

**IFF**

Financial Report  
December 31, 2010

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## Independent Auditor's Report

To the Board of Directors  
IFF  
Chicago, Illinois

We have audited the accompanying statements of financial position of IFF as of December 31, 2010 and 2009, and the related statements of activities and cash flows for the years 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.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IFF as of December 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Chicago, Illinois  
April 25, 2011

**IFF**

**Statements of Financial Position  
December 31, 2010 and 2009**

	2010	2009
<b>Assets</b>		
Cash and cash equivalents	\$ 10,087,086	\$ 12,545,528
Investments	251,032	251,032
Investments related to Department of Education Grant for Credit Enhancement	18,667,457	18,785,416
Grants receivable, other receivables, prepaids and deposits	1,155,216	1,403,981
Loans receivable, net	151,690,733	129,628,434
Accrued interest receivable	617,298	580,057
NSP property	2,619,779	-
Other assets	10,024	10,024
Foreclosed assets, net	2,165,138	1,546,000
Property and equipment, net	713,466	931,015
Capitalized finance costs, net	247,082	204,244
	<u>\$ 188,224,311</u>	<u>\$ 165,885,731</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accrued liabilities	\$ 1,597,160	\$ 1,927,097
Accrued interest payable	868,592	954,230
Borrowings	140,882,587	119,949,329
Loan participations payable	966,454	508,449
	<u>144,314,793</u>	<u>123,339,105</u>
<b>Net Assets</b>		
Unrestricted	13,958,721	12,830,748
Temporarily restricted	29,950,797	29,715,878
	<u>43,909,518</u>	<u>42,546,626</u>
	<u>\$ 188,224,311</u>	<u>\$ 165,885,731</u>

See Notes to Financial Statements.

IFF

**Statements of Activities**  
**Years Ended December 31, 2010 and 2009**

	2010	2009
Unrestricted - Operating		
Support and Revenue:		
Corporations, foundations, and individuals	\$ 115,000	\$ 179,550
Interest on loans	8,058,087	6,538,727
Consulting contract fees	1,094,599	1,272,396
IFFC management/sponsor fee	110,739	107,958
Loan fees	91,315	97,470
Interest income	16,768	67,902
Rental income	22,772	-
Unrealized gains on investments	-	33,097
Unrealized loss on foreclosed assets	(208,000)	(55,000)
Realized losses on investments	-	(28,757)
Net assets released from restrictions	1,715,489	2,358,512
Net assets released from restrictions - NSP property	563,718	-
	<u>11,580,487</u>	<u>10,571,855</u>
Expenses:		
Salaries and benefits	4,268,760	4,192,500
Professional fees	613,390	1,374,554
Occupancy and office	540,884	508,164
Printing and marketing	61,077	78,956
Interest	4,455,916	3,593,097
Other operating expenses	250,834	320,929
Pass through NSP property	563,718	-
Meetings and travel	157,201	166,542
Loss on sale of property	333	-
Depreciation and amortization	290,401	227,906
	<u>11,202,514</u>	<u>10,462,648</u>
	<u>377,973</u>	<u>109,207</u>
Unrestricted - Capital		
Support and Revenue:		
Loan grants	750,000	-
Net assets released from restrictions	1,379,337	1,785,582
	<u>2,129,337</u>	<u>1,785,582</u>
Expenses:		
Provision for loan losses	1,379,337	1,785,582
	<u>1,379,337</u>	<u>1,785,582</u>
	<u>750,000</u>	<u>-</u>
<b>Increase in unrestricted net assets</b>	<u>1,127,973</u>	<u>109,207</u>

**IFF****Statements of Activities (Continued)  
Years Ended December 31, 2010 and 2009**

	<b>2010</b>	2009
Temporarily Restricted:		
Program and operating grants	<b>\$ 3,794,933</b>	\$ 2,958,247
Loan capital grants	<b>75,000</b>	-
Interest income	<b>23,530</b>	39,059
Net assets released from restrictions - operating	<b>(1,715,489)</b>	(2,358,512)
Net assets released from restrictions - NSP property	<b>(563,718)</b>	-
Net assets released from restrictions - capital (provision for loan losses)	<b>(1,379,337)</b>	(1,785,582)
	<b>234,919</b>	(1,146,788)
<b>Increase (decrease) in temporarily restricted net assets</b>	<b>234,919</b>	(1,146,788)
	<b>1,362,892</b>	(1,037,581)
<b>Increase (decrease) in net assets</b>	<b>1,362,892</b>	(1,037,581)
Net assets:		
Beginning of year	<b>42,546,626</b>	43,584,207
End of year	<b>\$ 43,909,518</b>	\$ 42,546,626

See Notes to Financial Statements.

