

**IFF**

Financial Report

December 31, 2009

## Contents

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Independent Auditor's Report	1
<hr/>	
Financial Statements	
Statements of financial position	2
Statements of activities	3
Statements of cash flows	4
Notes to financial statements	5 – 24

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Directors  
IFF  
Chicago, Illinois

We have audited the accompanying statement of financial position of IFF as of December 31, 2009, 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 audit. The financial statements of IFF for the year ended December 31, 2008 were audited by other auditors whose report, dated April 13, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of IFF as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Chicago, Illinois  
April 28, 2010

IFF

**Statements of Financial Position**  
**December 31, 2009 and 2008**

	2009	2008
<b>Assets</b>		
Cash and cash equivalents	\$ 12,545,528	\$ 10,614,903
Investments	251,032	445,606
Investments related to Department of Education Grant for Credit Enhancement	18,785,416	18,927,878
Grants receivable, other receivables, prepaids and deposits	1,403,981	1,064,370
Loans receivable, net	129,628,434	102,818,437
Accrued interest receivable	580,057	478,072
Other assets	10,024	10,024
Foreclosed assets, net	1,546,000	531,000
Property and equipment, net	931,015	777,293
Capitalized finance costs, net	204,244	204,065
	<u>\$ 165,885,731</u>	<u>\$ 135,871,648</u>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accrued liabilities	\$ 1,927,097	\$ 2,131,699
Accrued interest payable	954,230	698,552
Borrowings	119,949,329	88,906,329
Loan participations payable	508,449	550,861
	<u>123,339,105</u>	<u>92,287,441</u>
Net Assets		
Unrestricted	12,830,748	12,721,541
Temporarily restricted	29,715,878	30,862,666
	<u>42,546,626</u>	<u>43,584,207</u>
	<u>\$ 165,885,731</u>	<u>\$ 135,871,648</u>

See Notes to Financial Statements.

IFF

**Statements of Activities**  
**Years Ended December 31, 2009 and 2008**

	2009	2008
Unrestricted - Operating		
Support and Revenue:		
Corporations, foundations, and individuals	\$ 179,550	\$ 106,600
Interest on loans	6,538,727	5,318,151
Consulting contract fees	1,272,396	1,082,408
IFFC management/sponsor fee	107,958	106,260
Loan fees	97,470	9,950
Interest income	67,902	461,696
Unrealized gains on investments	33,097	48,403
Unrealized loss on foreclosed assets	(55,000)	-
Realized losses on investments	(28,757)	(146,877)
Gain on discharge of indebtedness	-	90,544
Net assets released from restrictions	2,358,512	1,479,723
	<u>10,571,855</u>	<u>8,556,858</u>
Expenses:		
Salaries and benefits	4,192,500	3,616,009
Professional fees	1,374,554	831,213
Occupancy and office	508,164	460,975
Printing and marketing	78,956	97,675
Interest	3,593,097	2,901,952
Other operating expenses	320,929	199,121
Meetings and travel	166,542	168,784
Depreciation and amortization	227,906	159,000
	<u>10,462,648</u>	<u>8,434,729</u>
<b>Increase in unrestricted net assets - Operating</b>	<u>109,207</u>	<u>122,129</u>
Unrestricted - Capital		
Support and Revenue:		
Loan grants	-	1,000,000
Net assets released from restrictions	1,785,582	1,118,115
	<u>1,785,582</u>	<u>2,118,115</u>
Expenses:		
Provision for loan losses	1,785,582	1,118,115
	<u>-</u>	<u>1,000,000</u>
<b>Increase in unrestricted net assets - Capital</b>	<u>-</u>	<u>1,000,000</u>
<b>Increase in unrestricted net assets</b>	<u>109,207</u>	<u>1,122,129</u>
Temporarily Restricted:		
Program and operating grants	2,958,247	993,108
Interest income	39,059	501,473
Net assets released from restrictions - operating	(2,358,512)	(1,479,723)
Net assets released from restrictions - capital (provision for loan losses)	(1,785,582)	(1,118,115)
	<u>(1,146,788)</u>	<u>(1,103,257)</u>
<b>Decrease in temporarily restricted net assets</b>	<u>(1,146,788)</u>	<u>(1,103,257)</u>
<b>Increase (decrease) in net assets</b>	<u>(1,037,581)</u>	<u>18,872</u>
Net assets:		
Beginning of year	43,584,207	43,565,335
End of year	<u>\$ 42,546,626</u>	<u>\$ 43,584,207</u>

See Notes to Financial Statements.

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**Statements of Cash Flows**  
**Years Ended December 31, 2009 and 2008**

