Parker Ranch®

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ANNUAL REPORT 2018

Parker Ranch Foundation Trust

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

Aloha,

The Parker Ranch Foundation Trust and its subsidiaries reached several significant milestones in 2018. We distributed over $2.3 million to our Beneficiaries— Queen's North Hawaii Community Hospital, Parker School, Hawaii Preparatory Academy, and the Richard Smart Fund of the Hawaii Community Foundation. Since 2010 the total distributions to our Beneficiaries have exceeded $19.3 million.

Working closely with Parker Ranch management under the capable lead of our CEO Dutch Kuyper and key stakeholders, we were able to complete and adopt a new Strategic Plan covering the next 15 years. The overarching goal of this new Plan is to manage all Trust assets in a more sophisticated and analytical manner to maximize the current and long-term support of the Beneficiaries. The next step in this planning effort will be to embark on an integrated asset management study to maximize total return across all assets, taking into account the characteristics and performance of each asset class.

This year we conducted an extensive evaluation and search process for a new investment advisor to assist the Trustees in the management of our securities investment portfolio. We are pleased to report that we have successfully transitioned to Northern Trust, with a new and favorable cost structure and refined scope of duties.

The performance of Parker Ranch Inc.'s core cattle operations under the new business strategy first implemented in 2014 continues to be very strong. Sales from the Paniolo Cattle Company's grass-fed beef program continue to grow, now reaching nearly $4 million annually.

Plans for the redevelopment of a new town center in Waimea continued to move forward in 2018. Parker Ranch, Inc. worked closely with private sector interests as well as the State government on projects that will further several community needs, including affordable housing, additional industrial space, and infrastructure improvements in transportation, education and other government functions. We also continued to solidify the returns from our leasing portfolio and returns from other real properties.

Renewable energy continued to be a focus for us in 2018. Our renewable energy partner was shortlisted by the Hawaii Electric Light Company for selection in its latest request for proposals to provide renewable energy to the utility's grid. A final decision is expected shortly.

We continued to move forward on sustainable forestry initiative for our lands. We remain optimistic about the long-term prospects of this effort.

All our efforts in 2018 represent a newly invigorated integrated vision for managing all the collective assets of the Trust for the current and long-term benefit of the Beneficiaries. The Trustees and our CEO Dutch Kuyper and his team remain focused on cultivating value across all our assets, including our lease portfolio, timber/forestry resources, energy resources, pasture leases, livestock enterprises, development lands, and other large scale land use opportunities.

Finally, we would like to extend a warm welcome to the newest member of the Parker Ranch, Inc. Board of Directors, Toby Taniguchi. Toby is the President and COO of KTA Superstores, and is a well-respected business, community and nonprofit leader on the Big Island and across the State. His deep roots on the Big Island, and his strong analytical skills and business acumen will serve the Trust and its Beneficiaries well.

Mahalo,

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

Beneficiary Profiles

Queen's North Hawai'i 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, Queen's North Hawai'i Community Hospital serves more than 30,000 residents in North Hawaii, as well as visitors to the island.

Queen's North Hawai'i 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, Queen's North Hawai'i 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. Queen's North Hawai'i Community Hospital offers a spectrum of high quality services, including emergency and Level III trauma services, primary care, 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.

Queen's North Hawai'i 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. Queen's North Hawai'i 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 Queen's North Hawai'i 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, Queen's North Hawai'i Community Hospital delivers excellent quality health care service within a total healing environment.

Beneficiary Profiles

Founded in 1949, Hawai‘i Preparatory Academy (HPA) offers a rigorous, K-12 college-preparatory education, offering a dynamic global learning community. Rooted in the inclusive concept of ‘ohana, HPA is a unique place to learn global citizenship and prepare for the college experience. HPA combines a traditional, vigorous foundation in the liberal arts with student-driven, project-based learning. Our curriculum and school culture are deeply influenced by a strong sense of place here on Hawai‘i Island, in the heart of world-famous Parker Ranch.

HPA serves 600 students in grades K-12 on two campuses, the Village Campus and the Upper Campus. The Village Campus is home to our Lower and Middle Schools and comprises eight acres in the heart of downtown Waimea and where our kindergarten through grade 8 students attend classes.

The Upper Campus comprises 220 acres in the foothills of the Kohala Mountains and is located few minutes outside of Waimea. It is home to the Upper School (grades 9 to 12, and postgraduate). The Upper School academic program combines traditional education with our capstone project-based learning.

HPA’s international award-winning Energy Lab hosts students engaged in independent research and serves as the school’s sustainability program hub. Here students concentrate on advanced computer science, robotics, and drones. Biotechnology projects using DNA PCR thermocycler and UV transilluminator, digital journalism and storytelling, electrical and mechanical engineering. Over the years, students have partnered with organizations like NASA, the W. M. Keck Observatory, NOAA, the Pacific Tsunami Warning Center, and others. Upper School students can also select from an extensive schedule of Honors and 17 AP classes.

In addition to the Energy Lab, HPA offers a large heated pool, Issacs Art Gallery, tennis court with four courts, various water sports, an established after-school athletic program, horseback riding, a world-renowned Sea Turtle Tagging program, and many extracurricular activities where you can get your SCUBA diving certification or star in the fall musical. HPA belongs to the Big Island Interscholastic Federation (24 member schools) and the Hawai‘i High School Athletic Association (96 member schools).

Day students from Hawai‘i are joined by boarding students from 15 states and 25 countries to create a diverse, international ‘ohana. Boarding students live in three residence halls located on the Upper Campus, where they gain independence and are immersed in school life that extends well beyond the classroom.

Graduates often end up attending the finest universities around the world. HPA is accredited by the Western Association of Schools and Colleges and the Hawai‘i Association of Independent Schools.

Beneficiary Profiles

Parker School is an independent, coeducational, college-preparatory day school in Waimea on the Big Island of Hawai‘i, currently serving 321 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 athletics. Parker’s small class sizes, ‘ohana—or family like—atmosphere, combined with diverse, caring and talented faculty produces a rewarding educational experience for students and families.

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 43 years, Parker School continues to support community families and is proud of this commitment and unique heritage.

Recent Parker School successes include: a 2018 Advanced Placement exam pass rate of 91% (state average is 52%); 96% 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 four years; and students have raised over four and a half tons of food for local food banks around Thanksgiving each of the last six 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, Dartmouth, Duke, Mount Holyoke, Cornell, American University, and Tufts.

