THE CORPORATION FOR JEFFERSON'S POPLAR FOREST AND SUBSIDIARY

CONSOLIDATED FINANCIAL REPORT

December 31, 2012

CONTENTS

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Corporation for Jefferson's
Poplar Forest and Subsidiary
Forest, Virginia

We have audited the accompanying consolidated statements of financial position of The Corporation for Jefferson's Poplar Forest and Subsidiary (the "Corporation") as of December 31, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 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 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 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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Corporation for Jefferson's Poplar Forest and Subsidiary as of December 31, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia
May 31, 2012

THE CORPORATION FOR JEFFERSON'S POPLAR FOREST AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

ASSETS	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	$ 282,849	$ 360,276
Investments (Note 2)	305,014	302,431
Contributions receivable, net of allowance for uncollectible contributions, $5,000 in 2012 and 2011 (Note 3)	64,317	6,343
Inventory (Note 4)	98,158	122,102
Other assets	95,735	85,369
Total current assets	846,073	876,521
LONG-TERM ASSETS		
Contributions receivable, long -term (Note 3)	35,118	1,849
Property and equipment, net (Notes 5 and 7)	12,528,641	12,660,908
Investments (Note 2)	1,420,254	1,301,384
Deferred financing costs, net	23,116	-
Historic collections	209,713	209,713
Total assets	$ 15,062,915	$ 15,050,375
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 42,407	$ 100,395
Line of credit (Note 6)	-	238,000
Current maturities of long-term debt (Note 7)	31,573	36,857
Accrued expenses	89,222	91,900
Total current liabilities	163,202	467,152
LONG-TERM DEBT, net of current maturities (Note 7)	1,449,712	890,157
Total liabilities	1,612,914	1,357,309
NET ASSETS		
Unrestricted:		
Current operations	11,359,790	11,786,388
Board-designated (Note 9)	1,311,363	1,237,724
Total unrestricted net assets	12,671,153	13,024,112
Temporarily restricted (Note 8)	621,355	555,294
Permanently restricted (Notes 8 and 9)	157,493	113,660
Total net assets	13,450,001	13,693,066
	$ 15,062,915	$ 15,050,375

The Notes to Consolidated Financial Statements are an integral part of these statements.

THE CORPORATION FOR JEFFERSON'S POPLAR FOREST AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES
Years Ended December 31, 2012 and 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE								
Gifts	$ 703,393	$ 461,551	$ 43,833	$ 1,208,777	$ 760,083	$ 247,325	$ -	$ 1,007,408
Government grants	64,926	-	-	64,926	94,468	5,989	-	100,457
Change in discount of contributions receivable	-	(1,328)	-	(1,328)	-	690	-	690
Visitation	414,197	-	-	414,197	392,110	-	-	392,110
Rent income (Note 10)	192,865	-	-	192,865	197,135	-	-	197,135
Investment income	31,829	1,482	-	33,311	29,577	2,410	-	31,987
Net unrealized and realized gains (losses) on investments	98,259	5,149	-	103,408	(56,946)	(38)	-	(56,984)
Miscellaneous	15,389	-	-	15,389	14,833	-	-	14,833
Loss on sale of property and equipment	(7,955)	-	-	(7,955)	(2,557)	-	-	(2,557)
Net assets released from restrictions:								
Satisfaction of program restrictions	400,793	(400,793)	-	-	250,909	(250,909)	-	-
Total support and revenue	1,913,696	66,061	43,833	2,023,590	1,679,612	5,467	-	1,685,079
EXPENSES								
Program:								
Restoration	838,555	-	-	838,555	747,156	-	-	747,156
Visitation/interpretation	734,171	-	-	734,171	740,723	-	-	740,723
Supporting:								
Rental properties	132,085	-	-	132,085	129,040	-	-	129,040
Administrative	239,339	-	-	239,339	110,858	-	-	110,858
Public relations	78,373	-	-	78,373	75,983	-	-	75,983
Fundraising	244,132	-	-	244,132	245,546	-	-	245,546
Total expenses	2,266,655	-	-	2,266,655	2,049,306	-	-	2,049,306
CHANGE IN NET ASSETS	(352,959)	66,061	43,833	(243,065)	(369,694)	5,467	-	(364,227)
NET ASSETS								
Beginning	13,024,112	555,294	113,660	13,693,066	13,393,806	549,827	113,660	14,057,293
Ending	$ 12,671,153	$ 621,355	$ 157,493	$ 13,450,001	$ 13,024,112	$ 555,294	$ 113,660	$ 13,693,066

The Notes to Consolidated Financial Statements are an integral part of these statements.