	2009	2008
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ (1,037,581)	\$ 18,872
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	204,138	143,344
Amortization expense for capitalized finance costs	23,768	15,656
Unrealized gains on investments	(33,097)	(48,403)
Provision for foreclosed asset losses	55,000	-
Realized losses on investments	28,757	146,877
Gain on discharge of indebtedness	-	(90,544)
Provision for loan losses	1,785,582	1,118,115
Changes in assets and liabilities:		
Grants receivable, other receivables, prepaids and deposits	(339,611)	(187,499)
Accrued interest receivable	(101,985)	(33,940)
Accrued liabilities	(204,602)	195,506
Accrued interest payable	255,678	26,007
<b>Net cash provided by operating activities</b>	<b>636,047</b>	<b>1,303,991</b>
Cash Flows from Investing Activities:		
Purchases of investments	(7,001,757)	(4,052,905)
Sales of investments	7,343,133	24,665,479
Loans issued	(48,772,787)	(35,129,853)
Loan payments received	19,107,208	16,292,652
Purchases of equipment	(357,860)	(416,309)
<b>Net cash (used in) provided by investing activities</b>	<b>(29,682,063)</b>	<b>1,359,064</b>
Cash Flows from Financing Activities:		
Proceeds from borrowings	40,535,016	21,460,655
Repayment of borrowings	(9,534,428)	(14,016,353)
Finance costs paid	(23,947)	(101,566)
<b>Net cash provided by financing activities</b>	<b>30,976,641</b>	<b>7,342,736</b>
<b>Increase in cash and cash equivalents</b>	<b>1,930,625</b>	<b>10,005,791</b>
Cash and cash equivalents:		
Beginning of year	10,614,903	609,112
End of year	<b>\$ 12,545,528</b>	<b>\$ 10,614,903</b>
Supplemental Disclosure of Cash Flow Information		
Interest paid on borrowings	<b>\$ 3,337,419</b>	<b>\$ 2,875,858</b>
Supplemental Schedule of Noncash Investing Activities		
Real estate acquired in settlement of loans	<b>\$ 1,070,000</b>	<b>\$ 395,000</b>

See Notes to Financial Statements.

## Notes to Financial Statements

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### Note 1. Nature of Activities and Significant Accounting Policies

IFF, an Illinois nonprofit corporation, is one of the largest community development financial institutions (CDFI) exclusively serving nonprofit corporations currently in Illinois, Indiana, Iowa, Missouri and Wisconsin. 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. Activities are primarily conducted from IFF's headquarters in Chicago, Illinois with additional offices in Springfield (Illinois), St. Louis (Missouri), and Milwaukee (Wisconsin).

IFF conducts its activities in conjunction with its affiliated entities, IFF Real Estate Services, LLC and IFF Housing, LLC, which are under the financial control of IFF. Accordingly, IFF prepares its financial statements on a consolidated basis and inter-organization balances and transactions, if any, are eliminated in consolidation. IFF Wisconsin, Inc., an affiliate, was dissolved in 2009.

IFF and its affiliated entities are exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and applicable state law, except for taxes pertaining to unrelated business income, if any. IFF and these affiliated entities included herein are referred to individually and collectively as "IFF".

Significant accounting policies are described below.

**Basis of accounting:** These financial statements have been prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenue and assets are recognized when earned, and expenses and liabilities are recognized when incurred. IFF follows accounting and reporting standards applicable to nonprofit organizations. For financial reporting purposes, IFF classifies its activities as unrestricted, temporarily, or permanently restricted based on the existence or absence of donor-imposed restrictions, as follows:

*Unrestricted:* Net assets that are not subject to donor-imposed restrictions. Items that affect (i.e. increase or decrease) this net asset category include revenue and expenses associated with the core activities of IFF. The statement of activities presents unrestricted support and revenue and expenses as either operating or capital, depending on the nature of the item. Capital activities are primarily related to grants intended or restricted for loans and provisions for loan losses.

*Temporarily Restricted:* IFF reports gifts of cash, grants, and other assets as temporarily restricted if they are received with donor stipulations limiting the use of the donated assets. When a restriction is satisfied, temporarily restricted net assets are transferred to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. Restricted amounts received in the same period in which the restrictions are satisfied are recorded as unrestricted revenue.

*Permanently Restricted:* Net assets subject to donor-imposed restrictions which require that they be maintained permanently (in perpetuity) by IFF. IFF does not have any permanently restricted net assets.

**Accounting policies:** IFF follows accounting standards established by the Financial Accounting Standards Board (FASB) to ensure consistent reporting of financial position, results of activities, and cash flows. References to generally accepted accounting principles in these disclosures are to the *FASB Accounting Standards Codification*<sup>™</sup>, sometimes referred to as the Codification or ASC. The Codification is effective for periods ending on or after September 15, 2009.

## Notes to Financial Statements

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### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Fair value of financial instruments:** The carrying amounts of financial instruments, including cash and cash equivalents, grants and other receivables, and accrued interest receivable and payable approximate fair value due to the short-term duration of these instruments. Loans receivable are approximately equivalent to net realizable value because the allowance for loan losses is included in the carrying amount. The fair value of investments is based on quoted market prices or cost. Borrowings, which carry current interest rates, are approximately equivalent to fair value.

**Cash and cash equivalents:** IFF considers all highly liquid investments with original maturities of three months or less at date of acquisition to be cash and cash equivalents. IFF maintains bank deposit accounts that, at times, may exceed federally insured limits. IFF has not experienced any losses in such accounts. Management believes that IFF is not exposed to significant credit risk on cash.

**Investments:** Investments are presented in the financial statements at fair value in accordance with accounting principles generally accepted in the United States of America. Investment income, realized gains (losses), and change in unrealized gains (losses) are reflected in the statement of activities as increases or decreases in unrestricted assets unless the income or loss is restricted by donor or law. Investments received as contributions are recorded at fair value at the date of receipt. Investments related to Department of Education Grant for Credit Enhancement are restricted for use in a certain program and are therefore included in temporarily restricted net assets.

Capital contributions paid in exchange for managing member interests in certain limited liability companies are classified as other assets on the statement of financial position, and are recorded at fair value, which approximates original cost.

IFF's investment portfolio is subject to various risks, such as interest rate, credit and overall market volatility. Because of these risks, it is possible that the changes in the fair value of investments may occur and that such changes could materially affect IFF's financial statements.

**Grants and other receivables:** Grants receivable are in connection with amounts due from individuals, foundations, and governmental agencies and other receivables are generally in connection with consulting contract fees due from unaffiliated nonprofit corporations. No allowance for uncollected receivables has been established because management considers all grants and other receivables to be fully collectable.