Beneficiary Profiles

HAWAIʻI COMMUNITY FOUNDATION
Amplify the Power of Giving

With over 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 850 funds, including more than 250 scholarship funds, created by donors who desire to transform lives and improve communities. In 2018, over $48 million in grants and contracts were distributed or facilitated statewide. HCF also serves as a resource on community issues and trends in the nonprofit sector. Through its CHANGE framework, HCF uses a curated set of statewide data that begins to identify the gaps where help in our community is needed and opportunities where help will do the most good. By working from a common set of data, our community can create shared goals and consistently track the progress of our collective efforts. Under the six essential CHANGE areas (or sectors) key issues (or sub-sectors) that affect the ability of people and communities to thrive are identified. Sustainable data points round out the framework by telling the story of what is happening within each key issue.

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.

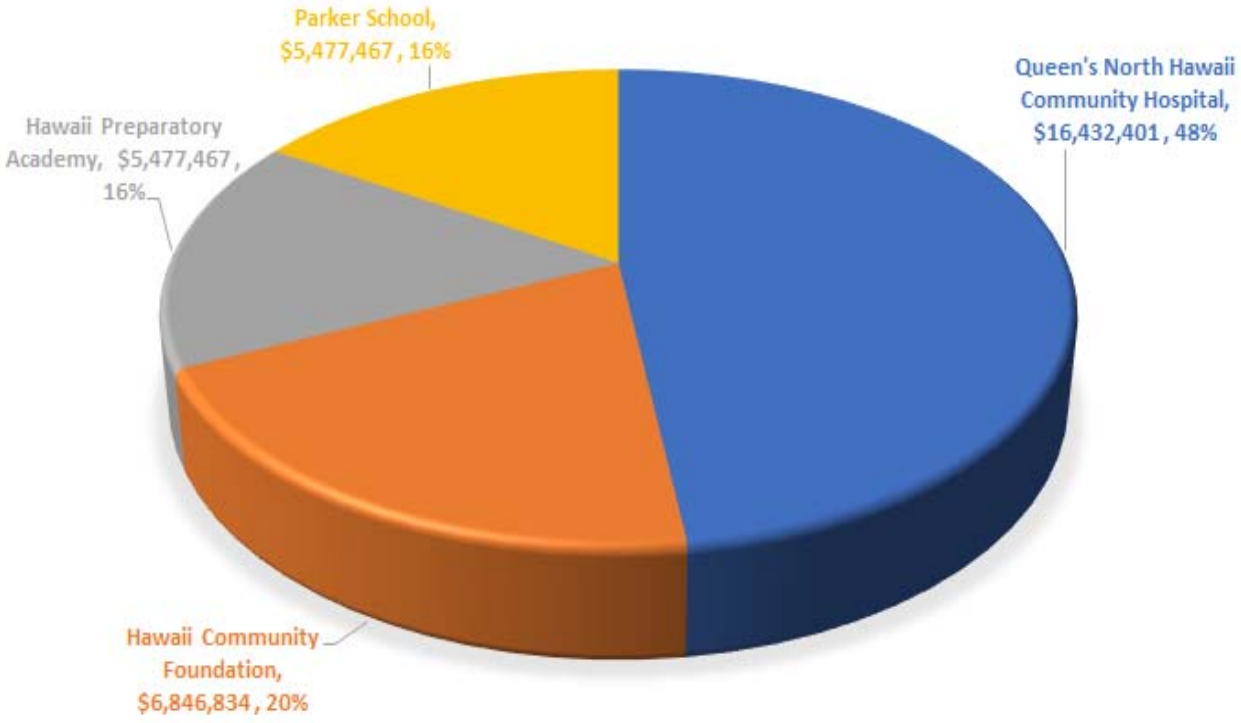
The fund currently supports several programs that benefit the Waimea community including post-secondary education scholarships for first generation students, unrestricted operating support grants for nonprofit organizations, STEM Learning grants, and Connecting for Success support for Waimea Middle School.

Beneficiary Distributions

Effective January 1, 2010 the Parker Ranch Foundation Trust with the concurrence of the Distribution Committee, adopted an Investment and Distribution Policy with a nominal annual Distribution Goal of $2 million over the next ten years. The first $2 million under the Investment and Distribution Policy was distributed in 2010 as a result of ongoing efforts to prudently recapitalize assets and debt. In 2018 a supplemental distribution was also paid to the beneficiaries of approximately $356,000.

Cumulative cash distributions paid to Beneficiaries through December 31, 2018 total $34,234,169: $16,432,401 to Queen's North Hawaii Community Hospital; $6,846,834 to the Richard Smart Fund of the Hawaii Community Foundation; $5,477,467 to Hawaii Preparatory Academy; and $5,477,467 to Parker School Trust Corporation.

Total Distributions through December 31, 2018: $34,234,169



Parker Ranch Trustees and Directors

PARKER RANCH FOUNDATION TRUST
Trustees

Timothy E. Johns
(Chairman of Trustees)

Michael W. Gibson

Michael K. Fujimoto

PARKER RANCH, INC.
2018 Board of Directors

Michael K. Fujimoto
(Chairman of the Board)

