

**IFF**  
**FINANCIAL STATEMENTS**  
December 31, 2007

IFF  
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December 31, 2007

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**Crowe Chizek and Company LLC**  
Member Horwath International

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors  
IFF  
Chicago, Illinois

We have audited the accompanying statement of financial position of IFF as of December 31, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of IFF's management. Our responsibility is to express an opinion on these financial statements based on our audits. The primary summarized comparative information has been derived from IFF's 2006 financial statements and, in our report dated April 23, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit provide a reasonable basis for our opinion.

In our opinion, the financial statement presents fairly, in all material respects, the financial position of IFF as of December 31, 2007 and the change in its net asset and its cash flow for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Crowe Chizek and Company LLC*  
Crowe Chizek and Company LLC

Chicago, Illinois  
April 15, 2008

IFF  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2007 with comparative information for 2006

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 609,112	\$ 220,773
Investments (Note 3)	21,484,139	15,867,042
Investments related to Department of Education Grant for Credit Enhancement (Note 4)	18,610,417	8,194,483
Grants receivable, other receivables, prepaids, and deposits (Note 5)	876,871	1,392,975
Loans receivable, net of allowance for nonperforming loans and interest receivable of \$3,654,928 and \$1,903,670 (Note 6)	85,494,351	76,580,114
Accrued interest receivable	444,132	326,375
Other real estate owned (Note 7)	136,000	281,000
Furniture, equipment, and leasehold improvements, net of accumulated depreciation and amortization of \$1,215,815 and \$851,447 (Note 8)	298,455	625,477
Deferred software development cost (Note 9)	205,873	-
Capitalized finance costs, net of accumulated amortization of \$38,571 and \$43,715 (Note 10)	<u>118,155</u>	<u>111,927</u>
Total assets	<u>\$ 128,277,505</u>	<u>\$ 103,600,166</u>
<b>LIABILITIES AND NET ASSETS</b>		
Accrued liabilities	\$ 1,936,193	\$ 1,798,860
Accrued interest	672,545	576,070
Loans payable (Note 11)	81,500,928	68,188,880
Loan participations payable (Note 13)	<u>602,504</u>	<u>647,392</u>
Total liabilities	84,712,170	71,211,202
Net assets		
Unrestricted net assets	11,599,412	10,996,016
Temporarily restricted net assets (Note 15)	<u>31,965,923</u>	<u>21,392,948</u>
Total net assets	<u>43,565,335</u>	<u>32,388,964</u>
Total liabilities and net assets	<u>\$ 128,277,505</u>	<u>\$ 103,600,166</u>

See accompanying notes to financial statements.

IFF  
STATEMENTS OF ACTIVITIES  
For the year ended December 31, 2007, with comparative information for 2006

