaries for over twenty years. Pete's 10-year tenure as a Parker Ranch Foundation Trustee was marked by strong leadership during a time of challenge and renewal for the Trust. We thank him for his selfless service.

We are fortunate to welcome Mike Fujimoto as our newest Trustee. Like Pete, Mike has a long record of distinguished service to our community. In addition to being the CEO of HPM Building Supply since 1992, Mike has served on numerous boards and committees state-wide. His strong analytical skills, business acumen and deep knowledge of Parker Ranch and our community will serve the Trust well.

Finally, we would like to acknowledge our strong management team under the steady and committed leadership of our CEO Dutch Kuyper. Dutch and his team continue to serve the Trust and its beneficiaries at the highest possible level as we strive to fulfill our mission. With their able assistance, the Trustees look forward to continued progress in 2018.

Mahalo,

Michael W. Gibson, Chair | Timothy E. Johns | Michael K. Fujimoto

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.

Beneficiary Profiles

Founded in 1949, Hawai‘i Preparatory Academy (HPA) is one of the premier independent, co-educational college-preparatory boarding and day schools in the Pacific Region attracting students from around the world. The school, 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.

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.

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

With 100 years of community service, the Hawaiʻi 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 Hawaiʻi 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.

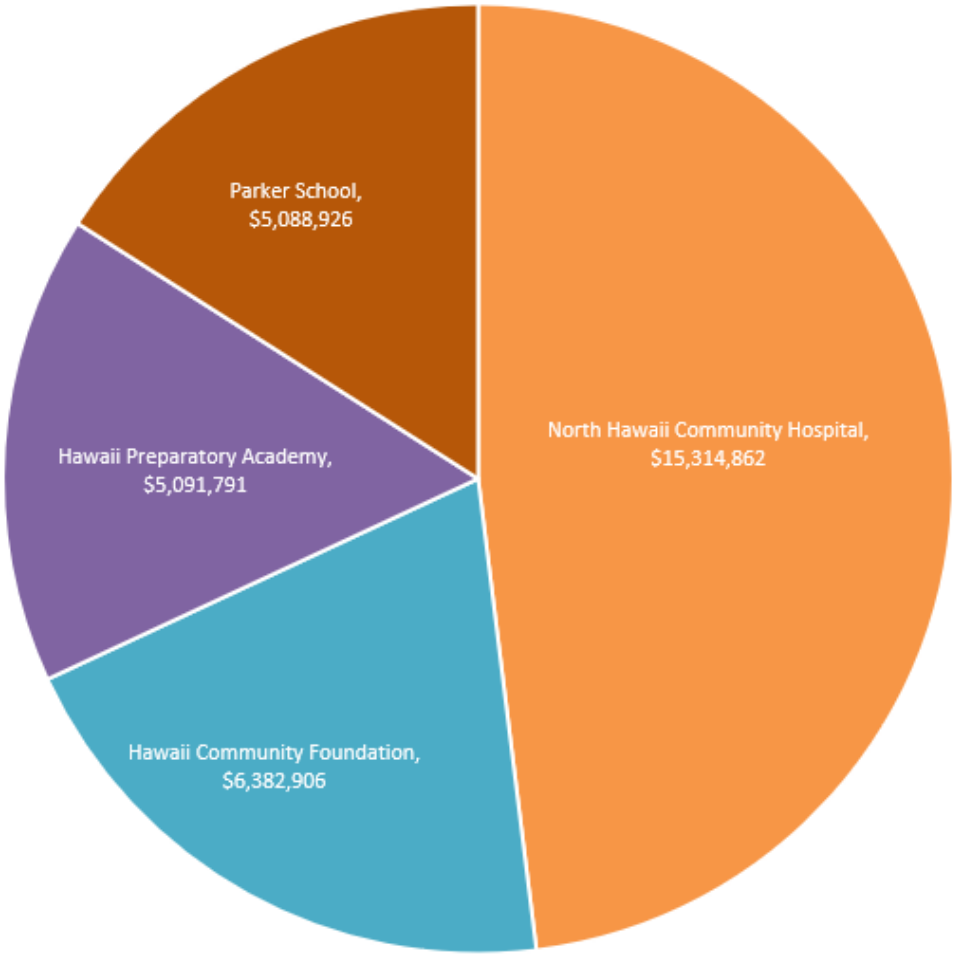
The fund currently supports several programs that benefit the Waimea community including post-secondary education scholarships for first generation students, FLEX unrestricted operating support grants for nonprofit organizations, STEM Learning grants, and Connecting for Success support for Waimea Middle School.

