

THE PRIDDY FOUNDATION

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2006 AND 2005



MATHIS, WEST, HUFFINES & Co., P.C.
CERTIFIED PUBLIC ACCOUNTANTS - CONSULTANTS

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Independent Auditor's Report

Board of Directors
The Priddy Foundation
Wichita Falls, Texas

We have audited the accompanying statements of financial position of **The Priddy Foundation** (The Foundation), as of December 31, 2006 and 2005, and the related statements of activities and cash flows for the year ended December 31, 2006. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of **The Priddy Foundation** as of December 31, 2006 and 2005, and the results of its activities and its cash flows for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental data presented in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mathis, West, Huffines & Co., P.C.
MATHIS, WEST, HUFFINES & CO., P.C.

Wichita Falls, Texas
November 7, 2007

THE PRIDDY FOUNDATION

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2006

	2006	2005
Assets		
Cash	\$ -	\$ 292,418
Investments:		
Cash and cash equivalents	1,366,539	2,629,180
Equity securities	70,004,846	59,954,579
Fixed income - US Government	20,156,962	20,969,347
Fixed income - Municipalities	1,040	1,040
Accrued interest receivable	264,839	288,618
Mineral interests:		
Leasehold cost - producing royalty (net of accumulated depletion of \$41,836)	-	-
Leasehold cost - nonproducing royalty	5,149	5,149
Furniture and equipment (net of accumulated depreciation of \$90,026 and \$77,220, respectively)	25,474	38,279
Total assets	\$ 91,824,849	\$ 84,178,610
Liabilities		
Cash overdraft	\$ 56,722	\$ -
Excise tax payable	12,600	2,415
Grants payable	3,484,695	5,291,076
Deferred excise tax payable	450,904	325,901
Total liabilities	4,004,921	5,619,392
Net assets		
Unrestricted	87,819,928	78,559,218
Total liabilities and net assets	\$ 91,824,849	\$ 84,178,610

The accompanying Notes are an integral part of these financial statements.

PRIDDY FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	2006
Revenues and gains	
Dividends - Dodge and Cox	\$ 504,104
Dividends - Sarofim	575,219
Dividends - Other	100,444
U. S. Government securities interest	1,038,688
Interest	440,081
Net appreciation in fair value of investments	6,437,234
Gain/loss on sale of investments - Dodge and Cox	2,318,327
Gain/loss on sale of investments - Sarofim	510,129
Gain/loss on sale of investments - Vanguard	268,030
Gain/loss on sale of investments - Other	165,095
Oil royalty	13,826
Gas royalty	9,531
Miscellaneous income	5,920
Total revenues and gains	12,386,628
Expenses	
Depreciation	12,806
Severance tax	1,304
Board and Committee meetings	1,200
Car allowance	9,000
Contributions	2,078,849
Directors fees	44,500
Dues	2,695
Grant related expenses	200
Insurance	28,707
Investment fees	215,391
Leased equipment	3,680
Legal and accounting	70,530
Meals	1,676
Occupancy	29,000
Office, supplies and expenses	14,851
Printing and publications	865
SEP contribution	28,926
Site visit coordination	492
Sundry business expense	2,122
Salaries	344,496
Taxes - excise	181,783
Taxes - other	47,201
Travel and conferences	5,644
Total expenses	3,125,918
Change in net assets	9,260,710
Net assets, beginning of year	78,559,218
Net assets, end of year	\$ 87,819,928

The accompanying Notes are an integral part of these financial statements.

PRIDDY FOUNDATION

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>2006</u>
Cash Flow from Operating Activities	
Change in net assets	\$ 9,260,710
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation expense	12,806
Net appreciation in fair value of investments	(6,250,118)
Decrease in accrued interest receivable	23,779
Increase in cash overdraft	56,722
Decrease in grant payables	(1,806,381)
Increase in deferred excise tax payable	125,003
Increase in other liabilities	10,185
Net cash provided by operating activities	<u>1,432,706</u>
Cash Flow from Investing Activities	
Proceeds from sale of investments	10,469,208.00
Purchases of investments	<u>(12,194,332.00)</u>
Net cash flow from investing activities	<u>(1,725,124)</u>
Net decrease in cash	(292,418)
Cash, beginning of year	<u>292,418</u>
Cash, end of year	<u><u>\$ -</u></u>

The accompanying Notes are an integral part of these financial statements.

THE PRIDDY FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

Note 1 - ORGANIZATION

The Priddy Foundation is a general purpose foundation established in 1963 by Walter M. and Swannanoa D. Priddy to insure their personal philanthropy would continue in perpetuity, under the guidance and direction of family members and trusted advisors. The Foundation is primarily interested in programs that have the potential for lasting and favorable impact on individuals and organizations. The Foundation is dedicated to the support of programs in human services, education, the arts, and health, which offer significant potential for human and community improvement. Considerations for funding include the geographic area served by the project, the individuals and groups served, the problem being addressed, the availability of existing resources and the degree of the need.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are presented using the accrual basis of accounting. Accordingly, all revenues are recognized when earned, and expenses are recognized when incurred.