IFF

**Statements of Cash Flows**  
**Years Ended December 31, 2010 and 2009**

	2010	2009
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 1,362,892	\$ (1,037,581)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	243,649	204,138
Amortization expense for capitalized finance costs	46,752	23,768
Unrealized gains on investments	-	(33,097)
Provision for foreclosed asset losses	208,000	55,000
Realized losses on investments	-	28,757
Provision for loan losses	1,379,337	1,785,582
Changes in assets and liabilities:		
Grants receivable, other receivables, prepaids and deposits	248,765	(339,611)
Accrued interest receivable	(37,241)	(101,985)
Accrued liabilities	(329,937)	(204,602)
Accrued interest payable	(85,638)	255,678
<b>Net cash provided by operating activities</b>	<b>3,036,579</b>	<b>636,047</b>
Cash Flows from Investing Activities		
Purchases of investments	(484,435)	(7,001,757)
Sales of investments	602,394	7,343,133
Loans issued	(44,141,817)	(48,772,787)
Loan payments received	19,873,043	19,107,208
Purchases of equipment	(26,100)	(357,860)
Purchase of NSP property	(3,183,497)	-
Sale of NSP property	563,718	-
<b>Net cash used in investing activities</b>	<b>(26,796,694)</b>	<b>(29,682,063)</b>
Cash Flows from Financing Activities		
Proceeds from borrowings	46,142,875	40,535,016
Repayment of borrowings	(24,751,612)	(9,534,428)
Finance costs paid	(89,590)	(23,947)
<b>Net cash provided by financing activities</b>	<b>21,301,673</b>	<b>30,976,641</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(2,458,442)</b>	<b>1,930,625</b>
Cash and cash equivalents:		
Beginning of year	12,545,528	10,614,903
End of year	<b>\$ 10,087,086</b>	<b>\$ 12,545,528</b>
Supplemental Disclosure of Cash Flow Information		
Interest paid on borrowings	<b>\$ 4,542,627</b>	<b>\$ 3,337,419</b>
Supplemental Schedule of Noncash Investing Activities		
Real estate acquired in settlement of loans	<b>\$ 1,267,138</b>	<b>\$ 1,070,000</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 closed the Springfield office in February 2011.

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 (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.

*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™*, sometimes referred to as the Codification or ASC.

**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 receivable:** 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.

**Notes to Financial Statements**

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

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. Loans renegotiated in troubled debt restructurings are those loans on which concessions in terms have been granted because of a borrower's financial difficulty.

**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.

**Notes to Financial Statements**

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

**NSP property and grant revenue:** Aggregate property acquisition and improvement costs in connection with the Neighborhood Stabilization Program (Note 7) are capitalized on the statement of financial position as an asset. IFF accounts for these costs by specific property and, upon transferring a property to the end-user, reduces the asset account and records an expense for the cost basis of the transferred property. Grantors fund the costs of the acquisition and improvements, and IFF records temporarily restricted grant revenue as acquisition and improvement costs are incurred. Amounts are released from restrictions when the property is transferred to the end-user.

**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 estimated useful life of the asset or the life of the lease.

**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 2 to 15 years, depending on the term of the related loan. Costs are reported net of accumulated amortization of \$124,747 and \$77,995 at December 31, 2010 and 2009, 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.

**Notes to Financial Statements**

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

**Advertising:** IFF expenses advertising costs as they are incurred. Advertising expenses, included in printing and marketing, were \$12,149 and \$8,848 for the years ended December 31, 2010 and 2009, 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 2010 or 2009. Open tax years subject to examination by U.S. and state taxing authorities are for years 2007 to 2009, which statutes expire in 2011 to 2013, respectively.

IFF files forms 990 in the U.S. federal jurisdiction and the state of Illinois.

**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.

**New accounting pronouncements:** The FASB issued ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, in July 2010. The amendments in this ASU apply to all entities, both public and nonpublic, with financing receivables, excluding short-term trade accounts receivable or receivables measured at fair value or lower of cost or fair value. The amendments in this ASU enhance disclosures about the credit quality of financing receivables and the allowance for credit losses. This ASU amends existing disclosure guidance to require entities to provide a greater level of disaggregated information about the credit quality of its financing receivables and its allowance for credit losses. In addition, this ASU requires entities to disclose credit quality indicators, past due information, and modifications of its financing receivables. For private entities, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2011. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2011. This ASU encourages, but does not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, entities should provide comparative disclosures for those reporting periods ending after initial adoption. IFF elected to adopt this guidance early and has included the enhanced disclosures as of and for the year ended December 31, 2010.

The FASB issued ASU No. 2009-16, *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets*, in December 2009. Among other provisions, this ASU eliminates the concept of a "qualifying special-purpose entity" and removes the exception from applying certain accounting guidance to qualifying special-purpose entities. In addition, this ASU provides guidance as to when a portion of a transferred financial asset can be evaluated for sale accounting, provides additional guidance with regard to accounting for transfers of financial assets and requires additional disclosures. This ASU is effective at the beginning of a reporting entity's first fiscal year that begins after November 15, 2009. IFF adopted this guidance at January 1, 2010. The adoption of this guidance did not have an impact on IFF's results of activities or financial position.

**Subsequent events:** IFF has evaluated subsequent events for potential recognition and/or disclosure through April 25, 2011, the date these financial statements were available for issuance.