Beneficiary Profiles

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, 2017 total $31,878,484: $15,314,861 to North Hawaii Community Hospital; $6,382,906 to the Richard Smart Fund of the Hawaii Community Foundation; $5,091,790 to Hawaii Preparatory Academy; and $5,088,925 to Parker School Trust Corporation.

Total Distributions through December 31, 2017: $31,878,484



PARKER RANCH FOUNDATION TRUST
Trustees

Timothy E. Johns
(Chairman of Trustees)

Michael W. Gibson

Michael K. Fujimoto

PARKER RANCH, INC.
2017 Board of Directors

Michael K. Fujimoto
(Chairman of the Board)

Timothy E. Johns

Michael W. Gibson

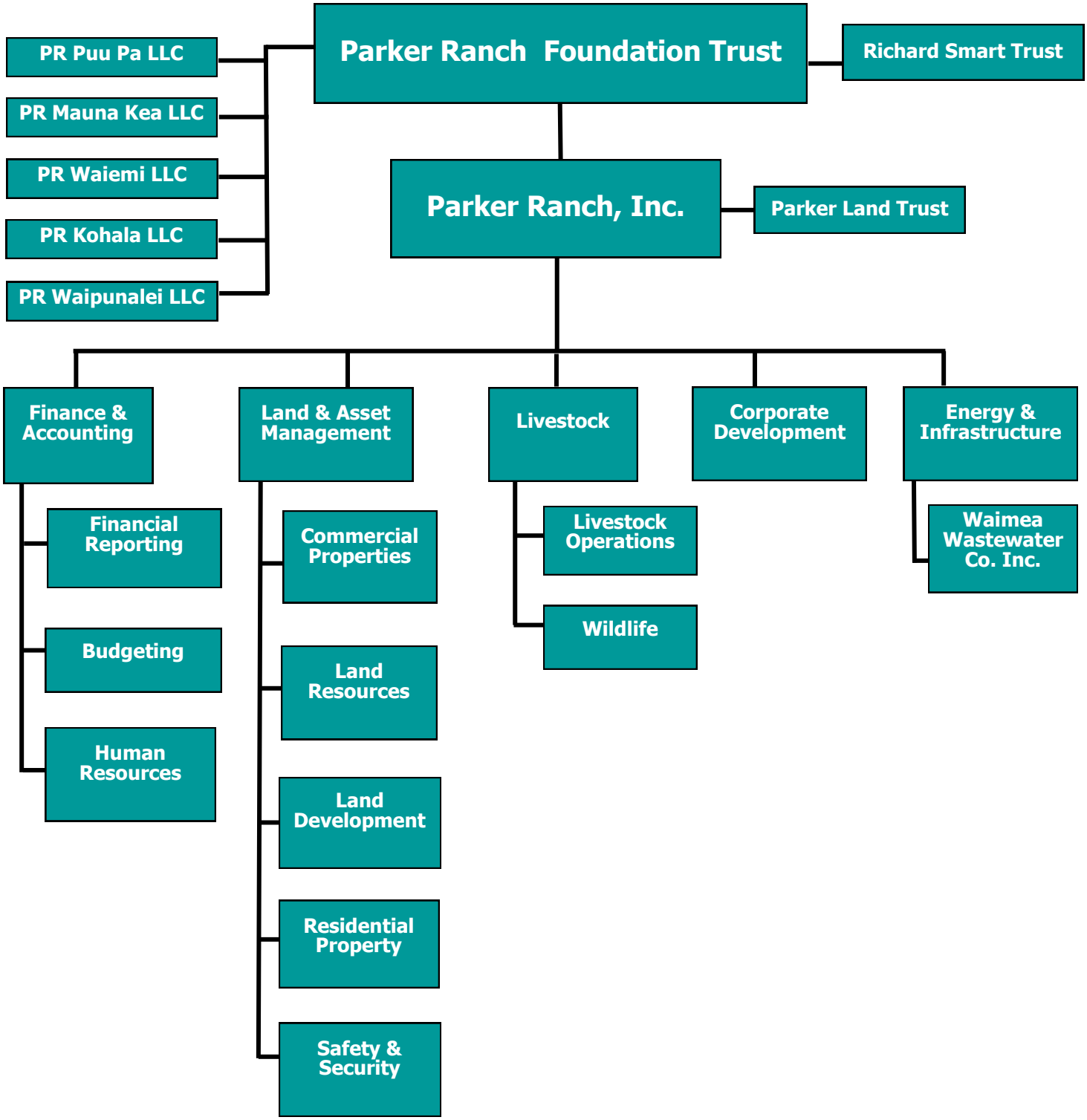
James S. Greenwell

Robert L. Hind III

Toby Taniguchi

Neil "Dutch" Kuyper

Parker Ranch Foundation Trust



PARKER RANCH FOUNDATION TRUST AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