Investments

The Foundation accounts for investments in equity securities and U.S. Government securities at fair value.

Cash and Cash Equivalents

For financial reporting purposes, the Foundation considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents. Cash and cash equivalents held by investment managers are classified as investments and are reported separately under investments on the statement of financial position.

Furniture and Equipment

Furniture and equipment are recorded at cost. Expenditures for repairs and maintenance are charged against current year operations. Depreciation is generally computed and recorded on a straight-line basis over the estimated useful life of the related asset, which ranges from three to seven years.

Grant Appropriations

The Foundation recognizes unconditional grant appropriations as expenses at the time grants are committed to the recipient organizations. The Foundation recognizes conditional grant appropriations as expenses when the conditions on which they depend have been substantially met. Grants payable within one year are recorded at their fair value at the date of authorization. Grants payable in more than one year are recorded at the present value of their future cash outflows using a risk-free rate of return.

THE PRIDDY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONT'D.) DECEMBER 31, 2006

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Net assets

Net assets of the Foundation and changes therein are classified and reported as unrestricted net assets which represent resources available for support of Foundation operations that are not subject to donor-imposed stipulations.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 3 - CONCENTRATION OF CREDIT RISK FOR CASH HELD IN BANKS

The Foundation maintains a bank account with American National Bank. The account is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At December 31, 2006 and 2005, the Foundation's cash balance exceeded FDIC insurance coverage by \$470,253 and \$244,372, respectively.

Note 4 - INVESTMENTS

Investments held at December 31, 2006 and 2005 are as follows:

December 31, 2006	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gains (Losses)</u>
Cash and cash equivalents	\$ 1,366,539	\$ 1,366,539	\$ -
Equity securities	70,004,847	47,730,070	22,274,777
Fixed income securities:			
Government obligations	20,156,962	19,885,192	271,770
Municipality obligations	<u>1,040</u>	<u>2,400</u>	<u>(1,360)</u>
Total Investments	<u>\$ 91,529,388</u>	<u>\$68,984,201</u>	<u>\$22,545,187</u>
December 31, 2005	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gains (Losses)</u>
Cash and cash equivalents	\$ 2,629,180	\$ 2,629,180	\$ -
Equity securities	59,954,579	44,078,146	15,876,433
Fixed income securities:			
Government obligations	20,969,347	20,549,350	419,997
Municipality obligations	<u>1,040</u>	<u>2,400</u>	<u>(1,360)</u>
Total Investments	<u>\$ 83,554,146</u>	<u>\$67,259,076</u>	<u>\$16,295,070</u>

THE PRIDDY FOUNDATION

NOTES TO FINANCIAL STATEMENTS (CONT'D.) DECEMBER 31, 2006

Note 5 - GRANTS PAYABLE

Grants payable include amounts that will be paid more than one year after the date of the financial statement. The fair value of grants payable more than one year after December 31, 2006 and 2005 are discounted using the discount rate of 4% as follows:

	2006	2005
Payable in one year	\$2,358,661	\$3,360,804
Payable in one to five years	1,199,441	2,040,670
Total amount granted	3,558,102	5,401,474
Unamortized discount	73,407	110,398
Grants payable	<u>\$3,484,695</u>	<u>\$5,291,076</u>

Note 6 - FEDERAL INCOME AND EXCISE TAX

The Foundation is exempt from federal income taxes under Section 501(c)(3). Accordingly, the Foundation is not subject to federal income tax, except to the extent that it has unrelated business taxable income, of which it had none in 2006 or 2005. However, the Foundation is classified as a private foundation and, as such, is subject to a federal excise tax of 2% on net investment income, unless certain conditions are met, in which case the federal excise tax can be reduced to 1%. In 2006, the Foundation met those requirements and was subject to an excise tax on net investment income of 1%. Deferred excise taxes of \$450,904 are provided for on the unrealized increase in fair value of the Foundation's investment assets of \$22,545,187 at the 2% rate. In 2005, the Foundation met those requirements and was subject to an excise tax on net investment income of 1%. Deferred excise taxes of \$325,901 are provided for on the unrealized increase in fair value of the Foundation's investment assets of \$16,295,070 at the 2% rate.

Note 7 - INVESTMENTS HELD IN TRUST

To meet granting requirements and regulations, the Foundation will occasionally distribute grants to Community Foundations. Although the funds are granted, the Priddy Foundation does have some influence as to which organizations the funds are ultimately released. At December 31, 2006, the Priddy Foundation had granted the following amounts to the following organizations:

	2006
The Communities Foundation of Texas	\$2,529,326
Wichita Falls Community Foundation	270,499
Total investments held in trust	<u>\$2,799,895</u>