# THE PRIDDY FOUNDATION

## ANNUAL FINANCIAL REPORT

## DECEMBER 31, 2013 AND 2012

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, 2013 and 2012, 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 audit 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, 2013 and 2012, 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 data presented in Schedule 1 is presented for purposes of additional analysis and is 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
August 15, 2014

# THE PRIDDY FOUNDATION

## STATEMENTS OF FINANCIAL POSITION
## DECEMBER 31, 2013 AND 2012

| | 2013 | 2012 |
|---|---|---|
| **Assets** | | |
| Cash | $ 36,702 | $ 37,586 |
| Investments: | | |
| Cash and cash equivalents | 15,216,551 | 12,979,237 |
| Equity securities | 110,497,126 | 96,563,480 |
| Fixed income - US Government | 23,926,706 | 24,556,424 |
| Partnerships | 22,285,046 | 8,910,425 |
| Receivables: | | |
| Accrued interest receivable | 111,789 | 104,440 |
| Excise taxes receivable | - | 21,943 |
| Purchased interest | 10,873 | - |
| 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 $104,600 and $96,147, respectively) | 38,030 | 23,808 |
| Total assets | $ 172,127,972 | $ 143,202,492 |
| **Liabilities** | | |
| Grants payable, net of discount | $ 3,889,433 | $ 2,974,572 |
| Investment payable | 1,140,160 | - |
| Payroll taxes payable | 8,776 | 31 |
| Excise tax payable | 110,053 | - |
| Deferred excise tax payable | 993,149 | 487,621 |
| Total liabilities | 6,141,571 | 3,462,224 |
| **Net assets** | | |
| Unrestricted | 165,986,401 | 139,740,268 |
| Total liabilities and net assets | $ 172,127,972 | $ 143,202,492 |

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

# THE PRIDDY FOUNDATION

## STATEMENTS OF ACTIVITIES
## YEARS ENDED DECEMBER 31, 2013 AND 2012

| | 2013 | 2012 |
|---|---|---|
| | Unrestricted | Unrestricted |
| **Revenues and gains** | | |
| Dividends - Dodge and Cox | $ 505,511 | $ 502,619 |
| Dividends - Sarofim | 773,788 | 779,050 |
| Dividends - Luther King | 665,375 | 925,292 |
| U. S. Government securities interest | 276,944 | 376,135 |
| Other interest | 13,710 | 3,201 |
| Net appreciation in fair value of investments | 24,549,577 | 14,997,984 |
| Gain on sale of investments - Dodge | 1,172,157 | 667,425 |
| Gain on sale of investments - Sarofim | 886,338 | 29,188 |
| Gain on sale of investments - Luther King | 790,482 | 167,703 |
| Gain on sale of investments - Sentry | 23,322 | 69,372 |
| Gain on sale of investments - Morgan Stanley | 222,739 | - |
| Gain on sale of investments - Dodge and Cox | 3,281,174 | - |
| Loss on sale of investments - Vanguard | - | (598,076) |
| Oil royalty | 37,728 | 28,570 |
| Gas royalty | 5,703 | 3,770 |
| Miscellaneous | - | 17,675 |
| Total revenues and gains | 33,204,548 | 17,969,908 |
| **Expenses** | | |
| Depreciation | 7,933 | 8,722 |
| Severance tax | 2,458 | 47 |
| Board and Committee meetings | 1,503 | 3,130 |
| Grants | 4,718,599 | 3,014,127 |
| Trustee fees | 81,500 | 79,500 |
| Dues | 4,095 | 3,375 |
| Grant related expenses | 10,769 | 79,752 |
| Insurance | 16,568 | 16,337 |
| Investment fees | 554,263 | 430,604 |
| Legal and accounting | 52,632 | 62,127 |
| Occupancy | 32,928 | 34,795 |
| Office supplies and expenses | 42,498 | 26,390 |
| Sundry business expense | 20,099 | 4,336 |
| Salaries and staff benefits | 660,699 | 631,521 |
| Taxes - excise | 665,581 | 347,692 |
| Taxes - other | 69,525 | 93,331 |
| Travel and conferences | 16,765 | 28,847 |
| Total expenses | 6,958,415 | 4,864,633 |
| Change in net assets | 26,246,133 | 13,105,275 |
| Net assets, beginning of year | 139,740,268 | 126,634,993 |
| Net assets, end of year | $ 165,986,401 | $ 139,740,268 |

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

# THE PRIDDY FOUNDATION

## STATEMENTS OF CASH FLOWS
## YEARS ENDED DECEMBER 31, 2013 AND 2012

| | 2013 | 2012 |
|---|---|---|
| **Cash Flow from Operating Activities** | | |
| Change in net assets | $ 26,246,133 | $ 13,105,275 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation expense | 7,933 | 8,722 |
| Net appreciation in fair value of investments | (31,785,856) | (15,333,596) |
| Loss on disposition of furniture and equipment | - | 479 |
| (Increase) decrease in: | | |
| Accrued interest receivable | (7,349) | 35,555 |
| Accrued excise tax receivable | 21,943 | (18,548) |
| Purchased interest | (10,873) | 1,656 |
| Increase (decrease) in: | | |
| Grant payables | 914,861 | (2,934,076) |
| Payable under investment agreements | 1,140,160 | - |
| Payroll taxes payable | 8,745 | 10 |
| Excise tax payable | 110,053 | (41,797) |
| Deferred excise tax payable | 505,528 | 298,635 |
| Net cash used by operating activities | (2,848,722) | (4,877,685) |
| **Cash Flow from Investing Activities** | | |
| Proceeds from sale of investments | 40,783,694 | 44,041,400 |
| Purchases of investments | (37,913,701) | (39,133,165) |
| Purchase of furniture and equipment | (22,155) | (4,065) |
| Net cash flow provided by investing activities | 2,847,838 | 4,904,170 |
| Net increase (decrease) in cash | (884) | 26,485 |
| Cash, beginning of year | 37,586 | 11,101 |
| Cash, end of year | $ 36,702 | $ 37,586 |
| **Supplemental Cash Flow Disclosure** | | |
| Cash paid for taxes | $ 28,057 | $ 49,057 |