To 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, 2017 and 2016, 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, 2017 and 2016, 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
April 27, 2018

PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES

Consolidated Statements of Financial Position

December 31, 2017 and 2016

Assets		**2017**	**2016**
Cash and cash equivalents	$	2,582,250	1,458,829
Accounts and interest receivable, net of allowance of $2,582,252 and $2,577,802 in 2017 and 2016, respectively		734,822	643,761
Due from related party		173,852	464,722
Note receivable		37,931,587	37,931,587
Related-party notes receivable		150,000	175,006
Marketable securities		48,047,312	44,733,898
Other investments		7,596,426	7,555,829
Cattle inventory		7,063,381	6,689,540
Investments in joint ventures		761,592	814,995
Assets held for sale		2,219,193	—
Property and equipment, net		157,726,071	160,032,422
Other		1,578,184	844,518
Total assets	$	266,564,670	261,345,107
Liabilities and Net Assets			
Accounts payable and accrued expenses	$	2,349,360	2,196,159
Due to related party		949	7,665
Feed accounts payable		299,557	202,653
Accrued distributions		2,355,684	2,297,398
Deferred gain on sale of land and land improvements		15,047,080	15,047,080
Debt		26,003,732	22,385,387
Capital lease obligations		229,658	227,087
Other		2,130,810	1,982,244
Total liabilities		48,416,830	44,345,673
Net assets – unrestricted		218,147,840	216,999,434
Commitments and contingencies			
Total liabilities and net assets	$	266,564,670	261,345,107

See accompanying notes to consolidated financial statements.

PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES

Consolidated Statements of Activities

Years ended December 31, 2017 and 2016

		2017	2016
Revenues:			
Cattle sales	$	7,258,083	5,486,579
Net realized and unrealized gain on investments		5,166,955	2,157,480
Dividends and interest		957,674	957,034
Rental income		1,052,851	880,942
Timber and aggregate sales		774,646	985,630
(Loss) income on investment in joint venture		(53,404)	64,253
(Loss) gain on disposal of assets		(110,536)	33,716
Other		1,800,664	1,872,856
Total revenues		16,846,933	12,438,490
Costs and expenses:			
Cost of cattle sales		5,994,789	4,644,912
Operating costs		1,801,129	3,253,797
General and administrative		4,530,241	3,868,399
Interest		599,693	436,647
Depreciation and amortization		416,991	417,053
Total costs and expenses		13,342,843	12,620,808
Excess (deficiency) of revenues over costs and expenses		3,504,090	(182,318)
Distributions to beneficiaries		(2,355,684)	(2,297,398)
Change in net assets		1,148,406	(2,479,716)
Net assets at beginning of year		216,999,434	219,479,150
Net assets at end of period	$	218,147,840	216,999,434

See accompanying notes to consolidated financial statements.

PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Change in net assets	$	1,148,406	(2,479,716)
Adjustments to reconcile change in net assets to net cash used in operating activities:			
Net realized and unrealized gain on investments		(5,166,955)	(2,157,480)
Loss (income) on investments in joint ventures		53,404	(64,252)
Gain on disposal of property and equipment		(186,703)	(201,861)
Bad debt expense		4,656	810
Loss on sale of land and land improvements		118,990	—
Depreciation and amortization		416,991	417,053
Changes in assets and liabilities:			
Accounts and interest receivable		(95,717)	486,194
Due from related party		290,870	(566,507)
Cattle inventory		(515,751)	(495,268)
Other assets		(773,375)	(54,830)
Accounts payable and accrued expenses		153,201	398,683
Due to related party		(6,716)	91,699
Feed accounts payable		96,904	8,206
Accrued distributions		58,286	34,876
Other liabilities		148,566	731,845
Net cash used in operating activities		(4,254,943)	(3,850,548)
Cash flows from investing activities:			
Capital expenditures		(530,893)	(537,232)
Proceeds from sale of property and equipment		535,375	460,229
Purchases of marketable securities		(5,694,255)	(18,798,304)
Proceeds on sale of marketable securities		7,547,796	19,897,037
Purchases of other investments		(1,182,937)	(908,885)
Proceeds on sale of other investments		1,142,337	889,668
Payments on related-party notes receivable		25,006	25,000
Proceeds from sale of other assets		8,900	17,100
Investment in joint venture		—	(200,000)
Distributions from joint ventures		—	500,000
Net cash provided by investing activities		1,851,329	1,344,613
Cash flows from financing activities:			
Proceeds from debt		3,618,345	1,100,197
Payments on capital lease obligations		(91,310)	(65,697)
Net cash provided by financing activities		3,527,035	1,034,500
Net increase (decrease) in cash and cash equivalents		1,123,421	(1,471,435)
Cash and cash equivalents, beginning of year		1,458,829	2,930,264
Cash and cash equivalents, end of period	$	2,582,250	1,458,829
Supplemental disclosures of cash flow information:			
Cash paid for interest, net of amounts capitalized	$	590,131	437,116
Cash paid (received) for income taxes		2,459	(337,728)
Supplemental disclosures of noncash information:			
Net transfer of costs from cattle inventory to breeding livestock	$	1,292,901	1,132,733
Net transfer of costs from other assets to breeding livestock		49,810	48,390
Depreciation capitalized to cattle inventory		1,150,990	1,044,450
Inception of capital leases		93,880	142,468

See accompanying notes to consolidated financial statements.

(1) Summary of Operations and Significant Accounting Policies

(a) Description of Organization

The Organization was formed on September 10, 1992, and comprises 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 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
PS	16
	100 %

To the extent net income is unavailable for distribution, the Trustees, in consultation with the Committee, may distribute to any beneficiary up to 5% of that portion of the principal of the Trust normally allocable to that beneficiary under the proportions indicated above. Such a distribution results in a reduction of the portion of the Trust principal allocable to that beneficiary. Whenever the Trustees make a distribution of principal, the Trustees may accumulate net income normally distributable to the beneficiary who received a principal distribution, until such time as the distributed principal has been restored.

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, 2017 and 2016, cumulative authorized distributions to Beneficiaries were approximately $34,234,000 and $31,878,000, 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. PRI's interest in Champion Feeders was sold on November 29, 2013. HMC held a land lease formerly held by a liquidated subsidiary. Upon expiration, the lease and sublease were mutually terminated and PRI was released from future liability.

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 (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 primarily comprises 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.

(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 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 or net realizable value (specific-identification method). 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) Assets Held for Sale

Assets held for sale represents assets that the Organization is actively marketing and expects to be sold within one year. The assets are carried at cost plus any improvements to prepare the asset for sale. In 2018, assets held for sale represents two land parcels that were subsequently sold in March 2018.

(j) Property and Equipment

Property and equipment are carried at cost, net of depreciation. Breeding livestock are stated at purchase costs or inventory transfer amounts net of depreciation 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

(k) 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 collectability 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.

(l) 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.

(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, 2017 and 2016 approximate fair value because of the short maturity of these instruments. The fair value of marketable securities was $48,047,312 and $44,733,898 at December 31, 2017 and 2016, respectively. The fair value of other investments is based on information provided by the fund managers. At December 31, 2017 and 2016, the fair value of other investments was $13,031,368 and $11,923,533, respectively.

As of December 31, 2017 and 2016, 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, 2017 and 2016, the carrying amounts of debt of $26,003,732 and $22,385,387, 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 $229,658 and $227,087 as of December 31, 2017 and 2016, respectively, approximates fair value as the interest rates are commensurate with interest rates offered by local institutions for leases of similar terms.

(n) Income Taxes

Activities of the Trust are generally exempt from income taxes. Operations conducted 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.

The Tax Cuts and Jobs Act of 2017 was enacted on December 22, 2017, which entails a lower corporate tax rate in addition to several new tax provisions, effective January 1, 2018, impacting the businesses across the Organization. The Act reduces the federal corporate tax rate to 21%, effective January 1, 2018.

(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 5.40% to 5.75%.

(p) Benefit Plans

(i) 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.

(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.

(s) Financial Statement Presentation

The Organization has reclassified certain prior-year amounts to conform to current year presentation.