THE CORPORATION FOR JEFFERSON'S POPLAR FOREST AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (243,065)	$ (364,227)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Non-cash gifts	(47,522)	(28,489)
Non-cash expenses	47,522	14,075
Depreciation	272,905	268,375
Amortization	552	-
Loss on sale of property and equipment	7,955	2,557
Realized and unrealized (gains)/losses on investments	(103,408)	56,984
Contributions restricted for investment in endowment	(43,833)	-
Decrease (increase) in:		
Contributions receivable	(91,243)	12,958
Inventory	23,944	(7,118)
Other assets	(10,366)	54,879
Increase (decrease) in:		
Accounts payable	1,022	3,598
Accrued expenses	(2,678)	9,082
Net cash provided by (used in) operating activities	(188,215)	22,674
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	24,955	39,012
Purchase of investments	(43,000)	-
Proceeds from sale of property and equipment	-	1,385
Purchase of property and equipment	(207,603)	(128,065)
Net cash used in investing activities	(225,648)	(87,668)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings from (payments on) line of credit, net	(238,000)	188,000
Proceeds provided from refinance of long-term debt	585,400	-
Payments on long-term debt financing fees	(23,668)	-
Principal payments on long-term debt	(31,129)	(37,171)
Contributions restricted for investment in endowment	43,833	-
Net cash provided by financing activities	336,436	150,829
Net increase (decrease) in cash and cash equivalents	(77,427)	85,835
CASH AND CASH EQUIVALENTS		
Beginning	360,276	274,441
Ending	$ 282,849	$ 360,276
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 81,194	$ 60,912
NONCASH INVESTING ACTIVITY		
Gifts of property, including collections	$ -	$ 14,414
Amounts in accounts payable for property and equipment	$ -	$ 59,010

The Notes to Consolidated Financial Statements are an integral part of these statements.

Note 1. Summary of Significant Accounting Policies

The mission of The Corporation for Jefferson's Poplar Forest (the "Corporation") is to preserve Thomas Jefferson's personal retreat and to inspire the public to explore his enduring legacy and his belief in the boundless freedom of the human mind. The Corporation solicits individuals, corporations, and foundations for contributions and grants.

The consolidated financial statements of the Corporation have been prepared on the accrual basis. Significant accounting policies are as follows:

Principles of consolidation:

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, Poplar Forest Swim and Tennis Club, Inc. The Swim and Tennis Club was operating on the tract of land immediately west of the Jefferson house prior to 1993 when the Corporation purchased that historic property. All significant intercompany transactions have been eliminated in consolidation.

Estimates:

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could vary from the estimates that were used.

Classification of net assets:

The Corporation's net assets have been grouped into the following three classes:

Unrestricted Net Assets – Unrestricted net assets generally result from revenues derived from providing services, receiving unrestricted contributions, recognizing unrealized and realized gains and losses, and receiving dividends and interest from investing in income-producing assets; less expenses incurred in providing services, raising contributions, and performing administrative functions.

Temporarily Restricted Net Assets – Temporarily restricted net assets generally result from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Corporation pursuant to those stipulations.

Permanently Restricted Net Assets – Permanently restricted net assets generally result from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that neither expire nor can be fulfilled or otherwise removed by the Corporation.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Classification of gifts:

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends and/or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Corporation reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions as unrestricted when the donated or acquired long-lived assets are placed in service.

Cash and cash equivalents:

For the purposes of the statement of cash flows, the Corporation considers cash and cash equivalents to include cash on hand and temporary investments purchased with an original maturity of three months or less.

The Foundation maintains deposits in financial institutions that at times exceed amounts covered by the U. S. Federal Deposit Insurance Corporation (FDIC). Management believes no significant risk exists with respect to these deposits.

Investments:

Investments are reported at fair value. Net unrealized and realized gains and losses are reflected in the statements of activities. Gifts of investments are recorded at their fair value as of the date of gift.

Inventory:

Inventory of the Museum Shop is stated at the lower of cost or market on a first-in, first-out basis.