Timothy E. Johns

Michael W. Gibson

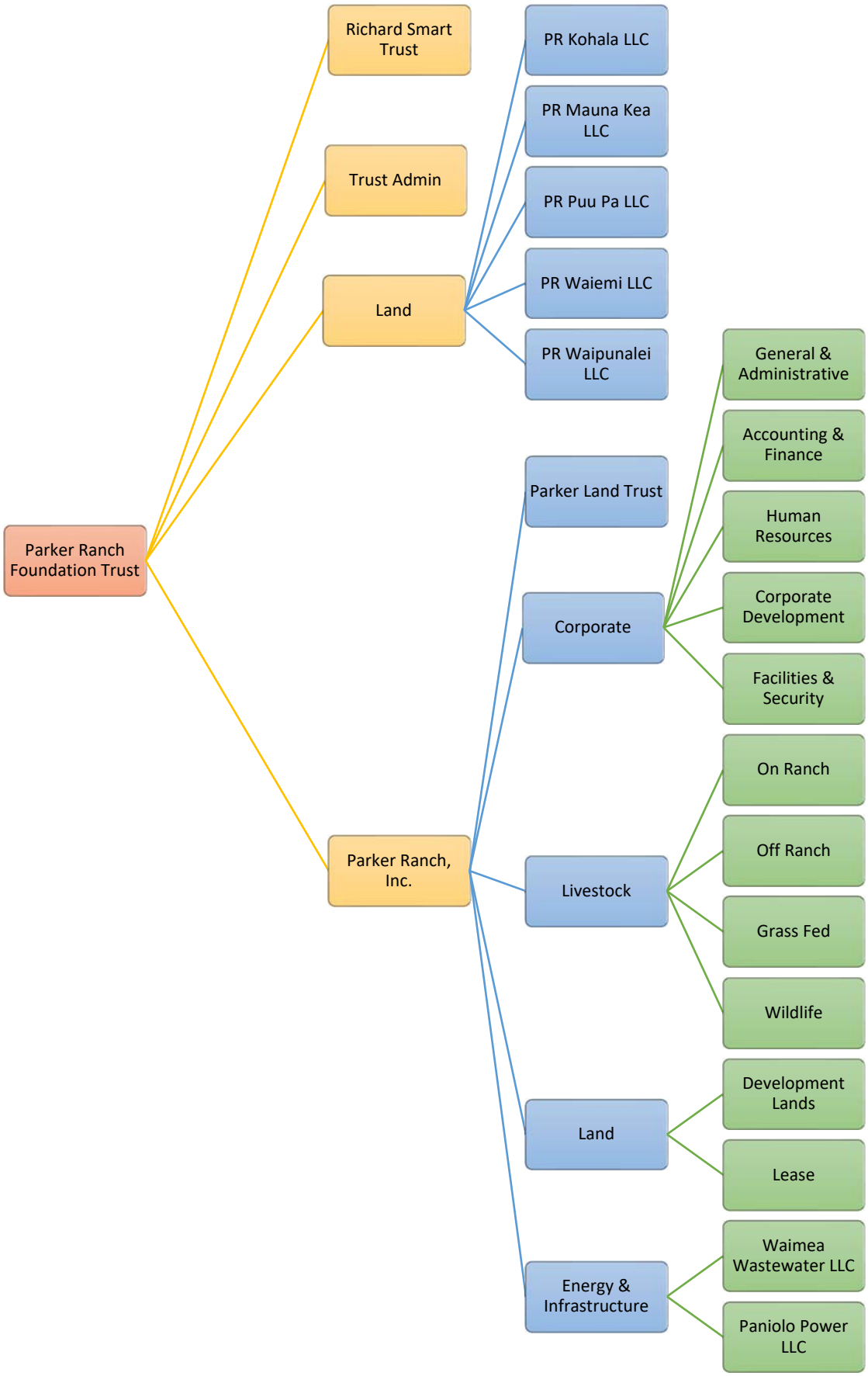
James S. Greenwell

Robert L. Hind III

Toby Taniguchi

Neil “Dutch” Kuyper

Parker Ranch Organizational Structure



PARKER RANCH FOUNDATION TRUST AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017
And Independent Auditor's Report

CW Associates
A Hawaii Certified Public Accounting Corporation

CW Associates
A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITOR'S REPORT

Parker Ranch Foundation Trust and Subsidiaries:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Parker Ranch Foundation Trust (Trust) and subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities and of cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditor's 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.

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Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Trust and its subsidiaries as of December 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A to the consolidated financial statements, during the year ended December 31, 2018, the Trust and its subsidiaries adopted Financial Accounting Standards Board, Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* Our opinion is not modified with respect to this matter.

Other Matter

The consolidated financial statements of the Trust and its subsidiaries as of and for the year ended December 31, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on April 27, 2018.

CW Associates, CPAs

Honolulu, Hawaii
April 25, 2019

PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 5,403,766	$ 2,582,250
Accounts receivable – net	608,449	734,822
Due from related parties – net	198,351	173,852
Note receivable – net	37,931,587	37,931,587
Related party note receivable – net	125,000	150,000
Marketable securities	44,327,783	48,047,312
Other investments	4,644,817	7,596,426
Cattle inventory	6,844,526	7,063,381
Investments in joint ventures	866,923	761,592
Assets held for sale	604,125	2,219,193
Property and equipment – net	157,865,553	157,726,071
Other assets	810,390	1,578,184
TOTAL ASSETS	$260,231,270	$266,564,670
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 1,748,590	$ 2,349,360
Due to related parties	-	949
Feed accounts payable	270,073	299,557
Accrued distributions	2,404,558	2,355,684
Deferred gain on sale of land and land improvements	15,047,080	15,047,080
Notes payable	23,150,841	26,233,390
Postretirement benefit obligation	1,886,597	2,130,810
Total liabilities	44,507,739	48,416,830
NET ASSETS		
Without donor restrictions	215,723,531	218,147,840
Total net assets	215,723,531	218,147,840
TOTAL LIABILITIES AND NET ASSETS	$260,231,270	$266,564,670

See accompanying notes to the consolidated financial statements.

PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2018 and 2017

	2018	2017
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue		
Cattle sales	$ 8,066,171	$ 7,258,083
Net realized and unrealized gains (losses) on investments	(258,010)	5,166,955
Dividends and interest	1,372,946	957,674
Rental income	1,182,296	1,052,851
Timber and aggregate sales	723,725	774,646
Equity in income (loss) of joint ventures	105,331	(53,403)
Gains (losses) on disposal of assets	1,853,430	(110,536)
Other revenue	1,847,656	1,800,663
Total revenue	14,893,545	16,846,933
Costs and expenses		
Ranch		
Cost of cattle sales	7,072,726	5,994,789
Operating costs	1,735,477	1,711,990
General and administrative expenses	1,714,704	1,477,589
Operating expenses related to other revenue	947,855	732,549
Total Ranch expenses	11,470,762	9,916,917
Trust		
Lease related expenses	918,653	1,078,122
Operating expenses	681,432	734,950
General and administrative expenses	664,244	596,170
Total Trust expenses	2,264,329	2,409,242
Interest	761,316	599,693
Depreciation and amortization	416,889	416,991
Total expenses	14,913,296	13,342,843
Revenue less costs and expenses	(19,751)	3,504,090
Distributions to beneficiaries	(2,404,558)	(2,355,684)
Increase (decrease) in net assets without donor restrictions	(2,424,309)	1,148,406
INCREASE (DECREASE) IN NET ASSETS	(2,424,309)	1,148,406
NET ASSETS – Beginning of year	218,147,840	216,999,434
NET ASSETS – End of year	$215,723,531	$218,147,840

See accompanying notes to the consolidated financial statements.

PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$(2,424,309)	$ 1,148,406
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
Net realized and unrealized (gains) losses on marketable securities	4,193,867	(5,166,955)
Net realized and unrealized (gains) losses on other investments	80,377	-
Equity in income (loss) of joint ventures	(105,331)	53,403
(Gains) losses on sales of assets	(42,716)	(67,713)
Gain on sale of assets held for sale	(1,810,714)	-
Depreciation and amortization	416,889	416,991
(Increase) decrease in		
Accounts receivable – net	126,373	(91,061)
Due from related parties – net	(24,499)	290,870
Cattle inventory	(344,141)	(515,752)
Other assets	861,829	(773,377)
Increase (decrease) in		
Accounts payable and accrued expenses	(600,770)	153,201
Due to related party	(949)	(6,716)
Feed accounts payable	(29,484)	96,904
Accrued distributions	48,874	58,286
Postretirement benefit obligation	(244,213)	148,566
Net cash provided (used) by operating activities	101,083	(4,254,947)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments on related-party notes receivable	25,000	25,006
Sales of marketable securities	60,390,873	7,547,799
Purchases of marketable securities	(60,865,211)	(5,694,255)
Sales of other investments	3,418,808	1,142,337
Purchases of other investments	(547,576)	(1,182,937)
Sales of assets held for sale	4,029,917	-
Sales of property and equipment	28,173	535,375
Purchases of property and equipment	(588,753)	(530,893)
Sales of other assets	-	8,900
Net cash provided by investing activities	5,891,231	1,851,332

(Continued)

PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Additions to notes payable	$ 628,618	$ 3,527,036
Repayments of notes payable	(3,799,416)	-
Net cash provided (used) by financing activities	(3,170,798)	3,527,036
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,821,516	1,123,421
CASH AND CASH EQUIVALENTS – Beginning of year	2,582,250	1,458,829
CASH AND CASH EQUIVALENTS – End of year	$ 5,403,766	$ 2,582,250
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid to third parties during the year for interest, net of amounts capitalized	$ 682,069	$ 590,131
Cash paid during the year for income taxes	$ 2,800	$ 2,459
Noncash activities		
Net transfer from cattle inventory to breeding livestock	$ 1,291,732	$ 1,292,901
Net transfer from other assets to breeding livestock	$ 55,367	$ 49,810
Depreciation capitalized to cattle inventory	$ 728,736	$ 1,150,990
Property and equipment transferred to assets held for sale	$ 565,467	$ 2,219,193
Other assets transferred to assets held for sale	$ 38,668	$ -
Property and equipment acquired with notes payable	$ 88,249	$ 93,880

See accompanying notes to the consolidated financial statements.

PARKER RANCH FOUNDATION TRUST
AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED STATEMENTS

For the Years Ended December 31, 2018 and 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activity

Parker Ranch Foundation Trust (Trust) was created in September 1992 upon the transfer of assets from Richard Smart in his last will and testament to the Trust to be invested and used for the support of health care, and specified educational and charitable organizations, for the benefit of the Kamuela area on the Island of Hawaii. The accompanying consolidated financial statements include the Trust and the Richard Smart Irrevocable Trust, and the following subsidiaries, which are wholly-owned by the Trust, except that all significant intercompany balances and transactions have been eliminated in consolidation.

- Parker Ranch, Inc., which was incorporated in February 1995 to own and operate the cattle ranching, and real property management and development, of the Trust, and its subsidiaries.
- PR Kohala LLC, PR Mauna Kea LLC, PR Puu Pa LLC, PR Waiemi LLC, and PR Waipunalei LLC, which were organized in the State of Hawaii in November 2012 as at-will, member-managed, limited liability companies to engage in any lawful business. The Trust is not liable, as a member, for the obligations of the limited liability companies.

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 U.S. Treasury Regulations.

The Beneficiaries of the Trust and their respective annual income allocation percentages are as follows:

North Hawaii Community Hospital, Inc.	48%
Richard Smart Fund, a component of Hawaii Community Foundation	20%
Hawaii Preparatory Academy	16%
Parker School	16%
Total	100%

The Trustees, based on recommendations from a Distribution Committee (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 recommendations related to the reallocation of the distribution of net income require 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 of December 31, 2018 and 2017, cumulative authorized distributions to Beneficiaries amounted to approximately $36,638,727 and $34,234,169, respectively.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Organization and Activity (continued)

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.

The Trustees previously adopted an Investment and Distribution Policy Statement with an annual nominal Distribution Goal of $2 million that is subject to approval each year by the Trustees in connection with the recommendations of the Committee, considerations of then-relevant circumstances, and 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.

Livestock Operations

The Ranch's livestock division is based on the Island of Hawaii where it operates a cattle ranch and a seasonal hunting business. The 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 the cattle is sold as "fed" cattle at harvest. PRI Cattle, LP, a subsidiary of the Ranch, has a contract with Wilson Cattle Co., which purchases a 50% undivided interest in the cattle at the time they are transferred to the continental United States. The Ranch recognizes revenue at the time cattle are received by Wilson Cattle Co. The Ranch's cattle operations are subject to the inherent risks involved in agribusiness and 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 fee simple land owned by the Ranch.

Adoption of New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under this ASU, there are two classes of net assets – net assets with donor restrictions and net assets without donor restrictions. This ASU also requires reporting of the underwater amounts for donor-restricted endowments with enhanced disclosures; allows for the presentation of cash flows using the indirect or direct method without a reconciliation of the direct method to the indirect method; requires qualitative information on how the organization manages its liquid assets and associated liquidity risks; requires information on the financial statement or in the notes to the financial statements on the availability of the organization's assets to meet cash needs for general expenditures within one year; and requires reporting of expenses by function and nature along with an analysis of such expenses. The Trust and its subsidiaries implemented ASU No. 2016-14 in the year ended December 31, 2018.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The Trust and its subsidiaries report information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions (none at December 31, 2018 and 2017). Revenue is recognized when earned. Costs and expenses are recognized when the related liability is incurred. Interest is capitalized to major projects during the construction period.