	<u>Operating</u>	<u>Capital</u>	<u>2007 Total</u>	<u>2006 Total</u>
<b>Changes in unrestricted net assets:</b>				
<u>Support and Revenue</u>				
Corporations, foundations, and individuals	\$ 105,900	\$ -	\$ 105,900	\$ 113,950
Interest on loans	4,643,174	-	4,643,174	4,071,171
Investment income	790,439	-	790,439	471,758
Consulting contract fees	1,187,907	-	1,187,907	987,119
Capital lease interest				-
IFFC management/sponsor fee	105,427	-	105,427	60,041
Miscellaneous fees	21,366	-	21,366	10,421
Change in unrealized loss on other real estate owned	-	-	-	(93,946)
Change in unrealized (loss) gains on investments	(46,963)	-	(46,963)	11,186
Realized gain (loss) on investments	24,083	-	24,083	(12,692)
Loan grants	-	-	-	585,000
Gain on sale of property				39,117
Allowance for nonperforming loans	-	1,751,258	1,751,258	559,044
Net assets released from restrictions:				
Satisfaction of program restrictions	<u>1,232,077</u>	<u>-</u>	<u>1,232,077</u>	<u>1,209,661</u>
Total unrestricted support and revenue	<u>8,063,410</u>	<u>1,751,258</u>	<u>9,814,668</u>	<u>8,011,830</u>
<u>Expenses</u>				
Salaries and benefits	2,997,444	-	2,997,444	2,863,226
Professional fees	643,261	-	643,261	525,376
Occupancy and office	459,941	-	459,941	404,216
Printing and marketing	91,578	-	91,578	86,227
Allowance for nonperforming loans	-	1,751,258	1,751,258	559,044
Interest	2,588,311	-	2,588,311	2,108,028
Other operating expenses	106,502	-	106,502	89,549
Meetings and travel	154,084	-	154,084	95,750
Loss on sale of equipment	-	-	-	(222)
Depreciation and amortization expense	<u>418,893</u>	<u>-</u>	<u>418,893</u>	<u>304,970</u>
Total expenses	<u>7,460,014</u>	<u>1,751,258</u>	<u>9,211,272</u>	<u>7,036,164</u>
<b>Changes in unrestricted net assets</b>	<u>603,396</u>	<u>0</u>	<u>603,396</u>	<u>975,666</u>
<b>Changes in temporarily restricted net assets:</b>				
Program and operating grants	1,064,625	10,000,000	11,064,625	1,568,000
Capital grants	-	2,000,000	2,000,000	-
Interest on investments	-	491,685	491,685	336,969
Allowance for nonperforming loans	-	(1,751,258)	(1,751,258)	(559,044)
Satisfaction of program restrictions	<u>(1,232,077)</u>	<u>-</u>	<u>(1,232,077)</u>	<u>(1,209,661)</u>
<b>Changes in temporarily restricted net assets</b>	<u>(167,452)</u>	<u>10,740,427</u>	<u>10,572,975</u>	<u>136,264</u>
<b>Change in net assets</b>	435,944	10,740,427	11,176,371	1,111,930
Net assets, beginning of year	<u>1,902,620</u>	<u>30,486,344</u>	<u>32,388,964</u>	<u>31,277,034</u>
<b>Net assets, end of year</b>	<u>\$ 2,338,564</u>	<u>\$ 41,226,771</u>	<u>\$ 43,565,335</u>	<u>\$ 32,388,964</u>

See accompanying notes to financial statements.

IFF  
STATEMENTS OF CASH FLOWS  
For the year ended December 31, 2007, with comparative information for 2006

	<u>2007</u>	<u>2006</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 11,176,371	\$ 1,111,930
Adjustments to reconcile the change in net assets to net cash provided by operating activities		
Depreciation and amortization expense for furniture, equipment and capital lease improvements	409,034	293,020
Amortization expense for capitalized finance costs	9,859	11,950
Unrealized gains on investments	46,963	(11,186)
Unrealized losses on other real estate owned	-	93,946
Realized (gains) loss on investments	(24,083)	12,692
Realized (gains) losses on sale of property and equipment	-	(39,339)
Allowance for nonperforming loans	1,751,258	559,044
Changes in operating assets and liabilities		
Decrease of loans receivable from write offs	-	770,559
Decrease in grant receivable, other receivable, prepaids, and deposits	516,103	7,121,829
(Increase) decrease in accrued interest receivable	(117,757)	57,993
Increase (decrease) in accrued liabilities	137,333	(68,180)
Increase in accrued interest	<u>96,475</u>	<u>134,646</u>
Net cash from operating activities	14,001,556	10,048,904
<b>Cash flows from investing activities</b>		
Loans issued	(31,768,610)	(26,736,081)
Loan payments received	21,103,115	16,311,428
Purchases of equipment	(82,012)	(98,626)
Deferred software cost	(205,873)	-
Sale of property and equipment	145,000	339,367
Purchases of other real estate owned	-	(538,946)
Purchases of investments	(46,846,363)	(39,804,726)
Sales of investments	<u>30,790,451</u>	<u>24,844,589</u>
Net cash from investing activities	(26,864,292)	(25,682,995)
<b>Cash flows from financing activities</b>		
Additional borrowings	21,535,195	29,417,710
Repayment of borrowings	(8,268,035)	(14,143,167)
Increase in finance costs	<u>(16,085)</u>	<u>(12,163)</u>
Net cash from financing activities	<u>13,251,075</u>	<u>15,262,380</u>
Increase (decrease) in cash and cash equivalents	388,339	(371,711)
Cash and cash equivalents at beginning of year	<u>220,773</u>	<u>592,484</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 609,112</u>	<u>\$ 220,773</u>
Interest paid	\$ 2,491,836	\$ 1,973,382

