THE PRIDDY FOUNDATION

ANNUAL FINANCIAL REPORT

DECEMBER 31, 2016 AND 2015

MWH GROUP
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 financial statements of The Priddy Foundation (the Foundation), a nonprofit organization, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Priddy Foundation as of December 31, 2016 and 2015, 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.

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Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules on pages 12 through 17 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

MWH Group, P.C.

MWH GROUP, P.C.

Wichita Falls, Texas
October 3, 2017

THE PRIDDY FOUNDATION

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	2016	2015
Assets		
Cash	$ 65,530	$ 102,875
Investments:		
Cash and cash equivalents	39,057,702	10,892,080
Equity securities	114,812,146	101,627,643
Fixed income	46,647,981	45,131,362
Partnerships	21,279,482	19,580,789
Receivables:		
Accrued interest receivable	221,571	199,316
Excise taxes receivable	71,224	17,729
Purchased interest	497	50,667
Mineral interests:		
Leasehold cost - producing royalty (net of accumulated depletion of $41,836)	-	-
Leasehold cost - nonproducing royalty	5,149	5,149
Construction in progress	7,699	-
Furniture and equipment (net of accumulated depreciation of $165,876 and $149,406, respectively)	22,229	38,698
Total assets	$ 222,191,210	$ 177,646,308
Liabilities		
Grants payable (net of discount of $251,236 and $86,495, respectively)	$ 10,999,138	$ 5,623,434
Deferred excise tax payable	399,704	597,047
Total liabilities	11,398,842	6,220,481
Net assets		
Unrestricted	210,792,368	171,425,827
Total liabilities and net assets	$ 222,191,210	$ 177,646,308

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

THE PRIDDY FOUNDATION

STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Revenues and gains		
Contributions	$ 37,703,980	$ 10,136,459
Dividends - Dodge and Cox	741,454	599,527
Dividends - Sarofim	-	7,230
Dividends - Luther King	626,190	600,572
Dividends - Vanguard	709,611	646,639
Dividends - Morgan Stanley	26,057	61,507
Corporate bond and U. S. Government securities interest	378,711	701,069
Municipal bond interest	150,767	92,712
Other interest	29,499	3,193
Net appreciation (depreciation) in fair value of investments	10,000,116	(9,755,148)
Gain on sale of investments - Dodge	1,582,884	1,710,148
Gain on sale of investments - Luther King	3,281,365	3,225,785
Gain on sale of investments - Sentry	30,479	15,263
Gain (loss) on sale of investments - Morgan Stanley Partnerships	(533,763)	417,260
Gain (loss) on sale of investments - Morgan Stanley Stocks	290,498	(845,005)
Gain on sale of asset - other	35,805	2,691
Oil royalty	16,243	21,967
Gas royalty	1,741	2,751
Miscellaneous income	40	17,488
Total revenues and gains	55,071,677	7,662,108
Expenses		
Depreciation	16,470	16,960
Severance tax	918	1,162
Board and Committee meetings	4,521	3,326
Grants	14,061,955	8,365,477
Trustee fees	78,500	81,150
Dues	3,489	14,038
Grant related expenses	62,674	33,935
Insurance	19,804	16,301
Investment fees	563,127	566,131
Leased equipment	5,256	4,959
Legal and accounting	78,680	76,439
Occupancy	43,346	36,666
Office supplies and expenses	42,140	22,177
Sundry business expense	28,922	9,928
Salaries and staff benefits	700,401	657,592
Taxes (benefit) - excise	(133,567)	(53,730)
Taxes - other	72,979	69,609
Travel and conferences	55,521	42,243
Total expenses	15,705,136	9,964,363
Change in net assets	39,366,541	(2,302,255)
Net assets, beginning of year	171,425,827	173,728,082
Net assets, end of year	$ 210,792,368	$ 171,425,827