Property and equipment:

Property and equipment are stated at cost at the date of acquisition or fair value at the date of donation, in the case of gifts, less accumulated depreciation. Restoration costs are capitalized and depreciated while repairs and maintenance are charged to expense in the year incurred. The original costs of historic buildings are not depreciated. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Historic collections:

Works of art, antiques, and historical treasures are recorded at cost, if purchased, or at their fair value at the date of gift. These collections do not include archaeological or architectural artifacts.

Contributed services:

A substantial number of unpaid volunteers have made significant contributions of their time to the Corporation as docents, laboratory assistants, and administrative assistants. The value of such services has not been determined and is not included in these financial statements.

Allocation of expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statements of activity. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income taxes:

The Corporation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and is not a private foundation under Section 509(a)(2). The wholly owned subsidiary is subject to federal and state income taxes. The subsidiary has a net operating loss carryforward of approximately $200,000 with expirations ranging from 2013 to 2031. For deferred tax purposes, a 100% valuation allowance has been recorded against the deferred tax asset. The Corporation's income tax and information returns for 2010 and forward are subject to examination by the Internal Revenue Service.

Fair value measurements:

Certain financial assets and liabilities are measured and reported on a fair value basis. Generally accepted accounting principles define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The principles establish a fair value hierarchy that prioritizes each input to the valuation method used to measure fair value into one of the following three broad levels:

Level 1 – Quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are either for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Unobservable inputs for the asset or liability where there is little, if any, market activity for the asset or liability at the measurement date.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Deferred financing costs:

Deferred financing costs are amortized using the straight-line method, which approximates the effective interest method, over the life of the respective financing arrangement.

Subsequent events:

Management has evaluated subsequent events through May 31, 2013, the date the financial statements were available to be issued.

Note 2. Investments

Investments are stated at fair market value, generally based on quoted prices in active markets (Level 1 inputs, except for corporate bonds and certificates of deposit, which are Level 2 inputs) and consist of the following:

	2012			2011		
	Cost	Fair Value	Unrealized Gains (Losses)	Cost	Fair Value	Unrealized Gains (Losses)
Endowment:						
Equity securities	$ 709,111	$ 805,141	$ 96,030	$ 729,887	$ 758,005	$ 28,118
Government bonds	122,010	128,686	6,676	120,713	126,384	5,671
Corporate obligations	130,376	132,847	2,471	135,994	131,737	(4,257)
Mutual funds:						
Equity	70,677	74,369	3,692	72,219	62,825	(9,394)
Bonds	139,248	138,808	(440)	136,920	127,582	(9,338)
Commodities	64,992	61,596	(3,396)	65,264	63,038	(2,226)
Certificates of deposit	43,081	43,223	142	-	-	-
Short-term investments	35,584	35,584	-	31,813	31,813	-
	1,315,079	1,420,254	105,175	1,292,810	1,301,384	8,574
Other investments:						
Certificates of deposit	300,000	301,127	1,127	300,000	300,479	479
Short-term investments	3,887	3,887	-	1,952	1,952	-
	303,887	305,014	1,127	301,952	302,431	479
	$ 1,618,966	$ 1,725,268	$ 106,302	$ 1,594,762	$ 1,603,815	$ 9,053

Investment fees of $11,709 and $12,042 were paid in 2012 and 2011, respectively. Short-term investments are primarily invested in liquid investments with a securities company.

(Continued)

Note 3. Contributions Receivable

Contributions receivable are due as follows:

	2012	2011
Less than one year	$ 70,020	$ 11,350
One to five years	35,840	1,940
	105,860	13,290
Allowance for uncollectible contributions	(5,000)	(5,000)
Discount calculated at 1% for 2012 and 2% for 2011	(1,425)	(98)
	$ 99,435	$ 8,192

As of December 31, 2012, approximately 98% of contributions receivable were due from two donors.

The Corporation has received other promises to give which are not recorded as receivables until certain expenses are incurred or matching contributions are received. These conditional promises consist of four grants with original awards totaling $548,979. The conditional portion of these grants remaining at December 31, 2012 totaled $193,059.