**IFF**

**Notes to Financial Statements**

**Note 2. Investments**

Investments are recorded at fair value and comprised the following at December 31, 2010 and 2009:

	2010		2009	
	Cost	Fair Value	Cost	Fair Value
Certificates of Deposit	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
Equities	1,032	1,032	1,032	1,032
	<u>251,032</u>	<u>251,032</u>	<u>251,032</u>	<u>251,032</u>
Department of Education - (restricted) investments:				
Cash	400,374	400,374	539,324	539,324
Money Market Funds	17,871,594	17,871,594	17,846,092	17,846,092
Certificates of Deposit	395,489	395,489	400,000	400,000
	<u>18,667,457</u>	<u>18,667,457</u>	<u>18,785,416</u>	<u>18,785,416</u>
	<u>\$ 18,918,489</u>	<u>\$ 18,918,489</u>	<u>\$ 19,036,448</u>	<u>\$ 19,036,448</u>

Investment returns for the years ended December 31, 2010 and 2009 were as follows:

	2010	2009
Interest income	\$ 40,298	\$ 106,961
Net unrealized gain	-	33,097
Net realized loss	-	(28,757)
	<u>\$ 40,298</u>	<u>\$ 111,301</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 \$23,530 and \$39,059 in 2010 and 2009, 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, 2010 and 2009:

	2010	2009
\$8 million DOE grant	\$ 8,041,135	\$ 8,041,064
\$10 million DOE grant	3,102,735	2,701,559
	<u>\$ 11,143,870</u>	<u>\$ 10,742,623</u>

**Notes to Financial Statements**

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**Note 3. Certain Investments Related to Department of Education Grant for Credit Enhancement (Continued)**

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, 2010, there have not been any payment defaults or delinquencies requiring utilization of the pledged funds.

Recoverable expenses for these grant projects in 2010 and 2009 were \$141,489 and \$181,521, respectively.

**Note 4. Fair Value of Financial Instruments**

The accounting guidance on fair value measurements and disclosures defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under the guidance as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under the guidance are described below:

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, 2010, 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:

**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, 2010 and 2009, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

## Notes to Financial Statements

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

	Fair Value Measurements at December 31, 2010 Using			
	Totals	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of Deposit	\$ 250,000	\$ -	\$ 250,000	\$ -
Equities	1,032	1,032	-	-
Money Market Funds - Dept. of Education	17,871,594	17,871,594	-	-
Certificates of Deposit - Dept. of Education	395,489	-	395,489	-
Investment in limited liability companies	10,024	-	-	10,024
	<u>\$ 18,528,139</u>	<u>\$ 17,872,626</u>	<u>\$ 645,489</u>	<u>\$ 10,024</u>

  

	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)
Certificates of Deposit	\$ 250,000	\$ -	\$ 250,000	\$ -
Equities	1,032	1,032	-	-
Money Market Funds - Dept. of Education	17,846,092	17,846,092	-	-
Certificates of Deposit - Dept. of Education	400,000	-	400,000	-
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>

**Investment securities:** Common and preferred stock and money market 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 2009 and 2010.

**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.

**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.

## Notes to Financial Statements

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

	Fair Value Measurements at December 31, 2010 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	\$ 388,528	\$ -	\$ -	\$ 388,528
Foreclosed assets	2,165,138	-	-	2,165,138
	<u>\$ 2,553,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,553,666</u>
	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>

**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, 2010 on the statements of financial position and included above represent 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.

**Notes to Financial Statements****Note 5. Grants Receivable, Other Receivables, Prepaids and Deposits**

The total grants receivable, other receivables, prepaids and deposits at December 31, 2010 and 2009 consisted of the following:

	2010	2009
Grants receivable	\$ 569,536	\$ 853,799
Contract and other receivables	469,549	412,720
Prepaids and deposits	116,131	137,462
	<u>\$ 1,155,216</u>	<u>\$ 1,403,981</u>

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

	2010	2009
Amounts receivable / realizable in less than one year	\$ 976,208	\$ 977,244
Amounts receivable / realizable in one to five years	179,008	384,944
Amounts receivable / realizable in over five years	-	41,793
	<u>\$ 1,155,216</u>	<u>\$ 1,403,981</u>

**Note 6. Loans Receivable**

Loans receivable at December 31, 2010 and 2009, were comprised of the following:

	2010	2009
Facility	\$ 124,944,832	\$ 110,329,322
Affordable Housing	20,389,314	14,429,326
Equipment and Vehicle	5,223,145	4,567,362
Pre-development	1,427,197	2,612,908
Other	4,187,864	1,755,326
	<u>156,172,352</u>	<u>133,694,244</u>
Allowance for Loan Losses	(4,481,619)	(4,065,810)
	<u>\$ 151,690,733</u>	<u>\$ 129,628,434</u>

All loans are underwritten after evaluating and understanding the borrower's operations. As part of the underwriting process we examine current and projected cash flows to determine the ability of the borrower to repay its obligations as agreed. All loans are primarily based on the identified cash flows of the borrower. Collateral is obtained to secure the loans, however, it is not a primary factor in the underwriting decision. The cash flows of the borrower, however, may not be as expected, and the collateral securing these loans may fluctuate in value. Most loans are secured by the assets being financed or other business assets such as accounts receivable or inventory. However, some short-term loans may be made on an unsecured basis.