**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 (with a few exceptions) 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 amount of unpaid principal, reduced by an allowance for loan losses. Interest on loans is accrued over the term of the loan based on the amount of principal outstanding.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in the process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

**Notes to Financial Statements**

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**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

**Allowance for loan losses:** The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loans are charged against the allowance for loan losses when management believes the uncollectibility of the principal is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from IFF's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

Loans are considered impaired when, based on current information and events, it is probable that IFF will not be able to collect all amounts due according to the contractual terms of the agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. The impairment is measured based on the present value of expected future cash flows or, alternatively, the observable market price of the loans or the fair value of the collateral. However, for those loans that are collateral-dependent and for which management has determined foreclosure is probable, the measure of impairment of those loans is to be based on the fair value of the collateral. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses.

**Transfers of financial assets:** Transfers of financial assets are accounted for as sales only when the control over the financial assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from IFF – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right, free of conditions that constrain it from taking advantage of the right, to pledge or exchange the transferred assets, and (3) IFF does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

**Foreclosed assets:** Assets acquired through or in lieu of loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other operating expenses.

**Property and equipment:** Property and equipment are recorded at cost. Disbursements for additions and improvements to existing property in amounts over \$1,500 are capitalized, while general maintenance and repairs are charged to expense. The cost and accumulated depreciation of items sold or retired are removed from the property and equipment account and any gain or loss upon disposition is recognized at that time. Provisions for depreciation are computed using the straight-line method over the estimated useful lives of the assets of five years for furniture and equipment and software. The provision for depreciation of leasehold improvements has been computed using the lesser of the remaining estimated useful life or the life of the lease.

**Notes to Financial Statements**

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**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

**Capitalized finance costs:** Capitalized finance costs consist of loan fees and related costs from IFF borrowings which are amortized using the straight-line method over two to fifteen years, depending on the term of the related loan. Costs of \$282,239 and \$258,292 are reported net of accumulated amortization of \$77,995 and \$54,227 at December 31, 2009 and 2008, respectively.

**Sources of revenue:** IFF receives a majority of its revenue from interest revenue on loans and from corporate, foundation and government grants. In accordance with the terms of the government grants, revenue is recognized as income in the contract period in which services are provided. IFF also receives consulting contract fees, which are in connection with providing real estate and research consulting services to nonprofits. These fees are recognized either when agreed-upon milestones per the contract are achieved or monthly on an expense reimbursement basis not to exceed the contract amount.

**Unrestricted and restricted support and revenue:** Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions, in the period promises are made by the donor. Contributions restricted for use in the loan program are classified as temporarily restricted. When a restriction expires, temporarily restricted net assets are reported as net assets released from restrictions, and reclassified to unrestricted net assets. Temporarily restricted contributions received and expended in the same period are recorded as unrestricted revenue.

**Functional expenses:** Operating expenses directly identified with a functional area are charged to that area and, where these expenses affect more than one area, they are allocated on the basis of ratios estimated by management.

**Rentals and expenses:** Base rentals due under the IFF's leased facilities, net of rental incentives received, are recognized as rental expense on a ratable or straight-line basis over the lease term. The deferred rent liability, included in accrued liabilities on the statement of financial position, includes rental incentives received and is being amortized over the term of the lease as a reduction of rental expense.

**Advertising:** IFF expenses advertising costs as they are incurred. Advertising expenses, included in printing and marketing, were \$8,848 and \$13,172 for the years ended December 31, 2009 and 2008, respectively.

**Income taxes:** In accordance with the accounting standard on *Accounting for Uncertainty in Income Taxes*, IFF addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, IFF may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of IFF and various positions related to the potential sources of unrelated business taxable income. There were no unrecognized tax benefits identified or recorded as liabilities during 2009. Open tax years subject to examination by U.S. and state taxing authorities are for years 2007 to 2009, which statutes expire in 2010 to 2012, respectively.

IFF files forms 990 in the U.S. federal jurisdiction, the State of Illinois and certain other states.

**Estimates:** In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions affecting the reported amounts of assets and liabilities as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The determination of the allowance for loan losses is a material estimate that is particularly susceptible to significant change in the near term.

## Notes to Financial Statements

### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**New accounting pronouncements:** Accounting guidance for Transfers and Servicing was amended to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a “qualifying special-purpose entity” and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. Management does not expect the accounting guidance to have a significant impact on IFF’s financial statements.

In September 2006, the FASB issued ASC Topic, *Fair Value Measurements and Disclosure*, which defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measures required under other accounting pronouncements but does not change existing guidance as to whether or not an instrument is carried at fair value. IFF’s adoption of the provisions of this Topic in 2008, with respect to financial assets and liabilities measured at fair value, resulted in increased disclosures in the financial statements about fair value measurements. IFF’s adoption in 2009 of the provisions of this Topic with respect to nonrecurring fair value measurements of nonfinancial assets and liabilities, did not have a material impact on IFF’s financial statements.

Also in 2009, IFF adopted the accounting standard on *Accounting for Uncertainty in Income Taxes*, as discussed previously.

**Subsequent events:** IFF has evaluated subsequent events for potential recognition and/or disclosure through April 28, 2010, the date these financial statements were available for issuance.

**Reclassifications:** For comparability, the 2008 financial statements reflect reclassifications where appropriate to conform to the financial statement presentation used in 2009. There was no affect on previously reported classes of net assets or the change in net assets.