See accompanying notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS  
December 31, 2007

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**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

Organization: IFF is incorporated in Illinois under the Not-for-profit Corporation Act. In April 2007, IFF legally changed its name from Illinois Facilities Fund to IFF. IFF makes below-market rate loans to nonprofit human service and community development agencies for the acquisition, construction, remodeling, and renovation of facilities. IFF is also engaged in real estate development for nonprofit corporations and provides development planning, financial, and technical assistance. In addition, IFF undertakes research and public policy activities on behalf of the nonprofit corporations in its target market.

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting: The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation: Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, IFF is required to report information regarding its financial position and activities according to three classifications of net assets; unrestricted, temporarily restricted, and permanently restricted, which are based on the existence or absence of donor-imposed restrictions.

Restricted and Unrestricted Revenue and Support: In accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor or other restrictions. Contributions restricted for use in the loan program are classified as temporarily restricted. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets. IFF has not received any income or assets with donor-imposed restrictions that would result in permanent restrictions. Restricted amounts received in the same period in which the restrictions are satisfied are recorded in the unrestricted class.

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

Sources of Revenue: IFF receives a majority of its revenue from interest revenue and from corporate, foundation and government grants.

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(Continued)

IFF  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fair Value of Financial Instruments: Cash equivalents, grants and other receivables approximate fair value because of the short maturity of these instruments. Loans receivable approximate fair value because of the allowance for loans losses included in the carrying amount. The fair value of investments is based on quoted market prices. Loans payable, which carry current interest rates, approximate fair value.

Cash and Cash Equivalents: Cash and cash equivalents include unrestricted cash on hand, amounts due from banks, and highly liquid temporary investments with original maturities of less than 90 days from the date of purchase excluding those instruments classified as assets whose use is limited or non-qualified plan investments. IFF maintains its cash in bank accounts which, at times, may exceed federal insured limits. The IFF has not experienced any losses in such accounts. IFF believes it is not exposed to any significant credit risk on these balances.

Investments: In accordance with SFAS No. 124, investments in debt and equity securities are carried at fair value, based on quoted market prices. Investment income or loss (including realized gains and losses on investments, changes in unrealized gains and losses, interest and dividends) on investments that are not restricted by donors is included in revenues, gains, and other support in excess of expenses and distributions.

Loans: IFF makes below-market loans to nonprofit agencies for capital projects. The loan portfolio consists principally of first and second mortgages on real property. Loan maturities are up to 15 years and loans will be secured, when possible, by a mortgage and are repaid on a monthly basis based on a repayment schedule, which includes principal and/or interest. Loans are stated at the principal amount outstanding. The accrual of interest is discontinued when management determines collection is improbable, unless the loan is adequately secured or a workout plan has been implemented. IFF does not charge loan fees. Loans which are pledged to support certain indebtedness of IFF as of December 31, 2007 totaled \$57,859,357.

At December 31, 2007, the loan loss reserve on the impaired loans is \$1,900,978 with total impaired loans of \$3,871,931. The loan loss reserve on the remainder of the portfolio is \$1,753,950 with total loans of \$85,277,349. Interest income is recognized on impaired loans (non-accrual loans) when a payment is received from the borrower.

Allowance for Loan Losses: The allowance for loan losses represents an amount that management estimates is adequate to provide for future losses in its loan portfolio. Due to this uncertainty, it is at least reasonably possible that actual losses will be significantly different. Increases in the allowance are recorded as a provision for possible loan losses charged to expense. In arriving at a judgment about the adequacy of the allowance, management considers the risk associated with the loans in its portfolio and the historical loan loss trends of similar loan portfolios. While management may periodically allocate portions of the allowance for specific problem loan situations, the whole allowance is available for any loan charge-offs that occur.