## Notes to Financial Statements

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### Note 6. Loans Receivable (Continued)

Facility related loan credit is extended to borrowers for facility acquisition, construction, renovation/rehabilitation, leased improvements and refinancing to expand programming. This also can be for facility improvement for major maintenance and repairs. Approximately 58 percent of outstanding Facility loans are collateralized with mortgages in a first position lien and 27 percent are collateralized by mortgages with second position liens. The remaining 15 percent are collateralized by leasehold mortgages and other liens.

Affordable Housing loan credit is extended for the acquisition, construction, renovation/rehabilitation for single family or multi-family homes. These loans are secured by first position mortgages on the underlying properties.

Equipment and vehicle loan credit is available for service owned vehicles, computers, furnishing, and medical equipment. The Company generally requires the borrower to have an existing loan relationship with the Company. These loans are often cross-collateralized with the other existing loans of the borrower held by the Company.

Pre-development credit is provided to affordable housing developers to finance up-front project requirements such as site control, architectural, legal, and financing costs. These loans are secured by first position mortgages on the underlying properties.

Other loans receivable consist of working capital loans and other short-term loans secured by mortgages and vehicle or other assets. The Company generally requires the borrower to have an existing loan relationship with the Company. These loans are often cross-collateralized with the other existing loans of the borrower held by the Company.

The following table presents the contractual aging of the recorded investment in past due loans by loan segment as of December 31, 2010:

	Current	31 - 60 Days Past Due	61 - 90 Days Past Due	90+ Days Past Due	Total	Nonaccruing Loans
Facility	\$ 120,459,379	\$ 1,582,388	\$ -	\$ 2,903,065	\$ 124,944,832	\$ 5,179,328
Affordable Housing	19,360,180	404,248	-	624,886	20,389,314	717,984
Equipment and Vehicle	4,938,145	285,000	-	-	5,223,145	40,680
Pre-development	1,135,788	-	-	291,409	1,427,197	291,409
Other	3,495,763	-	-	692,101	4,187,864	692,101
	<u>\$ 149,389,255</u>	<u>\$ 2,271,636</u>	<u>\$ -</u>	<u>\$ 4,511,461</u>	<u>\$ 156,172,352</u>	<u>\$ 6,921,502</u>
Nonaccruing Loans	\$ 1,902,713	\$ 507,328	\$ -	\$ 4,511,461	\$ 6,921,502	

As of December 31, 2009 there was \$5,882,755 of nonaccruing loans. As of December 31, 2010 and 2009, respectively there were no loans 90 days or more past due, still accruing interest.

## Notes to Financial Statements

### Note 6. Loans Receivable (Continued)

The Company utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Under its risk rating system, the Company classifies problem and potential problem loans as "Watch List," "Substandard," and "Impaired" which correspond to risk ratings 4+, 4- and 5, respectively.

Substandard Loans include those characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as Impaired, or risk rating 5, have all the weaknesses inherent in those classified as Substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

Loans that do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories, but possess an element of weakness that deserve management's close attention are deemed to be Watch List, or risk rating 4+. Risk ratings are updated any time the situation warrants.

The following tables present the risk category of loan segment based on the most recent analysis performed and the contractual aging as of December 31, 2010:

	General Portfolio	Watch List (4+)	Substandard <sup>(1)</sup> (4-)	Doubtful <sup>(2)</sup> (5)	Total
Facilities	\$ 114,537,483	\$ 5,747,243	\$ 3,319,124	\$ 1,340,982	\$ 124,944,832
Affordable Housing	18,755,397	810,933	198,098	624,886	20,389,314
Equipment and Vehicle	3,866,514	1,315,951	40,680	-	5,223,145
Pre-development	1,135,788	-	-	291,409	1,427,197
Other	3,380,400	-	705,168	102,296	4,187,864
	<u>\$ 141,675,582</u>	<u>\$ 7,874,127</u>	<u>\$ 4,263,070</u>	<u>\$ 2,359,573</u>	<u>\$ 156,172,352</u>

	General Portfolio	Watch List (4+)	Substandard <sup>(1)</sup> (4-)	Doubtful <sup>(2)</sup> (5)	Total
Current	\$ 140,901,521	\$ 6,986,342	\$ 1,195,968	\$ 305,424	\$ 149,389,255
Past Due 31-60 Days	774,061	887,785	507,328	102,462	2,271,636
Past Due 61-90 Days	-	-	-	-	-
Past Due 90 + Days	-	-	2,559,774	1,951,687	4,511,461
	<u>\$ 141,675,582</u>	<u>\$ 7,874,127</u>	<u>\$ 4,263,070</u>	<u>\$ 2,359,573</u>	<u>\$ 156,172,352</u>

- (1) Substandard – for those lines of credit involving more than normal risk due to the financial condition or unfavorable record of the obligor, insufficiency of security, or other factors noted.
- (2) Doubtful – the ultimate collection of which is doubtful and in which a substantial loss is probable but not yet definitely ascertainable in amount.