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

# THE PRIDDY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS
## DECEMBER 31, 2013 AND 2012

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. The investment in the partnership is 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 2013 and 2012.

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.

Date of Management Evaluation

Management has evaluated subsequent events through August 15, 2014, 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, 2013 and 2012. At December 31, 2013 and 2012 the Foundation's cash balance did not exceed FDIC insurance coverage.

Note 4 - INVESTMENTS

Investments held at December 31, 2013 and 2012 are as follows:

| December 31, 2013 | Fair Value | Cost | Unrealized Gains (Losses) |
|---|---|---|---|
| Equity securities | $110,497,126 | $ 65,846,817 | $ 44,650,309 |
| Fixed income securities | 23,926,706 | 24,072,133 | (145,427) |
| Partnership | 22,285,046 | 17,132,486 | 5,152,560 |
| Total Investments | $156,708,878 | $107,051,436 | $ 49,657,442 |

Note 4 - INVESTMENTS (CONT'D.)

| December 31, 2012 | Fair Value | Cost | Unrealized Gains (Losses) |
|---|---|---|---|
| Equity securities | $ 96,563,480 | $ 73,475,100 | $ 23,088,380 |
| Fixed income securities | 24,556,424 | 24,307,431 | 248,993 |
| Partnership | 8,910,425 | 8,000,000 | 910,425 |
| Total Investments | $130,030,329 | $105,782,531 | $ 24,247,798 |

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.

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, 2013 and 2012.

*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.

# THE PRIDDY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (CONT'D.)
## DECEMBER 31, 2013 AND 2012

Note 4 - INVESTMENTS (CONT'D.)

*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, 2013 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Equities | $110,497,126 | $ - | $ - | $110,497,126 |
| Fixed Income | - | 23,926,706 | - | 23,926,706 |
| Partnership | - | 22,285,046 | - | 22,285,046 |
| Total | $110,497,126 | $ 46,211,752 | $ - | $156,708,878 |

| | Fair Value Measurements at December 31, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Equities | $ 96,563,480 | $ - | $ - | $ 96,563,480 |
| Fixed Income | - | 24,556,424 | - | 24,556,424 |
| Partnership | - | 8,910,425 | - | 8,910,425 |
| Total | $ 96,563,480 | $ 33,466,849 | $ - | $130,030,329 |

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, 2013 and 2012.

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:

Note 4 - INVESTMENTS (CONT'D.)

For the year ended December 31, 2013:

| | Less Than 12 Months | | 12 Months or Greater | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Equities | $ 971,500 | $ (71,321) | $ 264,180 | $ (88,193) | $ 1,235,680 | $ (159,401) |
| Fixed income | 13,935,204 | (269,990) | 2,061,400 | (8,894) | 15,996,604 | (278,884) |
| Partnership | 2,207,588 | (161,371) | - | - | 2,207,588 | (161,371) |
| Total | $17,114,292 | $ (502,569) | $ 2,325,580 | $ (97,087) | $19,439,872 | $ (599,656) |

For the year ended December 31, 2012:

| | Less Than 12 Months | | 12 Months or Greater | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Equities | $ 6,055,392 | $(1,238,184) | $ 3,863,316 | $ (510,969) | $ 9,918,708 | $(1,749,153) |
| Fixed income | - | - | 5,113,360 | (17,946) | 5,113,360 | (17,946) |
| Total | $ 6,055,392 | $(1,238,184) | $ 8,976,676 | $ (528,915) | $15,032,068 | $(1,767,099) |

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.

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, 2013 and 2012 are discounted using the discount rate of 4% as follows:

| | 2013 | 2012 |
|---|---|---|
| Payable in one year | $ 3,545,695 | $ 2,772,649 |
| Payable in one to five years | 357,488 | 210,000 |
| Total amount granted | 3,903,183 | 2,982,649 |
| Unamortized discount | (13,750) | (8,077) |
| Grants payable | $ 3,889,433 | $ 2,974,572 |

# THE PRIDDY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS (CONT'D.)
## DECEMBER 31, 2013 AND 2012

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 2013 or 2012. 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%. The current portion of the excise tax expense is $160,053 and $49,057 for the years ended December 31, 2013 and 2012, respectively. 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 2013 and 2012. Deferred excise tax payable was $993,149 and $487,621 for the years ended December 31, 2013 and 2012, respectively, resulting from net unrealized losses and gains on investments.

Note 7 - 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, 2013 and 2012, the Foundation had granted the following amounts to the following organizations:

| | 2013 | 2012 |
|---|---|---|
| Wichita Falls Area Community Foundation | $ 531,935 | $ 779,039 |

Note 8 - DEFINED CONTRIBUTION PENSION PLAN

The Foundation sponsors a defined contribution pension plan. For 2013 and 2012, the amount of pension expense was $26,350 and $22,037, respectively.