(t) Recently Issued Accounting Standards

On March 10, 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires companies to present the service cost component separately from other components of net benefit cost. Specifically, a company will present service cost in the statement of income line item in which it reports compensation cost. All other components of net benefit cost will be reported in the statements of income separate from the service cost component and outside operating income. Additionally, the service cost component will be the only component that can be capitalized. The guidance in the ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Organization will assess the effect of the standard on its ongoing financial reporting.

On August 18, 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This guidance reduces the number of net asset classes presented on the balance sheet from three to two; requires presentation of expenses by their functional and natural classification in one location in the financial statements; and requires quantitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date. The standard is effective for the Organization for the fiscal years beginning after December 15, 2017. The Organization is currently evaluating the effect that the adoption of this ASU will have on the financial statements.

On February 25, 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, ASU 2016-02 will require all leases with an initial term greater than one year to be recognized on the balance sheet as a right-of-use asset and a lease liability. The Organization also serves as a lessor primarily through operating leases. The accounting for lessors is not expected to fundamentally change except for changes to conform and align existing guidance to the lessee guidance under ASU 2016-02, as well as to the new revenue recognition guidance in ASU 2014-09. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019. Early adoption is allowed. The standard is to be applied using a modified retrospective approach. The Organization has begun evaluating and planning for the adoption and implementation of ASU 2016-02, including assessing the overall impact. ASU 2016-02 may have a material impact on the Organization's consolidated balance sheets; however, the full impact to the overall financial statements has not yet been determined.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which makes targeted improvements to the accounting for, and presentation and disclosure of, financial instruments. ASU 2016-01 requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. ASU 2016-01 does not affect the accounting for investments that would otherwise be consolidated or accounted for under the equity method. The new standard also affects financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. The provisions of ASU 2016-01 are effective for the Organization for annual periods in fiscal years beginning after December 15, 2018. The Organization is currently evaluating the effect that ASU 2016-01 will have on its financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new guidance sets forth a five-step revenue recognition model, which replaces the current revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance and requires more detailed disclosures. To further assist with adoption and implementation of ASU 2014-09, the FASB issued the following ASUs:

- ASU 2015-14 (Issued August 2015) – *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*

- ASU 2016-08 (Issued March 2016) – *Principal versus Agent Consideration (Reporting Revenue Gross versus Net*)
- ASU 2016-10 (Issued April 2016) – *Identifying Performance Obligations and Licensing*
- ASU 2016-12 (Issued May 2016) – *Narrow-Scope Improvements and Practical Expedients*
- ASU 2016-20 (Issued December 2016) – *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*
- ASU 2017-13 (Issued September 2017) – *Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 840), and Leases (Topic 842)*
- ASU 2017-14 (Issued November 2017) – *Income Statement – Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), and Revenue from Contracts with Customers (Topic 606)*

The new standard is effective for the Organization for annual periods in fiscal years beginning after December 15, 2018.

There are two adoption methods available for implementation of the standard related to the recognition of revenue from contracts with customers. Under one method, the new guidance is applied retrospectively to contracts for each reporting period presented, subject to allowable practical expedients. Under the other method, referred to as the modified retrospective method, the new guidance is applied only to the most current period presented, recognizing the cumulative effect of the change to prior period amounts as an adjustment to the beginning balance of retained earnings, and also requires additional disclosures comparing the results to the previous guidance. The Organization is evaluating the effect that the standards will have on its consolidated financial statements and related disclosures.

(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, 2017 and 2016, 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 Organization and borrower agreed to an additional restructuring of the note receivable. Per terms of the new agreement, the interest rate was reduced to 5% and the borrower provided additional collateral consisting of other land on the Island of Hawaii to further secure the note. The final maturity date of the note was extended to December 31, 2017. The borrower did not make a required $5,000,000 payment by the end of 2016 to extend the note for an additional year. In April 2017, a foreclosure complaint was filed by the Organization against the borrower. In December 2017, a counterclaim was filed by the borrower requesting dismissal of the complaint. The Organization filed an answer to the counterclaim in January 2018 requesting that the counterclaim be dismissed and that the Organization be awarded all expenses and losses incurred. The next hearing date is expected to be in May 2018.

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, 2017 and 2016 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, 2017 and 2016 is as follows:

		2017	2016
Corporate equity and debt securities and mutual funds	$	44,387,269	41,543,313
Structured debt securities		3,660,043	3,190,585
Total marketable securities		48,047,312	44,733,898
Other investments		7,596,426	7,555,829
Total	$	55,643,738	52,289,727

The Organization has pledged marketable securities with a fair value of $28,550,112 at December 31, 2017 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, 2017 and 2016 amounted to approximately $361,175 and $300,110, 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, 2017 and 2016, Kaomalo's total assets amounted to approximately $340,703 and $387,846, respectively, which substantially comprises cash in 2017 and 2016. Total liabilities as of December 31, 2017 and 2016 were $231,828 and $218,355, respectively.