Note 4. Inventory

Inventory consists of the following:

	2012	2011
Gift shop	$ 32,769	$ 40,139
Publications	65,389	81,963
	$ 98,158	$ 122,102

Note 5. Property and Equipment

Property and equipment consists of the following:

	2012	2011
Land and improvements	$ 6,265,581	$ 6,283,330
Buildings	9,513,766	9,387,917
Furniture, fixtures, and equipment	638,291	641,941
Vehicles	24,204	24,204
Construction in progress	123,274	106,370
	16,565,116	16,443,762
Less accumulated depreciation	(4,036,475)	(3,782,854)
	$ 12,528,641	$ 12,660,908

Historic buildings with a cost of $800,670 are not depreciated. Labor and benefits capitalized in property and equipment totaled $55,326 and $35,545 in 2012 and 2011, respectively.

(Continued)

Note 6. Line of Credit

At December 31, 2012, the Corporation had a line of credit with a bank which provided for short-term borrowings up to $1,000,000 at an interest rate of Prime, subject to a minimum rate of 5.00% and a maximum rate of 7.00%. This line, as well as the 2012 note payable, is subject to a credit agreement such that the debt is secured by the Corporation's properties, assignment of all rents of the Corporation's properties, and a negative pledge agreement. Covenants include a debt service coverage ratio and require the Corporation to maintain a minimum tangible net worth of $10,000,000, marketable securities of at least $1,200,000, and a reserve account with the bank of $300,000 cash. The line must be at a balance of zero for 30 consecutive days on an annual basis, and is subject to renewal at May 24, 2013. Interest expense on the line totaled $15,396 and $6,315 in 2012 and 2011, respectively.

Note 7. Long-Term Debt

Long-term debt consists of the following:

	Final Maturity	2012	2011
Note payable, seller, 5.99%, payable $346 monthly including principal and interest, collateralized by certain equipment.	2012	$ -	$ 1,705
Notes payable, bank, 5.6%, payable $7,233 monthly including principal and interest, balloon payment due June 2013, collateralized by certain real property.	2013	-	925,309
Note payable, bank, issued in 2012, 5.0% for three years then variable, payable $8,833 monthly including principal and interest, collateralized by certain real property, subject to various covenants described in Note 6.	2037	1,481,285	-
		1,481,285	927,014
Less current maturities		(31,573)	(36,857)
		$ 1,449,712	$ 890,157

Aggregate principal payments are scheduled as follows:

2013	$ 31,573
2014	33,211
2015	34,934
2016	36,548
2017 & beyond	1,345,019
	$ 1,481,285

(Continued)

Note 8. Net Assets

Temporarily restricted net assets consist of the following:

	2012	2011
Historical preservation and restoration	$ 273,121	$ 405,084
Archaeological research and interpretation	229,543	73,586
Visitor services	109,882	73,432
Promotional initiatives	-	1,000
Educational initiatives	4,937	-
Time restrictions	3,872	2,192
	$ 621,355	$ 555,294

Permanently restricted net assets consist of the following:

	2012	2011
Endowment investments	$ 107,493	$ 63,660
Antique tool collection held in perpetuity	50,000	50,000
	$ 157,493	$ 113,660

Note 9. Endowment

The Corporation's endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law:

The Corporation holds institutional funds which are subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Corporation's Board of Trustees has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets a) the original value of gifts donated to the permanent endowment, b) the original value of subsequent gifts to the permanent endowment, and c) any accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed by UPMIFA.

(Continued)

Note 9. Endowment (Continued)

Interpretation of relevant law: (Continued)

In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the endowment fund
2. The purposes of the Corporation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Corporation
7. The investment policies of the Corporation

Return objectives and risk parameters:

The Corporation has adopted investment and spending policies for the endowment fund that attempt to preserve and increase the real (inflation-adjusted) value of the fund and to provide a predictable and increasing distribution to carry out the purpose of the fund. Under these policies, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that outperform inflation by three percentage points each year. The Corporation expects its endowment funds, over time, to provide a total rate of return that exceeds the median of a generally accepted universe of similar funds.

Strategies employed for achieving objectives:

To satisfy its long-term rate-of-return objectives, the Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based instruments to achieve its long-term return objectives within prudent risk constraints.

Spending policy:

The Corporation has a policy of appropriating annual distributions from the endowment fund equal to 4.5% of the average of the market value of the fund on June 30 in each of the three preceding years.

(Continued)

Note 9. Endowment (Continued)

Funds with deficiencies:

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Corporation to retain as a fund of perpetual duration. Such deficiencies, which result from unfavorable market fluctuations in combination with appropriations deemed prudent by the Board of Trustees, are reported in unrestricted net assets. There was $-0- and $2,354 in such deficiencies at December 31, 2012 and 2011, respectively.