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(Continued)

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The allowance is maintained by management at a level considered adequate to cover losses that are currently anticipated based on past loss experience, general economic conditions, information about specific borrower situations including their financial position and collateral values, and other factors and estimates which are subject to change over time.

Estimating the risk of loss and amount of loss on any loan is necessarily subjective and ultimate losses may vary from current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

Loans considered to be impaired are reduced to the present value of expected future cash flows or to the fair value of the collateral by allocating a portion of the allowance for loan losses to such loans. Loans which are impaired as of December 31, 2007 totaled \$3,871,931.

Grants Receivable and Other Receivables: No allowance for uncollected pledges or bad debts has been established because management considers all grants receivable and other receivables to be collectable.

Furniture, Equipment and Capital Lease Improvements: Furniture, equipment, and capital lease improvements are capitalized at cost, if purchased or fair market value, if contributed. In general, IFF capitalizes assets costing at least \$1,500 with an expected life of more than one year. Normal maintenance and repair items are charged to operating expenses when incurred.

Depreciation and Amortization: Furniture, equipment and capital lease improvements are depreciated or amortized using the straight-line method over estimated useful lives of five years for furniture and equipment and 127 months for leasehold improvements. Conventional accounting methods are used to recognize gain or loss on sales, retirement, or abandonment of fixed assets.

Capitalized Finance Costs: Capitalized finance costs consist of loan fees and related costs. Loan fees and related costs are amortized using the straight-line method over three to 15 years, depending on the term of the related loan. Amortization of capitalized finance costs for 2007 was \$9,859.

Income Taxes: IFF is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and, therefore, has made no provision for federal income taxes in the accompanying financial statements. In addition, IFF received determination that it is not a "private foundation" under Section 509(a) of the Internal Revenue Code. There was no unrelated business income during the year 2007.

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(Continued)

IFF  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007

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**NOTE 3 - INVESTMENTS**

Investments held at December 31, 2007 are stated at fair value and consist of the following:

	<u>Cost</u>	<u>Fair Value</u>
Certificates of Deposit	\$ 1,348,669	\$ 1,348,669
Investment in IFF Capital	1,000	1,000
Investment in IFF Capital II	7,007	7,007
Investment in Chase NMTC II	2,017	2,017
Mutual Funds	<u>20,254,550</u>	<u>20,125,446</u>
	<u>\$ 21,613,243</u>	<u>\$ 21,484,139</u>

**NOTE 4 - CERTAIN INVESTMENTS RELATED TO DEPARTMENT OF EDUCATION  
GRANT FOR CREDIT ENHANCEMENT**

In August 2005, IFF was awarded an \$8 million grant by the United States Department of Education to enable IFF to facilitate long-term financing for charter schools. It also received another \$10 million grant in July 2007. The terms of the grants require IFF to use the grant funds to provide credit support to bond obligations of qualified charter schools.

Recourse to IFF with regard to any bonds issued is limited to the grant funds pledged in support of individual or pooled bond issues. Bonds are not an obligation of IFF. At the end of 2007, \$4,915,876 was pledged from the \$8 million grant and no funds have been pledged from the \$10 million grant. Performance Agreements govern the use of the grants, set goals and objectives for the project, and permit IFF to recover certain personnel and administrative costs. Interest earned on the grant proceeds are to be reinvested for future credit support. Recoverable expenses for these grant projects in 2007 were \$70,370 and interest earned was \$491,685.

**NOTE 5 - GRANTS RECEIVABLE, OTHER RECEIVABLES, PREPAIDS, AND DEPOSITS**

The total grants receivable, other receivables, prepaids, and deposits consists of the following:

Grants receivable	\$ 355,125
Other receivables	426,824
Prepaids and deposits	<u>94,922</u>
Total	<u>\$ 876,871</u>

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(Continued)

IFF  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 5 - GRANTS RECEIVABLE, OTHER RECEIVABLES, PREPAIDS, AND DEPOSITS**  
(Continued)

The anticipated collection or realization of receivables, prepaids, and deposits are as follows:

Amounts receivable/realizable in less than one year	\$ 626,047
Amounts receivable/realizable in one to five years	15,000
Amounts receivable/realizable in over five years	<u>235,824</u>
Total	<u>\$ 876,871</u>

**NOTE 6 - LOANS RECEIVABLE**

Loans receivable consist of the following:

Loans receivable outstanding	\$ 89,149,279
Less: allowance for loan losses	<u>(3,654,928)</u>
Loans receivable, net	<u>\$ 85,494,351</u>

Scheduled loan receipts for the years subsequent to December 31, 2007 are as follows:

2008	\$ 9,404,395
2009	7,337,374
2010	8,053,980
2011	6,298,253
2012	5,972,066
Thereafter	<u>52,083,211</u>
	<u>\$ 89,149,279</u>

Changes in the allowance for loan losses in 2007 are as follows:

Balance at beginning of year	\$ 1,903,670
Provision charged to operations	<u>1,751,258</u>
Balance at end of year	<u>\$ 3,654,928</u>

IFF's undisbursed loan commitments as of December 31, 2007 are \$12,751,370.

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(Continued)

IFF  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 7 - OTHER REAL ESTATE OWNED**

Other real estate owned (OREO), which is included in assets, represents property acquired through foreclosure or other proceedings. OREO is carried at the lower of cost or fair value, less costs to sell. All property is periodically evaluated and reductions in fair value are recognized in support and revenue in the Statements of Activities. During 2007, IFF sold one property for \$145,000, which resulted in no gain or loss.

**NOTE 8 - FURNITURE, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS**

All furniture, equipment, and leasehold improvements are stated at cost. Depreciation is computed using the straight-line method over an estimated useful life of five years for furniture and equipment and 127 months for leasehold improvements. Depreciation and amortization expense for 2007 was \$409,034.

A summary of equipment and capital lease improvements as of December 31, 2007 is as follows:

Equipment, at cost	\$ 1,244,144
Leasehold improvements	<u>270,126</u>
Subtotal	1,514,270
Less accumulated depreciation and amortization	<u>(1,215,815)</u>
Net furniture, equipment, and capital lease improvements	<u>\$ 298,455</u>

In 2007, IFF retired furniture and equipment in the amount of \$44,666. These items were fully depreciated and no gain or loss was recognized on these retirements.

**NOTE 9 - DEFERRED SOFTWARE COSTS**

IFF contracted with a third party to develop and install a software package for IFF in 2007. Costs incurred on this project were \$205,873 at December 31, 2007. No depreciation will be taken until the project is completed and operational, which is expected to be in 2008.

**NOTE 10 - CAPITALIZED FINANCE COSTS**

Capitalized finance costs consist of loan fees and related costs which are amortized using the straight-line method over three to fifteen years, depending on the term of the related loan. Amortization of capitalized finance costs for 2007 was \$9,859. In 2007, IFF retired capitalized costs of \$15,002. These items were fully amortized and no gain or loss was recognized on these retirements.

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(Continued)

IFF  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 11 - LOANS PAYABLE**

All loans payable are unsecured, unless indicated by \*. IFF loans payable consist of the following:

<u>Lender</u>	<u>Maturity Date</u>	<u>Scheduled Repayments</u>		<u>Interest</u>		<u>Principal Balance at December 31, 2007</u>
		<u>Principal</u>	<u>Due</u>	<u>Annual Rate</u>	<u>Due</u>	
*Allstate Insurance Company	01/01/15	Amortized over ten years	Quarterly Starting 01/05	3.0%	Quarterly	\$ 2,800,000
*Allstate Bank	01/01/15	Amortized over ten years	Quarterly starting 01/05	3.0%	Quarterly	700,000
The Blowitz-Ridgeway Foundation	06/30/09	\$ 5,000	Quarterly	Variable	Quarterly	30,000
The Blowitz-Ridgeway Foundation	06/30/10	\$ 5,000	Quarterly	Variable	Quarterly	50,000
The Blowitz-Ridgeway Foundation	06/30/11	\$ 5,000	Quarterly	Variable	Quarterly	70,000
The Blowitz-Ridgeway Foundation	06/30/12	\$ 5,000	Quarterly	Variable	Quarterly	190,000
Busey Bank (Federal Home Loan Bank)	12/14/12	Per schedule	Quarterly starting 01/08	None	N/A	200,000