The Trust and its subsidiaries allocate their expenses on a functional basis among their programs and supporting services based on estimates of management. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service using natural expense classifications. Other expenses that are common to several functions are allocated by various bases.

Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of consolidated financial statements in accordance with such 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 revenue and expenses during the reporting period. Actual results could differ from those estimates, and it is reasonably possible that such difference will occur within the near term.

Cash and Cash Equivalents

The Trust and its subsidiaries consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Concentrations of Credit Risk

Financial instruments that potentially subject the Trust and its subsidiaries to credit risk include cash and cash equivalents, accounts receivable, amounts due from related parties, notes receivable, and marketable securities. Cash balances at financial institutions exceeded the related federal deposit insurance by approximately $2,675,000 and $858,900 at December 31, 2018 and 2017, respectively. Accounts receivable, which have been reduced by estimated allowances for doubtful accounts of approximately $537,900 and $535,700 at December 31, 2018 and 2017, respectively, and amounts due from related parties and notes receivable, are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual accounts. Management has determined that amounts due from related parties and notes receivable are collectible in full or fully collateralized. Marketable securities are federally insured, in part. Changes in market conditions may make such investments less valuable.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 using the specific-identification method.

Other investments consist of privately placed debt and equity investments for which the Trust 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 Trust evaluates other investments for other-than-temporary impairment on an annual basis, and more frequently when economic or market concerns warrant such evaluation. 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.

Fair Value Measurements

The established framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to the valuation methodology used to measure fair value. There are three levels of inputs to the valuation methodology. Level 1 inputs consist of unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs are unobservable and significant to the fair value measurement. The fair value measurement level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation methodologies used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Financial Instruments

Management estimates that the fair values of all reported assets and liabilities which represent financial instruments approximated their carrying values at December 31, 2018 and 2017, except that the fair value of other investments as determined by the managers of the other investments at December 31, 2018 and 2017 amounted to $6,876,812 and $13,031,368, respectively. The estimated fair values have been determined using available market information and appropriate valuation methodologies. It is reasonably possible that such estimates may change within the near term.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cattle Inventory

Cattle inventory is stated at the lower of cost, determined using the specific-identification method, or net realizable value. Costs of raised cattle are comprised of the proportionate costs of breeding, including the depreciation of the breeding herd, plus the costs of production through the consolidated date of the statement of financial position. Purchased cattle are carried at purchase cost plus costs of production through the consolidated balance sheet date.

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 real estate. Profit is deferred and recognized under the installment, cost recovery, deposit, or percentage-of-completion method if any of the aforementioned criteria are not met.

The majority of the assets of the Trust and its subsidiaries are real estate holdings, which will be used for ranch operations, developed for residential and commercial use, or marketed to diversify the Trust's holdings. The Trust'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.

Assets Held for Sale

Assets held for sale represents assets that the Ranch 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. At December 31, 2018, assets held for sale consists of land and other assets that the Ranch expects to sell during the year ending December 31, 2019. At December 31, 2017, assets held for sale consists of two land parcels that were sold in March 2018.

Property and Equipment

Property and equipment is carried at cost less depreciation and amortization provided using the straight-line method over estimated useful lives of 15 to 40 years for buildings and improvements; three to 10 years for machinery, fixtures, and equipment; and 10 years for leasehold improvements. Breeding livestock is stated at cost or inventory transfer amounts equal to the lower of cost or net realizable value less depreciation provided using the straight-line method over estimated useful lives of five years. Property and equipment, and breeding livestock, are reviewed for impairment whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable. Maintenance and repairs are expensed as incurred. Major improvements are capitalized.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Feed Accounts Payable

Feed accounts payable consist of feed yard costs for the Ranch'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 is 5.75%.

Postretirement Plan Benefit Plan

The Ranch provides certain retired employees with certain postretirement benefits, primarily related to healthcare coverage. The benefits are the same for all qualified retired employees. The Ranch 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 Ranch 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 the consolidated statement of operations 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 Ranch believes that the assumptions utilized in recording its obligations under its plan are reasonable based on its experience and market conditions.

Leases

Leases that transfer substantially all of the benefits and risks of ownership are capital leases. Other leases are operating leases. Capital leases are included in property and equipment at their present value at the inception of the leases, and amortized using the straight-line method over their estimated economic useful lives. The related capital lease obligations are recognized at the present value of their remaining lease payments. Operating leases are expensed as the lease payments become due.

Hawaii General Excise Tax

The State of Hawaii imposes a general excise tax of 4% and 0.5%, respectively, on gross receipts of the Trust and its subsidiaries from retail and wholesale sales within Hawaii, plus an additional 0.5% and 0.25%, respectively, on gross receipts from retail sales within the City and County of Honolulu and the County of Hawaii (effective January 1, 2019). Hawaii general excise tax included in operating costs amounted to $201,894 and $171,364 for the years ended December 31, 2018 and 2017, respectively.

Income Taxes

Deferred income taxes are provided for revenue, costs, and expenses recognized in different accounting periods for financial reporting purposes than they are for income tax purposes. The income tax provision differs from the expense that would result from applying federal statutory rates to income before income taxes because deferred income taxes are based on average tax rates and certain expenses are not deductible for income taxes purposes.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (continued)

Accounting principles generally accepted in the United States of America require uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. Management evaluated the tax positions of the Trust and its subsidiaries as of December 31, 2018 and 2017 and for the years then ended, by reviewing its income tax returns and conferring with its tax advisors, and determined that they had no significant uncertain tax positions required to be reported in accordance with such generally accepted accounting principles. The Trust and its subsidiaries are subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

At December 31, 2018, the Ranch had approximately $43.9 million in net operating loss carryforwards available to offset future federal taxable income. The carryforwards expire at various dates through the year 2037. The Ranch also has approximately $225,000 in alternative minimum tax credits that will be refunded in future years. The refundable amount is included in prepaid expenses and other current assets.

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 Ranch. The Act reduced the federal corporate tax rate to 21%, effective January 1, 2018.