PRI's investment in Kaomalo included in the accompanying consolidated statements of financial position amounted to $54,438 and $86,276 at December 31, 2017 and 2016, respectively, and its share of the operating income from the joint venture, net of amortization of basis differences and anticipated inventory reductions, was $0 as of December 31, 2017 and 2016.

As of December 31, 2017, Kaomalo has sold all residential units and has ceased operations. In 2016, the Organization received a distribution of capital of $500,000; no distributions were received in 2017.

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 $3,699,923 and $3,654,631 at December 31, 2017 and 2016, respectively, which substantially comprises cash and cattle inventory. Total liabilities as of December 31, 2017 and 2016 were approximately $871,308 and $739,754, respectively.

PRI's investment in PCC included in the accompanying consolidated statements of financial position amounted to $707,154 and $728,719 as of December 31, 2017 and 2016, respectively, and its share of the operating (loss) income from the joint venture was $(21,566) and $64,252, respectively.

(5) Property and Equipment

Land, equipment, and related assets at December 31, 2017 and 2016 consist of the following:

		2017	2016
Land and land improvements	$	145,104,493	147,259,797
Buildings and leasehold improvements		19,518,392	19,285,938
Machinery, fixtures, and equipment		5,474,666	5,246,273
Breeding livestock		7,333,863	6,844,557
Water rights		2,670,000	2,670,000
Construction in progress		209,090	84,235
		180,310,504	181,390,800
Accumulated depreciation and amortization		(22,584,433)	(21,358,378)
	$	157,726,071	160,032,422

In 2017 and 2016, depreciation and amortization charges, net of amounts capitalized to cattle inventory of approximately $1,150,990 and $1,044,450, were $296,834 and $294,558, respectively.

(6) Debt

Debt at December 31, 2017 and 2016 consists of the following:

		2017	2016
Borrowings under Revolving Credit Agreement with First Hawaiian Bank (FHB), interest at one-month LIBOR plus 1.00% eff. November 1, 2016 (2.57% and 1.60% at December 31, 2017 and 2016, respectively) per annum, monthly interest-only payments, secured by certain investments of PRFT, due October 2018	$	16,000,000	15,685,758
Borrowings under a Cattle-Financing Arrangement with AG Texas, interest at one-month LIBOR plus an applicable margin (3.74% and 3.12% at December 31, 2017 and 2016, respectively) per annum, secured by cattle, monthly interest-only payments, due October 2019		4,398,901	3,699,432
Borrowings under a Revolving Line of Credit Agreement with First Hawaiian Bank (FHB), including a $500,000 interest reserve, interest at FHB prime plus 1.00% (5.50% at December 31, 2017) per annum, interest of $27,831 include in loan balance at December 31, 2017, secured by two land parcels, due September 2020		1,827,831	—
Margin loan with Goldman Sachs, interest at one-month LIBOR plus 1.25% (2.82% and 2.02% at December 31, 2017 and 2016, respectively), payable on demand.		2,992,000	2,215,197
Fixed rate loan with Goldman Sachs, interest at 2.05%, at December 31, 2017 and 2016, respectively, due January 2018		785,000	785,000
Total debt	$	26,003,732	22,385,387

In March 2014, PRI entered into a revolving credit facility with FHB that allowed PRI to borrow up to $16,000,000 through October 2017. This agreement was amended in 2017 extending the maturity date to October 2018. 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 1.00% effective November 1, 2016 (previously, 1.25%), (3) two-month LIBOR plus a LIBOR margin or (4) three-month LIBOR plus a LIBOR margin. As of December 31, 2017 and 2016, the Organization had $16,000,000 and $15,685,758, respectively, outstanding on the revolving credit facility.

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 2016, the cattle-financing arrangement was amended to allow PRI to borrow up to $6,000,000 subject to a borrowing base. The borrowing base is calculated based on cattle pledged as collateral. The cattle-financing arrangement expires in October 2019. As of December 31, 2017 and 2016, the outstanding balance was $4,398,901 and $3,699,432, respectively.

