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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), a nonprofit organization, as of December 31, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. 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 present fairly, in all material respects, the financial position of **The Priddy Foundation** as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were 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  
August 6, 2008

# THE PRIDDY FOUNDATION

## STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2007 AND 2006

	2007	2006
<b>Assets</b>		
Cash	\$ 7,227,176	\$ -
Investments:		
Cash and cash equivalents	2,804,822	1,366,539
Equity securities	59,614,444	70,004,846
Fixed income - US Government	22,007,000	20,156,962
Fixed income - Municipalities	1,040	1,040
Accrued interest receivable	273,953	264,839
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 \$99,462 and \$90,026, respectively)	23,086	25,474
<b>Total assets</b>	<b>\$ 91,956,670</b>	<b>\$ 91,824,849</b>
<b>Liabilities</b>		
Cash overdraft	\$ -	\$ 56,722
Excise tax payable	46,042	12,600
Grants payable	4,230,246	3,484,695
Deferred excise tax payable	363,878	450,904
<b>Total liabilities</b>	<b>4,640,166</b>	<b>4,004,921</b>
<b>Net assets</b>		
Unrestricted	87,316,504	87,819,928
<b>Total liabilities and net assets</b>	<b>\$ 91,956,670</b>	<b>\$ 91,824,849</b>

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

# THE PRIDDY FOUNDATION

## STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
<b>Revenues and gains</b>		
Dividends - Dodge and Cox	\$ 520,467	\$ 504,104
Dividends - Sarofim	549,062	575,219
Dividends - Other	569,622	100,444
U. S. Government securities interest	1,136,006	1,038,688
Interest	561,926	440,081
Net appreciation (depreciation) in fair value of investments	(4,316,354)	6,437,234
Gain/loss on sale of investments - Dodge and Cox	4,530,328	2,318,327
Gain/loss on sale of investments - Sarofim	1,328,180	510,129
Gain/loss on sale of investments - Other	944,465	433,125
Oil royalty	14,276	13,826
Gas royalty	6,912	9,531
Miscellaneous income	3,192	5,920
Total revenues and gains	5,848,082	12,386,628
<b>Expenses</b>		
Depreciation	9,436	12,806
Severance tax	1,130	1,304
Board and Committee meetings	714	1,200
Contributions	5,430,476	2,078,849
Trustee fees	42,000	44,500
Dues	3,068	2,695
Grant related expenses	1,350	200
Insurance	14,143	13,874
Investment fees	228,335	215,391
Leased equipment	4,003	3,680
Legal and accounting	52,344	70,530
Meals	-	1,676
Occupancy	30,746	29,000
Office, supplies and expenses	19,731	14,851
Printing and publications	-	865
Site visit coordination	-	492
Sundry business expense	2,583	2,122
Salaries and staff benefits	450,664	397,255
Taxes - excise	15,374	181,783
Taxes - other	32,839	47,201
Travel and conferences	12,570	5,644
Total expenses	6,351,506	3,125,918
Change in net assets	(503,424)	9,260,710
Net assets, beginning of year	87,819,928	78,559,218
Net assets, end of year	\$ 87,316,504	\$ 87,819,928

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

# THE PRIDDY FOUNDATION

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
<b>Cash Flow from Operating Activities</b>		
Change in net assets	\$ (503,424)	\$ 9,260,710
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation expense	9,436	12,806
Net depreciation (appreciation) in fair value of investments	4,316,355	(6,250,118)
Decrease (increase) in accrued interest receivable	(9,114)	23,779
Increase (decrease) in cash overdraft	(56,722)	56,722
Increase (decrease) in excise tax payable	33,442	10,185
Increase (decrease) in grant payables	745,551	(1,806,381)
Increase (decrease) in deferred excise tax payable	(87,026)	125,003
Net cash provided by operating activities	4,448,498	1,432,706
<b>Cash Flow from Investing Activities</b>		
Proceeds from sale of investments	48,448,487	10,469,208
Purchases of investments	(45,662,761)	(12,194,332)
Purchase of furniture and equipment	(7,048)	0
Net cash flow from investing activities	2,778,678	(1,725,124)
Net decrease in cash	7,227,176	(292,418)
Cash, beginning of year	-	292,418
Cash, end of year	\$ 7,227,176	\$ -

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

# THE PRIDDY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 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, 2007 AND 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.

#### Reclassification

Certain items in the 2006 financial statements have been reclassified to conform to the current year classifications. Such reclassifications had no effect on the previously reported net income.

### 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, 2007 and 2006, the Foundation's cash balance exceeded FDIC insurance coverage by \$109,368 and \$470,253, respectively.

### Note 4 - INVESTMENTS

Investments held at December 31, 2007 and 2006 are as follows:

December 31, 2007	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Gains (Losses)</u>
Cash and cash equivalents	\$ 2,804,822	\$ 2,804,822	\$ -
Equity securities	59,614,444	41,984,422	17,630,022
Fixed income securities:			
Government obligations	22,007,000	21,406,829	600,171
Municipality obligations	<u>1,040</u>	<u>2,400</u>	<u>(1,360)</u>
<b>Total Investments</b>	<b><u>\$ 84,427,306</u></b>	<b><u>\$ 66,198,473</u></b>	<b><u>\$ 18,228,833</u></b>
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>
<b>Total Investments</b>	<b><u>\$ 91,529,388</u></b>	<b><u>\$68,984,201</u></b>	<b><u>\$22,545,187</u></b>

# THE PRIDDY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (CONT'D) DECEMBER 31, 2007 AND 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 approved amounts of grants payable more than one year after December 31, 2007 and 2006 are discounted using the discount rate of 4% as follows:

	2007	2006
Payable in one year	\$3,390,492	\$2,358,661
Payable in one to five years	875,050	1,199,441
Total amount granted	4,265,542	3,558,102
Unamortized discount	35,296	73,407
Grants payable	<u>\$4,230,246</u>	<u>\$3,484,695</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 2007 or 2006. 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 2007, the Foundation met those requirements and was subject to an excise tax on net investment income of 1%. Deferred excise taxes of \$363,878 are provided for on the unrealized increase in fair value of the Foundation's investment assets of \$18,228,833 at the 2% rate. 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.

### 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, 2007 and 2006, the Priddy Foundation had granted the following amounts to the following organizations:

	2007	2006
Communities Foundation of Texas	\$ 261,906	\$2,529,326
Wichita Falls Area Community Foundation	1,403,316	270,499
Total investments held in trust	<u>\$1,665,222</u>	<u>\$2,799,825</u>