NOTE B – LIQUIDITY

At December 31, 2018, the Trust and its subsidiaries had approximately $25.0 million in financial assets available within one year to meet cash needs for operating expenditures, consisting of cash and cash equivalents of approximately $5.4 million, marketable securities of approximately $18.8 million (net of amounts pledged as collateral), and accounts and notes receivable (net of allowances for doubtful accounts) of approximately $800,000. At December 31, 2017, the Trust and its subsidiaries had approximately $19.3 million in financial assets available within one year to meet cash needs for operating expenditures, consisting of cash and cash equivalents of approximately $2.6 million, marketable securities of approximately $15.8 million (net of amounts pledged as collateral), and accounts and notes receivable (net of allowances for doubtful accounts) of approximately $900,0000. These financial assets are not subject to contractual restrictions that make them unavailable for general expenditure. The Trust's policy is to maintain cash balances sufficient to provide for its general expenditures, liabilities, and other obligations as they come due.

As more fully described in Note I to the financial statements, the Trust and its subsidiaries have approximately $2.5 million in additional borrowings available on existing financing arrangements, which it could draw upon in the event of an unanticipated operational liquidity need.

The Ranch had assets held for sale at December 31, 2018 and 2017 of approximately $600,000 and $2.2 million which were, or are expected to be, sold within one year. In addition, the majority of the assets of the Trust and its subsidiaries consist of real estate holdings that may be developed for residential or commercial uses in future year.

NOTE C – NOTE RECEIVABLE

In August 2010, the Ranch 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 Ranch 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 collateralized by the subject land and land improvements in Kohala that were sold. The Ranch 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, 2018 and 2017, 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 Ranch 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 Ranch restructured and extended the note receivable with the borrower. Per terms of the restructured 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 Ranch under the terms of the original note were forgiven or reduced under the terms of the new restructured note.

In January 2016, the Ranch 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, 2016. 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 Ranch against the borrower. In December 2017, a counterclaim was filed by the borrower requesting dismissal of the complaint. The Ranch filed an answer to the counterclaim in January 2018 requesting that the counterclaim be dismissed and that the Ranch be awarded all expenses and losses incurred. In January 2019, the Ranch was granted an order for summary judgement against all defendants and for interlocutory decree of foreclosure. However, no provision for the summary judgement has been made in the accompanying consolidated financial statements due to the uncertainty inherent in the matter until a final settlement is reached.

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, 2018 and 2017 is collateralized by land 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 Ranch does not record the interest receivable and will recognize interest income only as interest payments are received. In 2013, the Ranch also recorded a full reserve in the amount of $2,046,565 against interest receivable previously recorded related to the note.

NOTE D – MARKETABLE SECURITIES AND OTHER INVESTMENTS

At December 31, 2018 and 2017, marketable securities and other investments consisted of the following:

	2018	2017
Marketable securities		
Corporate debt and equity securities, and mutual funds	$44,327,783	$44,387,269
Structured debt securities	-	3,660,043
Total marketable securities	44,327,783	48,047,312
Other investments	4,644,817	7,596,426
Total marketable securities and other investments	$48,972,600	$55,643,738

Marketable securities with a fair value of $25,554,568 and $28,550,112 at December 31, 2018 and 2017, respectively, were pledged as collateral for a note payable by the Ranch to First Hawaiian Bank (see Note K). 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, 2018 and 2017 amounted to $270,651 and $361,178, respectively.

NOTE E – FAIR VALUE MEASUREMENTS

The fair value measurements reportable by the Trust (see note C) include marketable securities invested in corporate debt and equity securities, and in mutual funds, valued at quoted market prices in active markets (Level 1 valuation inputs), and in structured debt securities valued using discounted cash flows (Level 2 valuation inputs). There are no investments for which Level 3 valuation inputs are required.

The following sets forth by level, within the fair value hierarchy, the Trust's marketable securities at fair value as of December 31, 2018:

	Level 1	Level 2	Level 3	Total
Corporate equity and debt securities, and mutual funds	$44,327,783	$ -	$ -	$44,327,783
Total marketable securities at fair value	$44,327,783	$ -	$ -	$44,327,783

NOTE E – FAIR VALUE MEASUREMENTS (Continued)

The following sets forth by level, within the fair value hierarchy, the Trust's marketable securities at fair value as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
Corporate equity and debt securities, and mutual funds	$44,387,269	$ -	$ -	$44,387,269
Structured debt securities	-	3,660,043	-	3,660,043
Total marketable securities at fair value	$44,387,269	$3,660,043	$ -	$48,047,312

NOTE F – INVESTMENTS IN JOINT VENTURES

The Ranch has a 50% interest in Kaomalo LLC (Kaomalo), an at-will, manager-managed limited liability company organized in the State of Hawaii in November 2000 as a real estate joint venture, under an operating agreement to develop residential units on certain parcels in Kamuela, Hawaii. The Ranch accounts for its investment in Kaomalo using the equity method, whereby it recognizes its proportionate share of Kaomalo's member's equity and results of operations. At December 31, 2018 and 2017, Kaomalo's total assets were $314,015 and $340,703, respectively, and its total liabilities were $60,560 and $231,828, respectively, resulting in a net investment of $126,728 and $54,438, respectively. The Ranch's equity in the earnings of Kaomalo for the year ended December 31, 2018 were $72,290, and its equity in the losses of Kaomalo for the year ended December 31, 2017 were $31,837.

The Ranch has a 25% interest in Paniolo Cattle Co LLC (Paniolo), an at-will, manager-managed, limited liability company organized in the State of Hawaii in February 2014 to expand the production of and develop markets for locally raised natural beef. The Ranch also has a contract to supply cattle for Paniolo's Hawaii operations. The Ranch accounts for its investment in Paniolo using the equity method. At December 31, 2018 and 2017, Paniolo's total assets were $3,663,630 and $3,519,218, respectively, and its total liabilities were $702,850 and $871,308, respectively, resulting in a net investment of $740,195 and $707,154, respectively. The Ranch's equity in the earnings of Paniolo for the year ended December 31, 2018 were $33,041, and its equity in the losses of Paniolo for the year ended December 31, 2017 were $21,566.