IFF

Notes to Financial Statements

**Note 6. Loans Receivable (Continued)**

Activity in the Allowance for Loan Losses for the year ended December 31, 2010 was as follows:

	Facility	Affordable Housing	Equipment & Vehicle	Pre-Development	Other	Total
Beginning balance	\$ 3,416,951	\$ 358,390	\$ 116,430	\$ 130,996	\$ 43,043	\$ 4,065,810
Provision for loan losses	944,932	108,283	16,286	114,773	195,063	1,379,337
Charge-offs	(931,525)	-	-	-	(32,003)	(963,528)
Recoveries	-	-	-	-	-	-
Ending balance	<u>\$ 3,430,358</u>	<u>\$ 466,673</u>	<u>\$ 132,716</u>	<u>\$ 245,769</u>	<u>\$ 206,103</u>	<u>\$ 4,481,619</u>

	Facility	Affordable Housing	Equipment and Vehicle	Pre-Development	Other	Total
Allowance for Loan Losses:						
Allocated	\$ 542,013	\$ -	\$ -	\$ 216,409	\$ 102,295	\$ 860,717
General	2,888,345	466,673	132,716	29,360	103,808	3,620,902
	<u>\$ 3,430,358</u>	<u>\$ 466,673</u>	<u>\$ 132,716</u>	<u>\$ 245,769</u>	<u>\$ 206,103</u>	<u>\$ 4,481,619</u>

	Facility	Affordable Housing	Equipment and Vehicle	Pre-Development	Other	Total
Loans:						
Impaired Loans	\$ 1,340,982	\$ 624,886	\$ -	\$ 291,409	\$ 102,296	\$ 2,359,573
Non-Impaired Loans	123,603,850	21,469,908	5,223,145	1,135,787	2,380,089	153,812,779
	<u>\$ 124,944,832</u>	<u>\$ 22,094,794</u>	<u>\$ 5,223,145</u>	<u>\$ 1,427,196</u>	<u>\$ 2,482,385</u>	<u>\$ 156,172,352</u>

Activity in the allowance for loan losses for the year ended December 31, 2009 was as follows:

Beginning balance	\$ 3,160,532
Provision for loan losses	1,785,582
Charge-offs	(880,304)
Recoveries	-
Ending balance	<u>\$ 4,065,810</u>

**Notes to Financial Statements**


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**Note 6. Loans Receivable (Continued)**

Impaired loan information as of December 31, 2010 and 2009, is as follows:

	2010	2009
Impaired loans for which an allowance has been provided	\$ 1,249,245	\$ 1,541,648
Impaired loans for which no allowance has been provided	1,110,328	2,085,198
Total loans determined to be impaired	<u>\$ 2,359,573</u>	<u>\$ 3,626,846</u>
Allowance provided for impaired loans included in the allowance for loan losses	<u>\$ 860,717</u>	<u>\$ 710,071</u>
Average recorded investment in impaired loans	\$ 3,198,920	\$ 3,267,624
Interest income recognized from impaired loans	35,264	71,153
Cash basis interest income recognized from impaired loans	35,264	71,153

At December 31, 2010 there was \$1,485,245 of loans identified as troubled debt restructurings. There were no troubled debt restructurings as of December 31, 2009.

Loans carried at \$65,099,084 and \$69,634,309 were pledged to secure borrowings as of December 31, 2010 and 2009, respectively.

Scheduled loan receipts for the year ended December 31, 2011 are expected to be approximately \$11,977,000.

The Company is party to financial instruments with off-balance-sheet risk in the normal course of operations to meet the financing needs of its borrowers. These financial instruments include commitments to extend credit. They involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

IFF's undisbursed loan commitments as of December 31, 2010 and 2009 were \$20,828,054 and \$25,770,970, respectively.

Commitments to extend credit are agreements to lend to a borrower as long as there is no violation of any condition established in the loan contract. The Company evaluates each borrower's creditworthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the borrower.

**Notes to Financial Statements**

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**Note 7. Neighborhood Stabilization Program (NSP)**

In 2010, IFF was awarded a \$5,133,000 grant by the Illinois Housing Development Authority (IHDA) and a \$7,138,400 grant by Cook County, Illinois to enable IFF to purchase, rehabilitate, demolish and/or redevelop various foreclosed, abandoned and vacant properties under the Neighborhood Stabilization Program (NSP). Performance or Developer Agreements restrict the use of the funds, set objectives and requirements for the projects, and provides IFF with funds for its indirect costs, referred to as the fee portion of the grant. When improvements are complete, IFF transfers the property to the end-user, a nonprofit organization which IFF identified prior to the time of purchase.

IFF purchased and made improvements to 18 properties during 2010, with costs accumulating \$3,183,497. IFF recorded temporarily restricted grants revenue of \$3,698,932, including fees granted of \$515,435.

Two properties with an aggregate value of \$563,718 were transferred to the end-users during 2010, which reduced the basis of the asset, and resulted in an expense in the statement of activities. An amount equivalent to the property transfer is also separately reflected as net assets released from restrictions (NSP property). Net assets released from restrictions include an amount equivalent to the fees granted.

The statements of financial position reflect the remaining aggregate costs of the NSP property of \$2,619,779 at December 31, 2010.

**Note 8. Property and Equipment**

Property and equipment at December 31, 2010 and 2009 were comprised as follows:

	2010	2009
Furniture, equipment, and software	\$ 2,196,608	\$ 2,181,108
Leasehold improvements	323,804	313,205
	<u>2,520,412</u>	<u>2,494,313</u>
Less accumulated depreciation and amortization	(1,806,946)	(1,563,298)
	<u>\$ 713,466</u>	<u>\$ 931,015</u>

Depreciation and amortization expense for 2010 and 2009 were \$243,649 and \$204,138, respectively.