### Note 2. Investments

Investments are recorded at fair value and comprised the following at December 31, 2009 and 2008:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Certificates of Deposit	\$ 250,000	\$ 250,000	\$ -	\$ -
Mutual Funds	-	-	679,065	444,574
Equities	1,032	1,032	1,032	1,032
	<u>251,032</u>	<u>251,032</u>	<u>680,097</u>	<u>445,606</u>
Department of Education - (restricted) investments:				
Cash	539,324	539,324	-	-
Money Market Funds	17,846,092	17,846,092	18,927,878	18,927,878
Certificates of Deposit	400,000	400,000	-	-
	<u>18,785,416</u>	<u>18,785,416</u>	<u>18,927,878</u>	<u>18,927,878</u>
	<u>\$ 19,036,448</u>	<u>\$ 19,036,448</u>	<u>\$ 19,607,975</u>	<u>\$ 19,373,484</u>

## Notes to Financial Statements

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### Note 2. Investments (Continued)

Investment returns for the years ended December 31, 2009 and 2008 were as follows:

	2009	2008
Interest income	\$ 106,961	\$ 963,169
Net unrealized gain	33,097	48,403
Net realized loss	(28,757)	(146,877)
	<u>\$ 111,301</u>	<u>\$ 864,695</u>

### Note 3. Certain Investments Related to Department of Education Grant for Credit Enhancement

In 2005, IFF was awarded an \$8,000,000 grant by the United States Department of Education (DOE) to enable IFF to facilitate long-term financing for charter schools. It also received a similar \$10,000,000 grant in 2007. Grant funds are restricted for the purpose of providing credit enhancement support to bond or loan financing obligations of qualified charter schools. 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. Grant proceeds are maintained in DOE-permitted bank accounts. Interest earned on the grant proceeds are to be reinvested for future credit support. Interest earned was \$39,059 and \$501,473 in 2009 and 2008, respectively. The grant funds including interest thereon, as well as pledged amounts, are included in temporarily restricted net assets.

Funds pledged by IFF for credit enhancement are available to cure charter school payment defaults and delinquencies (if any), reducing the credit risk to the bond investor of any individual project. Amounts pledged under the grants, the cash for which is maintained in separate accounts, were as follows at December 31, 2009 and 2008:

	2009	2008
\$8 million DOE grant	\$ 8,041,064	\$ 4,050,753
\$10 million DOE grant	2,701,559	-
	<u>\$ 10,742,623</u>	<u>\$ 4,050,753</u>

Recourse to IFF with regard to any bonds or loan financing issued is limited to the grant funds pledged in support of individual or pooled bond issues or loan financing (bonds or the loan financing are not an obligation of IFF). As of December 31, 2009, there have not been any payment defaults or delinquencies requiring utilization of the pledged funds.

Recoverable expenses for these grant projects in 2009 and 2008 were \$181,521 and \$184,012, respectively.

## Notes to Financial Statements

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### Note 4. Fair Value of Financial Instruments

ASC Topic, *Fair Value Measurements and Disclosure*, provides the framework for measuring fair value under generally accepted accounting principles. This Topic applies to all financial instruments that are being measured and reported on a fair value basis. As defined in the Topic, fair value is 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. In determining fair value, IFF uses various methods including market, income, and cost approaches. Based on these approaches, IFF often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. IFF utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used on the valuation techniques, IFF is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1. Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 assets primarily include equities and money market funds. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2. Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities. Level 2 investments include certain certificates of deposits.

Level 3. Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. IFF's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

For the year ended December 31, 2009, the application of valuation techniques applied to similar assets and liabilities has been consistent with techniques used in previous years. The following is a description of the valuation methodologies used for instruments at fair value:

## Notes to Financial Statements

## Note 4. Fair Value of Financial Instruments (Continued)

**Assets and liabilities recorded at fair value on a recurring basis:** The following tables summarize assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 and 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	Fair Value Measurements at December 31, 2009 Using			
	Totals	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds - Dept. of Education	\$ 17,846,092	\$ 17,846,092	\$ -	\$ -
Certificates of Deposit - Dept. of Education	400,000	-	400,000	-
Certificates of Deposit	250,000	-	250,000	-
Equities	1,032	1,032	-	-
Investment in limited liability companies	10,024	-	-	10,024
	<u>\$ 18,507,148</u>	<u>\$ 17,847,124</u>	<u>\$ 650,000</u>	<u>\$ 10,024</u>

	Fair Value Measurements at December 31, 2008 Using			
	Totals	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds - Dept. of Education	\$ 18,927,878	\$ 18,927,878	\$ -	\$ -
Mutual Funds	444,574	444,574	-	-
Equities	1,032	1,032	-	-
Investment in limited liability companies	10,024	-	-	10,024
	<u>\$ 19,383,508</u>	<u>\$ 19,373,484</u>	<u>\$ -</u>	<u>\$ 10,024</u>

**Investment securities:** Common and preferred stock, money market funds, and mutual funds, are recorded at fair value based on quoted market prices in an active market, if available, or from third-party pricing services. Changes in the fair value of securities are recorded as unrealized gains and losses.

**Investments in limited liability companies:** Estimated fair value of investments in limited liability companies was initially based on the capital contributions made upon formation of the companies. Adjustments to recorded amounts would be made for any increases in IFF's member interests or significant increases to the companies' fair values. There was no change in the balance of investment in limited liability companies (level 3) during 2008 and 2009.

**Certificates of deposit:** IFF values the certificates of deposit at face value plus accrued interest, which approximates fair value, and these financial instruments are classified in Level 2 of the fair value hierarchy. Accrued interest on the certificates of deposit is included in the statement of financial position under other receivables.