NOTE G – PROPERTY AND EQUIPMENT

At December 31, 2018 and 2017, property and equipment consisted of the following:

	2018	2017
Land and land improvements	$144,870,385	$145,104,493
Buildings and leasehold improvements	19,652,831	19,518,392
Machinery, fixtures, and equipment	5,628,824	5,474,666
Breeding livestock	7,639,744	7,333,863
Water rights	2,670,000	2,670,000
Construction in progress	894,082	209,090
Total	181,355,866	180,310,504
Accumulated depreciation	(23,490,313)	(22,584,433)
Property and equipment – net	$157,865,553	$157,726,071

Depreciation and amortization for the year ended December 31, 2018 amounted to $1,145,625, of which $728,736 was capitalized to cattle inventory and $416,889 was expensed. Depreciation and amortization for the year ended December 31, 2017 amounted to $1,567,981, of which $1,150,990 was capitalized to cattle inventory and $416,991 was expensed.

NOTE H – LEASES

The Ranch, as lessor, leases land to others under operating leases expiring at various dates through 2030. Rental income, including rental income under short-term operating leases of less than one year, amounted to approximately $154,100 and $156,500 for the years ended December 31, 2018 and 2017, respectively.

The Ranch, as lessee, leases pastureland, commercial space, and equipment from others under operating leases expiring at various dates through 2033. The leases as lessee provide for the payment of percentage rent, rent escalations, reimbursement of certain costs, and renewal options. Rent expense related to operating leases, including rent capitalized into cattle inventory, amounted to approximately $410,200 and $393,400 for the years ended December 31, 2018 and 2017, respectively.

NOTE H – LEASES (Continued)

At December 31, 2018, expected future minimum future lease rent receivable as lessor, excluding percentage rent and cost reimbursements, and future minimum lease rent payable as lessee were as follows:

	As Lessor	As Lessee
Years Ending December 31st		
2019	$ 1,311,159	$ 80,059
2020	$ 1,026,751	$ 79,612
2021	$ 892,293	$ 71,225
2022	$ 814,444	$ 64,402
2023	$ 790,538	$ 59,142
Thereafter (cumulative)	$10,759,433	$237,177

NOTE I – NOTES PAYABLE

At December 31, 2018 and 2017, notes payable consisted of the following:

	2018	2017
Borrowings on a $16 million Revolving Credit Agreement with First Hawaiian Bank payable in monthly installments of interest only at the one-month LIBOR rate plus 1.00%. Collateralized by certain investments of the Trust. Matures October 2021.	$16,000,000	$16,000,000
Borrowings on a $6 million Cattle-Financing Arrangement with AG Texas payable in monthly installments of interest only at the one-month LIBOR rate plus 2.5%. Collateralized by cattle. Matures October 2019.	4,398,901	4,398,901
Borrowings on a $3.5 million Revolving Credit Agreement with First Hawaiian Bank payable in monthly installments of interest only at the Bank's prime rate of interest plus 1.00%. Collateralized by real property. Matures September 2020.	2,544,699	1,827,831
Borrowings under financing agreements due in various monthly installments through September 2023, including interest at 3.3% to 5.3%. Collateralized by vehicles.	207,241	229,658
Borrowings under margin and fixed rate loans retired at stated value during the year ended December 31, 2018.	-	3,777,000
Total notes payable	$23,150,841	$26,233,390

NOTE I – NOTES PAYABLE (Continued)

The $16 million Revolving Credit Facility with First Hawaiian Bank (Bank) allows the Ranch to select the rate upon which interest on the unpaid principal balance is based and can be converted from time-to-time from among the Bank's prime rate of interest, the one-month LIBOR rate plus 1%, the two-month LIBOR rate plus a LIBOR margin, or the three-month LIBOR plus a LIBOR margin. The $3.5 million Revolving Credit Agreement with the Bank includes a $500,000 interest reserve that allows the Ranch to include interest in the loan balance rather than making monthly payments. The Revolving Credit Agreements with the Bank include covenants that require the Ranch and its subsidiaries, together with Trust, that limit their ability to make expenditures and capital investments, and to maintain certain financial ratios and make period reports to the Bank. The Bank's base rate at December 31, 2018 was 5.50%, and the one month, two month, and three month LIBOR rates were 2.45%, 2.58%, and 2.88%, respectively. The Bank's base rate at December 31, 2017 was 4.50%, and the one month, two month, and three month LIBOR rates were 1.49%, 1.54%, and 1.61%, respectively.

At December 31, 2018, scheduled maturities of notes payable were as follows:

Years Ending December 31st	
2019	$ 4,494,177
2020	2,605,378
2021	16,021,849
2022	16,607
2023	12,830
Total notes payable	$23,150,841

NOTE J – INCOME TAXES

The Ranch and its subsidiaries are subject to income taxes. Current income tax benefits for the years ended December 31, 2018 and 2017 consisted of the following:

	2018	2017
Current income tax benefits		
Federal income tax benefit	$ 723	$177,269
State income tax benefit	18,030	301,669
Total current income tax benefits	$18,753	$478,938

NOTE J – INCOME TAXES (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities were as follows at December 31, 2018 and 2017:

	2018	2017
Deferred income tax assets		
Net operating loss carryforwards	$ 12,124,000	$ 12,600,000
Allowance for accrued interest on note receivable	3,605,000	3,605,000
Differences in carrying value of property and equipment	2,801,000	2,705,000
Postretirement benefits	481,000	548,000
Other	245,200	215,000
Total deferred income tax assets	19,256,200	19,673,000
Valuation allowance	(19,256,200)	(19,673,000)
Deferred income tax assets – net	$ -	$ -

Estimated deferred income tax assets amounting to $19,256,200 and $19,673,000 at December 31, 2018 and 2017, respectively, have been reduced by valuation allowances in the same amount. The change in the valuation allowance amounted to $416,800 and $9,196,000 for the years ended December 31, 2018 and 2017, respectively.

NOTE K – RELATED PARTY TRANSACTIONS

Due From and Due to Related Parties

At December 31, 2018 and 2017, amounts due from and due to related parties consisted of amounts due from and due to the Trust and Paniolo for expense allocations, cattle sales, and other items accrued but not paid.

Related-Party Note Receivable

At December 31, 2018 and 2017, the related-party note receivable consisted of a note receivable from an officer of the Ranch in annual installments of $25,000 through February 2023, plus interest at 2.81%. The related-party note receivable is collateralized by real property.