IFF

Notes to Financial Statements

**Note 9. Borrowings**

Borrowings indicated with an \* are secured by loans and/or other assets of IFF. All other borrowings are unsecured. Borrowings indicated with an \*\* are Equity Equivalent Investments (EQ2) and are subordinated to the Company's other borrowings. The interest rate (blended interest rate for The Investor Consortium) as of December 31, 2010 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, 2010	Principal Balance at December 31, 2009
		Principal		Interest			
		Amount	Due	Annual Rate	Due		
*Allstate Insurance Company	1/1/2015	Amortized over ten years	Quarterly starting 1/1/2005	3.0%	Quarterly	\$ 1,600,000	\$ 2,000,000
*Allstate Bank	1/1/2015	Amortized over ten years	Quarterly starting 1/1/2005	3.0%	Quarterly	400,000	500,000
Bank of America	11/7/2018	\$ 2,500,000 2,500,000 3,000,000	11/07/16 11/07/17 11/07/18	3.75%	Quarterly	8,000,000	6,000,000
The Blowitz-Ridgeway Foundation	6/30/2010	5,000	Quarterly	Variable 1.5%	Quarterly	-	10,000
The Blowitz-Ridgeway Foundation	6/30/2011	5,000	Quarterly	2.75%	Quarterly	10,000	30,000
The Blowitz-Ridgeway Foundation	6/30/2012	5,000	Quarterly	2.75%	Quarterly	130,000	150,000
The Blowitz-Ridgeway Foundation	6/30/2013	5,000	Quarterly	2.75%	Quarterly	150,000	170,000
The Blowitz-Ridgeway Foundation	10/1/2015	5,000	Quarterly	2.75%	Quarterly	95,000	-
Calvert Social Investment Foundation	11/30/2013	Balance	Maturity	4.0%	Semi-annually	2,000,000	2,000,000

## Notes to Financial Statements

## Note 9. Borrowings (Continued)

Lender	Maturity Date	Scheduled Repayments				Principal Balance at December 31, 2010	Principal Balance at December 31, 2009
		Principal		Interest			
		Amount	Due	Annual Rate	Due		
Calvert Social Investment Foundation	11/30/2013	Balance	Maturity	4.5%	Semi-annually	\$ 1,000,000	\$ 1,000,000
Catholic Health Initiatives	4/1/2014	\$ 100,000	Annually starting 04/01/10	3.0%	Annual	900,000	1,000,000
Chase New Markets Corporation	7 years from last draw Currently, 9/17/2017	Balance	Maturity	4.0%	Monthly	6,940,000	-
Circle of Service Foundation	9/30/2020	Amortized over fifteen years	Quarterly	3.0%	Quarterly	874,871	951,017
Circle of Service Foundation	3/31/2021	Amortized over fifteen years	Quarterly	3.0%	Quarterly	912,928	987,921
Communities at Work Fund, L.P.	9/9/2015	Balance	Maturity	4.3%	Monthly	20,000,000	-
Community Memorial Foundation	1/1/2011	Balance	Maturity	2.0%	Semi-annually	500,000	500,000
Federal Home Loan Bank	12/14/2012	Per schedule	Quarterly starting 01/15/08	None	N/A	176,625	185,849
Federal Home Loan Bank	10/1/2013	Per schedule	Quarterly starting 01/15/09	None	N/A	254,650	267,383
Federal Home Loan Bank	11/6/2014	Per schedule	Quarterly starting 01/15/10	None	N/A	253,004	308,750
Federal Home Loan Bank	11/6/2014	Per schedule	Quarterly starting 01/15/10	None	N/A	68,235	97,448
First Bank	3/31/2010	Balance	Maturity	4.0%	Semi-annually	-	1,000,000

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Notes to Financial Statements

Note 9. Borrowings (Continued)

Lender	Maturity Date	Scheduled Repayments				Principal Balance at December 31, 2010	Principal Balance at December 31, 2009
		Principal		Interest			
		Amount	Due	Annual Rate	Due		
First United Bank	12/15/2013	Balance	Maturity	3.0%	Quarterly	\$ 100,000	\$ -
**Harris Trust and Savings Bank	6/30/2010	Balance	Maturity	2.0%	Semi-annually	-	500,000
Harris Trust and Savings Bank	10/1/2019	\$ 31,250	Quarterly starting 01/01/10	3.25%	Quarterly	1,125,000	1,250,000
**Harris Trust and Savings Bank	12/15/2019	Balance	Maturity	3.25%	Quarterly	1,250,000	1,250,000
**Harris Trust and Savings Bank	6/30/2020	Balance	Maturity	2.0%	Quarterly	500,000	-
Helen Bader Foundation	9/30/2015	6,250	Quarterly starting 09/01/09	None	N/A	112,500	137,500
Illinois Finance Authority	11/1/2020	Balance	Maturity	None	N/A	1,000,000	1,000,000
The Kresge Foundation	9/1/2013	Balance	Maturity	3.0%	Quarterly	2,500,000	2,500,000
**M & I Community Development Corporation	4/9/2015	25,000	Quarterly starting 4/1/2013	4.0%	Quarterly	500,000	-
MacArthur Foundation	1/1/2015	250,000	Annually starting 01/01/13	3.0%	Quarterly	750,000	750,000
MacArthur Foundation	1/1/2015	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	1/1/2015	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	6/1/2011	Balance	Maturity	3.0%	Quarterly	200,000	200,000
Monarch Community Fund	9/30/2012	Balance	Maturity	4.0%	Semi-annually	500,000	500,000