## Notes to Financial Statements

**Note 4. Fair Value of Financial Instruments (Continued)**

**Assets and liabilities recorded at fair value on a nonrecurring basis:** IFF may be required from time to time to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below.

	Fair Value Measurements at December 31, 2009 Using			
	Totals	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Impaired loans	\$ 831,577	\$ -	\$ -	\$ 831,577
Foreclosed assets	1,546,000	-	-	1,546,000
	<u>\$ 2,377,577</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,377,577</u>

  

	Fair Value Measurements at December 31, 2008 Using			
	Totals	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Impaired loans	\$ 2,905,375	\$ -	\$ -	\$ 2,905,375
Foreclosed assets	531,000	-	-	531,000
	<u>\$ 3,436,375</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,436,375</u>

**Impaired loans:** Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Impaired loans measured at fair value at December 31, 2009 on the statements of financial position and included above represents only those impaired loans where fair value was measured to be lower than the cost of the loan which represents impaired loans for which an allowance has been provided less the related allowance for loan losses. Fair value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable and is determined based on appraisals by qualified licensed appraisers hired by IFF. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business.

**Foreclosed assets:** Foreclosed assets, upon initial recognition, are measured and reported at fair value through a charge-off to the allowance for loan losses based upon the fair value of the foreclosed asset. The fair value of foreclosed assets, upon initial recognition, is estimated using Level 3 inputs based on customized discounting criteria. As disclosed in Note 1, IFF adopted the provisions of *Fair Value Measurements and Disclosure* with respect to nonrecurring measurements of nonfinancial assets in 2009. The 2008 balance of foreclosed assets is presented for comparative purposes only.

## Notes to Financial Statements

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### Note 5. Grants Receivable, Other Receivables, Prepaids and Deposits

The total grants receivable, other receivables, prepaids and deposits at December 31, 2009 and 2008 consisted of the following:

	2009	2008
Grants receivable	\$ 853,799	\$ 74,935
Contract and other receivables	412,720	901,347
Prepaids and deposits	137,462	88,088
	<u>\$ 1,403,981</u>	<u>\$ 1,064,370</u>

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

	2009	2008
Amounts receivable / realizable in less than one year	\$ 977,244	\$ 867,470
Amounts receivable / realizable in one to five years	384,944	-
Amounts receivable / realizable in over five years	41,793	196,900
	<u>\$ 1,403,981</u>	<u>\$ 1,064,370</u>

### Note 6. Loans Receivable

Loans receivable at December 31, 2009 and 2008, were comprised of the following:

	2009	2008
Loans receivable outstanding	\$ 133,694,244	\$ 105,978,969
Less allowance for loan losses	4,065,810	3,160,532
	<u>\$ 129,628,434</u>	<u>\$ 102,818,437</u>

Loans carried at \$69,634,309 and \$63,816,772 were pledged to secure borrowings as of December 31, 2009 and 2008, respectively.

Changes in the allowance for loan losses in 2009 and 2008 were as follows:

	2009	2008
Balance, beginning	\$ 3,160,532	\$ 3,654,928
Provision charged to operations	1,785,582	1,118,115
Net charge-offs	(880,304)	(1,612,511)
Recoveries	-	-
	<u>\$ 4,065,810</u>	<u>\$ 3,160,532</u>

## Notes to Financial Statements

### Note 6. Loans Receivable (Continued)

Impaired loan information as of December 31, 2009 and 2008, is as follows:

	2009	2008
Impaired loans for which an allowance has been provided	\$ 1,541,648	\$ 3,549,435
Impaired loans for which no allowance has been provided	2,085,198	-
Total loans determined to be impaired	<u>\$ 3,626,846</u>	<u>\$ 3,549,435</u>
Allowance provided for impaired loans included in the allowance for loan losses	<u>\$ 710,071</u>	<u>\$ 644,060</u>
Average recorded investment in impaired loans	\$ 3,267,624	\$ 3,112,562
Interest income recognized from impaired loans	71,153	67,099
Cash basis interest income recognized from impaired loans	71,153	67,099

Nonperforming loans and foreclosed assets as of December 31, 2009 and 2008, are summarized as follows:

	2009	2008
Nonaccruing loans included in impaired loans	\$ 3,626,846	\$ 3,549,435
Nonaccruing loans not impaired	2,255,909	-
Loans 90 days or more past due, still accruing interest	-	549,625
Nonperforming loans	<u>5,882,755</u>	<u>4,099,060</u>
Foreclosed assets, net	1,546,000	531,000
Nonperforming assets	<u>\$ 7,428,755</u>	<u>\$ 4,630,060</u>

Scheduled loan receipts for 2010 are expected to be approximately \$11,928,000.

IFF's undisbursed loan commitments as of December 31, 2009 and 2008 were \$25,770,970 and \$18,281,996, respectively.

### Note 7. Property and Equipment

Property and equipment at December 31, 2009 and 2008 were comprised as follows:

	2009	2008
Furniture, equipment, and software	\$ 2,181,108	\$ 1,866,326
Leasehold improvements	313,205	270,126
	<u>2,494,313</u>	<u>2,136,452</u>
Less accumulated depreciation and amortization	(1,563,298)	(1,359,159)
	<u>\$ 931,015</u>	<u>\$ 777,293</u>

Depreciation and amortization expense for 2009 and 2008 were \$204,138 and \$143,344, respectively.