Pledged Securities

The Trust has pledged marketable securities as collateral for the Ranch's notes payable to First Hawaiian Bank with a fair value of $25,554,568 and $28,550,112 at December 31, 2018 and 2017, respectively.

NOTE K – RELATED PARTY TRANSACTIONS (Continued)

Administrative Services Agreements

The Ranch has an administrative services agreement with Paniolo to provide specific administrative support and bookkeeping services for an annual fee of $165,000 plus out-of-pocket costs and 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 administrative fee invoiced to Paniolo by the Ranch amounted to $172,500 for the years ended December 31, 2018 and 2017.

Cattle Supply Agreement

The Ranch has an agreement to supply cattle to Paniolo for use in conducting its business. The agreement provides for the delivery of cattle with quantities as prescribed in the agreements for a price 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. The Ranch sold 2,249 and 1,808 head of cattle, respectively, to Paniolo during the years ended December 31, 2018 and 2017, and recognized cattle sales of $1,528,110 and $1,206,399 respectively.

Cattle Services Agreement

The Ranch has an agreement to provide cattle feeding and finishing services to Paniolo under which it is paid per pound of gain, based on an agreed-upon production schedule and a target weight. Additionally, the Ranch is reimbursed by Paniolo for certain other costs, including transportation and veterinary costs. The cattle are grazed on land owned or leased by the Ranch. The Ranch recognized $700,061 and $677,841 as other income during the years ended December 31, 2018 and 2017, respectively, of which $48,179 and $62,687, respectively, was included in accounts receivable for cattle services under the agreement.

Purchase and Sale Agreement

The Ranch has an agreement to purchase finished cattle from Paniolo, arrange for the processing of the finished animals by third parties, and sell the processed and packaged meat to Paniolo for resale. The purchase price paid by the Ranch is based upon the fair market value of the cattle on the date of purchase. Following the processing and packaging of the processed meat, the Ranch sells the product to Paniolo for a calculated "Processed Meat Price," which is designed to reimburse the Ranch 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 the Ranch for sales of the cattle purchased by third parties.

The Ranch recognizes the purchase and resell of cattle to Paniolo on a net basis resulting in revenue recognition of only incremental costs incurred to process and package the meat amounting to $13,106 and $10,887 for the years ended December 31, 2018 and 2017, respectively. Receivable and payable amounts related to the purchase and resell of cattle to Paniolo are also shown on a net basis, resulting in accounts receivable of $53,355 and $95,582 at December 31, 2018 and 2017, respectively.

NOTE L – BENEFIT PLANS

Postretirement Benefits

The Trust and its subsidiaries provide certain retired employees with certain postretirement benefits, primarily related to healthcare coverage. The unfunded benefit obligation at December 31, 2018 and 2017 was computed based on management's current estimates of benefits to be paid, discounted at 4.32% and 3.67%, respectively. Healthcare cost increase assumptions were 6.6% in 2018, decreasing according to the Society of Actuaries Getzen model, to 3.8% in 2076 as well as each year thereafter.

The postretirement benefit obligation at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Projected benefit obligation – beginning of plan year	$2,130,809	$1,982,244
Interest cost	72,295	75,321
Employer paid benefits	(114,389)	(99,839)
Actuarial (gain) loss	(178,616)	202,450
Other adjustments	(23,502)	(29,366)
Projected benefit obligation – end of plan year	$1,886,597	$2,130,810

Postretirement benefit (credit) expense for the years ended December 31, 2018 and 2017 included in operating costs in the accompanying consolidated statements of activities consisted of the following:

	2018	2017
Interest cost during the year	$ 72,295	$ 75,321
Actuarial (gain) loss	(178,616)	202,450
Postretirement benefit (credit) expense	$(106,321)	$277,771

At December 31, 2018, future estimated benefit payments for the next 10 years were as follows:

Years Ending December 31st	
2019	$119,317
2020	$123,513
2021	$122,476
2022	$121,529
2023	$122,752
2024 to 2028	$607,768

NOTE L – BENEFIT PLANS (Continued)

Retirement Saving Plan

The Ranch sponsors the Parker Ranch 401(k) Retirement Savings Plan (Plan), which covers substantially all its employees. The Plan provides for the Ranch to make matching 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. The Ranch made contributions of approximately $207,000 and $188,000 for the years ended December 31, 2018 and 2017, respectively.

NOTE M – CUSTOMER CONCENTRATION

To obtain premium pricing on cattle, the Ranch markets its cattle through a limited number of customers. Sales to two customers represented approximately 91% and 84% of total cattle sales and 62% and 66% of total revenues for the years ended December 31, 2018 and 2017, respectively. As cattle are a commodity product, management believes alternative customers could be identified as necessary.

NOTE N – FUNCTIONAL ALLOCATION OF EXPENSES

The primary operations of the Trust and its subsidiaries are cattle operations and the maintenance and leasing of land. Costs and expenses by functional classification for the years ended December 31, 2018 and 2017 were as follows:

	2018	2017
Operating costs and expenses		
Cost of cattle sales	$ 7,072,726	$ 5,994,789
Salaries and benefits	2,983,737	3,029,362
Other operating expenses	1,299,680	1,228,249
Interest	761,316	599,693
Depreciation	416,889	416,991
Total operating costs and expenses	12,534,348	11,269,084
General and administrative expenses	2,378,948	2,073,759
Total costs and expenses	$14,913,296	$13,342,843

NOTE O – CONTINGENCIES

The Trust and its subsidiaries are subject to legal proceedings, claims, or litigation arising in the course of business for which they seek the advice of legal counsel. Management estimates, on the advice of legal counsel and consultants, that the cost to resolve such matters, if any, will not be material to the consolidated financial statements. However, it is reasonably possible that such estimates may change within the near term.

The Trust and its subsidiaries operate in the State of Hawaii. Local, national, and international events can have severe, adverse effects on economic conditions in Hawaii. The effects on the consolidated financial statements of the Trust and its subsidiaries, if any, from such changes in economic conditions in Hawaii, if any, are not presently determinable.

NOTE P – CONSOLIDATED FINANCIAL STATEMENT PRESENTATION

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year presentation. The reclassifications did not affect the results of operations of the Trust and its subsidiaries.

NOTE Q – SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 25, 2019, which is the date the consolidated financial statements were available to be issued, and determined the Trust and its subsidiaries did not have any subsequent events requiring adjustment to the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

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