(Continued)

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NOTES TO FINANCIAL STATEMENTS  
December 31, 2007

**NOTE 11 - LOANS PAYABLE** (Continued)

<u>Lender</u>	<u>Maturity Date</u>	Scheduled Repayments		<u>Annual Rate</u>	<u>Interest Due</u>	Principal Balance at December 31, 2007
		<u>Principal Amount</u>	<u>Due</u>			
Calvert Social Investment Foundation	11/30/12	Balance	Maturity	4.0%	Semi-annually	\$ 1,000,000
Circle of Service Foundation	09/30/20	Amortized over fifteen years	Quarterly	3.0%	Quarterly	1,096,650
Circle of Service Foundation	03/31/21	Amortized over fifteen years	Quarterly	3.0%	Quarterly	1,131,346
Community Memorial Foundation	01/01/10	Balance	Maturity	2.0%	Semi-annually	500,000
Alma Fitzgerald	10/01/09	Balance	Maturity	3.0%	Annually	10,000
Patrick Fitzgerald	12/31/08	Balance	Maturity	3.0%	Annually	10,000
Patrick Fitzgerald	10/01/09	Balance	Maturity	3.0%	Annually	10,000
Harris Trust and Savings Bank	06/30/10	Balance	Maturity	2.0%	Semi-annually	500,000
First Bank	12/31/09	Balance	Maturity	4.0%	Semi-annually	1,000,000
Helen Bader Foundation	09/30/15	Balance	Maturity	None	N/A	150,000

(Continued)

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**NOTE 11 - LOANS PAYABLE (Continued)**

<u>Lender</u>	<u>Maturity Date</u>	<u>Scheduled Repayments</u>				<u>Principal Balance at December 31, 2007</u>
		<u>Principal</u>		<u>Interest</u>		
		<u>Amount</u>	<u>Due</u>	<u>Annual Rate</u>	<u>Due</u>	
Illinois Development Finance Authority	11/01/10	Balance	Maturity	None	N/A	\$1,000,000
LaSalle National Bank	04/30/08	Balance	Maturity	3.0%	Quarterly	500,000
MacArthur Foundation	01/01/15	\$ 250,000	Annually starting 01/01/13	3.0%	Quarterly	750,000
MacArthur Foundation	01/01/15	330,000 330,000 340,000	01/01/13 01/01/14 01/01/15	3.0%	Quarterly	1,000,000
MacArthur Foundation	01/01/15	330,000 330,000 340,000	01/01/13 01/01/14 01/01/15	3.0%	Quarterly	1,000,000
Marquette Bank	03/31/09	Balance	Maturity	3.5%	Quarterly	100,000
Joe Neri, Vice President	04/18/08	Balance	Maturity	3.0%	Annually	5,000
The Northern Trust Company	01/02/17	Balance	Maturity	3.0%	Semi-annually	2,000,000
*The Northern Trust Company	03/01/14	175,000	Semi-annually	3.0%	Semi-annually	2,012,806

(Continued)

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 11 - LOANS PAYABLE (Continued)**

<u>Lender</u>	<u>Maturity Date</u>	<u>Scheduled Repayments</u>				<u>Principal Balance at December 31, 2007</u>
		<u>Principal</u>		<u>Interest</u>		
		<u>Amount</u>	<u>Due</u>	<u>Annual Rate</u>	<u>Due</u>	
The Northern Trust Company	10/12/09	Balance	Maturity	2.0%	Quarterly	\$ 2,500,000
Sam Silvio	09/01/08	Balance	Maturity	3.0%	Annually	5,000
ShoreBank	12/18/10	Balance	Maturity	4.375%	Quarterly	3,000,000
State Farm Bank	12/31/08	Balance	Maturity	3.0%	Semi-Annual	500,000
Trinity Health	06/30/10	Balance	Quarterly	3.0%	Quarterly	500,000
Wisconsin Preservation Fund	10/01/24	Balance	Maturity	None	NA	75,000
Walton Family Foundation	12/31/17	Balance	Maturity	None	NA	1,000,000
The Investor Consortium (a)						
Sale 2004-1	01/15/20	Per Schedule	Quarterly	Variable	Quarterly	13,574,299
Sale 2005-1	10/15/20		Quarterly	Variable	Quarterly	9,850,533
Sale 2006-1	10/15/21		Quarterly	Variable	Quarterly	16,995,077
Sale 2007-1	10/15/22		Quarterly	Variable	Quarterly	<u>15,685,216</u>
						<u>56,105,125</u>
Total loans payable:						<u>\$ 81,500,928</u>