## Notes to Financial Statements

## Note 9. Borrowings (Continued)

Lender	Maturity Date	Scheduled Repayments				Principal Balance at December 31, 2010	Principal Balance at December 31, 2009
		Principal		Interest			
		Amount	Due	Annual Rate	Due		
The Northern Trust Company	1/3/2016	Balance	Maturity	2.0%	Quarterly	\$ 2,500,000	\$ 2,500,000
The Northern Trust Company	1/2/2017	Balance	Maturity	3.0%	Semi-annually	2,000,000	2,000,000
*The Northern Trust Company	3/1/2014	\$ 175,000	Semi-annually	3.0%	Semi-annually	962,806	1,312,806
Opportunity Finance Network	3/29/2019	Balance	Maturity	3.0%	Quarterly	5,000,000	5,000,000
ShoreBank/Urban Partnership Bank	12/18/2010	Balance	Maturity	4.375%	Quarterly	-	3,000,000
ShoreBank/Urban Partnership Bank	12/18/2010	Balance	Maturity	4.0%	Quarterly	-	2,000,000
State Farm Bank	4/20/2014	333,333	Annually starting 04/20/10	4.5%	Semi-annually	4,666,667	5,000,000
Trinity Health	6/30/2010	Balance	Quarterly	3.0%	Quarterly	-	500,000
Trinity Health	6/30/2014	Balance	Quarterly	3.0%	Quarterly	500,000	500,000
Trinity Health	6/30/2015	Balance	Quarterly	3.0%	Quarterly	500,000	-
Walton Family Foundation	12/17/2019	1,000,000 2,000,000 2,000,000	12/17/17 12/17/18 12/17/19	None	N/A	5,000,000	5,000,000
Walton Family Foundation	11/30/2020	1,000,000	11/30/2020	None	N/A	1,000,000	-
**Wells Fargo Bank	4/1/2018	Balance	Maturity	2.0%	Quarterly	1,000,000	1,000,000
Wisconsin Preservation Fund	10/1/2024	Balance	Maturity	None	N/A	75,000	75,000
						78,007,286	55,133,674

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Notes to Financial Statements

Note 9. Borrowings (Continued)

Lender	Maturity Date	Scheduled Repayments				Principal Balance at December 31, 2010	Principal Balance at December 31, 2009
		Amount	Due	Annual Rate	Due		
The Investor Consortium <sup>(a)</sup>							
Sale 2004-1	1/15/2020	Per schedule	Quarterly	Variable 3.550%	Quarterly	\$ 7,197,386	\$ 8,635,365
Sale 2005-1	10/15/2020		Quarterly	Variable 3.444%	Quarterly	4,842,326	5,925,187
Sale 2006-1	10/15/2021		Quarterly	Variable 3.417%	Quarterly	11,513,739	12,746,089
Sale 2007-1	10/15/2022		Quarterly	Variable 4.356%	Quarterly	8,471,617	10,087,947
Sale 2008-1	10/15/2023		Quarterly	Variable 4.239%	Quarterly	11,101,875	12,492,249
Sale 2009-1	10/15/2024		Quarterly	Variable 4.114%	Quarterly	14,177,400	14,928,818
Sale 2010-1	7/15/2025		Quarterly	Variable	Quarterly	5,570,958	-
						<u>62,875,301</u>	<u>64,815,655</u>
Total borrowings:						<u>\$ 140,882,587</u>	<u>\$ 119,949,329</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, First Midwest Bank, 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 (assumed by FDIC), The Northern Trust Bank, North Shore Community Bank and Trust, Northbrook Bank and Trust, Old Plank Trail Community Bank and Trust, Park National Bank and Trust (assumed by FDIC), PrivateBank, St. Charles Bank and Trust, State Bank of the Lakes, Town Bank, Village Bank and Trust, and Wheaton Bank and Trust (see Note 10).

The Illinois Finance Authority borrowings of \$1,000,000 was renewed, but IFF has not received note documents with the new maturity date.

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, 2010.

## IFF

### Notes to Financial Statements

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#### Note 9. Borrowings (Continued)

As of December 31, 2010, the required principal reduction of borrowings is as follows:

2011	\$ 10,180,393
2012	7,520,679
2013	13,594,409
2014	12,187,838
2015	27,596,383
Thereafter	69,802,885
	<u>\$ 140,882,587</u>

Also, IFF had a \$8,000,000 line of credit with Harris N.A. during 2010. There were no outstanding balances at December 31, 2010 and 2009. IFF had borrowed and paid back \$8,000,000 in 2010. This line is secured with eligible regional loans. 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 July 2011.