## Notes to Financial Statements

**Note 8. Borrowings**

Borrowings indicated with an\* are secured by loans and/or other assets of IFF. All others are unsecured. The interest rate (blended interest rate for The Investor Consortium) as of December 31, 2009 is provided for borrowings where the Annual Rate is indicated as Variable. IFF borrowings consisted of the following:

Lender	Maturity Date	Scheduled Repayments				Principal Balance at December 31, 2009	Principal Balance at December 31, 2008
		Principal		Annual Rate	Interest		
		Amount	Due		Due		
*Allstate Insurance Company	01/01/15	Amortized over ten years	Quarterly starting 01/01/05	3.0%	Quarterly	\$ 2,000,000	\$ 2,400,000
*Allstate Bank	01/01/15	Amortized over ten years	Quarterly starting 01/01/05	3.0%	Quarterly	500,000	600,000
Bank of America	11/07/18	\$ 2,500,000 2,500,000 1,000,000	11/07/16 11/07/17 11/07/18	3.75%	Quarterly	6,000,000	2,000,000
The Blowitz-Ridgeway Foundation	06/30/09	5,000	Quarterly	Variable 4.0%	Quarterly	-	10,000
The Blowitz-Ridgeway Foundation	06/30/10	5,000	Quarterly	Variable 1.5%	Quarterly	10,000	30,000
The Blowitz-Ridgeway Foundation	06/30/11	5,000	Quarterly	Variable 1.5%	Quarterly	30,000	50,000
The Blowitz-Ridgeway Foundation	06/30/12	5,000	Quarterly	Variable 1.5%	Quarterly	150,000	170,000
The Blowitz-Ridgeway Foundation	06/30/13	5,000	Quarterly	Variable 1.5%	Quarterly	170,000	190,000
Calvert Social Investment Foundation	11/30/13	Balance	Maturity	4.0%	Semi-annually	2,000,000	2,000,000

## Notes to Financial Statements

## Note 8. Borrowings (Continued)

Lender	Maturity Date	Scheduled Repayments				Principal Balance at December 31, 2009	Principal Balance at December 31, 2008
		Principal		Interest			
		Amount	Due	Annual Rate	Due		
Calvert Social Investment Foundation	11/30/13	Balance	Maturity	4.5%	Semi-annually	\$ 1,000,000	\$ -
Catholic Health Initiatives	04/01/14	\$ 100,000	Annually starting 04/01/10	3.0%	Annual	1,000,000	-
Circle of Service Foundation	09/30/20	Amortized over fifteen years	Quarterly	3.0%	Quarterly	951,017	1,024,922
Circle of Service Foundation	03/31/21	Amortized over fifteen years	Quarterly	3.0%	Quarterly	987,921	1,060,705
Community Memorial Foundation	01/01/11	Balance	Maturity	2.0%	Semi-annually	500,000	500,000
*Federal Home Loan Bank	12/14/12	Per schedule	Quarterly starting 01/15/08	None	N/A	185,849	192,399
*Federal Home Loan Bank	10/01/13	Per schedule	Quarterly starting 01/15/09	None	N/A	267,383	275,500
*Federal Home Loan Bank	11/06/14	Per schedule	Quarterly starting 01/15/10	None	N/A	308,750	-
*Federal Home Loan Bank	11/06/14	Per schedule	Quarterly starting 01/15/10	None	N/A	97,448	-
First Bank	03/31/10	Balance	Maturity	4.0%	Semi-annually	1,000,000	1,000,000

## Notes to Financial Statements

## Note 8. Borrowings (Continued)

Lender	Maturity Date	Scheduled Repayments				Principal Balance at December 31, 2009	Principal Balance at December 31, 2008
		Principal		Interest			
		Amount	Due	Annual Rate	Due		
Alma Fitzgerald	10/01/09	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	500,000
Harris Trust and Savings Bank	10/01/19	\$ 31,250	Quarterly starting 01/01/10	3.25%	Quarterly	1,250,000	-
Harris Trust and Savings Bank	12/15/19	Balance	Maturity	3.25%	Quarterly	1,250,000	-
Helen Bader Foundation	09/30/15	6,250	Quarterly starting 09/01/09	None	N/A	137,500	150,000
Illinois Development Finance Authority	11/01/10	Balance	Maturity	None	N/A	1,000,000	1,000,000
The Kresge Foundation	09/01/13	Balance	Maturity	3.0%	Quarterly	2,500,000	2,500,000
MacArthur Foundation	01/01/15	250,000	Annually starting 01/01/13	3.0%	Quarterly	750,000	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	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	1,000,000
Marquette Bank	06/01/11	Balance	Maturity	3.0%	Quarterly	200,000	100,000
Monarch Community Fund	09/30/12	Balance	Maturity	4.0%	Semi-annually	500,000	-

## Notes to Financial Statements

## Note 8. Borrowings (Continued)

Lender	Maturity Date	Scheduled Repayments				Principal Balance at December 31, 2009	Principal Balance at December 31, 2008
		Principal		Interest			
		Amount	Due	Annual Rate	Due		
The Northern Trust Company	10/12/09	Balance	Maturity	2.0%	Quarterly	\$ 2,500,000	\$ 2,500,000
The Northern Trust Company	01/02/17	Balance	Maturity	3.0%	Semi-annually	2,000,000	2,000,000
*The Northern Trust Company	03/01/14	\$ 175,000	Semi-annually	3.0%	Semi-annually	1,312,806	1,662,806
Opportunity Finance Network	03/29/19	Balance	Maturity	3.0%	Quarterly	5,000,000	-
ShoreBank	12/18/10	Balance	Maturity	4.375%	Quarterly	3,000,000	3,000,000
ShoreBank	12/18/10	Balance	Maturity	4.0%	Quarterly	2,000,000	400,000
State Farm Bank	03/01/09	Balance	Maturity	3.0%	Semi-annually	-	500,000
State Farm Bank	04/20/14	333,333	Annually starting 04/20/10	4.5%	Semi-annually	5,000,000	-
Trinity Health	06/30/10	Balance	Quarterly	3.0%	Quarterly	500,000	500,000
Trinity Health	06/30/14	Balance	Quarterly	3.0%	Quarterly	500,000	-
Wisconsin Preservation Fund	10/01/24	Balance	Maturity	None	N/A	75,000	75,000
Walton Family Foundation	12/17/19	1,000,000 2,000,000 2,000,000	12/17/17 12/17/18 12/17/19	None	N/A	5,000,000	1,000,000
Wells Fargo Bank	04/01/18	Balance	Maturity	2.0%	Quarterly	1,000,000	1,000,000
						<u>55,133,674</u>	<u>31,161,332</u>