(a) Secured by trust notes collateralized by IFF loans receivable. Participating banks in the Investor Consortium are American Chartered Bank, Busey Bank, Charter One Bank, Cole Taylor Bank, First Bank, Harris Trust & Savings Bank, Jacksonville Savings Bank, LaSalle National Bank, M&I Community Development, MB Financial, Midwest Bank and Trust Company, The Northern Trust Bank, and Park National Bank and Trust. (See Note 12).

(Continued)

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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 11 - LOANS PAYABLE (Continued)**

As of December 31, 2007, the required principal reduction of loans payable is as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 9,829,650
2009	8,922,944
2010	11,216,520
2011	5,141,959
2012	6,139,023
Thereafter	<u>40,250,832</u>
Total	<u>\$ 81,500,928</u>

**NOTE 12 - COLLATERAL TRUST NOTES**

IFF entered into a borrowing agreement (the Investor Consortium Program) whereby investors purchase participation in trust notes collateralized by IFF loans which, in turn, are secured by a first or second mortgage. Contractual repayment of each trust note series is limited to the proceeds of payments on IFF loans and a 2% cash reserve held, for each series, by the trustee. If the balance of the cash reserve falls below 2% for any series, IFF is required to contribute a portion of its servicing fees to the reserve each quarter until the reserve again reaches 2%. The reserve funds are maintained in a money market account and a certificate of deposit and are presented at fair market value. The balance of the reserves for the collateral trust notes at December 31, 2007 was \$1,357,920 at cost, which is the same as the fair value.

**NOTE 13 - LOAN PARTICIPATIONS PAYABLE**

In 2006, IFF entered into two loan participation agreements with Partners Advancing Values in Education, Inc. (PAVE) with respect to two underlying notes totaling \$650,000, in which PAVE purchased a 50% interest in each loan. IFF has the obligation to pass through payments with respect to interest at 3.125% and 3.0625% respectively and all principal payments pursuant to such participation interest during the life of the agreements. Provided that no event of default exists on the underlying loans at the maturity of each agreement, IFF has a further obligation to purchase PAVE's participation interest in the loans on September 6, 2011, and November 30, 2011, respectively.

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(Continued)

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NOTES TO FINANCIAL STATEMENTS  
December 31, 2007

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**NOTE 13 - LOAN PARTICIPATIONS PAYABLE (Continued)**

As of December 31, 2007, the scheduled principal reduction of loan participations payable is as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 47,728
2009	47,632
2010	49,129
2011	<u>458,015</u>
Total	<u>\$ 602,504</u>

**NOTE 14 - OPERATING LEASE**

IFF is obligated under a commercial lease for office space until June 30, 2015. The total rent expense for the year ended December 31, 2007 on this lease was \$298,077 which includes IFF's prorated share of real estate taxes and other expenses along with base rent.

IFF is obligated under a month to month commercial lease for additional office space in Peoria, Illinois, and also obligated under a commercial lease for office space in St. Louis until December 31, 2008. The rent expense for St. Louis will commence in 2008. The total rent expense on the Peoria location for the year ended December 31, 2007 was \$4,398.