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

THE PRIDDY FOUNDATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
Cash Flow from Operating Activities		
Change in net assets	$ 39,366,541	$ (2,302,255)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation expense	16,470	16,960
Net (appreciation) depreciation in fair value of investments	(10,000,116)	9,757,839
Gain on sale of investments	(4,687,268)	(4,526,142)
Investments received through contributions	(37,703,980)	(10,136,459)
(Increase) decrease in:		
Accrued interest receivable	(22,255)	(75,705)
Accrued excise tax receivable	(53,495)	(17,729)
Purchased interest	50,170	(50,667)
Increase (decrease) in:		
Cash overdraft	-	(4,764)
Grant payables	5,375,704	2,424,727
Excise tax payable	-	(316,156)
Deferred excise tax payable	(197,343)	(186,001)
Net cash used by operating activities	(7,855,572)	(5,416,352)
Cash Flow from Investing Activities		
Proceeds from sale of investments	49,572,411	42,657,407
Purchases of investments	(41,746,484)	(37,120,962)
Purchase of property, plant and equipment	(7,700)	(17,218)
Net cash flow provided by investing activities	7,818,227	5,519,227
Net increase (decrease) in cash	(37,345)	102,875
Cash, beginning of year	102,875	-
Cash, end of year	$ 65,530	$ 102,875
Supplemental Cash Flow Disclosure		
Cash paid for taxes	$ 117,271	$ 466,156

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

THE PRIDDY FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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 marketable equity securities and U.S. Government and corporate (debt) securities with readily determinable fair values based on quoted prices in active markets in the accompanying Statements of Financial Position. Investments in the partnerships are accounted for at fair value of the limited partner's interest based on the partnership's financial performance. Unrealized gains and losses are included in the change in net assets in the accompanying Statements of Activities.

Cash and Cash Equivalents

For financial reporting purposes, the Foundation considers all highly liquid debt instruments purchased with original 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 Statements of Financial Position.

Furniture and Equipment

Furniture and equipment are recorded at cost if purchased or fair value at the date of contribution if contributed. 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.

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

Net assets

Financial statement presentation follows the standards of the Financial Accounting Standards Board (FASB) ASC 958-205-50-1B, *Not-for-Profit Entities*, and 50-2, *Presentation of Financial Statements*. Under FASB ASC 958-205-50-2, the Foundation is required to present its net assets and its revenue and gains based upon the existence or absence of donor imposed restrictions into the following three classes:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. The Foundation had no temporarily restricted net assets in 2016 and 2015.

Permanently restricted net assets - Net assets subject to donor imposed stipulations that require they be maintained permanently by the Foundation. The Foundation had no permanently restricted net assets.

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 on the 2015 financial statements have been reclassified to conform to the current year's presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

Date of Management Evaluation

Management has evaluated subsequent events through August 1, 2017, the date on which the financial statements were available to be issued.

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 $250,000 at December 31, 2016 and 2015. At December 31, 2016, the Foundation's cash balance exceeded FDIC insurance coverage by $123,389. At December 31, 2015, the Foundation's cash balance did not exceed FDIC insurance coverage.

Note 4 - INVESTMENTS

Investments held at December 31, 2016 and 2015 are as follows:

December 31, 2016:	Fair Value	Cost	Unrealized Gains (Losses)
Equity securities	$114,812,146	$ 79,654,888	$ 35,157,258
Fixed income securities	46,647,981	46,825,185	(177,204)
Partnership	21,279,482	16,289,122	4,990,360
Total Investments	$182,739,609	$142,769,195	$ 39,970,414

December 31, 2015:	Fair Value	Cost	Unrealized Gains (Losses)
Equity securities	$101,627,643	$ 74,141,157	$ 27,486,486
Fixed income securities	45,131,362	45,171,702	(40,340)
Partnership	19,580,789	17,003,813	2,576,976
Total Investments	$166,339,794	$136,316,672	$ 30,023,122

FASB ASC 820, Fair Value Measurements and Disclosures, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical 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 to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Note 4 - INVESTMENTS (CONT'D.)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2016 and 2015.

Common stocks, corporate bonds and U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the net asset value (NAV) of shares held by the Foundation at year-end.

Partnership: Valued at the closing value of the limited partner's interest based on the partnership's financial performance.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, 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.