In August 2017, the Organization entered into a revolving line of credit facility with FHB that allows the Organization borrow up to $3,500,000 through September 2020, which includes a $500,000 interest reserve. The interest reserve allows the Organization to include interest in the loan balance rather than making monthly payments. The Organization has an outstanding balance as of December 31, 2017 of $1,827,831, which includes $27,831 of interest. The line of credit is secured by two parcels owned by the Organization.

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.

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 expired in January 2018 and was converted to a margin loan. The terms are similar to the existing margin loans with Goldman Sachs. 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.

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, 2017 are as follows:

Year ending December 31:		
2018	$	19,777,000
2019		4,398,901
2020		1,827,831
	$	26,003,732

(7) Income Taxes

Income tax expense (benefit) for the years ended December 31, 2017 and 2016 consisted of the following:

		Current	Deferred	Total
2017:				
Federal	$	(177,269)	—	(177,269)
State		(301,669)	—	(301,669)
	$	(478,938)	—	(478,938)
2016:				
Federal	$	(349,667)	—	(349,667)
State		(15,868)	—	(15,868)
	$	(365,535)	—	(365,535)

The income tax benefit for 2016 is primarily the result of the reversal of the accrual for the uncertain tax position related to 2012.

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, 2017 and 2016:

		2017	2016
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	$	2,705,000	4,950,000
Net operating loss carryforwards		12,600,000	17,664,000
Postemployment and postretirement benefits		548,000	729,000
Allowance for accrued interest on note receivable		3,605,000	5,288,000
Other		215,000	238,000
Total gross deferred tax assets		19,673,000	28,869,000
Less valuation allowance		(19,673,000)	(28,869,000)
Deferred income taxes, net	$	—	—

The valuation allowance for deferred tax assets as of December 31, 2017 and 2016 was $19,673,000 and $28,869,000, respectively. The net change in total valuation allowance as of December 31, 2017 and 2016 was a decrease of $9,196,000 and an increase of $7,933,000, 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 $46.9 million of net operating loss carryforwards available to offset future taxable income. These carryforwards expire in various years through 2037. PRI also has approximately $225,000 of alternative minimum tax credits that will be refunded in future years. The refundable amount is recorded as a receivable in other assets. For years before 2013, 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, an additional $15,000 was recorded for potential interest. Since the statute of limitations has expired for PRI's 2012 Federal and State income tax returns, the previously recorded accrual has been reversed in 2016.

(8) Related-Party Transactions

(a) Due from/to Related Party

At December 31, 2017 and 2016, PCC owed PRI $172,903 and $464,723, respectively, for accrued but unpaid amounts owed under various contracts. Additionally, at December 31, 2016, PRI owed PCC $7,665 for cattle sales accrued but unpaid. Amounts reported are presented net of purchase and resell transactions.

(b) Related-Party Notes Receivable

The Organization had certain related-party notes receivable totaling $150,000 and $175,006 at December 31, 2017 and 2016, respectively, as follows:

The following is a summary of notes receivable from related parties at December 31, 2017 and 2016:

		2017	2016
Principal due on note receivable from CEO, bearing interest at 2.81%, due at various dates through January 2023	$	150,000	175,000
Principal due on retiree notes related to land sales, net of allowance of $51,956, bearing interest of 7.38%, secured by real property due at various dates through June 2019		—	6
	$	150,000	175,006

(c) Administrative Services Agreement

In February 2014, the Organization 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. In January 2017, the agreement was renewed for an annual fee of $165,000 plus a bonus of $10,000 if financial reports are submitted on a timely basis. The amount of the annual fee may be increased if additional services are added to the agreement. The Company recorded in other revenues administrative fee invoiced to PCC by PRI amounting to $172,500 and $165,000 in 2017 and 2016, 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 both calendar years 2015 and 2014, with the price paid determined based on the sex of the animal and a base price per pound. For weaned calves and yearling heifers, there is a sliding adjustment for the difference between the actual weight and base weight of the cattle. In 2016, the agreement was amended to a price of $1.05 per pound for calves with a base weight of 550 pounds and heifers at a base weight of 800 pounds. In 2017 and 2016, the Organization sold 1,808 and 1,885 head to PCC under the terms of the agreement, and recognized revenue in cattle sales, totaling $1,206,399 and $1,270,947, 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. In 2017, the agreement was extended by three years and price per pound of gain was amended to $0.72 per pound. Additionally, the Organization is reimbursed by PCC for certain other costs, including transportation and veterinary costs. The cattle are grazed on land owned or leased by the Organization. In 2017 and 2016, the Organization recorded $677,841 and $431,131, respectively, as other revenues of which $62,687 and $0, respectively, was recorded in accounts receivable for cattle services under the agreement.