Endowment composition by net classification:

	December 31, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ -	$ 1,398	$ 107,493	$ 108,891
Board-designated	1,311,363	-	-	1,311,363
	$ 1,311,363	$ 1,398	$ 107,493	$ 1,420,254

	December 31, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ -	$ -	$ 63,660	$ 63,660
Board-designated	1,240,078	-	-	1,240,078
Underwater allocation to operating	(2,354)	-	-	(2,354)
	$ 1,237,724	$ -	$ 63,660	$ 1,301,384

(Continued)

Note 9. Endowment (Continued)

Changes in endowment composition by net asset classification:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2011	$ 1,324,084	$ 2,067	$ 63,660	$ 1,389,811
Investment returns:				
Investment income	27,353	1,440	-	28,793
Net losses (realized and unrealized)	(54,530)	(2,870)	-	(57,400)
Total investment return	(27,177)	(1,430)	-	(28,607)
Appropriation of endowment assets for expenditure	(56,829)	(2,991)	-	(59,820)
Net assets reclassified to cover underwater funds	(2,354)	2,354	-	-
Endowment net assets, December 31, 2011	1,237,724	-	63,660	1,301,384
Gifts	-	-	43,833	43,833
Investment returns:				
Investment income	28,149	1,482	-	29,631
Net appreciation (realized and unrealized)	97,822	5,148	-	102,970
Total investment return	125,971	6,630	-	132,601
Appropriation of endowment assets for expenditure	(54,686)	(2,878)	-	(57,564)
Net assets reclassified to underwater funds	2,354	(2,354)	-	-
Endowment net assets, December 31, 2012	$ 1,311,363	$ 1,398	$ 107,493	$ 1,420,254

(Continued)

Note 10. Rental Property Revenue

As lessor, the Corporation leases a golf course which comprises a portion of its real property. The lease was amended on February 1, 2011, to reduce the rent from $6,000 to $5,000 per month. The lease terminates January 31, 2018. The Corporation recognized $63,000 and $64,570 of revenue from the golf course lease in 2012 and 2011, respectively.

Currently the Corporation has not secured a tenant for the swim and tennis club property.

In addition, the Corporation leases certain other property on an annual basis for which revenue for 2012 and 2011 amounted to $129,865 and $132,565, respectively. The net investment in rental land and buildings, which are included in property and equipment, is as follows:

	Rental Property	
	2012	**2011**
Golf course – land and buildings, at cost	$ 580,823	$ 580,823
Swim and tennis club facility, at cost	327,277	353,828
Other property, at cost	1,542,613	1,532,663
Less accumulated depreciation	(891,124)	(861,808)
Net investment in rental properties	$ 1,559,589	$ 1,605,506

Note 11. Purchase Options

The Corporation has options to purchase surrounding properties in an effort to preserve significant sites as part of a long-range plan. Outstanding options allow the Corporation to have first refusal on properties as they are offered for sale at predetermined prices or terms of negotiation.

Note 12. Employee Benefits

The Corporation has a 401(k) retirement plan, which covers substantially all full-time employees. Under the plan, participating employees may elect to reduce their compensation by an amount up to the maximum limitation in the Internal Revenue Code, with such amount being contributed to the plan for their benefit. Additionally, the Corporation may contribute an amount determined annually by its Board of Directors.

The Corporation's share of contributions to the plan totaled $69,795 and $67,374 for 2012 and 2011, respectively.

(Continued)

Note 13. Natural Expenses

Functional expenses are composed of the following natural expenses:

	2012	2011
Compensation and benefits	$ 1,106,551	$ 1,115,725
Utilities, maintenance, and depreciation	403,866	366,236
Taxes and insurance	92,315	92,411
Postage, printing, and supplies	79,673	86,112
Cost of retail sales	90,602	75,482
Other	493,648	313,340
Total operating expenses	$ 2,266,655	$ 2,049,306

Note 14. Subsequent Event

In May 2013, the Board of Directors approved dissolving the wholly owned subsidiary, Poplar Forest Swim and Tennis Club, Inc. The Corporation will acquire all outstanding assets and liabilities of the subsidiary. The dissolution was not finalized as of the date the financial statements were issued.