Future minimum lease payments (base rent only) are as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 205,004
2009	259,525
2010	276,629
2011	282,578
2012	288,526
Thereafter	<u>746,600</u>
Total	<u>\$ 2,058,862</u>

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NOTES TO FINANCIAL STATEMENTS  
December 31, 2007

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**NOTE 15 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at December 31, 2007 are available for the following purposes:

Loan Issuance	\$ 11,549,557
Department of Education Grant for Credit Enhancement	18,610,417
Grants for Specific Programs	<u>1,805,949</u>
Total temporarily restricted net assets	<u>\$ 31,965,923</u>

In 2007, net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Net assets released from Restrictions	
Allowance for nonperforming loans	\$ 1,751,258
Time and performance restriction	<u>1,232,077</u>
Total restrictions released in 2007	<u>\$ 2,983,335</u>

**NOTE 16 - EMPLOYEE BENEFIT PLAN**

In January 1999, IFF established a defined contribution retirement plan for the benefit of its employees. The plan is named "IFF 401(k) Profit Sharing Plan" and its plan year ends December 31. Under the plan, full-time eligible employees may make discretionary contributions and IFF may make discretionary or matching contributions. IFF's contribution for the year ended December 31, 2007 was \$129,167.

**NOTE 17 - FUNCTIONAL EXPENSE CLASSIFICATIONS**

IFF's functional expense classifications, which are reported in operating column of the Statements of Activities at December 31, 2007, are as follows:

Program expenses	\$ 6,759,736
Supporting services	<u>700,278</u>
Total expenses	<u>\$ 7,460,014</u>

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IFF  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007

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**NOTE 18 - CONCENTRATION OF CREDIT RISK**

Approximately 85% of IFF's borrowers are located in the Chicago metropolitan area. Additionally, the majority of IFF's borrowers receive funding from the Illinois Department of Health and Human Services.

IFF holds cash equivalents and investments in mutual funds, certificates of deposit, and Treasury Funds, which management believes subject IFF to limited credit risk. No collateral or other security has been pledged to support these cash equivalents and investments.

**NOTE 19 - RELATED PARTY - IFF CAPITAL LLC**

In March 2002, IFF formed a for-profit limited liability company named IFF Capital, LLC (IFFC). The company was formed for the purpose of allocating federal tax credits from the New Markets Tax Credit program of the U.S. Department of Treasury. IFFC has received a sub-allocation from IFF of tax credits in the 2002 allocation round of \$10 million, which was subsequently amended to allocate \$7 million to IFF Capital II, LLC in November 2006.

IFF is the managing member of IFF Capital, LLC and provides certain asset management and compliance oversight services to IFF Capital, LLC, as stated in the Administrative Services Agreement. As compensation for the performance of these services, IFF receives a management fee of 4% of the outstanding principal balance of all qualified loans computed on a monthly basis. Management fee revenue amounted to \$99,712 for 2007. At December 31, 2007, IFF has recorded an \$8,061 receivable from IFF Capital, LLC for management fees.

Sponsor fee revenue in 2007 amounted to \$5,715.

Additionally, the Operating Agreement stipulates that IFFC earnings in excess of operating costs are payable to IFF annually if declared. While IFFC had net earnings of \$25,797 in 2007, no amounts were declared payable to IFF.

**NOTE 20 - RELATED PARTY - IFF CAPITAL II LLC & CHASE NMTC II LLC**

In November 2006, IFF formed two for-profit limited liability companies named IFF Capital II, LLC (IFFC II) and Chase NMTC II, LLC. IFFC II was formed to allocate tax credits from the New Markets Tax Credit program of the U.S. Department of Treasury. Chase NMTC II, LLC was formed to pool debt and the tax credit equity for investment in IFFC II.

IFF is the managing partner of both IFFC II and Chase NMTC II, LLC and provides certain asset management and compliance oversight services to each entity as stated in their respective Operating Agreements.

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IFF  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 20 - RELATED PARTY - IFF CAPITAL II LLC & CHASE NMTC II LLC (Continued)**

IFF has guaranteed certain obligations of Chase NMTC II, LLC in the amount of \$4,984,700 as of December 31, 2007.

At December 31, 2007, IFF has recorded a \$193,571 loan receivable due from Chase NMTC II. The maturity date of these receivables is December 1, 2014.

**NOTE 21 - COMPARATIVE INFORMATION FOR 2006**

The financial statements include prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2006, from which the summarized information was derived.