#### Note 10. 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 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, 2010 and 2009 was \$1,849,423 and \$1,074,128 at cost, respectively, which represents fair value. At year end 2010, the trustee was holding an extra \$788,874 for a loan that was bought out of the consortium. This payment will be made to the investors in January 2011.

#### Note 11. 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. One loan was paid off to PAVE in 2010. Provided that no event of default exists on the underlying loan at the maturity of the agreement, IFF has a further obligation to purchase PAVE's participation interest in the loan on September 6, 2011. The current balance of the loans receivable as of December 31, 2010 and 2009 was \$383,959 and \$1,045,913, respectively.

In 2010, IFF entered into two loan participation agreements with Partners for the Common Good, Inc. (PCG) with respect to two underlying notes in which PCG purchased an interest in each loan. IFF has the obligation to pass through payments with respect to interest at 6.00 percent and 5.875 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 the agreements, IFF has a further obligation to purchase PCG's participation interest in the loans on July 23, 2015 and July 26, 2015, respectively. The current balance of the loans receivable as of December 31, 2010 was \$1,551,630.

IFF

Notes to Financial Statements

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**Note 11. Loan Participations Payable (Continued)**

As of December 31, 2010, the scheduled principal reduction of loan participations payable is as follows:

2011	\$ 222,279
2012	35,299
2013	37,457
2014	39,749
2015	631,670
	<u>\$ 966,454</u>

**Note 12. Operating Leases**

IFF is obligated under a lease for its Chicago office space (through June 2020) 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 \$182,332 and \$203,564 at December 31, 2010 and 2009, respectively, and is included in accrued liabilities. IFF is also obligated under office leases in St. Louis (through December 2014) and Milwaukee (through April 2014). IFF also has a storage lease in the Chicago office building (through June 2015). The Springfield office was on a month-to-month basis, and IFF closed this office in February 2011.

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

2011	\$ 373,600
2012	381,700
2013	389,000
2014	391,000
2015	375,300
Thereafter	1,772,600
	<u>\$ 3,683,200</u>

The total rent expense for the years ended December 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Chicago	\$ 352,329	\$ 299,134
St. Louis	15,861	14,159
Milwaukee	14,347	9,155
Springfield	5,408	4,710
	<u>\$ 387,945</u>	<u>\$ 327,158</u>

**Notes to Financial Statements****Note 13. Temporarily Restricted Net Assets**

Temporarily restricted net assets at December 31, 2010 and 2009 were available for the following purposes:

	2010	2009
Department of Education Grant for Credit Enhancement	\$ 18,667,457	\$ 18,785,416
Loan Issuance	7,341,523	8,645,860
NSP Property	2,619,779	-
Grants for Specific Programs	1,322,038	2,284,602
	<u>\$ 29,950,797</u>	<u>\$ 29,715,878</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.

In 2010 and 2009, net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions as follows:

	2010	2009
Net assets released from restrictions:		
Time and performance restrictions (operating)	\$ 1,715,489	\$ 2,358,512
Performance restrictions - NSP Property (operating)	563,718	-
Provision for loan losses (capital)	1,379,337	1,785,582
	<u>\$ 3,658,544</u>	<u>\$ 4,144,094</u>

**Note 14. 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, 2010 and 2009 was \$183,526 and \$179,905, respectively.

**Note 15. Functional Expense Classifications**

IFF's unrestricted expenses for the years ended December 31, 2010 and 2009 reported on a functional basis are as follows:

	2010	2009
Program expenses:		
Lending	\$ 8,649,737	\$ 8,200,723
Real estate services	2,379,859	2,512,854
Public policy and communications	451,946	438,972
Research	298,935	344,672
	<u>11,780,477</u>	<u>11,497,221</u>
Supporting services	801,374	751,009
	<u>\$ 12,581,851</u>	<u>\$ 12,248,230</u>

**Notes to Financial Statements**

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**Note 16. Concentration of Credit Risk**

Approximately 49 percent and 54 percent of IFF's borrowers are located in the Chicago metropolitan area as of December 31, 2010 and 2009, respectively. 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.

**Note 17. 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.

The program provides investor members with seven-year tax credit incentive periods which expire at various dates beginning in 2011. IFF management is not aware of investor members' intentions with regard to their respective LLC investments subsequent to the expiration of the tax credit periods. IFF could decide to refinance an LLC or purchase its loan portfolio if an investor member elects to withdraw from the LLC.

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 \$105,025 and \$102,244 for 2010 and 2009, respectively. Accounts receivable from IFFC at December 31, 2010 and 2009 were \$8,522 and \$9,444, 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 2010 or 2009. IFF is entitled to a similar 2 percent fee from Chase NMTC II. There was no payment or accrual of such fees in 2010 or 2009.

IFF has an accounts payable due to IFFC II at December 31, 2010 for \$8,533 and 2009 for \$0.

At December 31, 2010 and 2009, IFF has recorded a loan receivable due from Chase NMTC II LLC of \$135,069 and \$157,647, respectively. The maturity date of this receivable is December 1, 2014.

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.

**Notes to Financial Statements**

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**Note 17. Limited Liability Companies (Continued)**

Chase NMTC II LLC has \$4,984,700 of notes payable due 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 interest 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 IFFC II. 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.