## Notes to Financial Statements

## Note 8. Borrowings (Continued)

Lender	Maturity Date	Scheduled Repayments				Principal Balance at December 31, 2009	Principal Balance at December 31, 2008
		Principal		Interest			
		Amount	Due	Annual Rate	Due		
The Investor Consortium <sup>a</sup>							
Sale 2004-1	01/15/20	Per schedule	Quarterly	Variable 3.619%	Quarterly	\$ 8,635,365	\$ 10,117,263
Sale 2005-1	10/15/20		Quarterly	Variable 3.951%	Quarterly	5,925,187	6,772,441
Sale 2006-1	10/15/21		Quarterly	Variable 3.802%	Quarterly	12,746,089	14,403,543
Sale 2007-1	10/15/22		Quarterly	Variable 4.360%	Quarterly	10,087,947	12,650,479
Sale 2008-1	10/15/23		Quarterly	Variable 4.229%	Quarterly	12,492,249	13,801,271
Sale 2009-1	10/15/24		Quarterly	Variable 4.108%	Quarterly	14,928,818	-
						<u>64,815,655</u>	<u>57,744,997</u>
Total borrowings:						<u>\$ 119,949,329</u>	<u>\$ 88,906,329</u>

(a) Secured by trust notes collateralized by IFF loans receivable. Participating banks in the Investor Consortium are Advantage National Bank, American Chartered Bank, Bank of America, Barrington Bank and Trust, Beverly Bank and Trust, Busey Bank, Charter One Bank, Cole Taylor Bank, Crystal Lake Bank and Trust, First Bank, First Bank and Trust, Harris Trust & Savings Bank, Hinsdale Bank and Trust, Jacksonville Savings Bank, Lake Forest Bank and Trust, Libertyville Bank and Trust, M&I Community Development Corporation, MB Financial, Midwest Bank and Trust Company, The Northern Trust Bank, North Shore Community Bank and Trust, Northbrook Bank and Trust, Old Plank Trail Community Bank and Trust, Park National Bank (assumed by FDIC) and Trust, St. Charles Bank and Trust, State Bank of the Lakes, Town Bank, Village Bank and Trust, and Wheaton Bank and Trust (see Note 9).

The Northern Trust borrowings of \$2,500,000 had expired as December 31, 2009. IFF is in the process of renewing this debt, and continues to make interest payments.

IFF is subject to several loan covenants, which among other items, require minimum net asset, liquidity, allowance for loan losses, leverage, and collateral levels. The Company is in compliance with these covenants as of December 31, 2009

## Notes to Financial Statements

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### Note 8. Borrowings (Continued)

As of December 31, 2009, the required principal reduction of borrowings is as follows:

2010	\$ 16,626,876
2011	8,508,099
2012	6,772,748
2013	13,583,486
2014	11,944,984
Thereafter	62,513,136
	<u>\$ 119,949,329</u>

Also IFF had a \$5,000,000 line of credit with Harris N.A. during 2009. There were no amounts drawn on the line of credit during 2009 and 2008. In April 2010, IFF entered into a new line of credit agreement for \$4,000,000 with Harris and borrowed \$3,676,000. Outstanding borrowings bear interest, payable monthly, at a rate equal to the greater of the bank's prime rate or 4.50 percent. The line expires in April 2011.

### Note 9. 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 usually 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 percent cash reserve held, for each series, by the trustee. If the balance of the cash reserve falls below 2 percent 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 percent. The reserve funds are maintained in money market accounts and a certificate of deposits and are presented at fair market value. The balance of the reserves for the collateral trust notes, included in cash and cash equivalents, at December 31, 2009 and 2008 was \$1,074,128 and \$1,058,812 at cost, respectively, which represents fair value.

### Note 10. 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, in which PAVE purchased an interest in each loan. IFF has the obligation to pass through payments with respect to interest at 3.125 percent and 3.0625 percent, 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. The combined current balance of the loans receivable as of December 31, 2009 and 2008 were \$1,045,913 and \$1,132,348, respectively.

As of December 31, 2009, the scheduled principal reduction of loan participations payable is as follows:

2010	\$ 50,435
2011	458,014
	<u>\$ 508,449</u>

## Notes to Financial Statements

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### Note 11. Operating Leases

IFF is obligated under a lease for its Chicago office space (through June 2015) which provides for base rentals (recognized on a straight-line basis) plus a prorated share of real estate taxes and operating expenses. A deferred rent liability, representing the cumulative amount by which rental expense recognized exceeds cash paid, totaled \$203,564 and \$203,426 at December 31, 2009 and 2008, respectively, and is included in accrued liabilities. IFF is also obligated under office leases in Springfield (month-to-month basis), St. Louis (through December 2014) and Milwaukee (through April 2014).