	Fair Value Measurements at December 31, 2016			
	Level 1	Level 2	Level 3	Total
Equities	$114,812,146	$ -	$ -	$114,812,146
Fixed Income	-	46,647,981	-	46,647,981
Partnership	-	21,279,482	-	21,279,482
Total	$114,812,146	$ 67,927,463	$ -	$182,739,609

	Fair Value Measurements at December 31, 2015			
	Level 1	Level 2	Level 3	Total
Equities	$101,627,643	$ -	$ -	$101,627,643
Fixed Income	-	45,131,362	-	45,131,362
Partnership	-	19,580,789	-	19,580,789
Total	$101,627,643	$ 64,712,151	$ -	$166,339,794

The Level 2 amount shown above includes the Foundation's investment in several partnerships. These investments are not traded on an active market. However, the partnerships perform a periodic valuation of the partner's interest based on the partnerships' financial performance. The Foundation believes that this valuation is the best indication of the fair value of the partnerships.

The Foundation's investments are primarily held in equity securities, of which several are in an unrealized loss position. The Foundation has evaluated the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on that evaluation and the Foundation's intent and ability to hold these investments for a reasonable period of time sufficient for a forecasted recovery of fair value, management does not consider these investments to be other-than-temporarily impaired at December 31, 2016 and 2015.

Note 4 - INVESTMENTS (CONT'D.)

Information pertaining to investments with gross unrealized losses aggregated by length of time individual securities have been in a continuous loss position is as follows:

For the year ended December 31, 2016:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equities	$ 4,931,368	$ (261,154)	$ 4,736,321	$(1,212,345)	$ 9,667,689	$(1,473,499)
Fixed income	14,418,686	(97,677)	14,974,848	(146,469)	29,393,534	(244,146)
Partnership	1,465,970	(111,246)	635,217	(73,489)	2,101,187	(184,735)
Total	$ 20,816,024	$ (470,077)	$ 20,346,386	$(1,432,303)	$41,162,410	$(1,902,380)

For the year ended December 31, 2015:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equities	$ 6,391,272	$ (930,442)	$ 2,661,631	$(1,265,294)	$ 9,052,903	$(2,195,736)
Fixed income	21,423,955	(166,493)	4,110,250	(14,158)	25,534,205	(180,651)
Partnership	4,175,258	(928,251)	-	-	4,175,258	(928,251)
Total	$ 31,990,485	$(2,025,186)	$ 6,771,881	$(1,279,452)	$38,762,366	$(3,304,638)

Note 5 - INVESTMENTS HELD IN TRUST

To meet granting requirements and regulations, the Foundation will occasionally distribute grants to other Foundations. Although the funds are granted, the Foundation does have some influence as to which organizations the funds are ultimately released. At December 31, 2016 and 2015, the Foundation had granted the following amount to the following organization:

	2016	2015
Wichita Falls Area Community Foundation	$ 41,744	$ 186,915

Note 6 - 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, 2016 and 2015 are discounted using the discount rate of 4% as follows:

	2016	2015
Payable in one year	$ 6,223,699	$ 4,088,719
Payable in one to five years	5,026,675	1,621,210
Total amount granted	11,250,374	5,709,929
Unamortized discount	(251,236)	(86,495)
Grants payable	$10,999,138	$ 5,623,434

Note 7 - 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 2016 or 2015. 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%.

For the years ended December 31, 2016 and 2015, federal excise tax expense (benefit) consisted of the following:

	2016	2015
Current Federal Excise Tax Expense	$ 63,776	$ 132,271
Deferred Federal Excise Tax (Benefit)	(197,342)	(186,001)
Federal Excise Tax Benefit, net	$ (133,567)	$ (53,730)

Tax expense differs from amounts currently receivable (payable) because certain investment income is included in the Statement of Activities in periods that differ from those in which it is subject to taxation.

The Foundation made provisions for deferred excise taxes, which were recorded at the 1% excise tax rate in 2016 and 2015. Deferred excise tax payable was $399,704 and $597,047 for the years ended December 31, 2016 and 2015, respectively, resulting from net unrealized losses and gains on investments.

Note 8 - DEFINED CONTRIBUTION PENSION PLAN

The Foundation sponsors a defined contribution pension plan. For 2016 and 2015, the amount of pension expense was $28,985 and $27,140, respectively.

Note 9 - RISKS AND UNCERTAINTIES

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect investment account balances included in the Foundation's financial statements.