(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 Organization 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 $10,887 and $15,405 in 2017 and 2016, respectively. Receivable and payable amounts related to the purchase and resell of cattle to PCC are also shown on a net basis, resulting in accounts receivable of $98,582 and $81,737 in 2017 and 2016, 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:		
2018	$	881,658
2019		844,670
2020		651,137
2021		498,234
2022		406,991
Thereafter		6,008,501
	$	9,291,191

(b) Lessee

PRI leases pastureland, 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 between 2018 and 2021.

At December 31, 2017, approximate future minimum lease payments are as follows:

		Capital		Operating
Year ending December 31:				
2018	$	127,364		68,826
2019		70,137		67,484
2020		38,014		67,036
2021		5,242		67,036
2022		—		64,406
Thereafter		—		355,414
Future minimum lease payments		240,757	$	690,202
Amounts representing interest at 3.940%		(11,099)		
Present value of minimum lease payments	$	229,658		

Equipment held under capital leases was approximately $598,000 and $504,000 less accumulated amortization of approximately $310,000 and $259,000 at December 31, 2017 and 2016, respectively. Of the related amortization expense, approximately $59,000 and $46,000 were capitalized into breeding cattle and cattle inventory in 2017 and 2016, respectively. Rent expense related to operating leases, including rent capitalized into cattle inventory, was approximately $127,200 and $249,000 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016 was computed based on management's current estimates of benefits to be paid, discounted at 3.67% and 4.18%, respectively. Healthcare cost increase assumptions for 2017 were 6.6% in 2017 decreasing, according to the Society of Actuaries Getzen model, to 3.8% in 2076 as well as each year thereafter.

The accrued liability for postretirement benefits recorded in other liabilities at December 31, 2017 and 2016 is as follows:

		2017	2016
Change in benefit obligation:			
Benefit obligation at beginning of year	$	1,851,339	1,091,755
Interest cost		75,321	45,457
Benefits paid		(99,839)	(65,003)
Actuarial loss		202,450	779,130
Benefit obligation at end of year	$	2,029,271	1,851,339

Postretirement benefit expense for the years ended December 31, 2017 and 2016 is included in operating costs in the accompanying consolidated statements of activities as follows:

		2017	2016
Interest cost	$	75,321	45,457
Actuarial loss		202,450	779,130
Postretirement benefit expense	$	277,771	824,587

At December 31, 2017, future estimated benefit payments for the next 10 years are as follows:

Year(s) ending December 31:		
2018	$	119,853
2019		121,031
2020		123,650
2021		123,970
2022		123,866
2023–2027		631,543
	$	1,243,913

(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 $188,000 and $174,000 during the years ended December 31, 2017 and 2016, respectively.

(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, 2017 and 2016:

			Fair value measurements at reporting date using		
		December 31, 2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:					
Corporate equity and debt securities and mutual funds	$	44,387,269	44,387,269	—	—
Structured debt securities		3,660,043	—	3,660,043	—
Total	$	48,047,312	44,387,269	3,660,043	—

		Fair value measurements at reporting date using		
	December 31, 2016	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Corporate equity and debt securities and mutual funds	$ 41,543,313	41,543,313	—	—
Structured debt securities	3,190,585	—	3,190,585	—
Total	$ 44,733,898	41,543,313	3,190,585	—

(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 84% and 67% of total cattle sales and 66% and 65% of total revenues in 2017 and 2016, 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:

	2017	2016
Supporting services:		
Cattle sales	$ 9,068,431	6,791,386
Rental/property management income	1,635,008	2,143,144
Other supporting services	3,110,939	3,686,278
	$ 13,814,378	12,620,808

(15) Commitments

The Organization is committed to contribute additional capital of approximately $5,937,000 at December 31, 2017 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 statements of financial position date through April 27, 2018, the date at which the consolidated financial statements were available to be issued, and determined that except for the disclosures in note 2, there are no other items to disclose.

PROUDLY SUPPORTING

Our Beneficiaries

NORTH HAWAII
COMMUNITY HOSPITAL

HAWAI'I
COMMUNITY
FOUNDATION

66-1304 Mamalahoa Highway
Kamuela, Hawaii 96743
808.885.7311 * www.parkerranch.com