Future minimum lease payments (base rentals) by year are as follows:

2010	\$	353,800
2011		364,000
2012		372,000
2013		379,300
2014		381,200
Thereafter		181,800
		<u>\$ 2,032,100</u>

The total rent expense for the years ended December 31, 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Chicago	\$ 299,134	\$ 289,295
St. Louis	14,159	7,200
Milwaukee	9,155	-
Peoria (Illinois) and Springfield	4,710	4,536
	<u>\$ 327,158</u>	<u>\$ 301,031</u>

### Note 12. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2009 and 2008 were available for the following purposes:

	<u>2009</u>	<u>2008</u>
Department of Education Grant for Credit Enhancement	\$ 18,785,416	\$ 18,927,878
Loan Issuance	8,645,860	10,431,442
Grants for Specific Programs	2,284,602	1,503,346
	<u>\$ 29,715,878</u>	<u>\$ 30,862,666</u>

IFF receives certain capital grants whose purpose is to fund the issuance of loans and to help restore IFF for losses attributable to loans. Amounts received are recorded as temporarily restricted revenue, and are released from restrictions when IFF records loan provisions. Grant amounts received which are not yet utilized are included in temporarily restricted net assets, listed above as Loan Issuance.

## Notes to Financial Statements

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### Note 12. Temporarily Restricted Net Assets (Continued)

In 2009 and 2008, net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions as follows:

	2009	2008
Net assets released from restrictions:		
Time and performance restrictions (operating)	\$ 2,358,512	\$ 1,479,723
Provision for loan losses (capital)	1,785,582	1,118,115
	<u>\$ 4,144,094</u>	<u>\$ 2,597,838</u>

### Note 13. Employee Benefit Plan

The IFF 401(k) Profit Sharing Plan is a defined contribution retirement plan for the benefit of IFF's employees. Full-time eligible employees may make discretionary contributions to the Plan, and IFF may make discretionary or matching contributions. IFF's contribution for the years ended December 31, 2009 and 2008 was \$179,905 and \$165,186, respectively.

### Note 14. Functional Expense Classifications

IFF's unrestricted expenses for the years ended December 31, 2009 and 2008 reported on a functional basis are as follows:

	2009	2008
Program expenses:		
Lending	\$ 8,200,723	\$ 6,371,819
Real estate services	2,512,854	1,759,590
Public policy and communications	438,972	331,294
Research	344,672	329,215
	<u>11,497,221</u>	<u>8,791,918</u>
Supporting services	751,009	760,926
	<u>\$ 12,248,230</u>	<u>\$ 9,552,844</u>

### Note 15. Concentration of Credit Risk

Approximately 54 percent and 60 percent of IFF's borrowers are located in the Chicago metropolitan area as of December 31, 2009 and 2008, respectively. 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 money market 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.

**Notes to Financial Statements**

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**Note 16. Limited Liability Companies**

IFF Capital LLC (IFFC) and IFF Capital II LLC (IFFC II), which are for-profit limited liability companies, were formed by IFF for the purpose of allocating federal tax credits from the New Markets Tax Credit program of the U.S. Department of Treasury. IFFC received an allocation from IFF of \$10,000,000 in tax credits in 2002, of which \$7,000,000 was subsequently allocated to IFFC II upon its formation in 2006. At this time, IFF formed an additional for-profit limited liability company, Chase NMTC II LLC, in order to pool debt and the tax credit equity for investment in IFFC II.

IFF is the managing member and has stated ownership interests of either 0.01 percent or 0.1 percent in each of the limited liability companies. IFF's investments in the limited liability companies total \$10,024 and are recorded on the statement of financial position as other assets.

IFFC has three investor members. IFFC II has one investor member, Chase NMTC II LLC, which has one member other than the managing member.

IFF provides certain asset management and compliance oversight services to the limited liability companies, as provided in the respective operating agreements. IFF receives a management fee of 4 percent of the outstanding principal balance of all qualified loans made by IFFC, computed on a monthly basis. Management fee revenue amounted to \$102,244 and \$100,546 for 2009 and 2008, respectively. Accounts receivable from IFFC at December 31, 2009 and 2008 were \$9,444 and \$0, respectively.

IFF is entitled, in its sole discretion, to an annual management fee of up to 2 percent of qualifying capital contributions for IFFC II. There was no payment or accrual of such fees in 2009 or 2008. IFF is entitled to a similar 2 percent fee from Chase NMTC II. There was no payment or accrual of such fees in 2009 or 2008.

At December 31, 2009 and 2008, IFF has recorded a \$157,647 loan receivable due from Chase NMTC II LLC. The maturity date of this receivable is December 1, 2014. IFF has an accounts payable due to IFFC II at December 31, 2009 for \$0 and 2008 for \$7,372.

As managing member in the limited liability companies, IFF is responsible for compliance with various regulations. Failure to comply could result in the recapture or loss of tax credits, as provided for in the Internal Revenue Code. IFF has indemnified the other investor members against all recapture liability and any other economic losses incurred by the members as a result of any such recapture event.

Chase NMTC II LLC has \$4,984,700 of notes payable to its member, J.P. Morgan Chase Development Corporation, pursuant to the terms of a 2006 credit agreement. The notes payable are composed of eight loans, all with a different variable rate based upon 215 basis points over the 7-year interpolated U.S. Treasury rate at the time of each loan advance. The interest is payable monthly while the loans mature on November 30, 2014. Interest payments are funded by distributions received from Chase NMTC II LLC. In connection with the formation of IFFC II and Chase NMTC II LLC, IFF has guaranteed repayment of this note payable, in the event Chase NMTC II LLC is unable to meet its obligations. The guaranty agreement requires IFF to comply with various covenants.